

Soraya Brant Advocacia

Brazilian Bar Nr. OAB/DF 17.953

Legal Opinion

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To: Reforestation Group

Re: Investor's Profit Tax on exploitation of Eucalyptus in Brazil

We have acted as counsel to Reforestation Group in connection with the purpose of answering the question in regards the tax rate which may apply on profits generated from the exploitation of Eucalyptus and wood sale based on the "Eucalyptus Plantation Management Agreement" which parties are the "Management Company" which headquarters located in Brazil, the "Operator" which headquarter located in UK, and the "Customer", resident abroad.

The Brazilian income and profit tax legislation brings specific definition whether the tax payer is an individual person, company or rural producer (individual or company), it also gives instructions for tax payers resident outside Brazil. Law Decree Nr. 3.000, dated of March 26th. 1999 is the main tax regulation plus sparse laws which may apply to this case.

1. Individual Tax Payer resident abroad: Looking through the section related to individual tax payer, the Article 70 of Decree Nr. 3000 states that the profit resulted from rural activity in Brazil by an alien shall be tax in a rate of 15%. If the alien is resident in a fiscal paradise then the rate is 25%. The calculation and payment shall be by a representative in Brazil. Tax Agreement among the countries allows the compensation of tax paid abroad in order to avoid double taxation. Brazil has a Tax Agreement with USA, Germany and UK for which is not required reciprocal treatments. Brazil has also agreement with the following countries for which is required reciprocal treatments and subject for the terms of each agreement: South Africa, China, Finland, Japan, Portugal, France, Luxemburg, Swiss, Austria, Italy, Filipinas, India, Israel, Span, Noriega and Coria.
As individual tax payer the person shall be enrolled and have his Tax Payer Number (CPF) in Brazil.
2. The company which explores rural activities is taxed at the same way as any other company in Brazil. The following incentives are allowed to such companies (Law

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9.065/1995; RIR/1999 Articles 509 and 512): i) The permanent asset (such as rural machineries, trucks) except the land, whenever is designated to the land's production may be depreciated in fully in the year of its acquisition; ii) The compensation of lost related to previous years, from rural activities, with the profit of the same activity. iii) The permanent plantation costs (such as the case of Eucalyptus) shall be accounted as fixed asset, for which is allowed depreciation according to its lifetime.

Taxation on dividends/profit: Dividends and profits received from Brazilian companies are no longer subjected withholding income tax upon distribution or payment, they are tax-exempt (Decree 3.000 Article 654).

As for the terms set on the Eucalyptus Plantation Management Agreement, the Operator will send the money needed to Company Management, who will develop the plantation activities on the plots and report back to Operator, who, then, will report back to Customer. In the same way, any profit from the sale will be paid to Customer through Operator, which means that the Operator will be in control of the finances in this project. For such purpose, the Operator will be enrolled at the Revenue Department and has its Tax Payer Number (CNPJ).

As said above, we understand, that the Operator will be liable for any profit tax required in Brazil, who, then may require from the Customer, subject to the terms of his country law.

Once decided that Operator will be liable for the tax, and that Operator is a corporation based in UK, it is important to know which provisions listed on Item 2 above applies or not to Operator: i) As for the permanent asset, it may be depreciated in fully, only if Operator registers before Central Bank all monies sent to Brazil; ii) Operator may have the lost on previous years compensated only if the tax authority agrees that the Management Agreement may be also considered as a partnership and the accountability is done in the name of the Brazilian company who is in charge of the management; iii) The permanent plantation costs will be accounted as fixed asset.

Taxation on dividends/profit: Operator will not be exempt because he is not a partner of the Brazilian company (Management Company), and the rate of 15% will be applied.

In order to meet the requirements in law we recommend that the accountant in Brazil shall provide the necessary assistance, which is, and not limited to, meet the Central Bank requirements, balance sheets, and to observe the timeline to transfer information and tax payment to the State and Federal Authority.

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The opinions set forth herein are rendered solely for your use and may not be relied upon, in whole or in part, by any other person, firm, corporation or entity for any purpose, other than with respect to any review by any successor agency thereto without our prior written consent.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Soraya Brant', is centered on the page. The signature is stylized and includes a vertical line extending upwards from the right side.

Soraya Brant – Brazilian Bar Number 17.953 OAB/DF