ANPOP 2018 Annual Report

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Executive Summary

After a very poor 2017, things were bound to improve in 2018 — and they did. Despite that improvement, 2018 did not see a return to profitability, as some anticipated revenue did not materialize, and we encountered some unanticipated costs. Oil palm prices were generally below expectations, and farm productivity, though improved slightly from 2017, has not nearly recovered to the levels seen in 2016.

The keys to putting the farm on a better track to sustained profitability may be summarized as follows:

- Improve farm cleanliness and tree pruning. In an effort to manage costs, farm cleanliness deteriorated starting in about 2016, primarily due to the lack of availability of migrant labor. The loss of the tractor in early 2016 also did not help, though a replacement tractor was obtained by January of 2017. Spending on cleaning was increased in 2018, especially on tree pruning, but improved production would not be expected to show up until at least 2019.

- Obtain NAFDAC certification and brand our oil. This summer, the difference in price between branded oil and bulk non-branded oil was between ₦120 and ₦150 per litre. If that price differential were to hold, the certification and branding would be worth annually about ₦1.5 million in increased revenue. Even with out improvements in farm productivity, that additional revenue would mean sustainable profit. If production were to increase, the benefits would be multiplied.

- Improve oil quality. Our oil quality is good by local standards, but by the standards of NAFDAC-certified oil, we have too much free fatty acid content in our oil. This is a consequence of the way our sterilizers our designed to operate. We first separate the fruit from the bunches, typically about a week after harvest, then sterilize the individual fruits. In the process, some fermentation is occurring as the individual fruits soften and become easier to separate from the bunches. This fermentation process leads to increases in free fatty acid content. To avoid this, the fruit would need to be sterilized while still on the bunch. The fruit would then be stripped from the bunch after sterilization. This would require new sterilizers equipped to handle intact bunches, and a separate machine designed to strip fruit from the bunch after sterilization.

Most likely, the NAFDAC certification and branding and the new processing equipment would need to be pursued in parallel to get any significant benefit, while the improved revenue from farm productivity gains would be helpful whether or not the certification, branding and improved processing are in place.

Total revenue in 2018 was ₦3.81 million in revenue, up from from ₦3.28 million in 2017, but still below the ₦6.02 million generated in 2016. Expenses in 2018 came to ₦5.68 million, up from last year's ₦5.16 million. With current oil prices at around ₦290 per litre, our current 1,200 litres is valued at approximately ₦0.35 million, with an additional estimated inventory of ₦0.12 million in cassava (in the ground) and kernels, for a total year-end inventory of ₦0.47 million. This represents a decrease in inventory value of ₦1.45 million compared to what we had on hand at the end of 2017. Seedling sales again did not materialize in 2018, accounting for only about ₦80,000 of our revenue total. We had no revenue in 2018 from other cash crops, compared to ₦400,000 in 2017. Revenue from palm kernels was ₦448,000, up from ₦324,000 in 2017.

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.

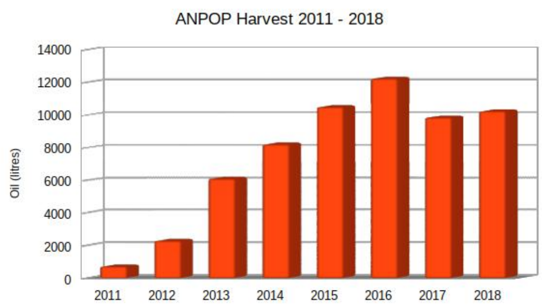

Figure 1: Following our first production decline in 2017, production stabilized in 2018, and perhaps has begun to recover. We still fell well short of the 2016 total.

Figure 2: A ripe fruit bunch on the Olaoke farm in July 2018. This is one of several trees on the farm that have fruit despite not having been harvested or pruned in recent years.

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.

2018 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 2018 we produced 10220 litres of oil, compared to 9840 litres in 2017 and 12220 litres in 2016. This oil came from 10483 fruit bunches, compared to 10533 in 2017 and 13675 in 2016.

Farm Operations

We again suffered no significant fire damage in 2018. Despite the lack of significant progress in farm production in 2018, we still believe that the farm is producing well below its capacity. Accordingly, we invested much more heavily in pruning in 2018 than in previous years, an we expect that investment to begin to show results in 2019 or 2020. We continue to invest in removing shading trees on several areas of the farms, and as more our tree-shaded areas are opened up, we are also expecting growth in production from those areas.

Table 1 has the bunch counts from each farm for the whole of 2018, along with the percentages by weight associated with each farm. Although the weight data is believed to be improved in accuracy from previous years, as our method of estimating average weight bunch has been improved, the primary value in these numbers is in identifying the percentage contribution from each farm.

It can be seen from the table that, while the bunch counts have changed, the percentage by weight of fruit harvested from each farm did not change much from 2017 to 2018. As efforts to improve cleanliness and pruning have been applied somewhat uniformly across the farms, it is expected that the future production will likely continue to track at similar percentages.

Some pictures of the ripe fruit observed during the August visit to the farms are shown in Figures 2 and 3.

Mill Operations

The mill is currently set up to process fruit by first stripping the individual fruits from the bunches, then sterilizing the individual fruits before bringing them to the screw press. In order to facilitate the removal of fruit from the bunch, the bunches are generally al-

Table 1: Harvest by Farm Comparison

	2016		2017		2018	
Farm	bunches	% by weight	bunches	% by weight	bunches	% by weight
Awe	3,467	25.8%	2,609	23.2%	2,397	22.6%
Ogunkunle	4,012	28.5%	2,597	25.6%	2,867	25.7%
Ijaye	2,316	16.9%	1,892	17.3%	1,751	19.5%
Olaoke	1,830	15.2%	1,661	17.1%	1,644	16.7%
Omodeni	2,050	13.7%	1,774	16.9%	1,824	15.4%

Figure 3: A ripe fruit bunch on the Ogunkunle farm in July 2018.

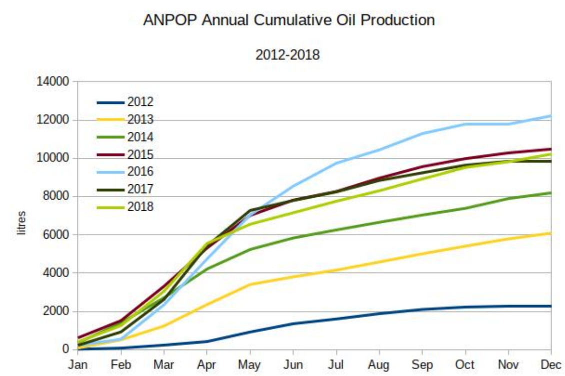

Figure 4: After a strong start, we finished about even with 2015 and 2017.

lowed to sit for about a week. The softens the fruit and makes it much easier to get all or most of the fruit separated from the bunch. One consequence of this method is that the free fatty acid content of the fruit increases above international standards during the week of sitting prior to sterilization. Local buyers and consumers are accustomed to the higher free fatty acid content, and would likely not pay more for a higher quality grade of oil. But it is likely that buyers willing to pay a higher price for NAFDAC certified oil would require lower free fatty acid content. We are still exploring price and availability of sterilizers configured to sterilize fruit while still on the bunch, as well as a fruit stripper for removing sterilized fruit from the bunch.

As the equipment is set up today, we have capacity to produce about 200 litres of palm oil per day, with the sterilizers representing the limiting step in the process. Our highest output in one month this year was in April with 2500 litres produced. We would expect the limit to be 4000 litres in a month. In 2017 it required on average about 205 bunches to produce 200 litres of oil, down from an average of 214 bunches in 2017, 224 bunches in 2016 and 230 bunches in 2015.

A comparison of cumulative oil production from year to year is shown in Figure 4. 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. Through April of this year, we were on pace for a record harvest. But a poor harvest in May put us behind the previous three years, and we eventually finished the year about even with 2015 and 2017.

After instituting kernel nut cracking in 2016, we saw increased benefits from the palm kernel cracking operation in 2018, partly due to an improved price of ₦140 per kg, compared to ₦120 per kg in 2017. More importantly, though, we had an increase in kernel volume, from 2.7 tons in 2017 to 3.2 tons in 2018.

Nursery Operations

Seedling revenue was remained low in 2018, as continued conflict with herders makes planting of seedlings unattractive for us or other local farmers.

Financial Details

The value of the naira against the dollar remained stable in 2018, holding steady at about ₦360 per dollar for the whole year.

- 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 ₦5.68 million, up about 10% over 2017. This amount includes ₦0.60 million in charges to the Good Samaritan Society Mission Village for security, water and electricity which were not actually collected. Labor represented most of the increase, at ₦3.04 million versus ₦2.53 million in 2017. The increase was due primarily to increased investment in cleaning the farms and and pruning the trees. Gas and diesel increased to ₦962,800, due to price increases and increased use of the tractor. Other expenses were mostly flat over 2017 levels.

- Revenues for 2018 totaled ₦4.81 million, compared to just ₦3.28 million in 2017. Most of the total was again in sales of palm oil at ₦4.13 million, compared to ₦2.29 million in 2017. The rest of the revenue came from the sale of seedlings (₦80,000), sale of palm kernels (₦448,000), and rental of the tractor (₦147,500). In unsold inventory (palm oil, palm kernels and seedlings) we had inventory on hand worth about ₦470,000, compared to approximately ₦1.92 million on hand at the end of 2017.

- Our net cash flow (not counting uncollected security and utility payments) was a loss of ₦1.27 million, compared to a loss in 2017 of ₦2.2 million.

- In 2018 no capital improvements to the mill were made.

- No additional shares were sold in 2018, and the company nearly exhausted our ₦1.8 million ($5,000) line of credit. We are also now in arrears by ₦850,000 to TGSSM for security and utilities payments.

As mentioned in the summary, the two main opportunities to improve profitability are: 1) increase production through better maintenance and pruning; and 2) obtain NAFDAC certification, improve oil quality and brand the oil, by upgrading the facility to NAFDAC stabdards and transitioning to equipment that can process fruit immediately after harvest. Based on investments in the farm, we anticipate some gains in production in 2019, with more to follow if we continue our current spending on labor.

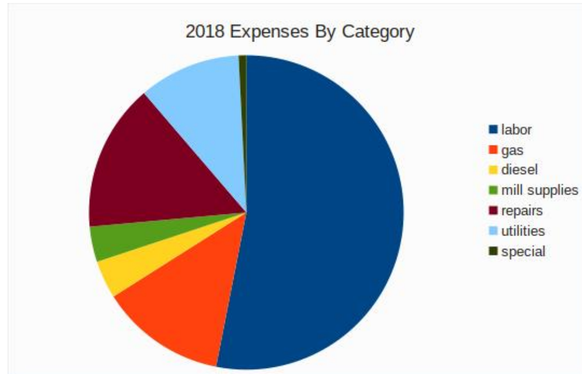

Figure 5: Breakdown in expenses as a fraction of the total by category. Labor represents about 53% of the total, up from 50% in 2017.

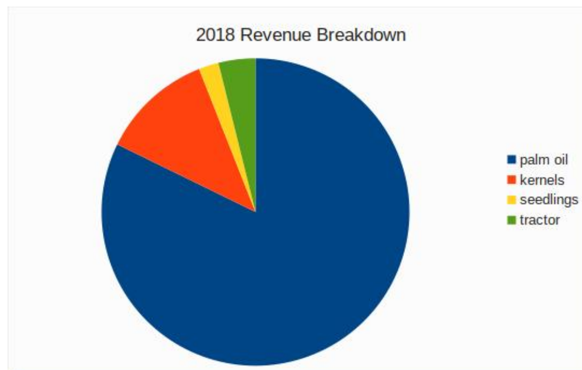

Figure 6: Breakdown in revenues as a fraction of the total. Revenue from sales of palm oil and kernels represents about 94% of the total.

Table 2 compares the main revenue categories between 2017 and 2018, and Table 3 compares the expenses. Amounts are in thousands of Naira. Figure 5 represents the breakdown of expenses categories graphically. A breakdown of revenues is graphically represented in Figure 6.

The tracking summary (Figure 7 shows expenses tracking reasonably closely with the budget, except for the last four months where we spent above budget on purpose in order to improve pruning and general farm maintenance. Revenues tracked on or ahead of plan for much of the year, as palm oil prices were much stronger than normal during the summer months. Revenues finished below plan, however, because we did not execute on the planned

Table 2: 2018 vs. 2017 Revenues
(thousands of Naira)

	2017	**2018**
palm oil	2295	3131
maize	0	0
cassava	400	0
kernels	324	448
seedlings	58	80
other	200	148
Total	3277	3807

"Other" in 2017 refers to the sale of the burned tractor as scrap metal. In 2018, it refers to tractor rental.

Table 3: 2018 vs. 2017 Expenses
(thousands of Naira)

	2017	**2018**
labor	2533	3037
diesel	197	223
gas	676	740
mill supplies	215	208
farm supplies	53	0
nursery	10	0
maintenance	871	868
utilities[1]	600	600
Total	5155	5676

[1] utilities not collected for part of 2017 and all of 2018.

maize planting and palm oil prices did not increase as anticipated. Revenues missed plan by about ₦1,500,000, while expenses (including uncollected security and utility payments) were above budget by about ₦340,000. The volume of oil sold was 11,261 litres in 2018, compared to a projection of 14,500 litres. Average price for the year was ₦285 per litre, compared with a projected price of ₦270 per litre.

The details of monthly income and expenditures are provided in Table 4. This table does not include bank charges, which totaled ₦9,000 in 2017. Table 5 provides monthly projections for 2019, which are discussed in the next section.

2019 Plans

Overview

Following financial success in 2016, revenues have failed to match expenses for two consecutive years.

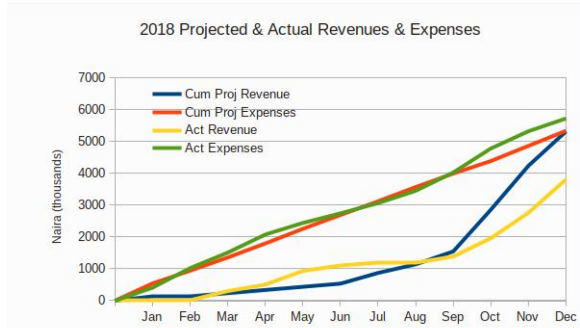

Figure 7: Losses in 2018 were due to inadequate recovery in farm production plus missing the planned maize income.

Here are some considerations regarding plans for 2019.

- Increases in farm production are critical to financial success. It is not clear how much and how quickly the extra investment in pruning during 2018 will lead to production increases, but 2019 will be an important year for estimating this impact and guiding future investments.
- More information is needed to confirm our options for producing higher quality (lower free fatty acid) oil, but if the price differential can be confirmed, and reliable buyers identified, that investment seems likely to pay off.
- NAFDAC certification and branding remains a reasonable goal.
- Current preliminary projections show a deficit operation again in 2019. Production increase or price increases above projections could wipe out the deficit, but unless that happens, some other option is needed to balance the books. Primary options are increased maize planting, tractor rental, or temporary borrowing.

Table 6 summarizes the 2019 revenue projections in comparison with actual 2018 revenues, and Table 7 makes the same comparison for the projected expenses.

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 8, the projected revenue is expected to close the gap relative to the planned expenses by the end of the year, but we expect to be operating at a deficit. Selling oil earlier would help, but prices are often low during peak production, so that might hurt total revenue. A personal loan has been established as a line of credit

Table 4: 2018 Expenses and Income
(thousands of Naira)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Tot
Expenses													
labor	265	285	265	260	195	185	205	220	220	332	360	245	3037
gas	75	85	80	85	85	60	60	50		60	60	40	740
diesel										172.8	50		222.8
mill supplies	6	10	15	39	12	6	6	66	6	6	10	26	208
farm supplies													0
nursery													0
repairs	10	180	78	133	22				260	135	10	40	868
utilities	50	50	50	50	50	50	50	50	50	50	50	50	600
other		5							40				45
Total expenses	406	615	488	567	364	301	321	386	576	755.8	540	401	5720.8
Revenues													
palm oil			300	163	393	102	1000		200	573	800	600	4131
kernels												448	448
seedlings							80						80
other	40	37.5	70										147.5
Total revenue	0	0	300	203	430.5	172	1080	0	200	573	800	1048	4806.5

Table 5: 2019 Preliminary Projections of Expenses and Income
(thousands of Naira)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Tot
Expenses													
Labor	280	280	280	280	280	220	220	220	220	300	300	240	3120
Gas	70	75	80	80	80	75	60	60	60	60	60	60	820
Diesel	80										80	80	240
Mill supplies	10	10	15	20	20	20	10	10	10	10	10	10	155
Farm supplies	0	0	0	10	30	15	30	50	30	0	0	0	165
Maintenance	70	70	70	70	70	70	70	70	70	70	70	70	840
Utilities	50	50	50	50	50	50	50	50	50	50	50	50	600
Total Expenses	565	490	500	515	535	450	440	460	440	490	570	510	5940
Revenues													
palm oil	150	150					150	300	600	750	900	900	3900
kernels												500	500
maize										500			500
cassava							200						200
Total Revenue	150	150	0	0	0	0	350	300	600	1250	900	1400	5100

Table 6: 2019 (preliminary projections) vs. 2018 Revenues
(thousands of Naira)

	2018	projected
palm oil	4131	3900
kernels	448	500
seedlings	80	0
maize	0	500
cassava	0	200
Total	4806.5	5100

Table 7: 2019 (preliminary projections) vs. 2018 Expenses
(thousands of Naira)

	2018	projected
labor	3037	3120
diesel	223	240
gas	740	820
mill supplies	208	155
farm supplies	0	165
nursery	0	0
maintenance	868	840
utilities	600	600
Total	5676	5940

to help the operations run efficiently and manage the projected cash flow deficit.

2019 Farm Operations

Farm cleanliness and pruning have been established as our top priority, both to reduce the risk of damage from fire and to improve production. Tree clearing work will continue in 2019, including stump removal as needed, so that the tractor can continue to access more and more of each affected farm.

Although maize was planned for 2018, cash flow challenges kept it from happening. Maize is currently planned for 2019, but plans are not yet final. Also, there remains some cassava that could yet be harvested, and it is expected to provide about ₦200,000 in revenue in 2019.

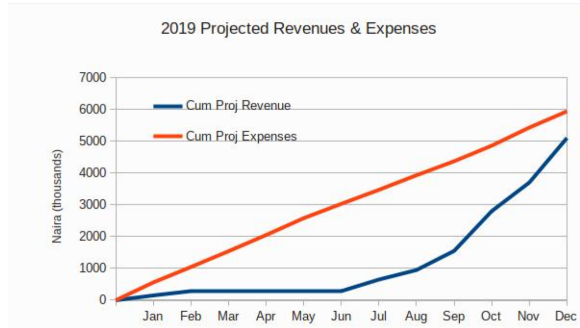

Figure 8: Projected revenues versus expenses by month for 2019.

2019 Mill Operations

The primary investment to be considered in 2019 for the mill is to upgrade the current mill facilities in order to meet standards required to obtain NAFDAC certification and to produce low free fatty acid oil. NAFDAC certification work needed includes windows, plaster, painting, ceilings, and a toilet and septic tank. That cost is estimated to be between ₦1.0 and ₦2.0 million. No cost estimates are available yet for the equipment upgrades.

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 the screw press now requires more assistance to get the fibers and kernels to exit the press. A replacement worm screw currently costs ₦300,000.

Summary

While 2018 was a significant improvement from the setback experienced in 2017, the long term success of the farm is still in view. Great potential exists for the farm, although the path is likely to include more challenges. 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.