

Q3 2019 Q & A

December 17, 2019

This Q&A was delayed because of late questions and pre-planned meetings.

Could you please update progress at Tri-Way, generally, and also specifically addressing these areas:

- **The last results press release revealed a very encouraging income trend from Tri-Way, with income rising in the last four quarters from: USD 1.8M to USD 2.4M, USD to 3.6 M, to USD 5.6M in the last quarter. Can we expect this trend to continue? Are there any specific bright spots or can you break down where the income came from?**
- **Of the USD 5.6M income booked in the third quarter, did SIAF receive cash, or is it a paper gain?**
- **Part of the T-W spin out resulted in T-W owing SIAF some money. Since T-W is showing improving results, and SIAF is seeking improved cash flow generation, is it realistic to expect this debt to be repaid in the upcoming quarters?**
- **On August 27th the Company announced two credit lines for the T-W trading business. Subsequently web entries for those press releases were removed. Why was this? And, does this mean that the lines still in effect or no longer in effect? Might there be replacement or augmented credit lines pursued? Accordingly, what is your expectation for the T-W trading business in the coming quarters and months?**

Let us explain some relevant intricacies of Tri-way's ("T-W") businesses. T-W derives revenue in two main ways:

1. Sale of fish and prawns grown within its indoor and outdoor recirculating aquaculture systems across four separately located aquafarms
2. Import and sale of third party seafood, essentially as a trader/distributor

Let's take the second first. T-W aims to supplement its grow-out business by offering diversified and complementary seafood products, such as frozen seafood. Potentially, this side of the business is synergistic for both T-W and its customers. For customers, they have expanded offerings and larger supply. T-W capitalizes on an existing sales infrastructure and is able to better satisfy existing customer needs and potentially grow its customer base.

The distribution business in China is quite complicated in several ways. Distribution in China is based on a tiered system in which larger distributors earn larger revenue because of:

1. Net margins on higher average sales volume, and more importantly,
2. Payment terms to customers shortening, thereby increasing inventory turns financed by the same capital or credit lines. Payment terms can shorten from months to days, if and when a low tier distributor progresses to a high tier one distributor. This is a gradual, multi-

year endeavor, as a history of increasing volumes, product quality, and customer satisfaction is established.

This is the path T-W aims to travel. Essential to this path is supplementing its own capital with credit lines, and increasing each over time. T-W began this process with two \$5M credit lines. A second complication is an extensive and somewhat on-going bureaucracy governing both the types of credit lines established and the ensuing transactions. The relationship bringing the two credit lines and the responsibility for initial management belonged to a Director who unfortunately fell ill at the most inopportune time. This led to required time lapsing for the first documentary approvals and appropriate stamp issuance after the credit lines were established.

Of course, while T-W pursued those credit lines, it also applied for many others in different localities. Meanwhile, the company is certainly now aware of these type of on-going terms and the need to assign additional personnel. Other replacement credit lines are currently being pursued with one having passed two stages of due diligence. As such, it may take a few more weeks before the final approval result will be known.

Let us turn to the sale of goods internally grown. Again, many variables govern performance. While the Company is pleased with the current trajectory of revenue, it expects quarter-to-quarter variability in sales. Main factors include:

1. Seafood grow-out periods vary by species -- generally from 12 – 18 months -- so quarterly volumes will vary depending on the number of fish ready for sale.
2. Wholesale and retail prices for each species are subject to market and seasonal factors, causing revenue fluctuation.
3. During the grow-out period, survival rates can vary dramatically, due to any possible environmental contamination or disease or simply the heartiness of each tank of fish. and in the case of prawns even the percentage of female to male broodstock offspring.

T-W's sales revenues and earnings from its primary production activities have improved, as tonnage improved 22% from 10,230 MT in 2018 to 12,477 MT in 2019.. This result was encouraging in light of non-performance at aquafarms 4 and 5 ("megafarm"). However, the revenue and net profit trajectory has not overcome T-W's net cash flow position, due primarily to seed working capital needed to maintain reasonable amount of broodstock and nursery stocks in order that daily and weekly sales can be achieved consistently.

As in all primary food production, reinvesting capital in basic infrastructure and contingent reserves is essential. Although T-W aims to limit capital development, investments in broodstock and nursery stocks are absolutely necessary. Because T-W paid for all of its fixed assets by shares after being carved off from SIAF, T-W didn't have enough cash in order to acquire the necessary quantities of broodstock and nursery stocks that were agreed under credit terms. Over the past years, servicing these credit lines and meeting their capital investment covenants reduced the availability of net cash flow. As the level of broodstock grows and/or the life cycle for offspring shortens, positive cash flow is expected to increase dramatically.

If based on primary production alone, SIAF does not expect repayment of T-W's debt until this occurs. However, if and when the trading business accelerates sales and profit growth, T-W's cash flow will improve, particularly in foreign currency cash flow sufficiently to redeem SIAF's debts. The Company is targeting to generate a healthy trading growth rate starting in 2020.

The Company recently raised its authorized share count and issued new shares, the first newly issued shares since its commitment to hold the share count. Please explain.

The actions are in the best interest of the Company. Details, analysis, and implications will be addressed in an upcoming posting as soon as plausible.