



NEWSLETTER FROM RGI SA.

First off all I want to thank you all for your patience and understanding that you all have shown during the changes we have been doing the last- and this year.

It has been a long and necessary process but I do believe that it was worth it and that it will be in the interest for you as well as it is for RGI SA.

Last year was a year with a lot of challenges. Many of our participants follow our "News" items on our website: www.rgisa.com, which makes it easier to communicate with them. Please keep following our "News" items.

In this newsletter we will look into the current situation on the markets, climates and worldwide economic situation that either directly or indirectly has an influence to your investment. Many of you has been asking about what will happen with your investment since Teakwood International BV (TWI) no longer represent RGI SA and this is understandable. We took measurements in order to keep our website more up to date with news, information and developments regarding the projects that involves your investments.

This newsletter will give you an update of the current and historically marked for teak which has always been dominated by India and they stand for more than 96% of the purchases of teak worldwide. They have

dominated the marked since the time they had natural teak themselves, during the time of natural Burma teak (still some illegal activity of cut and sales) and still till now with all the plantation teak.

Earlier this year there was a conference held in India where all the major buyers where represented, the discussion was concerning the quality, quantity and consumers demand versus the economic purchase strength.

The main important issue for us as producers and for you as investors is of course if there are expected future price development in favorable manor and stability.

This conference concluded that the situation is at a standstill and they foresee the next following 5 years' period to continue on the same standstill due to the high production and following sales of young teak (read overproduction of young teak), this next to a regression on the exchange marked and low purchase power.

Well, not very promising for us, but remember, this conference was held by the purchasers and they of course have interests in the other end of the line. We have seen these inputs many times before but we are always fighting for better prices and we will continue to do so.

Anyhow, there are still some points in this that we do see and get worried about, it is getting harder to achieve good offers and the prices



are very low even for the better wood (older and higher diameter).

To continue from the Newsletter of March 2011 where I already shared my worries concerning the changes in the climate and where we then decided to alter some thinning schedules etc. in order to meet the climate change and to reduce the negative affect to the plantations.

Worldwide the climates have changed, if not dramatically then at least to be highly worrying for the most of us. In Europe you have seen it through heavy rain, strong heat periods and floods of rivers in summertime periods etc. Costa Rica has also felt the changes and in some areas quite strongly, we have “lost” our two seasons, there is no longer a distinctive difference between summer (dry season) and winter (wet season) and these changes affect many aspects in the biological rhythm as well. For the teak it means less resistant against fungus, illness and losing the time to hardening the core (dry season).

Worldwide we have all felt some affects coming from the general regression that has followed us for some years already. Starting in The United States of America and now lately in China. Economical experts are now even talking about a new regression on its way and again in the USA. And why, the economy is nowadays so interconnected that a new recession in USA might come as a result of the situation in China because,

according to the Treasury Department in the USA, more than 30% of the work that was created after the last big recession was export depending and are therefore affected by the set back in the Chinese import market.

We have during the last year been evaluating our organization and the production on all aspects, always with the weight on the best economic interest of our participants and ourselves. As a direct result of this we decided to cut the costs and to become more efficient. The contracts with sales offices in The Netherlands and Belgium were terminated; we could not keep the offices to be serving as client contacts due to the high cost. Also at the RGI SA office we had to fire some staff people, we found comparing companies for them to work. Product wise we have been spending a lot of time on evaluating the growth schedules, harvest schedules and time line research versus climate changes, diseases and values. We see that an optimal timeline for teak plantations nowadays in Costa Rica seems to be clearly less than 20 years and that 15 years is a more economically feasible timeframe for teak.

Read more concerning these subjects by our Forestry Engineer Lic. Jason Rojas and Researcher Jonathan Segura.

Regards,
B. A. Jakobsen
CEO R.G.I. S.A.



PLANTATIONS AND CLIMATE EFFECTS

Teak tree like all living have a pattern of growth and development, which is largely influenced by environmental and climatic conditions. Teak grows rapidly during their first years of life, but with the passing of years the growth rate decreases considerably. An example of this growth pattern in figure 1.

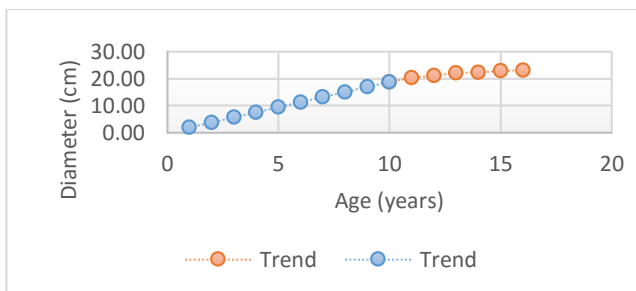


Figure 1. Curve diameter growth of plantations RGI.

In the figure above, trend growth of RGI plantations which correspond to normal growth curves of teak in Costa Rica it is shown. Where it grows a lot in the early years of development, however it decreases with time. In the figure 2 can be seen in the trend diameter increment in the plantations after 11 years.

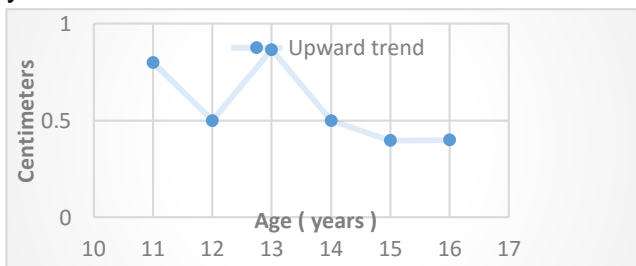


Figure 2. Trend diameter increment in RGI plantations.

The figure 2 on the bottom left side shows how the growth decreases when plantations are approaching 15 years and how this growth remains low in the coming years.

Moreover, the increased mortality is due to different natural causes; When thunderstorms are in Costa Rica there are between 1200-1800 lightning strikes on average per day. Sometimes these lightning hits our plantations and can cause the death of up to 7 trees per strike. These events are totally unpredictable and cause considerable losses when they happen.

Another reason is the different fungi and pathogens that are favored by rain and humidity conditions in the area. These infections mostly make an effect on the older plantations and can cause diseases and infections that often might result in the death of the trees (Arguedas, 2006).

The combination of low growth and increased natural mortality in plantations, together with the cost of maintaining them, will make a decrease on profitability as time passes. Because of the above mention factors and in order to take best care of the investments, RGI consider the option to do the final cut on plantations older than 15 years.

Ref: Arguedas, M. 2006. Diagnosis of forest pests and diseases of Costa Rica. II Latin American IUFRO Congress. La Serena, Chile.



Normally for Costa Rica, an extreme weather event is an increase of 29% or a decrease of 24% of the total annual rainfall. Now it has changed for the more unexpected and become more extreme on both ends, up to a plus minus 60% in periods.

Temporary seasons can be of a plus or minus three week periods with or without rain. On temporary season you can have a continuous rain duration of 4-6 days where you can accumulate 300mm on an average and on exceptionally high rainfall to be above the 400 mm. The heaviest rain fall during the temporary period occurs in the months of June, November and December, it could therefore be assumed that the floods that occur during these months may be the direct result from these severe rain storms.

In the Northern Zone we have some two distinguished areas that are vulnerable for flooding; The first ranges from Los Chiles, Upala and Aguas Claras. The second corresponds to the southwest of the region, in a large sector that covers most of the savannas of San Carlos and towards Tortuguero, where towns like San Rafael de Guatuso, Puerto Viejo, Sarapiquí, Boca Arenal (location of Monteverde I and Monteverde Verde II), Agua Zarcas, Horquetas and Venecia.

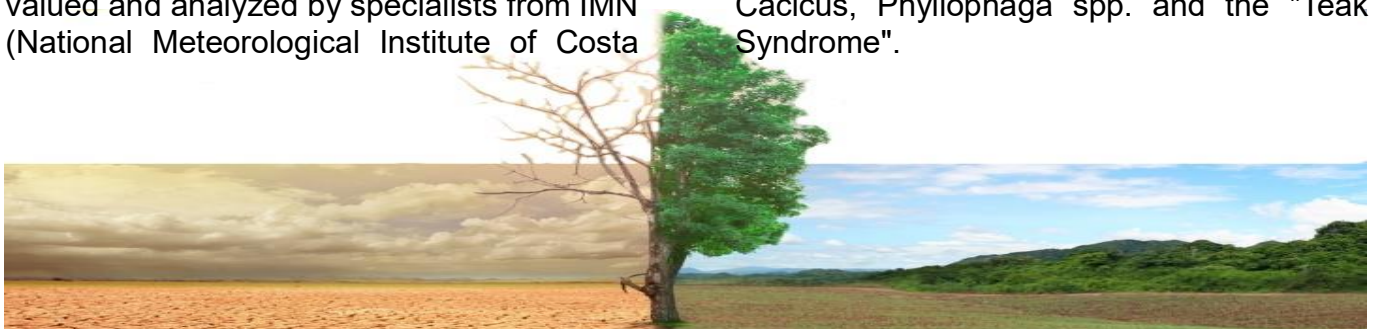
According to dynamic models - Statistical valued and analyzed by specialists from IMN (National Meteorological Institute of Costa

Rica), together with the observations made during the second quarter of 2015, the ENOS is on phase of transition neutral, but El Niño will last at least until May 2016 with the highest peak in December 2015. This implies a scenario where the tropical Pacific Ocean temperatures will be warmer than normal, with a decrease of rainfall especially in the Pacific Rim and Central Valley and increase of rainfall in the North Zone. (ENOS Bulletin, 66 April 2014 IMN). (ENOS Bulletin, 83-2015 IMN) (CNE, January 2015).

The climatic variables contribute to a negative impact on teak plantations; decreases of the growth, are generating high mortality, contributes to the development of disease outbreaks and other inconvenient results.

This can cause the areas to be of low growth and hence in poor performance and possibly diseases leading to high possibility of death on trees being close to the outbreak, even contaminate other nearby clusters that again can cause the same effects and even stronger.

The problems are mostly caused by fungi and bacteria; which are both favored by the current weather conditions. To name a few - *Phomopsis* sp., *Pseudomonas* sp., *Hyblaea puera*, *Rhaphidopterus* sp., *Walterianella* sp., *Nectria nauritcola*, *Botryodiplodia* sp., *Agrobacterium tumefaciens*, *Neoclytus Cacicus*, *Phyllophaga* spp. and the "Teak Syndrome".



Next to this, we must add the damages that occasionally occurs by lightning which, although relatively rarely, can kill up to 7 trees on each strike.

Reforestation Group International performs all necessary activities and practices in order to mitigate and put efforts to stop the spread of these diseases but the effects of climate change are a cyclical factor that is out of our, and any other agricultural producer hands to change.

The 8th of November 2013, Reforestation Group International signed a cooperation agreement with the Technological Institute of Costa Rica, an institution recognized in Latin America for his research and innovative projects; and by having a group of academic extension in the forestry area we have received highly competent advises for better treatments and procedures.¹

They have given us suggestions and guidelines issued within the framework of this collaboration in order to stop or prevent the situation that has been occurring in recent years. They have as well been improving on the current forest material, and with the goal to obtain the highest possible timber

production.

Before signing the agreement; The farms, Monteverde I and Monteverde II, were part of biocontrol research at the School of Ing. Forestal and biocontrol laboratory, the Technological Institute of Costa Rica in Santa Clara, San Carlos. In 2012 they started with the collection of samples with severe injuries on Melina and Teak plantations (Included owners Farms).²

The suggestions of the Technological Institute of Costa Rica have been developed. The application of *Trichoderma* spp, as biocontrol of pathogens that generate the death of the trees; Thinning and disposal of infected trees to prevent its spread. The results can be seen in reducing the annual death rate in the farms... But still and in our opinion; these efforts are long term, and now we have to consider the climate as a trigger factor that beside of the lost volume value, it also increases the costs of maintenance and extended timeframe.

We are facing a drop in the price market of teak wood; a dry season which led to trees that were in the recovery process, died due to lack of moisture; and latent in the future according to forecasts from the National Meteorological Institute of Costa Rica (IMN)

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<http://www.tec.ac.cr/sitios/Vicerrectoria/vie/cooperacion/Convenios%20Nacionales/Sector%20Privado/Sector%20Empresarial/Reforestaci%C3%B3n%20Grupo%20Internacional%20SA.pdf>

2

<http://bibliodigital.itcr.ac.cr/bitstream/handle/238/3372/uso-biocontroladores-materiales-tolerantes.pdf?sequence=1&isAllowed=y>

we will suffer a very heavy rainy season in the north which can produce flood risk; This results in a decrease on trees available for the timber, and therefore the risk of a further significant reduction in expected earnings, which we have already seen in the current decline.

The increase in temperature encourage the process of photosynthesis and decreases the growth of thickness on the trees.

Measurements since 1980 shows an increased average day and night temperature.

Current weather conditions prevailing in Central America; and the projection of the oceanic-atmospheric models indicate that it is developing a new episode of the warm phase of ENOS (El Niño).

There is a chance (70%) that in the medium and long term (July-December) the phenomenon and its impacts are consolidated.

For July and August, it is considered that the phenomenon of El Niño will be better established and therefore cause a drought of moderate or severe intensity in the regions of the North Pacific and Central Valley, and a less severe drought in the South and Central Pacific. In the Caribbean slope and the Northern Zone, a significant increase of rainfall, with possible temporary heavy rain is forecast.

Due to these forecasts and the risk factors; Reforestation Group International should take the decision to proceed with a Final cut on Monteverde I, Monteverde II as well as in Vasconia, to save the wood from possible damage and volume lost and to get the most benefit for the investors. Further it should be seriously considered to shorten the plantation rotation on all the farms that still has the 20 years' rotation to be altered down to 15 years.

Forestry Engineer Lic. Jason Rojas
& Researcher Jonathan Segura, R.G.I. S.A



AND WORDS TO CLOSURE

R.G.I have many years of experience on operational business on teak farms as well as dealing with buyers, buyers from the exporting international marked with India as the main costumer but also to the local marked.

Our experience has become well known to buyers that operates the Central American wood marked and we are always contacted when they need wood of quality. Therefore, I know that we are on the better end even if the marked is slow and with difficulties.

Beside of the preparation for the final cut of the older farms we are also busy with the thinning schedules for the mid- and younger farms. We are waiting for as long as possible on the marked to show its better side, and with all the good contacts that we have, I am sure that we will be the first to know and the ones who will receive the very best prices that can be obtained. It is of course the younger teak that is struggling the most when we talk about the prices and for that reason we are

a bit behind compared to the earlier thinning schemes.

In late November we expect the yearly monitoring and valuation report from SilvoConsult S.R.L to be ready and published on our website, www.rgisa.com, so we ask you kindly to keep visiting our website for this report as well as for all other news as it will be available.

We are here and we will stay here till we have fulfilled our commitments as reforestation company.

We wish you all a healthy and warm winter, till next time, thanks for your attention.

BA Jakobsen

