

Sino Agro Food Inc. – Violation of disclosure obligations

1. Introduction and executive summary

The Oslo Stock Exchange has investigated breaches by Sino Agro Food Inc. (the “**Company**”) of the Admission to trading rules for Merkur Market (the “**Admission Rules**”) and the Continuing Obligations of companies admitted to trading on Merkur Market (the “**Continuing Obligations**”), due to failure to disclose information about arrangements for issuance of common shares as security (“**Collateralized Shares**”) for various loans and trade finance facilities.

The Company was admitted to trading on Merkur Market on 13 January 2016, at which time the Company had entered into a trade facility (the “**Trade Facility**”) where it had issued 1,235,000 common shares in the Company (the “**Common Shares**”) as security. The Company later became subject to issuances of additional Common Shares as security for the Trade Facility than what was stipulated in the admission document (the “**Admission Document**”) ¹ published in connection with the admission to trading on Merkur Market. The Company also became subject to issuances of more Common Shares as security for new loans (the “**Additional Loans**”) entered into on 27 December 2016.

From the time the Company was admitted to trading on Merkur Market and up to 30 September 2017, the Company has issued a total of 7,140,047 Collateralized Shares in addition to the 1,235,000 Collateralized Shares issued initially. This entails an increase of the Company’s Common Shares of approximately 35%.

The Company’s obligations to issue Common Shares as security for the Trade Facility and Additional Loans constitute in the opinion of the Exchange inside information which has not been disclosed timely to the market in accordance with section 3.1.1 of the Continuing Obligations.

Furthermore, the Company has not timely disclosed information about increases in its authorized share capital pursuant to section 3.2 (1) no. 3 (e) of the Continuing Obligations, or the issuances of Common Shares when these have been carried out pursuant to the above arrangements, cf. section 3.2 (1) no. 3 (d) and 9.4 (3) of the Continuing Obligations.

The Company acknowledges that the issuances of Collateralized Shares has not been timely disclosed on Newsweb in accordance with the Continuing Obligations, but is of the opinion that information about the Company’s arrangements for issuances of Collateralized Shares do not constitute inside information which the Company has disclosed too late.

The Oslo Stock Exchange considers the above breaches of the Continuing Obligations as material and has resolved to impose a violation fee on the Company pursuant to section 12.3 (2) of the Continuing Obligations.

Under section 2 below, the Exchange will present certain general information about the Company and the trading in the Company’s Common Shares on Merkur Market. The legal background for the matters subject to this case is set out under section 3. Under section 4, the Exchange will give an account of the factual circumstances of the case. The Company’s account of the case is provided under section 5. Under section 6, the Exchange will provide its assessment of the case.

¹ [Appendix 1](#): Admission Document of 12 January 2016

2. About the Company

2.1 Introduction

The Company is a protein food production and development company operating in China. The Company is a corporation governed by the laws of Nevada, the United States, with registered office in Guangzhou, China. The Company operates within the agriculture and aquaculture industry, with two major products, namely meat derived from the rearing of beef cattle and seafood derived from the growth of fish, prawns, eel and other marine species.

2.2 Shares and classes of shares

The Company has two classes of shares, Series A Preferred shares (the “**Preferred Shares**”) and the Common Shares. The Common Shares have been quoted on OTCQB U.S. Premier in the United States since 5 January 2012 and were admitted to trading on Merkur Market on 13 January 2016.

The Preferred Shares shall at all times represent 80% of the total votes in the Company. The Preferred Shares pay no dividend and are not convertible. Mr. Solomon Lee, the CEO and Chairman of the Board of Directors, owns 75% of the Preferred Shares. Holders of the Common Shares are entitled to one vote for each such share held at all meetings of shareholders of the Company.

At the date of admission to trading to Merkur Market, the Company's authorized share capital consisted of 32,727,273 shares, comprising (i) 22,727,273 Common Shares, par value USD 0.001 per share and (ii) 10,000,000 Preferred Shares, par value USD 0.001 per share. The authorized share capital constitutes the frame of which the Company's Board of Directors can resolve to issue new shares within. As of the date of admission to trading to Merkur Market, the Company had issued 20,133,857 Common Shares and 100 Preferred Shares.

As of the date of this document, the Company has an authorized share capital of 60,000,000, comprising of (i) 50,000,000 Common Shares and (ii) 10,000,000 Preferred Shares, par value USD 0.001 per share. The Company has issued a total of 49,355,640 Common Shares and 100 Preferred Shares.

2.3 Financial reporting

In its financial reporting, the Company publishes annual and quarterly financial reports pursuant to the U.S. Securities Exchange Act, 10-Q (interim) and 10-K (annual) reports, which are also filed with the U.S. Securities and Exchange Commission (the “**SEC**”). In addition, the Company prepares a less comprehensive financial report which is more similar to what the Oslo Stock Exchange is more used to seeing in the financial reporting for issuers admitted to trading on Merkur Market. On this basis, the Exchange also assumes the main purpose for releasing a summary report in addition to the 10-Q is to present the financial results in a structure and more accessible manner for the participants in the Norwegian capital market.

In this case, the Exchange will throughout refer to 10-Q and 10-K reports, which are references to the comprehensive financial reports also filed with the SEC. The Exchange will also make references to the “summarized reports”, which are references to the Company's less comprehensive financial reports.

2.4 Trading in the Company's shares on Merkur Market

Since the Company's Common Shares were admitted to trading on Merkur Market on 13 January 2016, the share price has declined by approximately 95%. During the same period, the number of issued

Common Shares has increased from 20,133,857 to 49,355,640, an increase of 145%. The share price peaked in January 2016 at NOK 92-93, while the shares recently have traded around NOK 3.00 per Common Share.



Trading statistics:

	Traded value (MNOK)	Number of traded shares	Number of trades	Year-end outstanding common shares ²
2016 ³	253	4.7 million	11,531	22,726,859
2017	185	10.1 million	16,898	29,362,365
2018 H1	51	11.3 million	8,852	40,305,492

The trading activity, in terms of number of trades and number of traded Common Shares, has increased significantly throughout this period while the share price has had a negative development, as reflected in the table above.

The Company has issued approximately 8.4 million Collateralized Shares for its debt obligations under the Trade Facility and the Additional Loans. To the knowledge of the Exchange, the Company has not

² According to the Company's 10K annual reports and stock exchange announcement of 14 June 2018.

<https://newsweb.oslobors.no/message/453746>

³ Since 13 January 2016

issued any Collateralized Shares in 2018, implying that the issuances of 8.4 million Collateralized Shares were carried out in 2016 and 2017. The total number of Common Shares as of 31 December 2017 was 29,362,365, which represents an increase of 9.2 million Common Shares since the Company was admitted to trading on Merkur Market in January 2016. Out of this, 8.4 million Common Shares were issued as Collateralized Shares, which is around 90% of the said increase.

The Company's Common Shares are also quoted and traded on OTCQB U.S. Premier in the United States. This implies that a part of the Company's Common Shares is traded on this market place and another part is traded on Merkur Market. The number of Common Shares traded on each of the market places varies from time to time, as a shareholder can transfer its holding of Common Shares between the markets where the Common Shares are traded. In this case, between the U.S. and Norway. This entails that all of the Company's Common Shares are admitted to trading on Merkur Market, as all Common Shares in principle can be traded on this market place.

The Oslo Stock Exchange does not have any information about which market the Common Shares are traded on at all times and neither is in a position to monitor the trading on OTCQB.

3. Legal background

Section 3.2 of the Admission Rules regulates the content of the application for the admission to listing on Merkur Market. Pursuant to section 3.2 (4) no. 15⁴, the application shall, among other things, include information about:

"Any options, warrants or loans giving the right to require the company to issue shares, and any subordinated debt or transferable securities issued by the company."

Furthermore, section 3.1.1 of the Continuing Obligations states:

"The company shall without delay and on its own initiative publicly disclose inside information that concerns the company directly, cf. Section 3-2, first to third paragraphs, of the Securities Trading Act"

Section 3.2 (1) no. 3 (d) and (e) of the Continuing Obligations also states that:

"The company must immediately publicly disclose: [...]"

3. Proposals and decisions by the Board of Directors, general meeting or other corporate body on [...] (d) increases or decreases in the company's share capital; (e) mandates to increase the company's share capital. [...]"

Section 9.4 (3) of the Continuing Obligations reads:

"In the event of any change in share capital, in the number of votes or in the number of shares issued, the company shall immediately make public that the change has been made and the amount of its new share capital and the total number of votes and shares issued."

⁴ Reference to the version of the "Admission to Trading Rules for Merkur Market" of October 2015, applicable at the time the Company applied for admission to trading on Merkur Market.

This rule relates to the registration of the share capital increase, while section 3.2 (1) no. 3 (d) relates to the time of the resolution of the share capital increase, which is normally some time in advance of the registration of the share capital increase.

4. The factual circumstances of the case

4.1 Introduction

On 4 January 2018, the Oslo Stock Exchange received a letter from a group of shareholders in the Company addressed to the Company's Board of Directors⁵ where the shareholder group raised certain concerns regarding the Company's compliance with applicable rules and obligations as a company admitted to trading on Merkur Market. The letter addressed, amongst others, that the Company had not disclosed information about the Company's obligation to issue Common Shares as additional security (the "**Top-up Shares Mechanism**") to the lenders under certain of the Company's loan facilities and that information about share issuances having been made pursuant to this obligation had not been disclosed timely pursuant to the Continuing Obligations.

4.2 The Trade Facility

The Company was admitted to trading on Merkur Market on 13 January 2016. Pursuant to the Admission Rules, the Company prepared and published an admission document (the "**Admission Document**") in accordance with Appendix A to the Admission Rules on 12 January 2016⁶.

Section 4.15.6 on page 53 of the Admission Document informed of a trade finance facility (the "Trade Facility" referred to under section 1 above) entered into with a Shanghai based lender on 2 September 2015. The Admission Document stated that the Trade Facility was at an amount up to USD 20 million to be used in tranches and revolving up to a period of three years. The Admission Document further stated that the Company agreed to issue and provide up to 1.6 million shares as security for the Trade Facility calculated at USD 12.5 per share that would be issued in tranches in accordance with the amount of each tranche that would be used under the facility. 1.6 million shares at a value of USD 12.5 a share equals the maximum drawdown amount of the Trade Facility of USD 20 million.

The Admission Document also informed that 1.235 million Common Shares had been issued as security under the Trade Facility at the time of the Admission Document, and that a total of 365,000 additional Common Shares could be issued to the lender. It was anticipated that the remaining shares would be deposited as collateral for the Trade Facility in January 2016.

The lender under the Trade Facility was pursuant to the Admission Document obliged to return all Common Shares issued as security to the Company upon completion of all transactions. The lender would receive an additional service fee from the Company calculated at 20% of the prevailing market value of the returned shares at the time of return. In the event of default by the Company, the lender could recall all facilities and had the right to sell all shares issued as security. The Company had a first right of refusal with an option to repurchase the Collateralized Shares at USD 17.5 per share.

Following the admission to trading on Merkur Market, the Company has issued the following additional Collateralized Shares as security for the Trade Facility:

⁵ Appendix 2: Letter from shareholders to Sino Agro Food, Inc. of 4 January 2018

⁶ <https://newsweb.oslobors.no/message/392894>

Date of issuance	Number of additional Collateralized Shares	Total number of Collateralized Shares	Disclosed to the market
22 February 2016	365,000	1,600,000	Not disclosed
17 June 2016	533,333	2,133,333	Not disclosed
15 May 2017	1,267,340	3,400,673	15 May 2017 ⁷
30 June 2017	425,393	3,826,066	Not disclosed
19 July 2017	1,690,699	5,516,765	25 July 2017 ⁸
30 September 2017	191,547	5,708,312	Not disclosed

4.3 The Additional Loans

On 27 December 2016, the Company resolved to provide and issue Common Shares in the Company as security for debt of approximately USD 10 million (the “**Additional Loans**”) incurred by Tri-Way Industries Limited (“**Triway**”) pursuant to four promissory notes⁹ (the “**Promissory Notes**”) with a third-party lender on the same date.

At the time of admission to trading on Merkur Market, Triway was a wholly-owned subsidiary of the Company. On 1 March 2017, the Company announced that it had completed a carve-out of Triway, which entailed that the Company’s ownership in Triway was reduced to 36.6%.

The Promissory Notes state that Triway had an obligation to initially provide a total of 1,270,180 Common Shares in the Company as collateral for the obligations under the promissory notes. The Promissory Notes furthermore state that Triway shall adjust the number of Collateralized Shares from time to time during the loan period based on 100% of the loan value (the Top-up Shares Mechanism).

In the written resolutions¹⁰, the Company’s Board of Directors resolved (i) the issuance of 1,270,000 shares as collateral for Triway’s obligations under the Promissory Notes, and (ii) the issuance of additional shares for adjustments to ensure that the value of the Collateralized Shares is 100% of the loan value. Based on the written resolutions, the provision of security in Common Shares issued by the Company was done at the request of Triway and any further background for taking on this obligation is not addressed. The Exchange understands that the Company does not receive any consideration from Triway for providing Common Shares as security.

The maturity date of the Additional Loans was 30 September 2019. Pursuant to the Promissory Notes, the Collateralized Shares shall not carry voting or dividend rights and shall be returned to the Company when the Additional Loans have been repaid.

The Company has issued the following Collateralized Shares as security for the Additional Loans:

⁷ <https://newsweb.oslobors.no/message/427490>

⁸ <https://newsweb.oslobors.no/message/431757>

⁹ **Appendix 3:** Promissory notes dated 27 December 2016

¹⁰ **Appendix 4:** Written resolutions of the Company dated 27 December 2016

Date of issuance	Number of additional Collateralized Shares	Total number of Collateralized Shares	Disclosed to the market
27 December 2016	753,304 (Loan 1) + 520,696 (Loan 2)	1,274,000	17 March 2017 ¹¹
30 June 2017	550,000 (Loan 1) + 342,735 (Loan 2)	2,166,735	Not disclosed
30 September 2017	250,000 (Loan 1) + 250,000 (Loan 2)	2,666,735	Not disclosed

4.4 The characteristics of the Collateralized Shares

The Company has stated to the Exchange that the Collateralized Shares do not carry dividend and voting rights.

In terms of the Additional Loans, this is also stipulated in the Promissory Notes. The Admission Document does not include information about this in terms of the Trade Facility.

In a stock exchange notice of 6 April 2018¹², the Company has also stated that the Collateralized Shares are not placed on any escrow account or otherwise subject to any lock-up agreement. Furthermore, it is stated that the Collateralized Shares are fungible with the other Common Shares of the Company. If the Collateralized Shares, for any reason, are sold by the lenders in the market, the restrictions on voting and dividend will according to the Company not apply to the new shareholder.

4.5 Information from the Company to the Oslo Stock Exchange

On 19 January 2018¹³, the Oslo Stock Exchange requested certain information from the Company, including information about the Company's ability to issue additional Common Shares as security, and whether the Company had disclosed such issuances of new Common Shares pursuant to section 9.4 (3) of the Continuing Obligations. Section 9.4 (3) of the Continuing Obligations states that in the event of any change in share capital, the company shall immediately make public that the changes have been made and the new amount of its new share capital and the total number of votes and shares issued. The background for the request was the letter¹⁴ received by the shareholders of the Company of 4 January 2018.

The Oslo Stock Exchange also referred to information disclosed in the Company's Q2-report for 2017¹⁵, i.e. the 10-Q report issued pursuant to the U.S. Securities Act which was published on 14 August 2017. On page 17 (PDF page 71) of the PDF, a 3 year loan where 753,304 shares are issued as collateral as of 31 December 2015 was mentioned. The Exchange asked where this loan was described in the Admission Document.

The Company replied on 1 February 2018¹⁶, and stated that the Collateralized Shares issued under the Trade Facility were valued at a percentage of loan-to-value. This implied that the value assigned to the

¹¹ <https://newsweb.oslobors.no/message/422847>

¹² Appendix 5: Stock exchange notice of 6 April 2018

¹³ Appendix 6: E-mail correspondence between the Oslo Stock Exchange and the Company between 19 January 2018 and 1 February 2018

¹⁴ Appendix 2

¹⁵ Appendix 7: The Company's Q2-report for 2017 published 14 August 2017 (10-Q report)

¹⁶ Appendix 8: Reply from the Company to the Oslo Stock Exchange of 1 February 2018

Collateralized Shares would fluctuate with the development in the share price. Although not clearly set out in the Admission Document, the Company referred to that it was stated on page 54 of the Admission Document that the value of the security shares had calculated at USD 12.5 per share, which covered the full loan amount of USD 20 million provided that the 1.6 million shares were issued. Should the market value of the Collateralized Shares drop, the Company would have the option to either (i) issue more Collateralized Shares to increase the overall value of the Collateralized Shares (in order to fully cover the maximum USD 20 million loan amount) or (ii) decrease the net trade facility amount.

It was the Company's view that it was common understanding in financing that the value assigned to Collateralized Shares used as security would fluctuate with the share price, and that this would impact the securitized value. The optionality for the Company to issue additional Collateralized Shares was thus a feature implied in the collateral instrument described in the Admission Document rather than a firm obligation on the Company to issue new shares. The additional Collateralized Shares were issued merely for the purpose of granting the security required under the Trade Facility and would pursuant to the terms of the Trade Facility be re-delivered to the Company once the loans were repaid.

The Company further stated that the Trade Facility was entered into on 2 September 2015 and that the Top-up Shares Mechanism was included in this agreement.

In terms of the question on whether the Company had disclosed issuance of Collateralized Shares in accordance with the Continuing Obligations, the Company acknowledged that the issuance of additional Collateralized Shares had not been disclosed immediately on Newsweb. The Company stated that it had reported the subsequent issuances of Collateralized Shares in the Company's interim financial reporting and in OTC Market's weekly I&O share changes. The Company had not considered the Collateralized Shares to be part of the listed Common Shares, as they had been issued solely for the purpose of serving as security.

With regard to the question of the loan facility mentioned in the Q2-report for 2017, the Company stated that the loan facility was not described in the Admission Document as the loan was not entered into until 31 December 2016, i.e. subsequent to the publication of the Admission Document. According to the Company, the reference to 31 December 2015 was a made by error and should instead have been a reference to 31 December 2016. The Exchange has later identified this loan facility as one of the Additional Loans.

The Company furthermore provided an overview of the changes in Collateralized Shares¹⁷ to the Exchange. The Company stated that the total issuances of Collateralized Shares was 5,708,312 shares.

On 5 February 2018, the Company published a stock exchange notice¹⁸ which informed that it had issued an aggregate of 5,524,255 Common Shares as (i) additional Collateralized Shares for trade facilities, (ii) as payment for services to Chinese parties, (iii) as incentive shares for staff, workers and personnel remuneration. As a result, the Company had 31,209,153 issued and outstanding Common Shares. The stock exchange notice did not specify over which period the 5,524,255 Common Shares had been issued. The Exchange understands that the reason for the stock exchange notice was to correct the discrepancy between the number of issued and outstanding Common Shares and the lower number of Common Shares that had been disclosed on Merkur Market.

¹⁷ Appendix 9: Overview of Collateralized Shares provided by the Company

¹⁸ <https://newsweb.oslobors.no/message/443431>

On 21 February 2018, the Oslo Stock Exchange sent a request¹⁹ with follow-up questions to the Company regarding the Collateralized Shares, to which the Company replied on 5 March 2018²⁰.

The Exchange first asked whether it was possible for the lender to sell any of the Collateralized Shares before a default had occurred. Furthermore, the Exchange asked the Company to describe any measures in place to prevent that the Collateralized Shares would end up in the market when they were issued. The Company stated that it was difficult to find lenders who were willing to accept the risk of having Collateralized Shares held in escrow by the Company and that the Collateralized Shares accordingly had been issued in the name of each lender. As a result, the lenders held formal and legal ownership to the Collateralized Shares. The Company stated that the lender could technically sell the Collateralized Shares into the market, yet the Company had, pursuant to the agreements with the lenders, a right to have corresponding shares returned within 3-5 business days at any time on any amount of the loan being repaid.

The Company further stated that Collateralized Shares issued in the lenders' names were flagged through the transfer agent to not receive dividend distribution. Furthermore, the Company stated that the Collateralized Shares did not hold voting rights pursuant to the agreements with the lenders. The main purpose of this restriction was to prevent the lender (holding the shares solely for collateral purposes) from voting on matters that in the affirmative or negative could sway the vote in favor of their personal interests. The Collateralized Shares were however fungible with the other Common Shares, and if sold by the lender in the market, the restriction on voting or dividend would not apply to such shares.

The Exchange had also stated in the request that it disagreed with the Company that the Collateralized Shares mechanism was described in the Admission Document. The Company replied that this mechanism was not included in the agreements at the time they were originally entered into, nor at the time the Admission Document was published. There was therefore, in the Company's view, no need for nor any requirement to describe the possibility to issue Collateralized Shares in the Admission Document. This was accordingly in contrast to the first explanation given by the Company on 1 February 2018, where it stated that the Trade Facility was entered into on 2 September 2015 and that the Top-up Shares Mechanism was included in this agreement, and also described in the Admission Document.

The Company further stated that the Top-up Shares Mechanism became relevant with respect to the Trade Facility from the second quarter of 2016 through the third quarter of 2017 when the market value of the Company's shares had fallen to a point where the Collateralized Shares no longer were sufficient to mitigate the risk of exposure for the lender. In order to accommodate the concerns of the lender, it was therefore during this period resolved by the Company to offer additional Collateralized Shares to secure the value of the debt owed under the Trade Facility.

The Company also informed that it had resolved to reduce the maximum credit line under the Trade Facility from USD 20 million to USD 15 million in December 2017, as an alternative measure to issuance of further Collateralized Shares, since it was the Company's view that the reduction of the credit line would serve better the interests of the Company and its shareholders.

¹⁹ [Appendix 10](#): E-mail correspondence between the Oslo Stock Exchange and the Company between 21 February 2018 and 5 March 2018

²⁰ [Appendix 11](#): Reply from the Company to the Oslo Stock Exchange of 5 March 2018

Following the Company's response on 5 March 2018, the Oslo Stock Exchange was in contact with the Company and its legal advisor Arntzen de Besche, where the Exchange encouraged the Company to publish a stock exchange notice with complete information about the loan agreements, Collateralized Shares and the Top-up Shares Mechanism.

The Company published a stock exchange notice on the matter on 6 April 2018²¹. The stock exchange notice referred to the Trade Facility which was entered into on 2 September 2015. In addition, the stock exchange notice referred to the Additional Loans which were entered into on 27 December 2016, with a total loan amount of USD 10.4 million. The total number of Common Shares issued as collateral for the Additional Loans were informed to be 1,274,000 Common Shares at an implied value of USD 8 per share and disclosed in the 10-K for 2016. The total number of Collateralized Shares was informed to be 8,375,047 shares, as opposed to approximately 5.5 million Collateralized Shares as previously reported in the stock exchange notice of 5 February 2018.

On 13 April 2018, the Oslo Stock Exchange sent an e-mail to the Company with certain follow-up questions in terms of the information about Collateralized Shares in the Company's Q2-report of 2017. The Company replied on 18 April 2018²².

On 24 April 2018, the Oslo Stock Exchange sent an e-mail to the Company²³ where it asked about the Company's statement that the Additional Loans were entered into on 27 December 2016, compared to the Company's Q1-report for 2016 (10Q-filing) which stated that 753,304 shares were issued as collateral to secure debts during the year ended 2015²⁴. As far as the Oslo Stock Exchange had identified, this had been repeated in all subsequent interim reports from the Company until Q2-2017. The Exchange asked for an explanation of the discrepancy in terms of the timing of the issuances of the 753,304 shares, (i) in the stock exchange notice on 6 April 2018, (ii) in the overview provided to the Exchange in previous e-mails, and (iii) the Q1-report for 2016 and all subsequent interim reports until Q2-report for 2017 stating that the shares were issued during the year ended 2015. The Exchange also asked for copies of the loan agreements, board minutes or other documentation that would document when the loans and the relevant Top-up Shares Mechanisms were actually established.

The Company replied on 7 May 2018 and stated that the collateralized shares referred to in the Q1-report for 2016 were issued on 2 February 2015 (173,304 shares), 10 March 2015 (290,000 shares) and 19 March 2015 (290,000 shares) respectively. Combined together this constituted 753,304 Collateralized Shares. Furthermore, the Company informed that the issuance of these shares were disclosed in the Admission Document on page 70, in the first three columns of the table referencing share issuances in 2015.

The debts relating to these loans and the shares issued as collateral were according to the Company also described in the Company's Q3-report for 2015 on p. F-36 as incorporated by reference in the Admission Document on p. 88. The loans related to these Collateralized Shares were informed to be settled against the 753,304 shares collectively on 16 August 2016, in effect cancelling the debt obligation related to the Collateralized Shares at such time. The Company stated that the reference to the typo in the Company's previous correspondence was due to a misunderstanding as a similar

²¹ <https://newsweb.oslobors.no/message/448264>

²² Appendix 12: E-mail correspondence between the Oslo Stock Exchange and the Company between 18 April 2018 and 7 May 2018

²³ Appendix 12

²⁴ <https://newsweb.oslobors.no/message/402064> (page F-33, PDF page 39)

amount of shares, amounting to exactly 749,484 shares were issued as collateral for Loan 1 issued on 27 December 2016. The Company also attached the written resolutions of the Company²⁵ and the Promissory Notes²⁶ for the Additional Loans. The Company did not provide any documentation pertaining to the Trade Facility.

On 26 July 2018, the Oslo Stock Exchange sent an advance notice of resolution to impose a violation charge on the Company due to breaches of the Continuing Obligations. The deadline for the Company to reply with comments was set to 13 August 2018.

On 12 August 2018, the Company sent their comments to the advance notice²⁷ to the Exchange.

4.6 Share issuances and information from the Company to the market

4.6.1 Introduction

Below is a time line for the period from the Company was admitted to trading on Merkur Market on 13 January 2016 and up to the publication of the stock exchange notice of 6 April 2018²⁸. The time line mainly shows the number of issuances of Collateralized Shares and the Company's reporting and information about the Trade Facility, the Additional Loans and the Collateralized Shares. The time line also shows the discrepancies between the issuances of Collateralized Shares²⁹ and the reported issuances of Collateralized Shares in the Company's financial reporting.

4.6.2 The year 2016

Admission to trading on Merkur Market: On 13 January 2016, the Company was admitted to trading on Merkur Market. The Admission Document informed that 1.235 million Common Shares were issued as collateral under the Trade Facility and that a total of 365,000 additional Collateralized Shares could be issued to the lender.

Issuance of Collateralized Shares February 2016: On 22 February 2016, the Company issued 365,000 additional Collateralized Shares as security for the Trade Facility. The Company did not publish a stock exchange release on the matter.

Q1-report for 2016: On 17 May 2016³⁰, the Company released its Q1-report for 2016³¹. On page 16 of the summarized Q1-report and page 21 (PDF page 61) of the 10-Q report, the Company states that a total of 1,235,000 Common Shares have been issued from 22 September 2015 to 30 April 2016, to secure the Trade Facility. The correct number of Collateralized Shares was 1,600,000, taken into account the share issuance on 22 February 2016. The Company also stated that the Trade Facility was fully secured with all arrangements completed without further issuance of Common Shares.

On page F-28 (PDF page 34) of the 10-Q report, it is stated that the Company has issued 753,304 Common Shares as collateral to secure a loan from a third party of USD 4,797,332. This number equals the figure stated in the Company's overview of Collateralized Shares issued on 27 December 2016 for

²⁵ [Appendix 4](#)

²⁶ [Appendix 3](#)

²⁷ [Appendix 14](#): The Company's comments to the advance notice dated 12 August 2018

²⁸ [Appendix 5](#)

²⁹ [Appendix 9](#)

³⁰ <https://newsweb.oslobors.no/message/402064>

³¹ <https://newsweb.oslobors.no/message/402058>

Loan 1. However, the Company has as accounted for under section 4.5 above, informed that these 753,304 Common Shares were security for another loan that was settled on 16 August 2016.

Issuance of Collateralized Shares June 2016: On 17 June 2016, the Company issued 533,333 Collateralized Shares as security for the Trade Facility. The Company did not publish a stock exchange release on the matter.

Q2-report for 2016: On 10 August 2016, the Company published its Q2-report for 2016³². The report did not contain information about the additional issuances of Collateralized Shares of 22 February 2016 and 17 June 2016, respectively.

Q3-report for 2016: On 16 November 2016, the Company published its Q3-report for 2016³³. On page F-34 (PDF page 42) of the 10-Q report, it is stated that the Company has issued 1,191,537 Common Shares as collateral to secure a loan from a third party of USD 8,255,370. The correct number of Collateralized Shares for the Trade Facility as of 30 September 2017 was 2,133,333 shares.

Increase of authorized share capital: In December 2016, the Board of Directors and a majority of the voting power of stockholders in the Company resolved to issue its authorized share capital from 22,727,273 Common Shares to 27,000,000 Common Shares. The Company did not publish a stock exchange release on the matter.

Entering into the Additional Loans and issuance of Collateralized Shares: On 27 December 2016, the Company entered into the Promissory Notes³⁴ for the Additional Loans and issued 1,270,000 Collateralized Shares as security for these loans. The Company did not publish a stock exchange release on the matter.

4.6.3 The year 2017

Annual report for 2016: On 16 March 2017, the Company published its annual report for 2016³⁵. On page F-44 (PDF page 157) of the 10-K report, it is stated that the Company during the year ended 31 December 2016 issued 2,461,247 Common Shares as collateral for debts loan of USD 4,797,332. The correct number of Collateralized Shares issued during the year ended 31 December 2016 was 2,168,333.

On page F-44 (PDF page 157), the Company also stated that the authorized share capital had been increased from 22,727,273 Common Shares to 27,000,000 Common Shares. This had been resolved by the Board of Directors and a majority of the voting power of stockholders and been filed on 28 December 2016.

Stock exchange notice March 2017: On 17 March 2017³⁶, the Company published a stock exchange release stating that the Company had issued 1,270,000 Common Shares as security for capital raised. The Exchange understands that this refers to the 1,270,000 Common Shares issued as collateral for the Additional Loans on 27 December 2016.

³² <https://newsweb.oslobors.no/message/406954>

³³ <https://newsweb.oslobors.no/message/413750>

³⁴ [Appendix 3](#)

³⁵ <https://newsweb.oslobors.no/message/422845>

³⁶ <https://newsweb.oslobors.no/message/422847>

Issuance of Collateralized Shares May 2017: On 15 May 2017, the Company issued 1,267,340 additional Collateralized Shares as security for the Trade Facility. Information about the issuance was included in the Q1-report for 2017 which was published the same day.

Q1-report for 2017: On 15 May 2017³⁷, the Company published its Q1-report for 2017. On page 5 of the summarized report, the Company had a section with the heading “Share Count”, where it, among other things, stated that the total number of issued Common Shares was 22,726,859. The Company further stated that this figure included shares issued as collateral for credit loan facilities and other debt and that at any given time, there were a variable number of such shares within the total issued and outstanding number of Common Shares. Furthermore, the Company compared the Collateralized Shares to lien on property in the sense that neither diluted equity. The Company also stated that they should be positioned to repurchase both Collateralized Shares from its lenders as well from the market to help improve the overall share value in the near future.

On page 17 (PDF page 66) of the 10-Q report, under item 7, the Company stated that the total number of Common Shares was 23,994,199 as of 15 May 2017, and that this reflected an increase of 1,267,340 shares compared to 22,726,859 Common Shares as of 31 December 2016. The Company explained that these additional shares were utilized to secure/underwrite a loan on behalf of Triway from a third-party lender.

The figure 1,267,340 shares mentioned in the Q1-report as Collateralized Shares for a loan on behalf of Triway, is the same number of Common Shares listed in the Company’s overview of Collateralized Shares as security for the Trade Facility, which the Exchange understands is not a financial obligation upon the Company, and not Triway. The Additional Loans, which the Exchange understands are financial obligations upon Triway, with security in Common Shares issued by the Company, was at this time secured with 1,270,000 Common Shares, but this was not reflected in the Q1-report.

Stock exchange notice May 2017: On 18 May 2017, the Company published a stock exchange release stating that the Company had issued 1,267,340 Common Shares as security for capital raised. The Exchange understands that this refers to the 1,267,340 Common Shares issued on 15 May 2017 as collateral for the Trade Facility.

Issuance of Collateralized Shares June 2017: On 30 June 2017, the Company issued 425,393 Collateralized Shares as security for the Trade Facility and 892,735 Collateralized Shares for the Additional Loans. The Company did not publish a stock exchange release on the matter.

Issuance of Collateralized Shares July 2017: On 19 July 2017, the Company issued 1,690,699 Collateralized Shares as security for the Trade Facility. The Company did not publish a stock exchange release on the matter.

Increase of authorized share capital: On 14 August 2017, the Board of Directors and a majority of the voting power of stockholders in the Company resolved to issue its authorized share capital from 27,000,000 Common Shares to 50,000,000 Common Shares. The Company did not publish a stock exchange release on the matter.

³⁷ <https://newsweb.oslobors.no/message/427490>

Q2-report for 2017: On 14 August 2017³⁸, the Company published its Q2-report for 2017. On page F-38 (PDF page 46) of the 10-Q report³⁹, it is stated that the Company as of 30 June 2017 had issued 1,344,098 Common Shares to secure debts loan of USD 7,692,222. The correct total number of Collateralized Shares as of this date was 5,992,801, 3,826,066 Collateralized Shares for the Trade Facility and 2,166,735 Collateralized Shares for the Additional Loans.

On page 17 (PDF page 71) of the 10-Q report, the Company has provided notes to the Collateralized Shares. The Company has stated to the Exchange that the reference to 31.12.2015 at the top of this page was a typo and should have read 31.12.2016.

The Company has advised to the Exchange that Trade Facility A and Trade Facility B as referred to in the 10-Q report, combined are the Trade Facility as the facilities have the same terms and conditions. The 10-Q report states that there were 1,462,880 Collateralized Shares issued for Trade Facility A and 670,453 Collateralized Shares for Trade Facility B. This is in total 2,133,333 Collateralized Shares, which pursuant to the Company's overview of Collateralized Shares⁴⁰ is correct as of 31 December 2016 (taking into account the typo).

The Company also advised that Loan 1 and Loan 2 were the Additional Loans, however, the Q2-report refers to 753,304 Collateralized Shares for Loan 1, a figure which the Company later has stated was Collateralized Shares for a loan which was settled in 2016, see section 4.5 above. The Exchange is therefore not certain as to which of these loans the reference to "Loan 1" in the Q2-report for 2017 refers to. The 10-Q report also stated that 590,794 Common Shares were issued as collateral for Loan 2 as of 31 December 2016, which differs slightly from the figure of 520,696 in the Company's overview of Collateralized Shares.

The 10-Q report also states that due to the decrease in the Company's share price the overall value of Collateralized Shares were required to be increased during Q2 2017 to cover the total loan balances outstanding. This resulted in a total of an additional 2,585,758 Collateralized Shares in order to maintain the outstanding balances on the notes or trading facilities until such time as their respective balances are paid-in-full.

Issuance of Collateralized Shares September 2017: On 30 September 2017, the Company issued 191,547 Collateralized Shares as security for the Trade Facility and 500,000 Collateralized Shares as security for the Additional Loans. The Company did not publish a stock exchange release on the matter.

Q3-report for 2017: On 14 November 2017, the Company published its Q3-report for 2017⁴¹. On page F-39 (PDF page 47) of the 10-Q report, it was stated that the Company issued 1,344,098 Common Shares as collateral to secure debts loan of USD 7,692,222 as of 30 September 2017. However, pursuant to the Company's overview of Collateralized Shares, a total of 8,375,047 Common Shares had been issued as collateral as of this date, 5,708,312 Collateralized Shares for the Trade Facility and 2,666,735 Collateralized Shares for the Additional Loans.

On page F-44 (PDF page 52) of the 10-Q report, it was stated that the Company during the nine months ended 30 September 2017 had issued 4,074,979 Common Shares as additional collateral to secure loan

³⁸ <https://newsweb.oslobors.no/message/432570>

³⁹ Appendix 7

⁴⁰ Appendix 9

⁴¹ <https://newsweb.oslobors.no/message/438705>

and trade facility. Pursuant to the Company's overview of Collateralized Shares, a total of 4,967,714 Common Shares had been issued as collateral during this period, 3,574,979 Collateralized Shares for the Trade Facility and 1,392,735 Collateralized Shares for the Additional Loans.

On page 13 (PDF page 67) of the 10-Q report, it was stated that the increase in total issued and outstanding shares was primarily due to the decrease in the market price for the Common Shares, thus requiring the Company to increase its securitized collateral for loans and facilities.

On page F-44 (PDF page 55), the Company also stated that the authorized share capital had been increased from 27,000,000 Common Shares to 50,000,000 Common Shares. This had been resolved by the Board of Directors and a majority of the voting power of stockholders and been filed on 14 August 2017 with effective date of 25 August 2017.

4.6.4 The year 2018

Stock exchange notice February 2018: On 5 February 2018, the Company published the stock exchange notice where it stated that the Company had issued an aggregate of 5,524,255 Common Shares as (i) additional Collateralized Shares for trade facilities, (ii) as payment for services to Chinese parties, (iii) as incentive shares for staff, workers and personnel remuneration. As a result, the Company had 31,209,153 issued and outstanding Common Shares. The stock exchange notice did not specify over which period the 5,524,255 Common Shares had been issued or how many Common Shares had been issued for each of the categories stated. See section 4.5 above.

Stock exchange notice April 2018: On 6 April 2018, the Company published the stock exchange notice with information about the issuance of Collateralized Shares as security for the Trade Facility and the Additional Loans, see section 4.5 above. The stock exchange notice stated that the total number of Collateralized Shares having been issued was 8,375,047 shares.

5. The Company's account of the case

The Company is of the view that there is no legal basis to impose a violation fee for breach of the rules pertaining to disclosure of inside information.

The Company agrees and accepts that the obligation to publish information about issuances of new shares on Newsweb has not been addressed in a manner compliant with the Continuing Obligations. The Company states in its comments to the advance notice that this has already been noted, accepted and properly adhered to since 5 February 2018. In the Company's view, a violation fee would however for such breach constitutes an inappropriate and disproportionate reaction. The Company further argues that information about these share issuances have been in the public domain during the relevant period, and that the damage caused to shareholders (if any) is limited as the share issuances have no dilutive effect for shareholders interest.

In addition, the Company has provided specific comments to certain specific matters as set out below.

5.1 Share capital

The Company argues that all share capital changes were continuously reported in the OTC Market's weekly I&O share changes and in the Company's annual and interim financial reporting pursuant to the disclosure practices applicable to the Company's listing on the OTCQ-Premier. The Company has

stated that it therefore has not sought or attempted to disguise the changes to share capital from the market.

5.2 Additional Collateralized shares

The Company disagrees with the Exchange that the issuances of additional Collateralized Shares to secure existing debt is a form of mechanism that represents an obligation for the Company which should be considered an establishment that constitutes inside information. The Company argues that the issuance of Collateralized Shares is an option for the Company rather than an obligation in a situation where the value of the Collateralized Shares is continuously decreasing. The Company claims that their decision to utilize this optionality rather than reducing the credit line does not constitute any form of “program” or “mechanism” which should be disclosed to the market.

Regarding future issuances of Collateralized Shares, the Company considers that it is not under any obligation to publish information about the opportunity for such share issuances, which have not occurred yet, as there is no obligation on the Company to issue such shares in the first place.

The Company is of the opinion that the stock exchange notices of 5 February 2018⁴² and 6 April 2018 were released due to initiatives from the Exchange towards the Company, rather than because the Company considered the announcements as inside information and relevant for the market. According to the Company, these announcements should hence not be interpreted as any form of disclosure of inside information that has been made public before.

5.3 The dilutive effect of the Collateralized Shares

The Company states that the Collateralized Shares do not carry voting right, do not entitle the holder to dividend and are subject to a contractual lock-up whereby the holder of the security interest is only entitled to sell these shares in the market upon an event of default. Hence, the Company is of the opinion that the Collateralized Shares have a non-dilutive effect. Furthermore, the Collateralized Shares have been issued in the Company’s share register in the US and has to the Company’s knowledge not floated to VPS. In the Company’s view, the damage caused towards the shareholders and the market is limited if any at all.

5.4 Conflicting information to the Exchange

The Company also disagrees that it has provided conflicting and insufficient information about the Collateralized Shares to the Exchange. The Company points out that the matter raises complex issues, where several rounds of clarifications have been needed in order to get the facts sorted.

The Exchange has asked the Company about the background for presenting so limited information about the possible Collateralized Share issuances in case of declining share price in the Admission Document. The Company argues that their responses should not be considered conflicting. On 1 February 2018, the Company stated that it is common understanding in finance that the value assigned to collateralized shares will fluctuate which in turn will impact the “securitized” value. As such, the optionality to issue additional Collateralized Shares is implied in any such structure, if and to the extent a decrease in value should impact the value of the Collateralized Shares. This also applies to the Company’s loan structures.

⁴² <https://newsweb.oslobors.no/message/443431>

The Company furthermore argues there was no explicit description of this optionality included in the loan agreements, and hence not disclosed in the Admission Document. In addition, the optionality to issue Collateralized Shares only became relevant after the admission to trading on Merkur Market, when the share price started to decline. The Company fails to see that by firstly stating an optionality for the Company, and in subsequent correspondence stating that the optionality is not a part the loan agreements, can be seen as providing conflicting information to the Oslo Stock Exchange.

The Company also claims that it has provided correct information about the number of Collateralized Shares issued to the Exchange's requests, as the number specified to Exchange was related to a specific facility and not the total number of Collateralized Shares issued. The Company also states that the total number of Collateralized Shares issued was made available to Exchange in an appendix to the Company's response.

5.5 Transparency in current disclosures of changes in share capital

In terms of the Exchange pointing out the lack of transparency in the Company's current disclosures of changes in share capital, the Company is of the opinion that it is not obliged to publish any further information than what follows from section 9.4 (3) of the Continuing Obligations. The Company is therefore of the view that it is not obliged to provide a thorough description of the background, purpose and rationale for the share issuances.

While the Company may agree that a larger degree of transparency may be beneficial to the market participants, and that the Company in the future therefore may seek to provide more details, the Company considers this a matter of corporate governance rather than a regulatory issue. The Company is accordingly of the opinion that this should not be emphasized by the Oslo Stock Exchange in a case involving a potential violation fee for breach of the Merkur Market rules. In particular, the Company finds it disappointing and concerning that the Oslo Stock Exchange refers to the Company's legal share issuances and disclosures as so called "black box issuances".

The Company also refers to section 8.3.2 of the Admission Document which in the opinion of the Company serves as sufficient background to determine that the Company's current practice of issuing new shares as settlement for other payables is in line with past practice.

6. The Oslo Stock Exchange's assessment

6.1 Introduction

The questions in this matter are (i) whether the Company has provided sufficient information to the market about the Company's obligation to issue new Common Shares as security to the lenders under certain of the Company's loan facilities, (ii) whether the Company has timely disclosed information about the share issuances having been made pursuant to this obligation, and (iii) whether the Company has timely disclosed the increases of its authorized share capital.

6.2 Factual circumstances

6.2.1 *Conflicting information to the Exchange about the time of the establishment of the Top-up Shares Mechanism under the Trade Facility*

In terms of the Trade Facility, the Company first stated to the Exchange that this loan agreement was entered into on 2 September 2015 and that the Top-up Shares Mechanism was included in this

agreement. The Company further argued that the Top-up Shares Mechanism was described in the Admission Document, see section 4.5 above.

As further accounted for above, the Company changed its explanation on this matter in the next reply to the Oslo Stock Exchange, and stated that the Top-up Shares Mechanism was not included in the relevant trade facility agreements at the time they were originally entered into, nor at the time the Admission Document was published.

In the Company's comments to the advance notice, the Company argues that it has not given conflicting information to the Exchange about the above. The Exchange finds it hard to follow the Company's argumentation on this matter.

When first stating in the letter of 1 February 2018 that the Top-up Shares Mechanism was included in the loan agreement for the Trade Facility when this was entered into on 2 September 2015 and described in the Admission Document, for then to state later in the letter of 5 March 2018 that no such mechanism was in place at the time of the Admission Document and accordingly not described in the Admission Document, this is considered conflicting information by the Exchange. In this regard, the Exchange refers to the following statements by the Company:

Letter of 1 February 2018, page 2:

"[Oslo Børs:] Has the top up share mechanism been a part of the underlying loan agreements since the loans were established or have this mechanism been established as additional security at a later point in time?"

[Company:] The trade facility in question was agreed upon on September 2 of 2015 and the collateralization mechanism was included in this agreement. In this regard, we emphasise for the sake of good order that the collateralization mechanism was described in the Admission Document, as further detailed above."

Letter of 5 March 2018, page 2 and 3:

"[Oslo Børs:] Please provide any further comments that might be considered relevant regarding the Company's opportunity to issue top up shares and the corresponding description in the admission document."

[Company:] The Company wishes to clarify that although such top-up optionality is customary for this type of collateral security, no provision on any top-up obligation was included in the relevant trade facility agreements at the time they were originally entered into, nor at the time when the admission document was approved and published. There was accordingly, in the Company's view, no need for nor any requirement to describe such possibility to issue top-up shares in the admission document."

The Oslo Stock Exchange has not received any documentation of the loan agreement(s) under the Trade Facility nor any documentation as to when the Top-up Shares Mechanism was established under the said facility, although this has been requested by the Exchange. The Company has stated that the Top-up Shares Mechanism became relevant from the second quarter of 2016 through the third quarter of 2016. In order to accommodate the concerns of the lender, it was therefore during this period

resolved to offer additional Collateralized Shares to secure the value of debt under the Trade Facility. See section 4.5 above for further information.

The Oslo Stock Exchange finds that the Top-up Shares Mechanism under the Trade Facility was established no later than 17 June 2016, when the Company pursuant to its own overview of Collateralized Shares first issued 533,333 new Common Shares as additional collateral for the Trade Facility.

6.2.2 *Conflicting information to the Exchange about the total number of Collateralized Shares*

The Exchange is also of the opinion that the Company has given conflicting information about the total number of Collateralized Shares in its correspondence with the Exchange.

The Company also first stated to the Exchange in its letter of 1 February 2018 that the total number of Collateralized Shares was 5,708,312 Common Shares, while it in the stock exchange notice of 6 April 2018 stated that this number was actually 8,375,047 Common Shares.

The Company argues that it has provided correct information about the number of Collateralized Shares issued to the Exchange's requests, as the number specified to Exchange was related to a specific facility and not the total number of Collateralized Shares issued. The Company also states that the total number of Collateralized Shares issued was made available to Exchange in an appendix to the Company's response.

The Exchange would like to highlight that when the information was requested by the Exchange on 19 January 2018, the Exchange was in the initial stage of investigating the matter and did not have a complete picture of all the loan facilities where the Company had an obligation to issue Collateralized Shares. The Exchange would in this regard like to emphasize that the Company pursuant to section 2.5 (4) of the Continuing Obligations is obliged to provide *"all the information that in Oslo Børs ASA's view is necessary for the exchange to ensure trading in and admission to trading are in accordance with these rules, the trading rules and general rules pursuant to securities legislation and regulations issued pursuant to legislation."* The appendix referred to by the Company (page 2 of appendix 1 to the Company's letter of 1 February 2018⁴³) is not intuitive for the reader. When the Company on page 2 in the letter states "As such, the total issuance of shares issued as collateral is 5,708,312 shares", this was understood by the Exchange to be the total number of Collateralized Shares. The Company, being the party with the overview of the situation, should have stipulated clearly in the letter that an additional 2,666,735 Collateralized Shares had been issued as security for the other loans, regardless of whether this followed from an appendix.

The Exchange furthermore refers to the Company's stock exchange notice of 5 February 2018, five days after the letter was sent to the Exchange. The stock exchange notice informed that the Company had issued an aggregate of 5,524,255 Common Shares as (i) additional collateralized shares for trade facilities, (ii) as payment for services to Chinese parties, (iii) as incentive shares for staff, workers and personnel remuneration. The stock exchange notice did not refer to which time period the share issuances related to, and did not specify that the Company had issued an additional number of Collateralized Shares.

⁴³ [Appendix 7](#)

The Exchange also refers to the first draft of the stock exchange release later published by the Company on 6 April 2018. This draft was sent by the Company to the Exchange on 3 April 2018⁴⁴ and did not include information about the Additional Loans and the Collateralized Shares issued as security for this facility. The total number of Collateralized Shares was in this draft stated to be 5,708,312.

Information about the Additional Loans and the correct total number of Collateralized Shares was then included in the next draft of the stock exchange notice which was received by the Exchange on 5 April 2018⁴⁵. In this updated draft, the total number of Collateralized Shares was there corrected to 8,375,047. This indicates in the opinion of the Exchange that the Company itself was not sufficiently aware nor had the complete overview of the total number of Collateralized Shares when the letter was sent to the Exchange on 1 February 2018. The Company can accordingly not expect the Exchange to have a complete and detailed overview of the total issuance of Collateralized Shares through a detailed appendix when another total number of Collateralized Shares is stated in the letter.

6.2.3 *The Company's obligation to issue additional Collateralized Shares*

The Company argues that the issuance of additional Collateralized Shares is not a form of mechanism which (i) forms an obligation on the Company and (ii) is an establishment which constitutes inside information. The Company has stated that the issuance of additional Collateralized Shares is an option for the Company to utilize rather than reducing the credit line when the share price is declining.

The Oslo Stock Exchange cannot see how the circumstance of the Company being able to choose to reduce the credit line instead of issuing additional Collateralized Shares is of relevance when the Company did indeed choose to issue Collateralized Shares to accommodate the concerns of the lender and comply with its obligations under the Trade Facility. That the Company in a situation where the share price is declining has the option to either issue additional Collateralized Shares or reduce the credit line, does not change the fact that the chosen alternative is done as an obligation towards the lender.

This is supported by the following information included in the Company's Q2-report for 2017⁴⁶ (page 17/PDF page 71 of the 10-Q report) (the Exchange's underlining):

"Top-up" of security shares during Q2 2017

Due to the decrease in share price (from an average of \$12 / share in Q3 2016 to \$4 / share in Q2 2017) the overall value of collateralized shares were required to be increased to cover the total loan balances outstanding."

That the issuances of additional Collateralized Shares is an obligation upon the Company, is also stated in the Company's Q3-report for 2017⁴⁷ (the Exchange's underlining):

"The issuance of shares for Q3 2017

⁴⁴ Appendix 15: E-mail of 3 April 2018 from the Company to the Oslo Stock Exchange with draft stock exchange release

⁴⁵ Appendix 16: E-mail of 5 April 2018 from the Company to the Oslo Stock Exchange with updated draft stock exchange release

⁴⁶ <https://newsweb.oslobors.no/message/432570>

⁴⁷ <https://newsweb.oslobors.no/message/438705>

Total issued and outstanding shares as at 30.09.2017 is at 27,811,573 shares reflecting an increase of 2,382,246 shares for the quarter from Q2 2017's total issued and outstanding count of 25,429,327 shares. The primarily reason is due to the decrease in the market price of our shares of common stock, from an average of \$12 per share in Q3 2015 to \$1.40 per share end of Q3 2017, which reduced the overall value of the security (collateral shares), thus requiring the Company to increase its securitized collateral for loans and facilities [...].

The Exchange also notes that in the overview of issuance of Collateralized Shares provided by the Company to the Exchange⁴⁸, it is also stated "Top Up required collateralized shares" (the Exchange's underlining).

The Oslo Stock Exchange accordingly maintain its view that the Company's issuances of additional Collateralized Shares for the Trade Facility is due to an obligation upon the Company. The Exchange can neither see that there is any reason for the Company issuing additional Common Shares without having an obligation to do so.

In terms of the Additional Loans, the Exchange refers to the Promissory Notes⁴⁹ for these loans, where the following wording is included in the first promissory note about the Common Shares provided as security:

"Security: Initially 400,205 shares of Sino Agro Food Inc. (SIAF) for value US\$3,284,205 (equivalent to US\$8 / share) is to be provided by SIAF as security (Collateral shares) that is based on a percentage of loan value to security value that will be adjusted from time to time during the loan period" (page 1)

"At your request, we confirm to issue our shares as security initially for 400,205 shares (Collateral Shares) to secure loan amount of US\$3,284,205. Upon your request, we shall adjust the number of Collateral Shares from time to time during the loan period based on 100% of the Loan Value" (page 2)

The other three promissory notes includes equivalent wording. The Exchange accordingly finds that the Company at the time of entering into the loan agreements for the Additional Loans, had an obligation to issue additional Collateralized Shares if the share price were to decline.

The Company has argued that it is common understanding in finance that the value assigned to Collateralized Shares will fluctuate with the share price and that this in turn will impact the "securitized" value. As such, the optionality to issue additional collateral shares is implied in any such structure if and to the extent a decrease in value should impact the value of the Collateralized Shares.

The Oslo Stock Exchange finds that this claim by the Company is in contrast to the information in the Admission Document about the use of the Company's Common Shares as security for the obligations under the Trade Facility. The Exchange refers to the following information on page 54 of the Admission Document (the Exchange's underlining):

"The Company agrees to issue and provide up to 1.6 million shares as security calculated at USD 12.5 per share that will be issued in tranches in accordance with the amount of each tranche of facility that will be used.

⁴⁸ [Appendix 9](#)

⁴⁹ [Appendix 3](#)

[...]

As of the date of this Admission Document, 1,235,000 shares have been issued as security under the Loan Facility. Should the Borrowers choose to draw further amounts under the Loan Facility, a total of 365,000 additional shares may be issued to the Lender. It is anticipated that the remaining shares will be deposited as collateral for the Loan Facility in January 2016.”

When the Admission Document clearly states that an additional 365,000 Collateralized Shares may be issued as security under the Trade Facility, i.e. a total of 1.6 million Collateralized Shares, this is in contrast to a common understanding that a decrease in the Company's share price could imply additional issuances of Common Shares which entails that the Company is not obliged to disclose information about such additional issuances.

Furthermore, the Exchange is not familiar with this “common understanding in finance” that the Company refers to. In general, the Exchange's impression is that any adjustment of security initially established for debt obligations, will be stipulated in the loan agreement and can vary from loan agreement to loan agreement. That a borrower has an obligation to increase the value of security based on a “common understanding in finance”, which is not stipulated in the loan agreement or specifically agreed between the lender and borrower at a later point in time, is not a common understanding in finance the Exchange has heard of before. The Exchange would also like to note that the Promissory Notes for the Additional Loans that have been provided to the Exchange, specifically regulates the Company's obligation to issue additional Collateralized Shares.

Furthermore, in terms of the Company's argumentation that the issuance of additional Collateralized Shares does not constitute a “mechanism”, the Exchange cannot see how the use of this term is relevant for considering whether the information about the Company's obligation to issue additional Collateralized Shares as security for existing debt constitutes inside information.

The Exchange has chosen to use the defined term “Top-up Shares Mechanism” throughout the handling of the case, and the Company has not raised any objections to this before its comments to the Exchange's advance notice of resolution. On the contrary, the Company has itself used this term in several of its correspondence with the Exchange. The Exchange would for the sake of order like to point out that the term “Top-up Shares Mechanism” is not essential for the Exchange in terms of information published in the market, what is relevant for the Exchange is that the issuances of Collateralized Shares is described correctly.

6.3 Legal assessments

6.3.1 Inside information about the Top-up Shares Mechanism for the Trade Facility

The first question is then whether information about the Company's obligation to issue additional Collateralized Shares as security for the Trade Facility constituted inside information pursuant to section 3-2 of the Securities Trading Act (the “STA”) which should have been disclosed immediately pursuant to section 3.1.1 of the Continuing Obligations.

As accounted for under section 6.2 above, the Oslo Stock Exchange finds that the Company became subject to an obligation to issue additional Collateralized Shares as security for the Trade Facility, no later than 17 June 2016, when the Company pursuant to its own overview of Collateralized Shares⁵⁰

⁵⁰ See [Appendix 9](#)

first issued Common Shares as additional collateral for the Trade Facility which exceeded the communicated total frame of 1.6 million Collateralized Shares.

The Exchange finds that the fact that the Company became subject to an obligation to issue additional Common Shares as collateral under the Trade Facility as a result of a decline in the Company's share price, was a specific circumstance which constitutes information of a precise nature, cf. section 3-2 (2) of the STA.

The Oslo Stock Exchange also considers that the information about the Company's obligation to issue additional Collateralized Shares as security for the Trade Facility was of such kind that a reasonable investor would be likely to use as part of the basis for its investment decision, cf. section 3-2 (3) of the STA. This Top-up Shares Mechanism entails that the Company in principle is under an obligation to issue an unlimited number of new Common Shares, based on fluctuations in the Company's share price. The level of potential dilution of shareholding is essential when an investor is considering the value of the Company's shares.

This is further enhanced by the fact that the Company in the Admission Document had stated that the maximum number of Common Shares to be issued as collateral for the Trade Facility was 1.6 million Common Shares. In addition, as accounted for under section 4.6 above, the Company stated in its Q1-report for 2016 which was disclosed on 17 May 2016 that the Company had issued 1,235,000 Collateralized Shares and that the Trade Facility was fully secured with all arrangements completed without further issuance of shares.

When this was at later changed such that the Company became subject to additional issuances of Collateralized Shares, the Exchange finds that this was information that a reasonable investor would use as part of its investment decision. On 17 June 2016, approximately one month after the Q1-report for 2016 was published, the Company issued an additional 533,333 Collateralized Shares, i.e. 33% more Collateralized Shares. This was done without disclosing any information about the share issuance or the Company's obligation to issue these additional Collateralized Shares as a result of the decline in the Company's share price.

The Company has argued that the Collateralized Shares have non-dilutive effect and are issued purely for collateral/security purposes. The Company argues that this is due to the Collateralized Shares not having dividend or voting rights. The Exchange understands that the Company is of the opinion that issuance of Collateralized Shares for this reason does not have an effect on the Company's share price.

In terms of being able to state that the Collateralized Shares have a non-dilutive effect, the Exchange considers that this may have been the case if it was possible to separate the Collateralized Shares from the other Common Shares, and that the market could know with certainty that the Collateralized Shares were not traded in the market, that the Company would repay the loans at maturity and that the Collateralized Shares would be returned to the Company at such time.

However, the market does not have a certainty that the Trade Facility will be repaid by the Company at maturity and that the Collateralized Shares at such time will be returned to the Company. On page 53 of the Admission Document⁵¹, it is stated that the Trade Facility is to be used in tranches and revolving up to a period of 3 years. This would imply that the Trade Facility matured on 2 September 2018 and that the market could expect the loan to be repaid and the Collateralized Shares being

⁵¹ [Appendix 1](#)

redelivered to the Company at such time. However, in the Company's Q2-report for 2017⁵² published on 14 August 2017 it is stated on page 18 (PDF page 72) that the Trade Facility has a maturity date of 30 September 2019. The Exchange assumes that the Trade Facility has been extended to this date. This indicates in the opinion of the Exchange that the maturity of the Trade Facility could be subject to additional extensions. Furthermore, the Company has stated that it made a repayment of the Trade Facility of USD 5 million (from USD 20 million to USD 15 million)⁵³. This has been done without any of the Collateralized Shares being returned to the Company, which in the opinion of the Exchange underlines the risk of the Collateralized Shares not being returned to the Company upon repayment of the Trade Facility.

In addition, the Company has admitted that the Collateralized Shares are not placed on an escrow account and that the lenders accordingly are able to trade the Collateralized Shares in the market. As stated in the Company's stock exchange release of 6 April 2018, the Collateralized Shares are fungible with the other Common Shares of the Company and if the Collateralized Shares, for any reason, are sold by the lenders in the market, the restriction on voting will not apply for the new owner. This accordingly entails a risk of the Collateralized Shares being traded in the market.

This implies that it is not possible for the market to know the status of the Collateralized Shares nor the exact number of Collateralized Shares in the market. The market is accordingly not in a position to calculate any non-dilutive effect, as the Collateralized Shares at any time can be sold in the market and the restrictions on voting and dividend thereby be released. Any buyers of the Collateralized Shares will therefore pay the market price for the Common Shares, as it will not be possible for the buyers to know that the shares have been subject to these restrictions, and the restrictions do regardless not apply to them. The Exchange accordingly considers that there is a risk of the Collateralized Shares being traded in the market and that there is an uncertainty in terms of the repayment of the loan and redelivery of the Collateralized Shares to the Company which entails that information about the Company's obligation to issue Collateralized Shares is of such kind that a reasonable investor would be likely to use as part of the basis for its investment decision, cf. section 3-2 (3) of the STA.

The Exchange would also like to highlight that in the Company's Q2-report for 2018⁵⁴, the Company has included all issued Common Shares, without deducting any Collateralized Shares, when presenting the weighted average number of shares in this period. This number forms the basis for the earnings per share (EPS), which is the portion of a company's profit allocated to each outstanding share of common stock. This supports the view that the Collateralized Shares have a dilutive effect when pricing the Common Shares of the Company.

⁵² [Appendix 8](#)

⁵³ [Appendix 9](#)

⁵⁴ <https://newsweb.oslobors.no/message/457137>

Key figures

(USD M, except per share data)	Q2 '18	Q2 '17	%	6M '18	6M '17	%
Revenue	34,0	47,7	-29%	67,7	118,3	-43%
Gross profit	5,4	6,5	-16%	11,5	20,9	-45%
Margin	16,0%	13,6%		17,0%	17,7%	
Net income	-0,5	1,5	-133%	8,4	12,4	-32%
Margin	-1,5%	3,2%		12,4%	10,4%	
Net income attributable to SIAF	0,9	0,4	135%	9,1	9,1	1%
Earnings per share (USD) - fully diluted	0,02	0,03	-33%	0,19	0,38	-50%
Book value per share (USD) - fully diluted	20,4	26,1	-22%	n.a.	n.a.	n.a.
Diluted weighted average number of shares (millions)	37,6	25,2	49%	25,6	25,6	0%

The Exchange considers that even if the Collateralized Shares are considered to have a non-dilutive effect by the Company, information about the Company's obligation to issue Collateralized Shares, including the terms and conditions and status for repayment of the Trade Facility and redelivery of the Collateralized Shares and the lenders' ability to trade the Collateralized Shares in the market, is information that a reasonable investor would use as part of its investment decision, cf. section 3-2 (3) of the STA. The market cannot calculate any non-dilutive effect of the Collateralized Shares when pricing the Common Shares trading in the market, if the Company does not disclose sufficient information about the factors relevant for whether the Collateralized Shares can be considered to have a non-dilutive effect. For example, that the Collateralized Shares is not placed on an escrow account or otherwise subject to any lock-up agreement was not disclosed to the market before the stock exchange notice of 6 April 2018⁵⁵ was published.

The Exchange accordingly concludes that information about the Company's obligation to issue additional Collateralized Shares as security for the Trade Facility constituted information of a precise nature which was likely to have an effect on the Company's share price no later than 17 June 2016, when the Company became subject to additional issuances of Collateralized Shares as a result of a decrease in the Company's share price.

The next question is whether the information about this obligation was publicly available at this time, cf. section 3-2 (1) of the STA.

The Company has argued that the additional issuances of Collateralized Shares have been subject to the ongoing disclosures made by the Company in its financial reporting and in the OTC Market's weekly changes, and accordingly in any event made public.

The Oslo Stock Exchange disagrees with the Company on this. In terms of the financial reporting, none of the disclosures of share issuances made by the Company has addressed the Company's obligation to issue additional Collateralized Shares as the share price is declining prior to the publication of the Q2-report for 2017, which was published on 14 August 2017⁵⁶. On the contrary, the Company addressed in Admission Document a maximum limit of 1.6 million Collateralized Shares to be issued and the Q1-report for 2016 stated that the Trade Facility was fully secured with all arrangements completed without further issuance of Collateralized Shares. In addition, the disclosures of additional issuances of Collateralized Shares in the Company's financial reports have been subject to errors on several occasions, as accounted for under section 4.6 above.

⁵⁵ [Appendix 5](#)

⁵⁶ <https://newsweb.oslobors.no/message/432570>

In terms of the OTC Market's weekly changes, the Exchange would like to point out that this is not a report as such, but a website⁵⁷ where the total number of shares issued by the Company from time to time appears, based on reporting by the Company. The OTC Market's weekly changes does accordingly not provide any background or reason for any increase in the reported share capital, and has accordingly not disclosed any information about the Company's obligation to issue Collateralized Shares as security for the Trade Facility. It is not possible for the Exchange to see the historical entries on the website of increase in Common Shares.

In addition, the Oslo Stock Exchange is skeptical of the Company's claim that the issuances of shares have been correctly reported to this website, given the number of discrepancies and errors in the number of newly issued shares in the Company's financial reporting, cf. section 4.6 above. The Company has not provided any documentation of the OTC Market's weekly changes apart from appendix 2 to the Company's letter to the Exchange of 1 February 2018 and the Exchange is not in a position to verify the Company's claim of correctly reporting of number of shares on this website. The Exchange also notes from this appendix that the outstanding shares are divided into "Restricted" and "Unrestricted". Based on the number of Restricted/Unrestricted Shares, this does not relate to the Collateralized Shares and the Exchange accordingly understands that the Collateralized Shares are not classified as Restricted on OTC Markets.

The Oslo Stock Exchange considers that the information about the Company's obligation to issue additional Common Shares as security for the Trade Facility was not made publicly available before the publication of the Company's Q2-report for 2017⁵⁸ on 14 August 2017. On page 17 and 18 (PDF page 71 and 72) of the report,

In this report, the Company states the total number Collateralized Shares issued under each loan as of 31 December 2016 (taking into account the typo) and the number of additional Collateralized Shares issued during Q2 2016. For the first time, the Company also explains why there have been additional issuances of Collateralized Shares, this being a result of a decrease in the Company's share price requiring the Company to issue additional Common Shares as security. Reference is made to page 17 (PDF page 71) of the 10-Q-report.

The Exchange would however like to highlight that the disclosure is made in one of the notes to the financial statements and is included on page 71 of a financial report of 104 pages. The notes refers to four loans, but does not give any information as to when each loan was entered into, which makes it difficult for the reader to identify each loan and the number of Collateralized Shares issued under these compared to the information about the Trade Facility in the Admission Document. Taken into account the wrong reference to 31.12.2015, which according to the Company should have referred to 31.12.2016, this makes it even more difficult for the reader to understand the context and whether the information is historical or still of relevance. The Exchange would also like to note that on another page in the report (page F-46, PDF page 46), the Company states that the total number of Collateralized Shares is 1,344,098 while the correct number is actually 5,992,801. When combining incorrect and incomplete information with correct information in a large report of approximately 100 pages, it is increasingly difficult for the market to absorb the correct information from the report.

⁵⁷ <https://www.otcmarkets.com/stock/SIAF/security>

⁵⁸ Appendix 7

The Exchange is accordingly of the opinion that this could indicate that information about the Company's obligation to issue additional Collateralized Shares as security for the Trade Facility was not made publicly available before the stock exchange notice of 6 April 2018 was published. This stock exchange notice gave a thorough description of the Trade Facility and the Company's issuance of additional Collateralized Shares as a result of a decline in the Company's share price and is placed in a context which makes it possible for the market to understand more of the complete picture of the various Collateralized Shares arrangements. The Exchange has however concluded that information about the Company's obligation to issue additional Collateralized Shares as security for the Trade Facility was made publicly available through the publication of the Q2-report on 14 August 2017.

The Company has argued that section 9.4 (3) of the Continuing Obligations does not include a requirement to disclose further information about share issuances that what is stipulated in the rule, and that the Company accordingly is not obliged to provide additional information about its share issuances other than what follows from this rule.

The Oslo Stock Exchange would like to address that this is a wrong interpretation of the rules. Section 9.4 of the Continuing Obligations applies regardless of whether the share issuances constitutes inside information. That this rule applies does not imply that further information about issuances of shares cannot constitute inside information pursuant to section 3-2 of the STA which the Company is obliged to disclose pursuant to section 3.1.1 of the Continuing Obligations. Whether information about the background for share issuances constitutes inside information must be determined on the basis of whether the conditions for disclosure of inside information are fulfilled, without consideration to section 9.4 of the Continuing Obligations.

That information about the conditions or background for share issuances can constitute inside information was the case in the Oslo Stock Exchange's resolution of 17 August 2016, which was supported by the Merkur Market Appeals Committee on 18 October 2016. In this case, Oxy Group PLC had withheld information about conversion rights agreed between Oxy Group PLC and two main shareholders, and the Oslo Stock Exchange concluded that the entering into the conversion agreements, including the terms for conversion, was inside information. The terms of the conversion rights in Oxy Group PLC entailed a potential increase of 230% of the company's ordinary shares at a discount of approximately 98%. The Exchange stated that without access to this information, it was impossible for market participants to calculate the market value of Oxy Group PLC correctly. This was regardless of the fact that Oxy Group PLC had disclosed information about the conversion and issuance of new shares at the time the conversion later was made. This was supported by the Merkur Market Appeals Committee which stated that information about the conversion agreements was of fundamental importance for the market being able to determine the market price of the company's shares.

The Oslo Stock Exchange accordingly finds that the information about the Company's obligation to issue additional Collateralized Shares as security for the Trade Facility constituted inside information no later than 17 June 2016, but was not publicly available until the publication of the Company's Q2-report for 2017 on 14 August 2017, which entails a delay of 1 year and 1 month.

6.3.2 Inside information about the Top-up Shares Mechanism for the Additional Loans

As accounted for under section 6.2 above, the Oslo Stock Exchange finds that the Company became subject to an obligation to issue Common Shares as security for for Triway's obligations and subject to additional issuances of Collateralized Shares if the share price were to decline, at the time the

promissory notes for the Additional Loans were entered into and the Company resolved to provide Collateralized Shares as security for Triway's obligations on 27 December 2016.

The Exchange finds that the fact that the Company became subject to an obligation to issue Common Shares as security under another facility, was a specific circumstance which constitutes information of a precise nature, cf. section 3-2 (2) of the STA.

The Oslo Stock Exchange also finds that information about the obligation for the Company to issue Common Shares as security for Triway's obligations, including additional issuances of Collateralized Shares as security if the share price were to decline, was information that a reasonable investor would use as part of its investment decision, cf. section 3-2 (3) of the STA. This obligation entailed an even higher level of potential dilution for the Company's shareholders, especially taken into consideration the Company's obligation to issue additional Collateralized Shares under the Trade Facility. The Exchange would in this regard like to highlight that at the time the Company became subject to these obligations for the Additional Loans entered into by Triway, the Company had not disclosed information about the Company's obligation to issue additional Common Shares as security for the Trade Facility which was established no later than 17 June 2016. This was first disclosed on 14 August 2017. The market was accordingly not aware that the Company at this time was subject to an obligation to issue additional Collateralized Shares both for the Trade Facility and the Additional Loans at this time.

In terms of the Company's argument of the Collateralized Shares having no dilutive effect, the Exchange refers to the discussion of this item under section 6.3.1 above, which is of the same relevance for the Additional Loans. In addition, the ability of Triway to repay the Additional Loans is of significant relevance when considering any non-dilutive effect of the Collateralized Shares. Given that the borrower under the Additional Loans is Triway and not the Company, the Exchange questions the market's ability to properly consider the creditworthiness of Triway as a non-listed company where the Company only owns a 36.6% stake.

Furthermore, one of the Additional Loans is in the Company's Q2-report for 2017⁵⁹ stated to have a maturity date of 31 March 2018. On 13 April 2018, the Exchange sent a request to the Company asking of the status of this loan. The Company replied on 18 April 2018⁶⁰ and stated that the loan was extended with maturity date on 30 September 2019. Based on the information in the Q2-report, the market could accordingly have an expectation of the loan being repaid on 31 March 2018 and the Collateralized Shares for this loan being returned.

The Exchange would also like to highlight that the Additional Loans according to the Company's stock exchange notice of 6 April 2018 has been partly repaid without any Collateralized Shares having been returned to the Company. This supports the Exchange's view that there is a risk of the Collateralized Shares not being returned to the Company, which underlines that information about the Company's obligation to issue Collateralized Shares as security for the Additional Loans is information that a reasonable investor would use as part of its investment decision, cf. section 3-2 (3) of the STA.

The Exchange accordingly concludes that information about the Company's obligation to issue Collateralized Shares for the Additional Loans constituted information of a precise nature which was likely to have an effect on the Company's share price no later than 27 December 2016, when the

⁵⁹ [Appendix 7](#)

⁶⁰ [Appendix 12](#)

promissory notes for the Additional Loans were entered into and the Company resolved to provide Collateralized Shares as security for these loans.

The next question is whether the information about the Company's obligation to issue Collateralized Shares for the Additional Loans was publicly available at this time, cf. section 3-2 (1) of the STA.

The Company has argued that information about the new shares was disclosed on the OTC Market's weekly I&O shortly after the issuance. The Exchange refers to the discussion under section 6.3.1 above, as the OTC Market's weekly I&O is not a report, but an overview of issued shares as reported by the Company. The OTC Market's weekly I&O report does accordingly not contain any information about the new Additional Loans and the Company's additional obligation to issue Collateralized Shares as security for these obligations.

The Company has furthermore argued that the information about the Additional Loans was made available on page F-44 of the annual report for 2016⁶¹ which was published on 16 March 2017. The Exchange cannot see where this page makes any mention of the Company taking upon an obligation to issue Collateralized Shares pursuant to new debt obligations. In the forth paragraph, it is stated that the Company during the year ended 2016 issued 2,461,247 shares as collateral to secure debts loan. The paragraph does not state anything about the Company taking upon any new obligations to issue Collateralized Shares or describing the Company's obligation to issue Collateralized Shares due to a decline in the share price.

The Exchange further notes that it is stated that the 2,461,247 shares issued as collateral is to secure debts loan of USD 4,797,332, which according to the Company's overview of issuances of Collateralized Shares is the net loan amount for Loan 1. This could indicate that the paragraph referred to the number of Collateralized Shares issued for Loan 1. However, based on the overview, the Company only issued 753,304 Collateralized Shares as security for Loan 1 in 2016. While the market regardless did not have access to the overview of Collateralized Shares as presented to the Exchange, this is yet another example of the Company's fragmented and incorrect reporting on the issuance of Collateralized Shares in its financial reports.

The Oslo Stock Exchange would in this regard like to emphasize that it is the Company that has the obligation to publish inside information at its own initiative and without delay, and that the Company cannot fulfill this obligation by disclosing parts of the inside information. While parts of the information about issuance of additional Collateralized Shares was included in certain of the Company's financial reports, this information was fragmented and on several occasions incorrect. The Company can accordingly not publish certain information about certain of the share issuances and argue that the market should have understood the reason behind it and that the Company had taken upon more obligations in terms of issuances of Collateralized Shares.

The Exchange would also like to point out that the Company on several occasions has given incorrect information to the market, as accounted for under section 4.6 above. The Exchange has also had to follow-up with the Company on discrepancies in information given to the market and information provided by the Company to the Exchange, as accounted for under section 4.5 above. The Company has stated that the matter raises complex issues, where several rounds of clarifications between the Exchange and the Company has been needed in order to get the facts sorted. The Exchange can agree with this, however, this indicates in the opinion of the Exchange that the Company does itself not have

⁶¹ <https://newsweb.oslobors.no/message/422845>

the necessary overview of the various facts and share issuances, and can accordingly not be in a position to expect the market to have it based on fragmented reporting of share issuances.

The Exchange finds that information about the Additional Loans and the Company's obligations to issue Collateralized Shares under these loans was not made publicly available before the publication of the Q2-report for 2017 on 14 August 2017.

The Oslo Stock Exchange's conclusion is that the information about the Company's obligations to issue Collateralized Shares under the Additional Loans constituted inside information no later than 27 December 2016, but was not publicly available until the publication of the Company's Q2-report for 2017 on 17 August 2017, which entails a delay of 7 ½ months.

6.3.3 *Changes in authorized number of Common Shares*

As accounted for above, the Company was listed on Merkur Market in January 2016 with an authorized share capital of 22,727,273 Common Shares.

On 16 March 2017, the Company published its annual report for 2016 where it was disclosed that the authorized share capital had been increased to 27,000,000 Common Shares on 28 December 2016. The change in authorized share capital was accordingly disclosed approximately two and a half month following the increase.

On 14 November 2017, the Company published its Q3-report for 2017 where it was disclosed that the authorized share capital had been increased to 50,000,000 Common Shares on 14 August 2017, effective from 25 August 2017. The change in authorized share capital was accordingly disclosed three months following the increase. An overview of the increases in authorized share capital is set out in Table 2 in Appendix 13.

Pursuant to section 3.2 (1) no. 3 (e) of the Continuing Obligations, the company must immediately publicly disclose proposals and decisions by the Board of Directors, general meeting or other corporate body on mandates to increase the company's share capital. When the Company increased the authorized share capital, it increased the number of Common Shares the Company was able to issue under such authorization.

The background for the rules is to provide the shareholders with updated information about the mandates for increasing the share capital and potential dilution of their shareholding.

The two increases of the Company's authorized share capital were accordingly not published immediately, but with a significant delay of 2 ½ and 3 months, respectively, and constitutes two breaches of section 3.2 (1) no. 3 (e) of the Continuing Obligations.

6.3.4 *Changes in issued number of Common Shares*

The Company has acknowledged that the issuances of new Common Shares from the date of admission to trading on Merkur Market in January 2016 and up to 5 February 2018, were not disclosed immediately in accordance with the requirements in the Continuing Obligations. Pursuant to section 5.1 (1) of the Continuing Obligations states that information that must be made public pursuant to the Continuing Obligations must be made public through NewsPoint.

The background for the requirement of immediate disclosures of share capital changes is for the market in terms of the pricing of the share, where the number of issued shares is essential for this purpose.

The Company has stated that changes in share capital has on Merkur Market been disclosed in the Company's financial reports, as set out in Table 3 of Appendix 13. In terms of issuances of Collateralized Shares, the specific share issuances have, with two exceptions, not been disclosed as such, but only been reported as change in total share capital on a quarterly basis, see Table 1 of Appendix 13.

The Exchange accordingly concludes that the Company has not immediately disclosed issuances of new Common Shares pursuant to section 3.2 (1) no. 3 (d) or 9.4 (3) of the Continuing Obligations, on several occasions for a period of two years.

6.3.5 *Other remarks*

The Exchange furthermore considers that the Company's low level of transparency in terms of share issuances is of a high concern. The increases in authorized share capital, which gives the Company's board of directors the ability to issue new shares within this frame, have been resolved by the Board of Directors and a majority of the voting power of shareholders. This implies that neither the change in the authorized share capital nor the issuances of new shares within this authorized share capital, have been subject to approval by the shareholders' meeting. The Company has held two shareholder meetings since the Company was admitted to trading on Merkur Market, one on 20 December 2016 and one on 12 October 2018.

In the Company's comments to the advance notice, it is stated that the annual general meeting for 2016 (which should have been held in 2017) could not be held during 2017 as the 10-K of 2016 was under standard, triennial review by the SEC. The Company stated that under such circumstances the annual accounts cannot be approved until the review has been completed, which would imply that no annual general meeting can legally be held. The Company furthermore stated that the annual general meeting for 2016 and 2017 were intended to be held together on or about 12 October 2018, and that the shareholders would be summoned accordingly.

The Exchange would like to point out that while the Company has one large shareholder which in principle can determine the outcome of any matter subject to vote, a shareholders' meeting provides the minority shareholders with a platform where the Company is able to communicate the background and reason for proposals and also the shareholders to give their view and vote on the same. The Company has as mentioned only held two shareholder meetings since the admission to trading on Merkur Market and the increases in authorized share capital and issued share capital is resolved by the Board of Directors. This fact combined with the delayed publication of inside information relating to the Company's share capital, contributes to a situation where it is not possible for the Company's shareholders to have a predictability in terms of future share issuances.

According to the Company, the credit under the Trade Facility was reduced from USD 20 million to USD 15 million as an alternative to issue of additional Collateralized Shares. According to the Company, no Collateralized Shares have been issued since December 2017. The Company has however issued 18,146,487 new Common Shares during 2018, see Table 4 of Appendix 13. This entails an increase in the share capital of approximately 58% during 2018. The reason for the share issuances is either not stated or is explained to be "Settlement of other payables" without any further details. In its comments to the advance notice, the Company does not give an account for the reason behind these share

issuances and states this is a matter of corporate governance rather than a regulatory issue. The Exchange understands that the Company is of the opinion that it is not required to provide any further information about the reason for these share issuances than what is stated in the stock exchange releases.

The Exchange would therefore like to point out that the Company not issuing Collateralized Shares has not solved the issue for the Company's shareholders in terms of predictability of future share issuances, as it appears to have been replaced with a new "black box" of continuing share issuances without apparently any maximum limit. This apart from the authorized share capital, however, as this matter shows, the Company increases this from time to time without any shareholders meeting.

6.4 Violation charge

The Oslo Stock Exchange may impose a violation charge if a company materially breaches the Merkur Market rules, cf. section 12.3 (2) of the Continuing Obligations.

The Oslo Stock Exchange does continuously monitor the issuers' compliance with the applicable disclosure obligations on the Exchange's market places. The Oslo Stock Exchange considers this work to be of high importance for maintaining the integrity of the market places. A well-functioning market is characterized by all market participants having access to the same information from the issuers at the same time so that investment decisions can be made on the same basis. This contributes to a correct pricing of the relevant financial instruments. The quality of the marketplace is accordingly affected negatively when the issuers do not comply with the obligations that apply to the companies admitted to trading on Merkur Market.

The Company's failure to comply with its obligations to timely disclose inside information in terms of the Company's obligation to issue Collateralized Shares for the Trade Facility and the Additional Loans, as well as the obligation to timely disclose increases in authorized share capital and issued share capital in accordance with the Collateralized Shares, is considered serious by the Oslo Stock Exchange.

The Company has argued that information about the share issuances has been available to the market on a continuous basis pursuant to the disclosure practices applicable to the Company's listing on the OTCQ-Premier. As accounted for under section 6.3.1 above, the Exchange is skeptical of the Company's claim that the issuances of shares have been correctly reported to the website of OTC Market, given the number of discrepancies and errors in the number of newly issued shares in the Company's financial reporting, cf. section 4.6 above. The Exchange however places certain emphasis on the fact that information about the increase in the Company's share capital have been disclosed through financial reports as the market has received information that the Company's share capital has increased during period. Given the totality of the situation regarding the Company's obligation to issue Collateralized Shares with such level of potential dilution and the Company's continuing increases in authorized share capital and issued share capital having been disclosed with significant delay and errors, the Exchange disagrees with the Company that the damage caused towards the shareholders and the market is limited.

The Company has further argued that the Collateralized Shares have been issued in the Company's share register in the U.S. and to the knowledge of the Company not floated to the VPS, which in the opinion of the Company means that the damage caused towards the shareholders and market is limited. The Exchange would like to highlight that whether the Common Shares are traded in the U.S. or on Merkur Market is not of relevance when considering whether information about the issuances

of Collateralized Shares shall be disclosed pursuant to the Continuing Obligations. As accounted for under section 2.4 above, all the Common Shares of the Company can in principle be traded on Merkur Market as it is possible to transfer shareholdings between the two market places. The Exchange would also like to address that the market's ability to price the Common Shares of the Company based on the number of total issued shares is irrelevant of where the new Common Shares are traded. The price of the Company's Common Shares on Merkur Market are based on the total number of issued Common Shares and not on the part being traded on Merkur Market from time to time.

The Company's inability to comply with the rules has entailed that the market has not been given sufficient or complete information about the Company's share capital and potential dilution as a result of the Company's obligations to issue Collateralized Shares when the share price is declining. As accounted for under sections 6.3.1 and 6.3.2 above, the Company published inside information about the Company's obligation to issue additional Common Shares as security for its obligations under the Trade Facility with a delay of 1 year and 2 month and its obligation to issue Common Shares as security for Triway's obligations under the Additional Loans with a delay of 7 ½ months. These are significant delays and long periods where the market did not have information about these obligations. This in combination with untimely disclosures of the change in authorized share capital and issuance of new Common Shares, have contributed to a situation where it has been nearly impossible for the market to price the Company's Common Shares.

Another serious consequence of the Company's late disclosure of information is that the information about the changes in authorized share capital, the Company's obligations to issue Collateralized Shares and issuances of new Common Shares as security, is not given in stock exchange notices, but in financial reports of between 100-150 pages. This entails that the information is less accessible and more difficult to put together in the correct context in order to understand the totality of the situation. As accounted for in this case, the information about authorized share capital, the Company's various obligations to issue additional Collateralized Shares as security and continuing issuances of new Common Shares must be seen in conjunction for the market to have a complete picture of the potential dilution and grounds for pricing of the Common Shares. The Company's fragmented and untimely disclosures have contributed to the information being less accessible and more challenging, and at times impossible for the market to price the Company's Common Shares. In addition, when the Company has given incorrect and fragmented information about the share issuances in its financial reporting and also has had to correct information given to the Exchange, this indicates in the view of the Exchange that the Company does not have sufficient control over the complexed information itself, and can accordingly not expect the market to have it based on this reporting.

The Oslo Stock Exchange has resolved to impose a violation charge on the Company due to the breaches of the Continuing Obligations as accounted for under section 6.3.1 to 6.3.4 above. The Exchange has concluded on four breaches of the Continuing Obligations, which entails breach of (i) section 3.1.1 of the Continuing Obligations regarding publication of inside information about the Company's obligation to issue additional Collateralized Shares under the Trade Facility, (ii) section 3.1.1 of the Continuing Obligations regarding publication of inside information about the Company's obligation to issue Common Shares as security for the Additional Loans, (iii) section 3.2 (1) no. 3 (e) of the Continuing Obligations in terms of publication of changes in authorized share capital and (iv) section 3.2 (1) no. 3 (d) and 9.4 (3) of the Continuing Obligations regarding publication issuances of additional Collateralized Shares in the period from admission to trading on Merkur Market and up to 30 September 2017. The Exchange considers these breaches of the Continuing Obligations as material.

The Oslo Stock Exchange has only imposed a violation fee on a company with shares admitted to trading on Merkur Market once before, in the case regarding Oxy Group PLC as referred to above. In this case, Oxy Group PLC was imposed a violation fee in the maximum amount of NOK 1,000,000. The violation charge was imposed due to breaches of the Admission Rules and Continuing Obligations. While the Oxy Group PLC case handles a similar matter as this case, the Exchange notes that the dilutive effect in the case regarding Oxy Group PLC was higher and also comprised a breach of the equal treatment rule.

After an overall assessment, the Oslo Stock Exchange has resolved to impose a violation charge on the Company of NOK 700,000. The Oslo Stock Exchange has taken into consideration the nature and seriousness of the violations and the duration of the violations. The Company's inability to comply with several of the obligations applicable to companies with shares admitted to trading on Merkur Market has had serious consequences for its shareholders and the market's ability to correctly price the Company's shares.

The Oslo Stock Exchange has also taken into consideration the Company's market value and financial condition when determining the size of the violation fee, cf. section 12.3 (3) no. 2 of the Continuing Obligations. As of 1 November 2018, the Company had a market value of approximately NOK 120 million. In the Company's Q2-report, the Company's total equity as of 30 June 2018 was USD 790 million and cash and cash equivalents of USD 605 million. The Oslo Stock Exchange therefore considers that a violation fee in the amount of NOK 700,000 is not a disproportionate reaction towards the Company.

The Company has argued that no emphasis has been placed on the fact that the Company on its own account reached out to the Oslo Stock Exchange prior to commencements of the Exchange's investigations and that the Company has given its absolute best effort to address the questions and concerns of the Exchange and the market. The Exchange would in this respect like to point out that the Company reached out to the Oslo Stock Exchange not due to the Company identifying any faults made by the Company itself, but due to a letter of complaint by shareholders addressed to the Company. As the Oslo Stock Exchange was sent a copy of the letter, the Exchange does not see how the Company reaching out the Exchange should be given any significant emphasis by the Exchange.

Furthermore, the Company has an obligation to provide the Oslo Stock Exchange with all information necessary for the Exchange pursuant to section 2.5 (4) of the Continuing Obligations. That the Company complies with this obligation is what the Exchange expects from the issuers with shares admitted to trading on Merkur Market and not something that is given any emphasis when determining the form of sanction or level of violation fee. As accounted for above, the Exchange has also found that the Company has given conflicting and incomplete information to the Exchange when obtaining information pursuant to the said provision. As the account shows, the Exchange has had to follow-up with the Company to obtain the complete picture of the situation and address conflicting information both given to the Exchange and the market.

The Exchange finds it positive that the Company agreed to publish a stock exchange notice with more information about the Company's obligations to issue new Common Shares as security for various debt obligations. However, given the long time period the Company did not disclose information to the market about these obligations and the Company not publishing information about the issuances of Collateralized Shares and increases of its authorized share capital that had been carried out in accordance with the Continuing Obligations, the Exchange places limited emphasis on this being done

at such late point in time. The Exchange would also like to note that this was done at the recommendation of the Exchange and not at the initiative of the Company itself.

The Company has in its comments to the advance notice questioned why the Exchange has not indicated the fee level in the advance notice of resolution. The Exchange would in this regard like to comment that the violation fee is not determined before the Exchange has received the Company's comments to the advance notice, which is taken into consideration before the matter is finally resolved upon. The level of violation fee can be appealed to the Merkur Market Appeals Committee in accordance with section 14 of the Continuing Obligations.

The Oslo Stock Exchange communicated in the Circular 1/2015 that a company's suitability for trading on Merkur Market among other factors is dependent on its ability give sufficient information for the market participants to determine fair market prices. As accounted for in this case, the Oslo Stock Exchange is of the opinion that the Company has failed to timely disclose inside information and other information in accordance with the Continuing Obligations. The Oslo Stock Exchange emphasizes in this regard that additional breaches of the Merkur Market rules may result in removal of the Company's shares from Merkur Market, cf. section 12.1 of the Continuing Obligations.

The Oslo Stock Exchange has on 2 November 2018 passed the following resolution:

"A violation charge is hereby imposed on Sino Agro Food Inc. for material breaches of the Continuing Obligations of companies admitted to trading on Merkur Market in an amount of NOK 700,000, cf. section 12.3 of the Continuing Obligations. The decision may be appealed to the Merkur Market Appeals Committee, cf. section 14 of the Continuing obligations of companies admitted to trading on Merkur Market."