

ANNUAL GENERAL MEETING TO BE HELD ON 29 APRIL 2022
RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS
RECEIVED FROM SHAREHOLDERS

Below is a list of questions and management responses. Please note that some of the questions have been paraphrased for clarity and similar questions have been consolidated to a single question. The questions have also been split into sections for ease of reference.

Corporate Strategy

1. It was mentioned that low valuations affect Avarga's ability to pursue M&A opportunities. Please elaborate on the type of opportunities the company is exploring, whether they are equity-based opportunities, and how the group views equity dilution vs value accretion?

Response: As an investment company, management is constantly exploring a range of opportunities. We are not necessarily limited by industry, geography, time horizon, etc. as each opportunity has unique pros and cons regardless of macro factors. Equity dilution and value accretion are not mutually exclusive – an investment can both be dilutive and value accretive. Low valuations make those opportunities harder to execute because the dilutive impact becomes larger. Also, raising cash for acquisitions have a negative impact to existing shareholders if the valuations are low.

2. When evaluating investment opportunities, can management outline the analysis & assumptions used (IRR, WACC, risk profile)? Is there a target return on capital employed? Can the group include in its annual reports a review of whether those targets are met every year?

Response: Management relies on many quantitative and qualitative factors in evaluating investment opportunities. While we have investment targets, we cannot disclose those details to such granularity. However, we present an updated cash flow chart in the CEO statement of our Annual Report. We believe this is a useful format to understand our investment track record.

3. With reference to the CEO statement in the Annual Report, please elaborate on how management plans to create value for the shareholders?

Response: Avarga's mission is to build value for our shareholders, this is the company's primary function. With reference to the CEO statement, management needs to prioritize achieving a fair market value. However, this is still in its very early stages, and we will make the relevant announcements if and when appropriate.

4. If management truly considers Avarga's shares to be undervalued, won't share buybacks generate greater returns for continuing shareholders? Is it necessary to pursue further M&A deals when a simpler option for capital allocation exists?

Response: Share buybacks is one of the options to return capital to shareholders. We have conducted buybacks in the past and will continue to monitor buyback opportunities in the future.

AVARGA LIMITED
(Company Registration No.: 196700346M)

5. Avarga has substantial short-term obligations. Given rising costs for financing, would it be prudent to decrease the leverage on our balance sheet?

Response: As at fiscal year-end 2021, Avarga as a group was in net cash position. We had consolidated short-term borrowings totalling \$54 million compared to total current assets of \$510 million. We are comfortable with our balance sheet.

6. Avarga has over \$88 million of cash on its balance sheet. What is the capital allocation strategy going forward?

Response: As a majority shareholder of Taiga Building Products, Avarga consolidates Taiga's balance sheet into Avarga's. A significant portion of the reported cash is held by Taiga, not Avarga. Given that Taiga is separately listed, management cannot speak to its capital allocation plans independently.

Dividend Policy

7. Why did Avarga announce a dividend policy, change it, then terminate it this year? Especially when it looks like Avarga is continuing to generate strong cash flows.

Response: Avarga first announced its dividend policy on 25 June 2020, during the early stages of the Covid-19 pandemic. At that time, it was impossible to predict how our businesses would perform going forward, particularly Taiga's inflationary-driven results. Taiga's contribution to our financials thus became much larger than was originally forecasted, which impacted the payout ratio. It is important to note that Avarga consolidates Taiga's results on its financial statements but does not have control over its capital as Taiga is separately listed on the Toronto Stock Exchange, with its own separate board and management. Taiga has no fixed dividend policy. Coupled with a more challenging environment for our other businesses, management considered it prudent not to commit to the earlier dividend policy as announced.

8. What is the Avarga's current dividend policy?

Response: Avarga currently does not have a dividend policy following the cancellation announcement on 26 February 2022.

Taiga Building Products

9. Can management discuss the average prices and volumes of inventories held by Taiga?

Response: Management cannot comment on actual figures. Generally, inventory volume tends to be lower in Q4 and Q1 as building activity is lower in North America due to the colder weather.

10. What is management's outlook of the lumber industry and housing market?

Response: In Canada, according to the Canada Mortgage and Housing Corporation (CMHC) in their Spring 2021 Housing Market Outlook, housing starts in Canada are expected to range between 222,500 and 234,500 in 2022 compared to 221,100 and 230,000 in 2021. In the United States, the National Association of Home Builders reported in January 2022 that housing starts are forecasted to total 1,625,000 units in the 2022 calendar year compared to 1,585,000 units in calendar year 2021.

11. It appears that there are substantial headwinds and lumber prices have declined significantly recently. Is there a risk of significant inventory losses?

Response: There is always a risk of inventory losses in a volatile market. However, given the seasonality and Taiga's high inventory turnover, it is unlikely any losses would be considered significant presently. For reference, Taiga recognized inventory losses in Q3 of 2021, lumber prices declined from a high of over \$1,600 to under \$500. In the most recent price decline, prices went from over \$1,400 to \$1,000 currently.

12. What is management's plans for Taiga to keep its production strong as well as expand its market share amidst the slowdown?

Response: Taiga's primary business is the distribution of building materials, rather than production. Taiga's management continuously works with its existing suppliers while exploring new supplier relationships to ensure it has adequate product inventories to satisfy its customers' demands. In addition, Taiga seeks to increase its market share through product diversification and optimising cost of operations which leads to competitive pricing.

13. There was a recent tariff increase for lumber in the US. Has this impacted Taiga's operations there? How does the group intend to respond to (potential) future tariff increases?

Response: The United States is a net importer of softwood lumber. Generally, this allows Taiga to pass on the increased cost derived from tariffs to its customers. Tariff disputes between the United States and Canada have a long history, and Taiga will continue to adjust as and when necessary to any changes.

14. Can management discuss how the acquisition of Exterior Wood had gone over the past 3 years? Can the group isolate cash flow results from this subsidiary and perform an analysis to justify/reflect upon this acquisition?

Response: The acquisition was successful and value accretive. The acquisition of Exterior Wood has helped drive the strong growth of Taiga's sales in the US, which have grown from C\$137 million in 2017 to C\$404 million in 2021.

15. Some sources have claimed that there is a general decline in forest health in Canada, owing to pests and climate change. How does the group view this development? Are there any measures taken to ensure robust operations?

Response: Management is not aware of any specific credible claims to this effect. More importantly, Taiga is in the commodity distribution business, it does not own any forestry rights or lumber production facilities. Taiga is also regulated by the Canadian government's environmental agencies.

Paper Manufacturing

16. The performance from paper manufacturing has been declining for a few years. What is management's plan to improve the business?

Response: The paper manufacturing business has underperformed in recent years due to the Covid-19 pandemic and increasing competition. Considerations to improve performance include but are not limited to optimizing operational efficiencies, expanding markets, and focusing on our core strengths in terms of our products. .

17. Is the proposed IPO for the paper business still on?

Response: Avarga had announced on 8 May 2021 that it was not pursuing the proposed IPO for our paper business. There is no change to this position.

Power Generation

18. Will rising energy prices affect cost structures at the power production division? Can the group explain how contract terms for power production in Myanmar are negotiated every 5 years?

Response: Avarga entered into a 30-year power purchase agreement (PPA) with Myanmar Electric Power Enterprise in 2014, and the terms are not renegotiated every 5 years. Fluctuations in gas and energy prices do not affect the power generation business as gas is supplied without charge under the PPA.