ANPOP 2017 Annual Report

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Executive Summary

2017 was not a good year. After realizing positive cash flow financial results for the first time in 2016, we were unable to replicate that accomplishment in 2017. Two major developments were the most important factors leading to negative cash flow in 2017. First, the unprecedented large increase in palm oil prices toward the end of 2016 attracted a significant number of investors to buy up oil at lower prices during peak production months in order to sell when supplies were expected to again run short. As a result of this excess supply, instead of a large spike in palm oil prices at the end of the year such as occurred in 2016, prices actually fell in November and December this past year. As in previous years, we had held onto a large inventory of oil, intending to sell at the expected higher prices which did not materialize.

The second major factor contributing to our operating loss was that fruit production on the farm declined. This is the first ever year-over-year decline in fruit production, and causes us to re-evaluate our estimates that farm capacity should be able to double. The decrease in production is most likely related to a decline in pruning and clearing following the loss of migrant workers in 2015 and the loss of the tractor in 2016 which was not replaced until January of 2017. Labor shortages combined with attempts to cut costs have likely led to the observed decline. Because the tractor went back into service in January of 2017, and due also to significant efforts at tree removal in the last three years, we expect improvement in 2018 over these results. Further increases in spending on farm maintenance have commenced now as well, but those effects will not likely be seen until 2019. At this point production in 2018 is expected to recover to around 2016 levels.

A third important contributor to our financial decline was the loss of seedling sales. While in past years we have often realized around half a million naira in sales of nursery stock, our seedling sales in 2017 were only about 10% of that. As we have experienced ourselves, many farmers who would otherwise have been interested in oil palm farming now have more reservations about farm investments due to the dramatic increase in cattle herders and the damage they routinely inflict on crops. In other parts of Nigeria these conflicts have resulted in violence and loss of life, and the government has not been helpful to this point.

In 2017 we realized ₦3.28 million in revenue, down from ₦6.02 million in 2016, compared to ₦5.16 million in expenses, up from last year's ₦4.59 million. Due to the poor year-end prices, we finished the year with more inventory on hand than in previous years, though valued at a lower price. With current oil prices at around ₦270 per litre, our current 3,054 litres is valued at approximately ₦0.82 million, with an additional estimated inventory of ₦1.10 million in seedlings, cassava (in the ground) and kernels, for a total year-end inventory of ₦1.92 million. Despite the lower value for the palm oil (at the end of 2016 we estimated our palm oil stock value at ₦350 per litre), this still represents an increase over the ₦1.61 million we had on hand at the end of 2016. Seedling sales did not materialize as expected in 2017, accounting for only about ₦58,000 of our revenue total. Total revenues from other cash crops were ₦400,000 compared to ₦250,000 in 2016, while revenues from palm kernels were ₦324,000 down from ₦422,000 in 2016. The amount of kernels sold was about the same, but the price dropped from ₦150,000 per ton in 2016 to ₦120,000 per ton in 2017.

In contrast to 2016, when the value of the naira dropped dramatically such that at one point the exchange rate exceeded ₦500 per dollar, in 2017 the naira recovered somewhat and stabilized at around ₦350 per dollar. We had predicted a steady increase in oil production with stable palm oil prices; instead we experienced a drop in production combined with a drop in palm oil prices. For 2018, our plans assume a stable currency exchange, resulting in a slight recovery in palm oil prices as surplus inventories are gradually used up. We also expect production to recover to 2016 levels. We are projecting 2018 revenue to be ₦5.3 million, based on a projected oil revenue of ₦3.9 million, kernel revenue of ₦0.4 million, seedling revenue of ₦0.3 million, and maize and cassava revenue of ₦0.7 million. Expenses for 2018 are projected to be around ₦5.3 million, up slightly from 2017 due to planned increases in labor expenses. If no other revenue sources are developed, we expect to break even for the year.

Although 2017 represents a setback, there are still signs that overall progress is being made, and we expect better results in the future.

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.

2017 Results

Overview

As in previous years, we estimate having approximately 7,000 - 8,000 trees planted on about 200 acres spread over five farms. We have planted a few hundred seedlings that have survived in the past few years, but these comprise only a small percentage of the total. As shown in Figure 1, in 2017 we produced from these trees 9840 litres of oil, compared to 12220 litres in 2016 and 10480 litres in 2015. This oil came from 10533 fruit bunches, compared to 13675 in 2016 and 12077 in 2015.

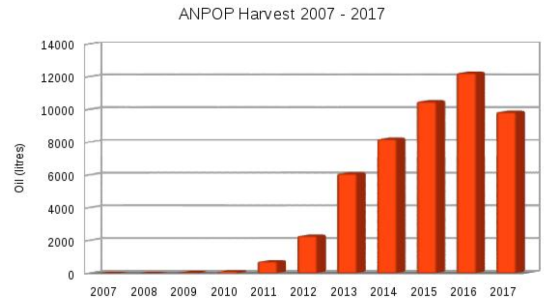

Figure 1: In 2017, we experienced our first ever year-over-year decline in ANPOP oil production.

Farm Operations

One of the most important factors affecting oil production has been fire damage. We again avoided fire damage in 2017, though in early January of 2018 fire encroached at Awe farm, damaging 67 trees, 42 seriously, of which less than ten were bearing fruit. Those with fruits experienced the most severe damage. While initial assessments suggest that all the trees will survive and recover, it is likely that the recovery will take as much as four years for those trees seriously damaged.

Going without a tractor for almost the entirety of 2016 is likely to have been a significant contributer to the drop in production in 2017; if so, we should expect some recovery in 2018 and continued growth in following years. While the reduced clearing in 2016 likely hurt 2017 production, more and more of our tree-shaded areas have been opened up, so we are expecting further growth in production from those areas of the farm. It is unlikely that we have reached or come close to our maximum farm production, so the drop we experienced in 2017 is believed to be an aberration. The correlation between farm cleanliness and production output is now observed to so strong that we will not permit similar cost-cutting measures in the future.

Table 1 has the bunch counts from each farm for the whole of 2017, along with the percentages by weight associated with each farm. Although the weight data is still very approximate, the percentages may be somewhat reliable. The main insight gained from this table is that, while the drop in the number of bunches occurred across all farms, it was most significant on the two largest farms. Meanwhile, the Omodeni farm has moved from a distant last place position in 2015 into a virtual three-way tie with the Ijaye and Olaoke farms in 2017. This is consistent with our hypothesis that production is proportional

Figure 2: Massey Ferguson 385 tractor, put in service in January, 2017.

Figure 3: A ripe fruit bunch on the Omodeni farm in August 2017.

to farm cleanliness, as significant progress was made on the Omodeni farm in removing shading trees. We expect to begin to see progress on the Ijaye farm in 2018 as well as smaller gains on the Olaoke farm in 2019, based on the tree-clearing efforts on those farms.

Some pictures of the ripe fruit observed during the August visit to the farms are shown in Figures 3 and 4.

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. With a new record month in May 2017 when 2800 litres were produced, we have still not hit capacity. Typically, the mill operates for one or two days a

Figure 4: A ripe fruit bunch on the Ogunkunle farm in August 2017.

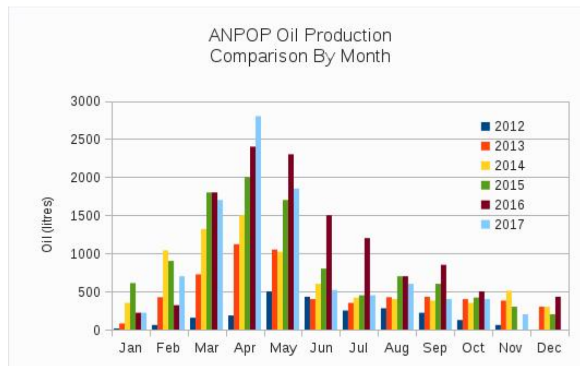

Figure 5: The absence of production in December 2017 was because the cost of harvesting was not justified due to low fruit production.

week for two weeks out of the month, but in the peak months fruit is processed every week. In 2017 it required on average about 214 bunches to produce 200 litres of oil, down from an average of 224 bunches in 2016 and 230 bunches in 2015.

A month by month summary of oil production (see Figure 5) 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 variations in weather patterns. In 2017, the absence of production in December was because fruit production was low enough that the cost of labor to harvest the fruit was not justified.

After instituting kernel nut cracking in 2016, we saw similar benefits from the palm kernel cracking operation in 2017, though at a somewhat reduced price of ₦120 per kg, compared to ₦150 per kg in 2016. It seems that the economic factors affecting the price of palm oil were likely also present to some

Table 1: Harvest by Farm Comparison

Farm	2015 bunches	2015 % by weight	2016 bunches	2016 % by weight	2017 bunches	2017 % by weight
Awe	3,672	24.4%	3,467	25.8%	2,609	23.2%
Ogunkunle	3,374	27.2%	4,012	28.5%	2,597	25.6%
Ijaye	2,022	19.9%	2,316	16.9%	1,892	17.3%
Olaoke	1,554	18.7%	1,830	15.2%	1,661	17.1%
Omodeni	1,455	9.8%	2,050	13.7%	1,774	16.9%

extent in the price of palm kernel oil and therefore the price of palm kernels.

In 2017 we sold 2,700 kg of cracked palm kernels, and we finished the year with an inventory of 200 kg. This compares with 2,670 kg of cracked palm kernels sold in 2016 with a year end estimated inventory of 200 kg. The slight increase in cracked palm kernel production despite a drop in palm oil production is mainly due to the fact that in January and April of 2016 a significant number of kernels were sold uncracked.

Nursery Operations

Seedling revenue was down dramatically in 2017 with only one significant sale, and that revenue showed up mostly in 2016 when the initial deposit was made. As a result, of the 4000 seedlings planted in 2016, 3000 remain in the nursery. No additional seedlings were started in the nursery in 2017. Of the current inventory, we hope to sell a third, and plant the remainder in our own farms in 2018.

Financial Details

In 2017 the naira recovered most of the value lost in 2016, finishing at around ₦360 per dollar, compared to ₦330 per dollar in January 2016 and as high as ₦500 per dollar at the end of 2016.

- The current number of shares issued remains at 297,251. We have also sold shares in Nigeria worth another roughly $2,000, bringing the total investment to just under $300,000.
- Expenses associated with farm operations were ₦5.16 million, up about 12% over 2016. Including bank charges and bonuses and cash payments to landowners following a successful 2016, total expenditures for the year came to ₦5.48 million. Labor was about the same as in 2016 at ₦2.53 million. Gas and diesel increased to ₦773,100, due to price increases and the use of the tractor, while we saved ₦425,000 over 2016 by not planting new seedlings in the nursery. The cost of mill and farm supplies decreased to ₦267,500 due to no new planting of cash crops, while repairs and maintenance costs increased to ₦871,000, mostly due to maintenance and repairs on the tractor. Utilities increased from ₦250,000 to ₦600,000 (of which only ₦350,000 has been paid so far) after payments were initiated in August of 2016.
- Revenues for 2017 totaled ₦3.28 million, compared to ₦6.02 million in 2016. Most of the total was again in sales of palm oil at ₦2.3 million, compared to ₦4.66 million in 2016. The rest of the revenue came from the sale of seedlings (₦58,400), sale of palm kernels (₦324,000), and cassava (₦400,000). We also realized ₦200,000 from the sale of the burned tractor for scrap metal. In unsold inventory (palm oil, palm kernels and seedlings) we had inventory on hand worth about ₦1.92 million, compared to approximately ₦1.61 million on hand at the end of 2015.
- Our net cash flow was a loss of ₦2.20 million, compared to a gain in 2016 of ₦1.43 million.
- In 2017 no capital improvements to the mill were made.
- No additional shares were sold in 2017, and the company has no formal debt, though we are in arrears by ₦250,000 to TGSSM for security and utilities payments.

As mentioned in the summary, the three main drivers for the decrease in revenue in 2017 were the drop in the price of palm oil, the drop in oil production, and the loss of seedling sales. The 2017 average price for palm oil was ₦334 per litre, compared ₦360 per litre in 2016 and ₦220 per litre in 2015. We expect that the return of full use of the tractor in 2017 will lead to some recovery in 2018, and we

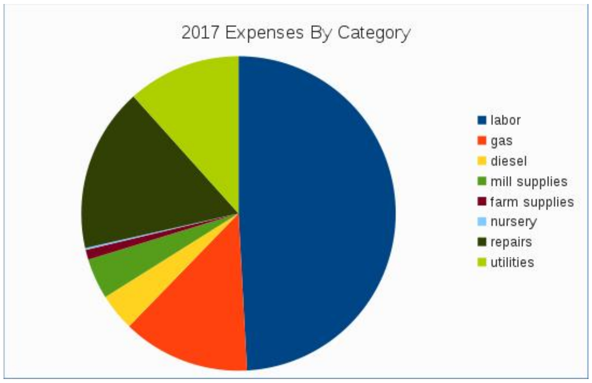

Figure 6: Breakdown in expenses as a fraction of the total by category. Labor represents about 50% of the total, down from 60% in previous years.

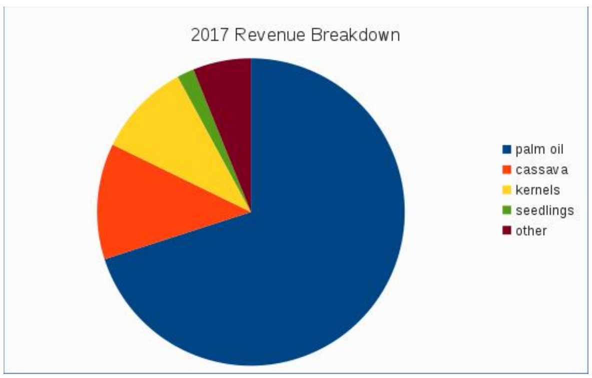

Figure 7: Breakdown in revenues as a fraction of the total. Revenue from sales of palm oil and kernels represents about 80% of the total.

have redoubled efforts in pruning and clearing, including additional harrowing during the early rainy season where most appropriate. We anticipate more significant gains in production will follow in 2019 and beyond.

Table 2 compares the main revenue categories between 2016 and 2017, and Table 3 compares the expenses. Amounts are in thousands of Naira. Figure 6 represents the breakdown of expenses categories graphically. A breakdown of revenues is graphically represented in Figure 7.

The tracking summary (Figure 8 shows expenses tracking reasonably closely with the budget, except for the decision to not invest in additional nursery stock in August, while revenues lagged significantly due to the factors already mentioned. Revenues missed plan by ₦4.20 million, while expenses were below budget by about ₦1.13 million. The volume of oil sold was 6,868 litres in 2017, compared to a projection of 15,000 litres.

Table 2: 2017 vs. 2016 Revenues (thousands of Naira)

	2016	**2017**
palm oil	4663	2295
maize	200	0
cassava	50	400
kernels	422	324
seedlings	681	58
other	0	200
Total	6016	3277

"Other" refers to the sale of the burned tractor as scrap metal.

Table 3: 2017 vs. 2016 Expenses (thousands of Naira)

	2016	**2017**
labor	2501	2533
diesel	10	197
gas	556	676
mill supplies	111	215
farm supplies	240	53
nursery	435	10
maintenance	485	871
utilities	250	600
Total	4588	5155

The details of monthly income and expenditures are provided in Table 4. This table does not include ₦315,000 in bonuses and profit sharing payments to landowners or ₦9,000 in bank charges. Table 5 provides monthly projections for 2018, which are discussed in the next section.

2018 Plans

Overview

Following financial success in 2016 and the the setback we experienced in 2017, here are some considerations regarding plans for 2018.

- 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. The adverse effect of the increasing number of cattle herders on all farms must also be accounted for, mainly affecting new seedlings and other cash crops.

Table 4: 2017 Expenses and Income
(thousands of Naira)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Tot
Expenses													
labor	154	160	267	217	215	240	185	185	205	225	285	195	2533
gas	51	60	65	70	60	45	45	50	50	60	60	60	676
diesel	80										51	66	197
mill supplies	8	12	18	58	58	10	6	8	6	6	25		215
farm supplies		53											53
nursery			10										10
repairs	220	68	75	57	67	40		42	5	152	93	52	871
utilities	50	50	50	50	50	50	50	50	50	50	50	50	600
Total expenses	563	403	485	452	450	385	286	335	316	493	564	423	5155
Revenues													
palm oil	40					193	500		80	1007	120	355	2295
cassava										400			400
kernels											324		324
seedlings						50	8						58
other											200		200
Total revenue	40	0	0	0	0	242	509	0	80	1407	644	355	3277

Table 5: 2018 Projected Expenses and Income
(thousands of Naira)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Tot
Expenses													
Labor	240	240	240	240	240	240	240	240	240	240	240	240	2880
Gas	40	50	60	70	70	60	50	50	50	50	50	50	650
Diesel	80										80	80	240
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													0
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	540	400	415	440	460	435	430	445	425	395	475	475	5335
Revenues													
palm oil	135						135	270	405	810	1080	1080	3915
kernels			100								300		400
seedlings				100	100	100							300
maize										500			500
cassava							200						200
Total Revenue	135	0	100	100	100	100	335	270	405	1310	1380	1080	5315

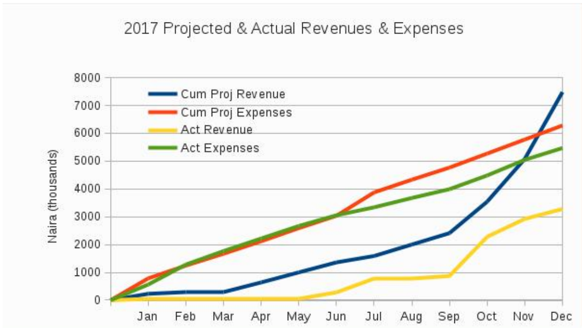

Figure 8: Losses in 2017 were greater than the gains of 2016.

- It is increasingly clear that cleaning and pruning operations on the farm are a major factor in farm productivity. Continued efforts at tree removal to permit increased harrowing, as well as renewed spending on labor for pruning and hand clearing, will be well worth the investment.

- Capital investment will continue to be appropriate, with several potential opportunities identified.

- To get the best prices for our oil, despite the experience of 2017 it is likely to be favorable to hold a significant amount of the year's production until the last half of the year, as we have mostly done for the past several years. This practice entails some risk, as we saw in 2017, and also requires maintaining good security. It also means that for 2018 we need an additional about ₦2.2 million cash by August to cover the planned operating deficit. But the amount of increase in revenue that results from holding our oil appears to justify these risks and costs.

- The options to cover the operating deficit include borrowing, raising funds from shareholders, or finding another revenue source. Currently the plan is to explore leasing the tractor, for which there is expected to be significant local demand in the months of March through June.

With these considerations in mind, our plan for 2018 envisions us generating about ₦5.32 million in revenues, with ₦5.10 million in expenses. This represents a very slight increase in revenues, primarily from recovery in the oil palm fruit harvest and from sale of the inventory carried over. The expenses are projected to up to account for increased labor expenses for improved farm maintenance. Table 6 summarizes the 2018 revenue projections in comparison with actual 2017 revenues, and Table 7 makes the same comparison for the projected expenses.

Table 6: 2018 (projected) vs. 2017 Revenues (thousands of Naira)

	2017	**projected**
palm oil	2295	3915
kernels	324	400
seedlings	58	300
maize	0	500
cassava	400	200
yams	0	0
plantain	0	0
Total	3277	5315

Table 7: 2018 (projected) vs. 2017 Expenses (thousands of Naira)

	2017	**projected**
labor	2533	288
diesel	197	240
gas	676	650
mill supplies	215	130
farm supplies	53	235
nursery	10	0
maintenance	871	600
utilities	600	600
Total	5155	5335

Because the plan involves saving a large percentage of the oil for sale in the second half 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 9, the projected revenue is expected to closely match the planned expenses by the end of the year, but for most of the year we expect to be operating at a deficit. The maximum operating deficit of around ₦2.4 million is projected to occur in August. Additional early sales of oil or new revenue from tractor leasing is expected to fill this gap.

2018 Farm Operations

While managing fire risk continues to be a priority, the drop in production seen in 2017 make farm cleanliness and pruning a high priority independent of fire risk. Because some harrowing work was missed in 2016, additional harrowing and pruning in 2018 is planned to help recover and improve the condition

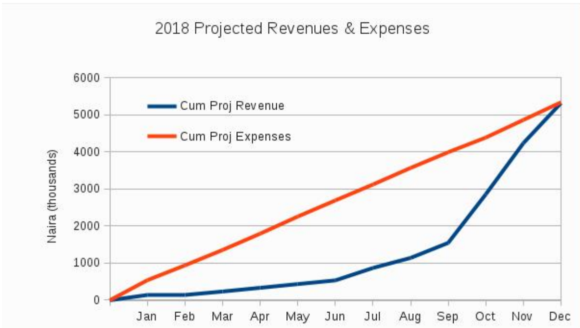

Figure 9: Projected revenues versus expenses by month for 2018, showing revenues projected to slightly exceed expenses by the end of the year.

of the farms. In addition, some new areas opened up because of tree removal efforts may require repeat harrowing.

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 2018, including stump removal as needed, so that the tractor can continue to access more and more of each affected farm.

After planting no maize planted in 2016 or 2017, we plan to plant about 10 acres of maize in 2018, which is expected to produce about ₦500,000. While the majority of the cassava that was planned to be harvested in 2017 was harvested, about six acres remains, and is expected to provide about ₦200,000 in revenue in 2018.

Some additional planting of seedlings is planned for 2017. However, because of our limited success so far to keep new seedlings protected from cattle, we plan to move forward with small projects involving some kind of fencing or inter-cropping to support the planting of 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 slowly approaching 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, any capacity expansion is not planned to occur until 2020 or later.

The primary investment to be considered in 2018 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 screw press is showing sign of age, and will soon be due for a replacement worm screw. The effect seems to be minimal in terms of oil yield, but it requires more assistance to get the fibers and kernels to exit the press. A replacement worm screw currently costs ₦300,000.

The development of palm kernel nut cracking capability in 2016 appears to have been a financial success, generating ₦324,000 in revenue in 2017. 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

Because of the difficulty throughout the area in protecting seedlings from migrant cattle who graze on the seedlings, there is currently limited local demand for seedlings. Until a better approach to cattle management is developed, nursery operations are likely to be curtailed or possibly suspended. For now, no additional planting of nursery stock is planned for 2018.

Summary

The setbacks experienced in 2017 cause us to reassess our situation. The farms still have great potential, and a bright future can still be seen, but it now seems a little further away. We continue to envision 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.