



3rd of February 2017
Irregular Progress Report – Start of Operation

Initial Progress Report on SF Lapacho

Summary: A farm of 1900 hectares has been acquired in December of 2016. The agreement was made with the sellers to buy the property at a price of USD 950/hectare with a payment plan as follows: 1/3 down, 1/3 within 9 months and 1/3 within 18 months, 7% interest on the outstanding payments to be added to the purchase price for the later installments and the option to pay in full at any time before the specified due dates.

- Rather than transferring the land title to the name of SF Lapacho S.A., the decision has been made to absorb the current holding company of the property. This strategy allows for significantly lower transaction costs.

The property, called “*Estancia La Neruana*” is completely developed and ready for immediate production.

- All existing infrastructure is new and of good quality, the geographic location is excellent in terms of soil quality and average precipitation. These factors made the overall transaction excellent in terms of price/value relationship of the farm.

Southern Farmlands took possession of the land on the 15th of January 2017, and **Southern Connections** immediately initiated practical management as per agreement.



Traditional Values. Innovative Concept.

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Property Overview

Estancia La Neruana is 1,900 hectares in size, out of which 1030 are fully developed and may be used for production. The property is located in an area with subterranean fresh water and comparably high rainfall for the Paraguayan Chaco. The soil quality is excellent when compared to the regional average.



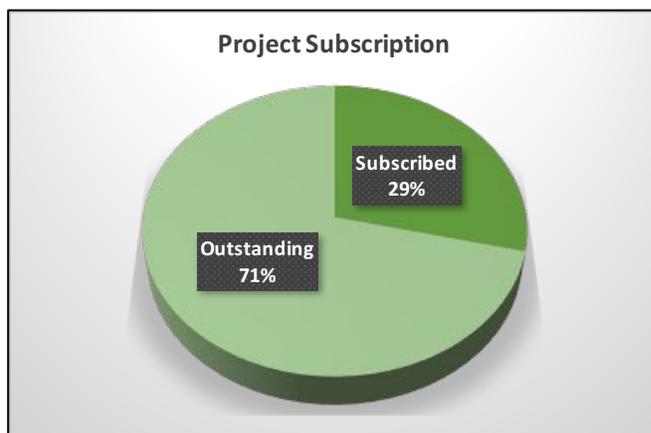
GPS coordinates: 43° 14' 25.27" W, 60° 59' 31.47" S

- The farm is connected to the electricity grid, which is still rare in the Paraguayan Chaco.
- Cellular signal is available throughout most of the property.

Project Subscription

At this time 29% of the project has been subscribed, and 71% of the project is open for subscription.

- This translates into approximately USD 1.8 MM outstanding.



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Project Manager

After interviewing various candidates suitable for the position, Mr. Bredly Ginter has been hired for the position of local project manager.

His role is to oversee the cattlemen and day-to-day operations, and to ensure operational and strategic orders by *Southern Connections* are carried out correctly. He will be physically present on the farm at least one to two days per week.



Bredly is born and raised on farms in the Paraguayan Chaco.

He has lived eight years in Canada before coming back to start his own small-scale milking operation and working alongside his father on a family owned beef-production farm.

Experienced in cattle operations, as well as mechanical and welding through previous position in Canada.

Languages: English, German, Spanish

Machinery

On the 16th of January the following machinery has been purchased to begin the operation of the project:



Tractor Massey Ferguson
Model MF 2625 4x4
63 HP

- Used for: All kinds of maintenance work, including routine cleaning of pastures.

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Motorcycle Shark
150 cc

- Used for: Transportation needs of junior staff/foreman on the farm.



Husqvarna Chain Saw

- Used for: Routine maintenance work and cutting of posts and droppers.



Emergency Electrical Generator and Water Pump

- Used for: Supplying water to livestock in case of pump/pipe failures, supplying electricity to the farm in case of power outage.

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Livestock

157 head of livestock have been acquired, as follows:

- 70 cows with
 - 55 calves
- 11 heifers
- 19 weaners
- 2 young Brahman breeding bulls



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Horses

2 horses have been acquired for working the cattle.



Recent Activities

- A brand mark for the company has been ordered and livestock will be marked in the coming week.
- 2 junior employees - a foreman and a cattlemen, have been employed. Both stay on the farm continuously.
- The heard of cattle have been separated into male and female animals. The bulls have been introduced to the cow and heifers heard.
- Registration and all authorizations with the Paraguayan Environmental Agency have been completed.
- Employees have been entered into the social security system.
- Inscription into the “receiver of revenues” has been ordered
- A company account with the local cooperative has been opened for operational use.
- Title transfer of machinery to the name of the company has been completed.
- The farm has its own telephone number, which has been set up.

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- The obligatory food-and-mouth disease vaccination was due last week and has been completed.

Foreseen Activities for the Near Future

- Different charcoal production options are still being evaluated; the activity will likely be started in the coming month.
- Registration with national electricity authority is still pending.
- All internal accounting has been set up, a meeting with the company accountant is scheduled for next week to formalize the official accounting.
- Registration with Paraguayan meat board is in progress.
- No additional livestock will be introduced to the farm for 2 months, until natural seeding of pastures is completed. This allows higher pasture volume in the long term.
 - Additional livestock will then be acquired, either through an equity investment or a production loan.

Thank your for your participation and confidence!
We are always available to discuss any questions.

Lennart Stahr

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