Report of Solagran’s Russian division.
August 2016.
The structure of the Russian division

- Solagran Ltd.
  - BIC (10 employees)
    - Legal services
    - Consulting
    - Security services
  - Solagran Son (6 employees)
    - Managing company
  - Dana (60 employees)
    - Production of substances in Tomsk
  - Solagift (25 employees)
    - Resident of the Special Economic Zone, Tomsk
    - Production and sales of finished products
    - Marketing research
    - Medical research
  - Solalife (32 employees)
    - Production of substances in Vyshny Volochok
    - CGNC
    - Conifer Chlorophyll Carotene Paste

Russian Division personnel – 133 employees

- Polyprenols
- CO2-extracts
Production of CGNC and chlorophyll carotene paste at «Solalife» Ltd. (Vyshny Volochok)

Production upgrade accomplishments:

1. 2 new extractors added to 4 operating ones, all required peripheral equipment also installed.
2. A double capacity boiler house has been set up.
3. A new conifer green foliage crushing plant, finished-products and the organic solvents storage areas were built.
4. A complete overhaul of the existing technological equipment and premises was made.
5. The additional transport vehicles for raw material procurement were purchased.

1. Before 2015 the production facility was capable of producing 2,000 kg of CGNC per month. Manufacturing facilities were leased.
2. At the beginning of 2015, the manufacturing facilities and a land area of about 90 thousand sq. m were purchased with the funds raised from an Australian Investor.
3. In 2015 - beginning of 2016, a reconstruction of the existing production facility was completed.
4. Overall cost of the reconstruction – US$ 700,000
5. Currently, the production facility runs stably manufacturing 3,700 - 4,200 kg of CGNC per month, corresponding to the monthly market demand.
Production of CGNC and chlorophyll carotene paste at «Solalife» Ltd. (Vyshny Volochok)

Plans for further upgrading:

1. Installation of additional new, larger volume extractors.
4. Further improvement of the whole territory.

The planned upgrade will increase the production capacity by 3 times, bringing the capacity of CGNC production up to 12,000 kg per month.
1. The world's first commercial production of polyprenols commenced at Semiluzhki.

2. CO2 extracts (Bioeffectives I and E) production line was upgraded at the same time.

3. By year end 2015, monthly production volumes were: 1,200kg of combined CO2 extract, 250kg of total organic extract allowing to obtain 180kg of balsamic paste, 50kg of provitamin concentrate. The company could produce up to 50 kg of high purity polyprenols.

4. By 2015, developed and implemented production technologies for several new products for cosmetics and agriculture due to market demand.

5. The demand for new products requires to substantially increase the production capacity.

**Production upgrade accomplishments:**

1. Installation of the high capacity organic extraction equipment:
   - 2 new reactors, 2.3 m³ each plus all necessary accessories, including hoists, needle crushing and drying machines, as well as a new alarm and fire protection systems.

2. Acquisition of additional vehicles for the procurement of raw materials.

As a result of the upgrade, the production capacity of the organic extraction plant was increased by 3 times.
Further upgrade - Plans:

1. A twofold increase in CO2 extraction capacity due to increased Bioeffective I demand and new supply agreements.
2. Further expansion of primary organic extraction facilities in order to ensure the production of the whole range of Bioeffectives.
3. Construction of new lines for silbiol (Bioeffective S), sodium chlorophyllin (Bioeffective N) and its derivatives.
4. Installation of equipment for compounding of substances and the manufacture of emulsions.

All these improvements will ensure our potential to fulfil the current contracts and meet future demand for our products.
Solagran currently manufactures 7 out of 11 core Bioeffectives® by using the unique patented extraction technology.

The process involves a gentle extraction that enables isolation of live elements of conifer green needles without disruption of their biologically active properties.

The primary stages of extraction need to be carried out close to the bases of freshly harvested raw materials.
### COMPANY’S PRODUCTS - SUBSTANCES. Production volumes (kg/month)

<table>
<thead>
<tr>
<th>Products</th>
<th>Before upgrading 2016</th>
<th>After upgrading 2016</th>
<th>Next step of upgrading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil-ethereal complex of Siberian silver fir</td>
<td>500</td>
<td>4000</td>
<td>12000</td>
</tr>
<tr>
<td>Cell sap of Siberian silver fir</td>
<td>700</td>
<td>600</td>
<td>1500</td>
</tr>
<tr>
<td>Coniferous chlorophyll carotene paste (CGNC)</td>
<td>2000</td>
<td>180</td>
<td>1000</td>
</tr>
<tr>
<td>Coniferous balsamic paste</td>
<td>180</td>
<td>600</td>
<td>4000</td>
</tr>
<tr>
<td>Coniferous provitamin complex</td>
<td>50</td>
<td>200</td>
<td>1500</td>
</tr>
<tr>
<td>Silbiol</td>
<td>150</td>
<td>100</td>
<td>1000</td>
</tr>
<tr>
<td>Polyprenol concentrates</td>
<td>50</td>
<td>50</td>
<td>500</td>
</tr>
<tr>
<td>AGROCOMPLEXES</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
CONTRACTUAL RELATIONS STATUS: 2016

**Key customers before 2015 (products):**

1. **Unilever Rus**
   - CGNC
   - Coniferous balsamic paste (*Bioeffective L*)
   - CO2 extract of Siberian silver fir (*Bioeffective E*)
   - Coniferous provitamin complex with polyprenols (*Bioeffective V + R*)

2. **Art Life (Tomsk, Russia)**
   Polyprenol concentrates (Food fortifier «Prenolit»)

3. **Сибирь** (Novosibirsk, Russia)
   CO2 extract of Siberian silver fir (*Bioeffective E*)

4. **Tentorium** (Perm, Russia)
   - CO2 extract of Siberian silver fir (*Bioeffective E*)
   - CO2 extract of Siberian silver fir (*Bioeffective I*)

5. **Yusil** (Yurga, Russia)
   Production of carbonated beverages based on conifer cell sap (*Bioeffective I*).

**New contracts 2015-16 (products):**

1. «Energen export s.r.o» (Czech Republic)
   Coniferous complexes AGRO (plant growth stimulants).

2. «Vilavi»
   - CO2 extract of Siberian silver fir (*Bioeffective L*)
   - polyprenol concentrates (*Bioeffective R*).

3. «Nature Essence»
   - CO2 extract of Siberian silver fir (*Bioeffective E*)
   - CO2 extract of Siberian silver fir (*Bioeffective I*)
   - other substances for cosmetics

4. «InVita»
   - CGNC
   - Coniferous balsamic paste (*Bioeffective L*),
   - CO2 extract of Siberian silver fir (*Bioeffective E*)
   - Coniferous provitamin complex (*Bioeffective V*)
   - CO2 extract of Siberian silver fir (*Bioeffective I*)
   - polyprenol concentrates (*Bioeffective R*)
Awarding of the International Certificate of BRC Global Standard for Food Safety enables us to work not only with «Unilever» Russia but also with their partner companies in 28 countries.

Since purchasing Bioeffective E in 2007, Unilever today obtains 4 of our products for oral hygiene.
Company’s products:

1. Range of biologically active food additives with Bioeffective R
2. New toothpastes with Bioeffective R

In development: a range of beverages with Bioeffective I
Company’s products:

**T8 Extra**
- Bioeffective R
- Bioeffective I
- Bioeffective L

**T8 Blend**
- Bioeffective R
- Bioeffective I
- 6 wild berries

Under development
Oral fresheners with energy uplift effect

Sales start: March 2016 (800,000 rubles)
Monthly increase: + 60-80%
New major partners. «Nature Essence»

Agreement of 15 June 2016

Company’s products:

1. Ready-made drink on the basis of *Bioeffective I*.

2. Ready-made drink on the basis of cell sap of *Bioeffective I* and ginseng.

3. Toothpastes and cosmetic products.

Sales start: August 2016

Expected sales volume by 2018: $1,000,000
New major partners. «InVita»

Agreement of 21 December 2015

- InVita has a client base of about 500 companies who use various ingredients.
- Nearly 15% of them are willing to use Solagran’s **Bioeffectives**.
- 60 clients are testing our already presented product samples.

Main objective:

- To present our cosmetics, biologically active food additives and foodstuffs substances to a wide range of consumers.
- To increase consumers’ awareness of **Bioeffectives** and their properties.
New major partners: «Energen Export»

1. 5 complexes for plant growth stimulation were developed

<table>
<thead>
<tr>
<th>Name of coniferous complex “AGRO”</th>
<th>Composition</th>
</tr>
</thead>
<tbody>
<tr>
<td>“BP Agro”</td>
<td>Growth promotant based on Bioeffective L</td>
</tr>
<tr>
<td>“BP-Agromix”</td>
<td>Growth promotant based on Bioeffective L and Bioeffective I</td>
</tr>
<tr>
<td>“CAC - sodium” (Conifer agrocomplex)</td>
<td>Plant protection agent based on strong coniferous acids</td>
</tr>
<tr>
<td>“CAC – potassium” (Conifer agrocomplex)</td>
<td>Plant protection agent based on strong coniferous acids</td>
</tr>
<tr>
<td>Water fraction CO2 Agro</td>
<td>Growth promotant based on Bioeffective I</td>
</tr>
</tbody>
</table>

2. First field tests of the products were successfully completed

Untreated crops:

Treated crops:

Plan for sales by 2018 – EUR 1,000,000 a year!
A new partner with high potential: «OTCPharm»

The largest company in the Russian OTC pharmaceutical market

1. A new product - Mouthwash «Pikhtolor» developed
2. Medical trials conducted
3. Final formulation and packaging approved
4. A compliance with the customer requirements audit passed, a positive conclusion of the partnership settled.
5. In July 2016 the process of concluding a contract for supply was started.

Planned to triple sales volumes - from USD 100,000 in the first year to USD 300,000 in the near future for each product.
• **Academia-T** developed a biologically active supplement in the area of sport nutrition on the basis of microsphered polyprenols.

• **Enterosgel** is the leader in the Russian market of enterosorbents planning to create enterosorbents with supplementary effect (using the beneficial properties of CGNC, *Bioeffective I and R*).

• **Feron** is a suppositories manufacturer developing a product with CGNC and *Bioeffective S* for use in gynecology and pediatrics.

• **Napoli** is developing new adhesive bandages, bandages, and dressings with polyprenols and CGNC for wound healing.

• **Otris** - Moscow based pharmaceutical factory manufacturing a broad range of over-the-counter products planning to develop biologically active food additives using our products.

• Vietnamese Pharmaceutical company developed a biologically active food supplement on the basis of *Bioeffective I* against anemia. The new product is in the process of registration.
«SOLAGIFT» Ltd. : Own-products for sales through retail chains.
In December 2015 «Solagift» Ltd obtained a pharmaceutical license.

In May 2016 «Solagift» Ltd obtained a registration certificate for «Ropren».

Promotion and sales of «Ropren» in 2016:

1. Participation in the Anniversary Congress of the Scientific Society of Gastroenterologists of Russia (Report by Professor O. Minushkin; Inclusion into the Russian clinical practice guidelines; Stand at the National Congress of Physicians; Publication in the materials for the Congress)
3. Marketing research of the optimal pricing for «Ropren» – the key to its successful promotion for mass consumption.
4. Conclusion of Contract on the promotion of "Ropren" in the pharmaceutical market through one of the two major pharmaceutical consulting companies in Russia («R-media» or «Brefi»), with the condition of payment according to results.
5. Plan of sales and promotion to 2020.
SALES OF PRODUCTS 2012-2016 (million rubles)

- **2012**
  - Total Sales: 24,1
  - Sales of raw material: 21,0
  - Sales of packaged products: 3,1
  - Including Unilever: 12,2

- **2013**
  - Total Sales: 43,2
  - Sales of raw material: 37,8
  - Sales of packaged products: 5,4
  - Including Unilever: 22,6

- **2014**
  - Total Sales: 55,0
  - Sales of raw material: 48,5
  - Sales of packaged products: 6,5
  - Including Unilever: 30,3

- **2015**
  - Total Sales: 74,0
  - Sales of raw material: 65,5
  - Sales of packaged products: 8,5
  - Including Unilever: 34,0

- **2016**
  - Total Sales: 125,0
  - Sales of raw material: 113,0
  - Sales of packaged products: 12,0
  - Including Unilever: 40,0

- **2017 (forecast)**
  - Total Sales: 175,0
  - Sales of raw material: 156,0
  - Sales of packaged products: 45,0
  - Including Unilever: 19,0
Comparison of product sales 2015 and 2016 (thousands US$)

1st half year:
- 2015: $518,300
- 2016: $805,400

2nd half year forecast:
- 2015: $556,200
- 2016: $1,122,600

Sales in 1st half 2016 in comparison with 1st half 2015 - increase by 55%.

Based on the annual results the sales growth of 80% may be expected!
Monthly financial results 2012-2016 (million rubles)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
<th>Costs</th>
<th>Loss/Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>14,0</td>
<td>12,0</td>
<td>-2,0</td>
</tr>
<tr>
<td>2013</td>
<td>10,0</td>
<td>6,4</td>
<td>3,6</td>
</tr>
<tr>
<td>2014</td>
<td>8,3</td>
<td>5,4</td>
<td>-2,9</td>
</tr>
<tr>
<td>2015</td>
<td>10,4</td>
<td>8,7</td>
<td>+1,7</td>
</tr>
<tr>
<td>2016</td>
<td>10,0</td>
<td>9,9</td>
<td>+0,1</td>
</tr>
<tr>
<td>2017 (forecast)</td>
<td>14,6</td>
<td>10,0</td>
<td>+4,6</td>
</tr>
</tbody>
</table>
1. Diversification of contractual relations with timber loggers:
- Increase of own vehicle fleet for raw material delivery;
- Creation of rotational camps in the forest harvesting areas;
- Encouragement of forest operators to supply raw materials.

2. Setting up of our own logging enterprise:
- Leasing of forest land;
- Earning profits from logging activities;
- Better planning of raw materials procurement, its variety and quantities depending on the harvesting plan;
- Optimization of transport.

3. Creation of large procurement bases close to the cutting zones:
- Concentration of raw material procurement around established bases;
- Initial culling, selection of green foliage according to the established standards is done at the bases;
- Lower logistics costs of green foliage delivery to the production site due to higher load volumes;
- First work experiences of such a site in the village Krasny Yar (Tomsk Region) (the green foliage is collected at the plots of land 20-40km distance from the base and delivered to the production site by heavy haulers).

4. Establishment of mobile extraction units at logging sites:
- The mobile units concept for primary extraction at harvesting sites;
- Mobile units operation is easy and secures the priority of procurement of the primary extract to our company;
- The raw material supply problem is redefined to bringing the solvent to the forest harvesting sites, doing the processing on the spot and transporting the primary extract out of the forest to the plant;
- This allows to significantly increase the volume of processed green foliage under our management.
Harvesting of conifer green needles in the areas of logging

Primary extraction of conifer green foliage at mobile units in the areas of timber harvesting

Production of biologically active substances

Production site in the Special Economic Zone in Tomsk «Solagift» Ltd.

Production of pure substances, drug products and preventive and medicated products, cosmetic products, food and agricultural products.

MARKET
The production site at the Special Economic Zone was established in order to:

- bring the substances manufactured at the production sites in Semiluzhki and Vyshny Volochok up to the required grade and purity.
- Creation of natural substances and emulsions.
- Development of new extraction technologies.
- Bottling of finished products for retail chains.
1. The design project of GMP-certified production construction in the territory of the Special Economic Zone.

2. All the infrastructure is connected to the dedicated land plot (sewage lines, gas, water pipes, roads).

3. Two transformer substations of 1,2 MW each were installed on the land plot.

4. The ground area plan was carried out.

5. «Solagift» Ltd. won the contest «Regions – steady development» allowing it to receive a preferential funding of 750 million rubles for construction of the production complex in the Special Economic Zone.

6. An Investment Agreement concluded with the Administration of Tomsk region that contains a partial loan compensation clause.

7. Our own investments shall account for about 330 million rubles ($5 million) and may be compensated by the Ministry of Industry and Trade of the Russian Federation.
Government support for innovative companies is accomplished through regional centers of industrial cluster development.

Innovations, science, education under the chairmanship of deputy of Government of RF A. Dvorkovich

- Innovation territorial cluster «Pharmaceutics, medical equipment, information technologies»
- Cluster of renewable natural resources «Wild plants»
- Forest cluster of Tomsk region
- Association of low-tonnage chemistry enterprises

«Solagift» Ltd. is a participant in all 4 clusters and can apply for development grants.
**Betulin**

- Has strong immune stimulating, antiseptic, antiviral and antibacterial properties
- Absolutely safe – toxicity class IV.
- Increases nutrition value and beneficial for human health.
- Used as a food additive.
- Products containing Betulin strengthen the body defense systems, contribute in the treatment of many diseases including oncological.

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**Solagran Son** developed the technology of obtaining Betulin from birch bark after a series of experimental research. **Henda-Sibir** is the Russian-Chinese enterprise with $1 billion investment in the forest industry. A largest procurer of birch bark raw material in Tomsk region – 200 t monthly.

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**Joint project of primary extraction of Betulin.**

- Joint business plan for the project is being developed.
- Distribution to Chinese and Russian markets is anticipated.

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**!!! Upper birch bark is prohibited to burn in power plants**

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**АСИНОВСКИЙ ЛЕСОПРОМЫШЛЕННЫЙ ПАРК**
THANK YOU FOR YOUR ATTENTION!