ANPOP 2016 Annual Report

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Executive Summary

We finally achieved positive cash flow! 2016 has proven to be a major milestone year in the history of the company. After years of falling short, ANPOP farm operations cleared ₦1.48 million of revenues in excess of expenses. Oil palm harvest and oil production continued to increase, though not quite as much as expected. But the steady increase in production combined with significant increase in palm oil prices provided the revenue needed to cover expenses and go into 2017 with enough cash to operate effectively.

In 2016 we realized ₦6.02 million in revenue, compared to ₦4.59 million in expenses, with an additional estimated nearly ₦1.61 million in inventory on hand at the end of the year, up from ₦1.28 million at the end of 2015. Seedling sales were up slightly in 2016, in line with our expectations. Total revenues from other cash crops were generally comparable to 2015 revenues, though most of those revenues were from crops planted in 2015. Revenues from palm kernels were up significantly, as we implemented kernel nut cracking in 2016, increasing kernel revenue from ₦60,000 in 2015 to ₦422,000 in 2016.

The palm oil price increase in 2016 was driven largely by the falling value of the naira against the dollar, which drives up the price of all imported products, including imported vegetable oils. This depressed value of the naira, which is expected to remain through 2017, has the general effect of making investments in Nigerian agriculture more attractive, in addition to causing some overall inflation and upward pressure on wages. Labor expenses in 2016 exceeded our budget by about 19% (₦394,000), and we are budgeting for another increase in 2017. We have also once again increased the size of the nursery, with an expectation of an increasing demand for seedlings in 2017, plus the opportunity to replant more of our own farms. Our revenue for 2017 is projected to be ₦7.5 million, based mostly on expectations of a steady increase in oil production with stable oil prices, with some additional sales from the nursery. Expenses for 2017 are projected to be ₦6.3 million, with increases coming in labor, utilities and diesel for the tractor. In addition to these operating expenses, with cash on hand we will begin to finish upgrades to our mill needed to achieve full NAFDAC certification.

The future is indeed bright. We have turned the corner, and look forward in 2017 to continued financial success, with a positive impact on the community and in the lives of those who work for us.

Vision

We envision a medium scale palm oil plantation and mill in Oyo State, Nigeria, including a plantation of Tenera-type hybrid oil palm trees producing more than 100,000 kg of fresh fruit bunches of palm fruit per year, and a mill that will process this fruit to yield at least 25,000 liters of cooking grade palm oil annually.

Mission

The American-Nigerian Palm Oil Producing Corporation was formed to help bring economic development to the people of rural Oyo State, Nigeria, to provide an example of ethical business conduct, and to assist The Good Samaritan Society of America in its vision to serve these people with education and health care. ANPOP is a for-profit enterprise that will, through its Nigerian subsidiary ANPOP-NAMPOP Ltd, provide jobs and economic stimulus to the area. Once profitable, ANPOP will make significant financial contributions to the programs of The Good Samaritan Society Mission in Fiditi, Nigeria.

2016 Results

Overview

We estimate having approximately 7,000 - 8,000 trees planted on about 200 acres spread over five farms. As shown in Figure 1, in 2016 we produced from these

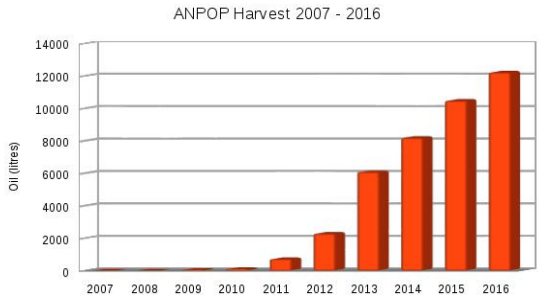

Figure 1: Since 2013, growth in ANPOP oil production has been steady at about 2,000 litres per year.

Figure 2: John Deere 6400 tractor.

Figure 3: John Deere 6400 tractor, destroyed in a fire in January, 2016.

trees 12220 litres of oil, compared to 10480 litres in 2015. This oil came from 13675 fruit bunches, compared to 12077 in 2015. Considering the entire history of ANPOP oil production, the exponential growth that characterized our production through 2013 has become more linear over the last three years, with steady increases of around 2,000 litres per year.

Farm Operations

One of the most important measures of how well the farms are being managed is the amount of fire damage suffered. We did quite well again in 2016, with negligible fire damage, despite the loss of the tractor in January of 2016. Pictures of the destroyed John Deere before and after the fire are shown in Figures 2 and 3. The harrowing had just been completed prior to the loss of the tractor, so the main impact of the loss or a tractor for nearly 12 months will be seen in 2017. The tractor and harrow have been critical to the success not only of our fire prevention efforts, but also to the continued increase in fruit production. A replacement Massey Ferguson 385 tractor, pictured in Figure 4, was purchased in 2016, and arrived in Fiditi on 12 January 2017. Although this is later than was planned, it is being put into service quickly to make sure each farm goes into the height of the dry season with adequate fire protection.

Table 1 has the counts from each farm for the whole of 2016, along with the percentages by weight associated with each farm. Although the weight data is still very approximate, it is considered accurate enough to use for purposes of reimbursing the land owners. The weight percentages by farm are similar to those in 2015.

Some pictures of the ripening fruit observed during the February and August visits to the farms are shown in Figures 5 and 6.

Mill Operations

The mill equipment is currently set up to produce about 200 litres of palm oil per day, with the sterilizers representing the limiting step in the process. Typically, the mill operates for one or two days a week for two weeks out of the month, but in the peak months fruit is processed every week. Based on the current experience, it seems like we should be able to get up to 4000 litres a month at full capacity before needing additional sterilizers, and that still seems to be at least a year off. We expect to get 200 litres of fruit from about 1000 kg of fruit bunches, usually about 120 bunches. This represents about one truckload of fruit.

A month by month summary of oil production (see Figure 7) is instructive. The change in production pattern throughout the year from one year to the next is due both the the maturing of the trees and to

Figure 4: Replacement Massey Ferguson 385 tractor, shown ready to ship. It arrived in Fiditi 12 January, 2017.

Figure 5: Large bunches on a tree on the Ijaye farm in February, 2016. The bunch on the left is ripe and ready for harvesting.

Table 1: 2015 vs. 2016 Harvest by Farm

	2015		**2016**	
Farm	bunches	% by weight	bunches	% by weight
Awe	3,672	24.4%	3,467	25.8%
Ogunkunle	3,374	27.2%	4,012	28.5%
Ijaye	2,022	19.9%	2,316	16.9%
Olaoke	1,554	18.7%	1,830	15.2%
Omodeni	1,455	9.8%	2,050	13.7%

variations in weather patterns. In 2016, the absence of production in November was due to a shortage of labor, combined with the decision to focus efforts on implementing the new kernel cracking equipment.

After spending less than ₦100,000 to set up kernel nut cracking, almost the entire year's supply of palm kernels were cracked in November. The cracked kernels, likely worth around ₦90,000 if sold uncracked based on previous year's sales, were sold in December for ₦400,000. It is not known if the economic forces driving up the price of palm oil had a similar effect on the value of the kernels, but it appears that the investment in cracking the kernels was worthwhile. Palm kernels have now displaced maize as our third leading source of revenue.

Nursery Operations

After launching the nursery in 2013, with another nursery crop planted in 2014, we did not plant anything in the nursery in 2015. Of the 3000 seedlings on hand at the start of 2016, we sold 1324, and we planted another 4000 in 2016. We planted earlier this year (August instead of November), in order to have more of the seedlings ready for sale during the peak planting season of April through June. Seedlings continue to be our second leading source of revenue.

Figure 6: Ripe fruit on Olaoke Farm, August 2016.

Financial Details

The naira continues to be devalued relative to the dollar. The street exchange rate in January of 2016 was around ₦330 / dollar, and by December the street exchange was approximately ₦484 / dollar. Keeping in mind the volatility in the exchange rate, the following financial measures should be noted.

- The current number of shares issued is 297,251. We have also sold shares in Nigeria worth another roughly $2,000, bringing the total investment to just under $300,000.

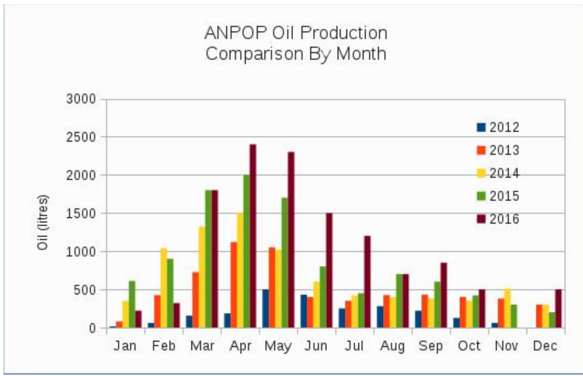

Figure 7: The absence of production in November 2016 was due to labor difficulties.

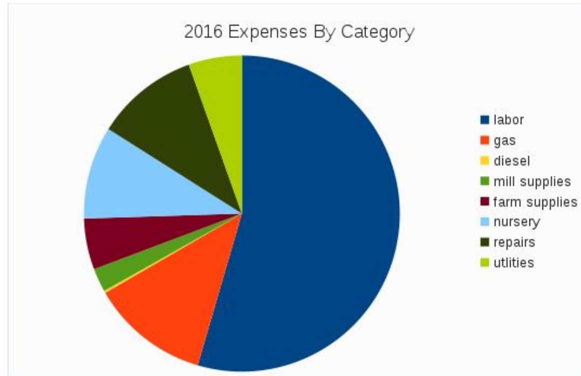

Figure 8: Breakdown in expenses as a fraction of the total by category. As in 2015, the various categories associated with labor represent about 60% of the total.

- Expenses went up in 2016 by ₦812,500 compared to 2015, due mostly to labor (up ₦439,000) and nursery expenses (up ₦439,000). Total expenses in 2016 of ₦4.54 million is compared to ₦3.73 million in 2015. About ₦2.5 million (₦2.1 million in 2015) of that expense was salaries and other labor expenses. Fuel for the tractor and truck totaled ₦566,000, down from ₦761,000 in 2015, mostly because the tractor was not available, and harrowing was delayed until 2017. Repairs and maintenance (truck and processing equipment) totaled ₦485,000, farm supplies (including seeds and chemicals) totaled ₦239,500, and mill supplies (including nursery expenses) at ₦111,000 accounted for the remainder of the expenses.

- Revenues for 2016 totaled ₦6.02 million, compared to ₦2.96 million in 2015. Most of the total this year was in sales of palm oil at ₦4.66 million, compared to ₦2.12 million in 2015. The rest of the revenue came from the sale of seedlings (₦681,000, compared to ₦460,000 in 2015), sale of palm kernels (₦422,000, compared to ₦60,000 in 2015), maize (₦200,000, compared to ₦100,000 in 2015) and cassava (₦50,000, compared to ₦150,000 in 2015). In 2016 we had no income from yams or plantains. In unsold inventory (palm oil, palm kernels and seedlings) we had inventory on hand worth about ₦1.61 million, compared to approximately ₦1.28 million on hand at the end of 2015.

- Our net cash flow in farm operations (excluding capital investments, that is, purchase of a tractor) was ₦1.43 million, compared to an operating loss in 2015 of ₦0.47 million.

- After making no capital investments made in 2015, $19,192 (approximately ₦9.29 million) was spent to purchase, refurbish and ship a Massey Ferguson 385 tractor to replace the John Deere 6400 that was destroyed in a fire in January 2016. In addition ₦1.58 million was spent in taxes, fees, and costs to transport the tractor to Fiditi, for a total capital investment of ₦10.87 million.

- For 2017, about ₦1.0 - 1.5 million in improvements to the mill are planned.

- All the money required for capital investments has come from the purchase of additional shares of ANPOP stock. The company has no debt.

The primary driver for the dramatic increase in revenue in 2016 was the price of palm oil. The 2016 average price for palm oil was ₦360 per litre, compared to a 2015 average of 210 per litre. With sales of just shy of 13,000 litres, the additional ₦150 per litre accounted for additional revenue of ₦1.94 million. The price increase was not wholly unexpected; we had budgeted for a modest increase in palm oil prices. However, the size of the increase, connected with the significant devaluation of the Naira, was not expected.

Table 2 compares the main revenue categories between 2015 and 2016, and Table 3 compares the expenses. Amounts are in thousands of Naira. Figure 8 represents the breakdown of expenses categories graphically. A breakdown of revenues is graphically represented in Figure 9.

The tracking summary (Figure 10 shows both revenues and expenses for 2016, and illustrates how strong sales at the end of the year as prices rose made the difference in our net cash flow. Revenues exceeded plan by ₦1.05 million, due mostly to the

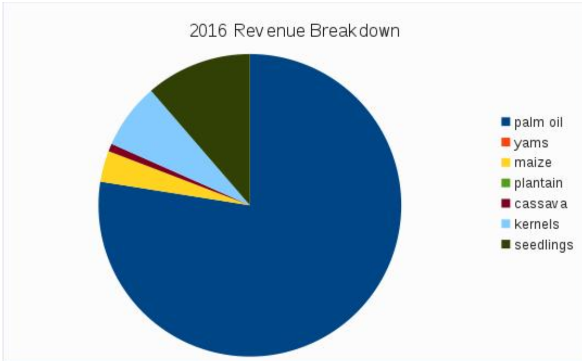

Figure 9: Breakdown in revenues as a fraction of the total. Revenue from sales of palm oil and kernels represents nearly 85% of the total, up from just under 75% in 2015 and about 65% in 2014.

Table 2: 2016 vs. 2015 Revenues (thousands of Naira)

	2015	**2016**
palm oil	2120	4663
yams	45	0
maize	100	200
plantain	21	0
cassava	150	50
kernels	60	422
seedlings	460	681
Total	2956	6016

Table 3: 2016 vs. 2015 Expenses (thousands of Naira)

	2015	**2016**
labor	2062	2501
diesel	200	10
gas	561	556
mill supplies	108	111
farm supplies	196	240
nursery	32	435
maintenance	566	485
utilities	0	250
Total	3725	4588

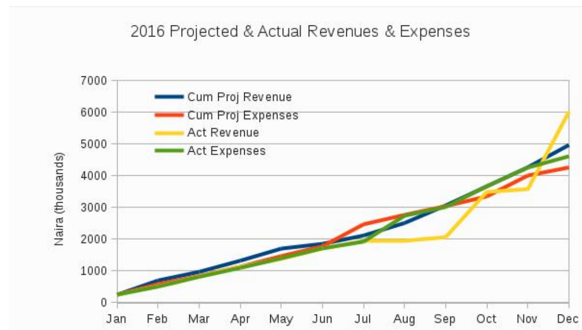

Figure 10: Revenues finished ahead of expenses for the first time in 2016.

increase in palm oil prices. The volume of oil sold was 12,965 litres in 2016, compared to a projection of 15,000 litres. The increase in oil prices more than made up for the shortfall in volume. Another contributor to the increase in revenue was the implementation of our own palm kernel nut cracking, which helped lead to an increase in palm kernel revenue of just over ₦360,000 compared to 2015.

Expenses can be seen to have tracked close to projections throughout the year, with the main increase in the last five months due to the addition of payments for security and utilities starting in August. Prior to 2016, those services had been generously provided by the Good Samaritan Society Mission Village at no charge to ANPOP, but it is clearly appropriate for ANPOP to be paying these direct expenses. They include costs of electricity related to our security lights and the pumping of water used by ANPOP, plus the costs of the security guards (one during the day, and two at night). In the tables, this expense category is labeled "utilities," and includes both utilities and security.

The details of monthly income and expenditures are provided in Table 4. Table 5 provides monthly projections for 2017, which are discussed in the next section.

2017 Plans

Overview

Having achieved an important milestone in 2016, there are a number of important goals to keep in mind for 2017. Here are some of the most important considerations as we develop plans for the coming year.

- In the current economic climate, with conditions somewhat favoring agriculture, we should expect and plan to continue generating cash in operations, despite inflationary pressures on wages.

- Capital investment will continue to be appropriate, with several potential opportunities identified. Between the current bank balance and the cash expected to be raised from operations in

Table 4: 2016 Expenses and Income
(thousands of Naira)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Tot
Expenses													
Labor	167	122	189	172	171	209	138	208	141	454	415	115	2501
Gas	42	42	60	70	55	55		40	45	62	30	55	556
Diesel	10												10
Mill supplies		5	12	12	12	12	8	8	8	8	18	8	111
Farm supplies	28	12	0	5	0	0	65	75	0	55	0	0	240
Nursery								435					435
Maintenance	10	72	46	18	65	35			32	25	55	127	485
Utilities								50	50	50	50	50	250
Total Expenses	257	253	307	277	303	311	211	816	276	654	568	355	4588
Revenues													
palm oil	240	265	110	44	252	251	182		119	1073	90	2038	4664
yams													0
maize			200										200
plantain													0
cassava							50						50
kernels	12			10								400	422
seedlings				250		75	6			350			681
Total Revenue	252	265	310	304	252	326	238	0	119	1423	90	2438	6017

Table 5: 2017 Projected Expenses and Income
(thousands of Naira)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Tot
Expenses													
Labor	465	200	250	250	250	250	250	250	250	250	250	250	3165
Gas	40	50	60	70	70	60	50	50	50	50	50	50	650
Diesel	100	100								100	100	100	500
Mill supplies	10	10	15	20	20	20	10	5	5	5	5	5	130
Farm supplies	70	0	0	10	30	15	30	50	30	0	0	0	235
Nursery							400						400
Maintenance	50	50	50	50	50	50	50	50	50	50	50	50	600
Utilities	50	50	50	50	50	50	50	50	50	50	50	50	600
Total Expenses	785	460	425	450	470	445	840	455	435	505	505	505	6280
Revenues													
palm oil	180						180	360	360	1080	1440	1800	5400
kernels	50	50					50	50	50	50	100	100	500
seedlings				360	360	360							1080
maize													0
cassava												500	500
yams													0
plantain													0
Total Revenue	230	50	0	360	360	360	330	410	410	1130	1640	1900	7480

2017, it is not currently anticipated that there should be a need either to borrow funds or to raise more cash from investors in order to pursue these opportunities.

- To get the best prices for our oil, the majority of the year's production should be held and not sold until the last two or three months of the year, as we have mostly done for the past several years. This practice entails some risk, and requires maintaining good security. It also means that for 2017 we need an additional about ₦2.3 million cash at the beginning of the year as operating reserve. But the amount of increase in revenue that results from holding our oil appears to justify these risks and costs.

- While the loss of the tractor in 2016 and purchase of a replacement may wipe out any actual profit, achieving the milestone of positive operational cash flow in 2016 should result in financial rewards to the staff, which currently numbers three: the manager and two workers.

- Insurance for at least the tractor is being researched. This would increase our expenses from the current plan, while reducing our risk.

With these considerations in mind, our plan for 2017 envisions us generating ₦7.5 million in revenues, with ₦6.3 million in expenses. This represents about a 21% increase in revenues, primarily from continued growth in the oil palm fruit harvest, but also based on a larger stock of seedlings in the nursery, selling at a higher price. The expenses are projected to increase by about 37% , with labor and security & utilities driving the main increases. There is also expected to be increase in expenses related to the tractor, specifically diesel and maintenance costs, as we work to recover ground lost in farm maintenance in 2016. Table 6 summarizes the 2017 revenue projections in comparison with actual 2016 revenues, and Table 7 makes the same comparison for the projected expenses.

Because the plan involves saving a large percentage of the oil for sale at the end of the year when prices are the highest, a monthly breakdown of projected income and expenses is needed in order to estimate cash flow requirements. As can be seen in Table 5 and Figure 11, the projected revenue exceeds planned expenses by about ₦1.3 million, but for most of the year we expect to be operating at a deficit. The maximum operating deficit of ₦2.3 million is projected to occur in September, following the purchase of sprouted nuts for the nursery and before the bulk of the oil sales kick in.

Table 6: 2017 (projected) vs. 2016 Revenues (thousands of Naira)

	2016	**projected**
palm oil	4663	5400
kernels	422	500
seedlings	681	1080
maize	100	0
cassava	100	500
yams	0	0
plantain	0	0
Total	6016	7480

Table 7: 2017 (projected) vs. 2016 Expenses (thousands of Naira)

	2016	**projected**
labor	2501	3165
diesel	10	500
gas	556	650
mill supplies	111	130
farm supplies	240	235
nursery	435	400
maintenance	485	600
utilities	250	600
Total	4588	6280

2017 Farm Operations

The top priority again in 2017 will be managing our fire risk. The later than planned arrival of the tractor has increased our risk, but the tractor is quickly being pressed into service to complete harrowing on all the farms as quickly as possible. Because some harrowing work was missed in 2016, additional harrowing in 2017 may be needed to help recover the condition and overall track of improvement of the farms.

A chain saw was added to the equipment on the farm in 2016, and this helped significantly accelerate the clearing of trees in areas where they are interfering with fruit production. This tree clearing work will continue in 2017, including stump removal as needed, so that the tractor can access more of each affected farm.

With no maize planted in 2016, there is no plan for revenue from maize in 2017. Although maize planting is planned, by the time we harvest and dry the maize for milling, it is expected that the revenue may not be realized until 2018. However, the 20 acres of cassava currently planted is expected to generate ₦500,000 in income, likely in November or December.

Figure 11: Projected revenues versus expenses by month for 2017, showing revenues projected to significantly exceed expenses.

No significant capital expansion of the farming operation is planned for 2017. Because of our failure so far to keep new seedlings protected from cattle, we plan to move forward with small projects involving some kind of fencing to support the planting new seedlings, most likely at Awe farm.

2017 Mill Operations

As our production volume continue to increase each year, due to both the maturing of the farms and to the improvement in farm conditions, we are beginning to approach the capacity of the mill. Since the primary limit of mill capacity is at the sterilizer, adding a large sterilizer would improve capacity with the least expense. But there may be benefits to replicating our current capacity at Awe, in order to save significantly on fruit transport expenses. However, and capacity expansion is not planned to occur until 2018 or later.

The primary investment needed in 2017 is to upgrade the current mill facilities in order to meet standards required to obtain NAFDAC certification. Work needed includes windows, plaster, painting, ceilings, and a toilet and septic tank. The cost is estimated to be between ₦1.0 and ₦2.0 million, though more detailed planning is needed. NAFDAC certification will open up additional markets, and likely improve the price we are able to get for our oil.

The development of palm kernel nut cracking capability in 2016 appears to have been a financial success, likely generating an additional ₦250,000 – ₦350,000 in revenue in 2016, for an investment of labor of less than ₦100,000. The cost of the equipment was also less than ₦100,000. The next target for additional mill capability would be to consider palm kernel oil production. That equipment is estimated to cost ₦1 million or more, and may require a few years to pay back the investment. Additional research is needed before a recommendation or decision is made regarding palm kernel oil production.

2017 Nursery Operations

One change to the nursery introduced in 2016 was planting the seedlings in August instead of November. Assuming that the earlier planting will help nursery sales in 2017, we have planned to repeat this earlier start in the coming year.

The changes in the exchange rate with the corresponding rise in palm oil prices would seem to improve the attractiveness of investing in palm oil. As a consequence, we may look forward to an increase in demand for seedlings, as well as revisit our efforts to start an Outgrower Association. The idea of the Outgrower Association is to subsidize the purchase of seedlings, with discounted prices at perhaps around our own cost, to small farmers who would plant 2 – 5 acres each. We would also provide coaching and guidance on planting and maintenance of the farm, and would be repaid once the ripe fruit begins to be brought to the mill for processing. We have recently had some interest expressed, and this might be the time when we can expand our business through collaboration with local farmers.

Summary

We made exceptional progress in 2016 toward our goal of a thriving oil palm operation that benefits our employees, the community, and The Good Samaritan Society Mission Village, while also providing value to the shareholders. Much more remains to be done, but as we establish and reach new goals, we will look back on 2016 as a major milestone in our history. As the woman who found her lost coin said in the story Jesus once told, "Rejoice with me!"