AVARAGA LIMITED
(Company Registration No.: 196700346M)

ANNUAL GENERAL MEETING TO BE HELD ON 18 APRIL 2024
RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS
RECEIVED FROM SIAS AND SHAREHOLDERS

With regards to our Q&A, we received questions from shareholders and SIAS. As there is overlap with the questions, we are consolidating them into one presentation, starting with the questions from SIAS.

SIAS Questions (For detailed version of the questions, please refer to the SIAS website)

Q1. Paper Manufacturing (Malaysia): Can the CEO elaborate further on what he means by "*activat[ing] a major long-term strategic plan*" in the face of intense competition from the gigantic Chinese players? Is the group considering selling the paper unit to one of the Chinese players in Malaysia?

Avarga: Unfortunately, management is unable to disclose that information currently. We constantly evaluate our options and are pursuing a plan, which has included the strategic change implemented last year. Updates will be provided to the public accordingly.

Q2. Power Generation (Myanmar): Given that the sale of electric power fell short of the volume agreed in the Power Purchase Agreement (PPA) due to shortage of gas, is the group liable for the 26% shortfall and are there any penalties?

Avarga: No, the Group is not liable for the shortfall because we are not responsible for the supply of gas.

Q3. Considering management's disclosure of no default by Electric Power Generation Enterprise (EPGE), can the audit committee provide clarity on the reasons for recognising the loss allowance? Has management been informed by EPGE or are there indications that EPGE would not be making payments in 2024?

Avarga: The gas shortage results in lower gas production which results in lower revenue, and the trend appears to be getting worse due to the unstable political and economic situation in Myanmar. The loss allowance represents a downward adjustment of expected future earnings from the plant and was assessed in conjunction with our group auditor. This assessment took into consideration forward-looking information, including the risk of foreign currency shortage and a weakening economy. Furthermore, since October 2022, Myanmar has been included by the Financial Action Task Force in its list of "High Risk Jurisdiction subject to a Call for Action". Additionally, the governments of various countries have issued sanctions against Myanmar. EPGE has not informed management that it would not make payments in 2024.

Q4. How is the group currently assessing its options regarding UPP Power (Myanmar)? Would Myan Shwe Pyi Tractors Limited, the group's key partner, be the ideal candidate to acquire UPP Power from the group?

Avarga: Management constantly assesses our options regarding UPP Power, both in terms of operations as well as an asset. However, we can't disclose that in detail. We cannot speak to Myan Shwe Pyi Tractors Limited's intentions.

Q5. Growth strategy: Can the board confirm whether it is actively seeking out new business opportunities and acquisitions? If so, what are the criteria used by the board in its search and how is it conducting the search?

Avarga: Yes, management is constantly active in seeking out new opportunities. The criteria primarily revolves around the expected risk-adjusted cash-on-cash return of the investment. In terms of focus, the group is industry-agnostic.

Q6. Can management clarify if the paper business and the power generation business were self-sustaining in terms of cash flow in FY2023?

Avarga: Yes, they were in terms of cash flow in FY2023.

Q7. Does the board deem the current cash buffer adequate to see out uncertainties in the market? Is the company currently, or foreseeably in the near future, in a position to reassess its decision to suspend dividends and contemplate reinstating its dividend policy?

Avarga: Yes, management is comfortable with the balance sheet strength, although you can never account for every uncertainty.

Yes, the group is constantly assessing and reassessing all its options pertaining to shareholder value, including dividends.

Q8. Has the board assessed the effectiveness of its share buyback program in creating long-term value for shareholders?

Avarga: Yes, the share buyback program is one of the group's options to create shareholder value.

Q9. Beyond just acknowledging that there are many external factors influencing the share price, has the board reviewed the disparities in the two valuations (between Avarga and Taiga) and what are the strategies that could be employed to narrow or close the gap so as to create value for shareholders?

Avarga: Yes, the group does review the valuations and constantly assess strategies to create shareholder value. That said, management does not set an objective to "narrow or close the gap" on company share prices. That would be market manipulation. The primary objective for management is to utilize the group's businesses and capital as effectively as possible.

Q10. What were the extenuating circumstances that resulted in the two directors being absent from the board and board committee meetings on several occasions?

Q11. Can the company confirm that the directors did not participate remotely through voice calls or video conferencing which is provided for by the company's constitution?

Q12. How effective are the directors and the board, if the directors do not attend the board meetings that were scheduled in advance? It is noted that there were only two board meetings for the year and two directors had 50% attendance rate.

Q13. How can the company secretary and the company work together with the board to improve the attendance of directors at board meetings?

Avarga: As Q10-Q13 are all related to the board of directors, it may be clearer to respond in one statement. The group is privileged to have a board of directors that is diverse in geography, gender, experience, and expertise. While there are only two scheduled board meetings per year to coincide with the announcement of the Group's half yearly and full year financial results, the directors communicate with management regularly, providing advice and consultation throughout the year. Vice versa, management regularly updates directors, particularly if unforeseen circumstances lead to a director being unavailable for certain meetings.

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Shareholder Questions

Q1. With the fund that is locked in Taiga, how are you going to spur the growth of Avarga Limited?

Avarga: We wouldn't say capital is "locked" at Taiga. Management is constantly exploring growth opportunities and would trigger options to raise capital if required to pursue those opportunities. That said, we have been cautious with our balance sheet the last few years given the uncertain market environment (of the industry in which we operate in).

Q2. Avarga invested in Taiga and had make Taiga a much strong company financially, Taiga's Directors/ Management/staff were rewarded well for the company good performance, and Taiga' shareholders had also rewarded dividend and share price capital gain, which had increased by 2 to 3 times.

As a shareholder of Avarga Limited, no dividend received, and on top of that, the share price of Avarga had dropped from the height 0.36 cents to 0.18, almost a 50% drop.

It is very ironical, Avarga invested in Taiga and manage Taiga well. Taiga share price has increased by 2 to 3 times from less than a dollar to $3 plus. But the good performance of Taiga does not spill over to Avarga, market does not acknowledge at all. And Avarga shareholders did not enjoy the fruit of success by Taiga.

And it also reminds me of the recent saga BEST WORLD. The CEO and Chairman were paid handsomely in their salary and bonus for the good performance of the company these few years, but it did not pay out dividends to their shareholders. There are similarities of these 2 companies, I am worried.

Does Management has shareholder's interest at heart? Is Management interest aligned with the shareholders' interest of Avarga Limited?

Avarga: Yes, management's interests are aligned with shareholders of our group. We understand that there are frustrations with the group's trading price, but a lot of market factors are out of our control. What we can control, is to manage the group's activities and optimize the return from our assets. What we do not control is the stock price. Shareholders are the ones who decide what stock prices should be.

The group has invested roughly C$97m into Taiga. In return, the group has received C$39m in dividends. The cash has been used to pay out company dividends, buyback shares, pay down debt, etc. Besides the dividends, the group maintains its significant interest of Taiga, which has grown in market value. By financial performance metrics, Taiga's success has benefitted our group.

That said, the group is facing challenges, particularly with our paper and power businesses, which resulted in the group terminating its dividend policy. In addition, withholding tax implications on dividends requires us to include a material discount when assessing the value of Taiga.

Q3. Market generally perceives Avarga Limited as a investment holdings of 2 businesses, which are paper manufacturing and power plant. As Taiga cash does not belong to Avarga Limited. They do not regard Taiga as part of Avarga Limited. How to change the market perception?

Avarga: We cannot comment as to how different investors perceive our group. That said, we do try and communicate clearly that Taiga is one of the group's businesses.

Q4. Will you resume dividend policy in future? And how to improve the share price performance?

Avarga: Please refer to our response to Q7 of "SIAS Questions".

Q5. The net asset value of stated in the full yearly result is 36.84 cents per share. It is far from the average daily selling price of around 18 cents. How does management intent to help Avarga reflect or unlock its true value?

Avarga: Please refer to our response to Q2 of "Shareholder Questions".

Q6. Thanks for the credible performance, despite the enormous headwinds. What's the thinking around when you will recycle and sell off the paper and energy business, and the 'quit-points', which will make you think seriously about exiting these businesses? As it stands, it appears that these businesses have been far more trouble than they are worth. What keeps you persisting with these businesses despite the difficulties they pose?

Avarga: Management certainly assesses the challenges of the different businesses and agree that exits are an option. However, it is challenging to exit businesses that are struggling, and there are other considerations as well such as opportunity cost.

Q7. Avarga appears to be more of a capital allocation business, than what it appears on the surface - as a commodity business. Can you share more about where you're looking at, and if you're looking at other acquisitions that may be less capital-intensive? Could you also share more about your hurdle rate before deciding to invest in businesses? For example, could you share more about the thinking before investing in the likes of Archisen, Classic Scenic etc.?

Avarga: Please refer to our response to Q5 of "SIAS Questions". Investments in Archisen or Classic Scenic were designed in a way to test an opportunity. In both cases, management opted to allocate capital into other avenues and both investments were largely immaterial.

Q8. For the Paper Manufacturing Company, the value of the machinery was impaired to zero, which means it is not capable of producing goods that generate profit for the company. Why are the remaining asset value not written off?

Avarga: Despite a better performance in FY 2023, the outlook is still very challenging. Therefore, the impairments were made, which have impaired almost all the machinery. The residual value of the company is S$28.3m, of which half is PPE, mainly the land and building.

Q9. Refer to pg 185-segment information, Under Paper Mill, it shows segment asset of $28.29m and liabilities of $7.48m. Can these assets be monetized? What are the assets and liabilities? Please provide breakdown.

Avarga: Please see below for a breakdown of the assets and liabilities.

	S$'000
Property, plant and equipment	14,125
Inventories	8,626
Trade receivables	4,321
Cash and bank balances	1,071
Other receivables	150
SEGMENT ASSETS	**28,293**
Bank borrowings	5,740
Trade payables and accruals	1,668
Other payables	44
Lease obligations	30
SEGMENT LIABILITIES	7,482

Q10. The segment assets for the Paper Mill has reduced from 83 million + in 2018 to 28 million in 2023. What is the reason for this?

Avarga: The primary reasons are dividend payment between 2018 to 2020, impairments in 2022 and 2023, and changes in current assets.

Q11. As per CEO's statement-"Without negative monthly cash flows, we continue to tweak the business at the paper plant and have activated a major long-term strategic plan." Will it incur more costs, like buy new machines etc....? Please elaborate.

Avarga: Please refer to our response to Q1 of "SIAS Questions".

Q12. In UPP Malaysia, how many machines are operating now? From your Financial report, it is clear that total production is dropped to less than 40k MTPY.

Avarga: Our paper business is currently operating 2 of out the 4 machines. This was part of a strategic decision to refocus our product offerings and lower expenses.

Q13. How do you determine the impairment of 51% on Myanmar power plant? Why not 100% as the internal war of Myanmar has become more intensify? How much losses incur?

Avarga: Please refer to our response to Q3 of "SIAS Questions". Our power plant business has not incurred losses to date.

Q14. Understanding for the Power plant is that there is a lack of supply for gas due to the civil war. May I understand if the gas supply is able to be secured and is a steady stream of it, would the power plant become profitable?

Avarga: The power plant is still profitable, but the profitability is expected to decline. If the gas supply situation stabilizes, the power plant's prospects would certainly improve.

Q15. Who pays for the electricity generated from the Power Plant?

Avarga: Our Power Purchase Agreement (PPA) is with Myanmar's Electric Power Generation Enterprise (EPGE).

Q16. The dividend received from Taiga, why it is not reflected in the cash flow statement? Is the dividend received from Taiga taxable? If yes, what is the tax rate?

Avarga: The intercompany dividend was eliminated at the group cash flow statement. Yes, dividends from Taiga are taxable in that if it flows up to Avarga, which is a Singapore-domiciled company, there is a 15% Canadian withholding tax.

Q17. The income tax paid for year 2023 was $84m, why was it so high? What was the tax rate?

Avarga: $84m was the income tax paid for FY2022. The income tax paid for year 2023 was $14.3 million.

Q18. The export sales to USA market these few years has not been tremendous, why are the reasons?

Avarga: When Taiga uses "export", it is referring to sales to markets outside of Canada and the USA, primarily China. The company sells lower grade lumber to China, and that segment has declined as logistics cost has gone up. However, export sales is a very small part of Taiga's overall business model.

Q19. You have great plans for Taiga going forward, please explains how these plans will improves the sales of Taiga, and please explain your interstate5 strategy in Western USA?

Avarga: Taiga's competitive advantage is in its distribution infrastructure, which allows the company to wholesale distribute building materials in a cost-effective manner. Most of its strategic plans revolve around improving or expanding the infrastructure to generate higher margins and increased sales volume. Expanding through the West Coast of the US would be an example of expanding the infrastructure.

Q20. If the lumber price stays relatively the same as in 2023. Can investors expect similar profits in 2024?

Avarga: Broadly speaking, Taiga's financial performance for FY2024 should be relatively consistent to FY2023 if lumber price trends are the same. That said, as with all businesses, there are many other variables that can impact financial performance.

Q21. Why the 2 banks have reduced their credit facility to Avarga Singapore?

Avarga: The financing environment has changed significantly as interest rates have risen and liquidity has tightened. As the banks become risk-averse, management had anticipated this scenario and have paid down the group's obligations.

Q22. Refer to Pg 185-segment information, under OTHERS, it shows segment asset of $20.32m and segment liabilities of $21.76m. Please explain what are they? And why incurred loss of $3.98m?

Avarga: Below is a breakdown of the assets and liabilities.

	S$'000
Property, plant and equipment	770
Cash and bank balances	18,703
Other receivables	847
SEGMENT ASSETS	**20,320**
Bank borrowings	21,000
Trade payables and accruals	455
Other payables	85
Lease obligations	228
SEGMENT LIABILITIES	21,768

The loss of $3.98m was mainly incurred by Avarga Limited - relating to loan interest expenses, salaries, listing costs, compliance costs, and HQ operating costs.

Q23. What is the purpose to issue and allot new shares? Is the company going to use this to fund new investment or acquisition?

Avarga: Our group renews this mandate from shareholders annually to provide the board with the authority to raise capital quickly in the event there is an opportunity that the group has to act on. At present, there is no specific need to conduct a placement exercise.

Q24. Share Purchase Mandate

(a) How are you to fund the share buyback?
(b) Will the buyback shares be cancelled? Or will it be used for other purposes?

Avarga: Share buybacks would be subject to cash availability and other opportunities for capital allocation. At present, there are no other purposes for treasury shares. For more information, please refer to the Appendix to the Notice of AGM dated 3 April 2024 in relation to the proposed renewal of the share purchase mandate.