

The logo features a stylized blue cotton plant icon with three red dots above it. To the right of the icon, the words "HAIL & COTTON" are written in a large, blue, serif font. Below this, the words "INTERNATIONAL GROUP" are written in a smaller, red, sans-serif font.

**HAIL &
COTTON**
INTERNATIONAL GROUP

CROP REPORT
AUGUST 2017



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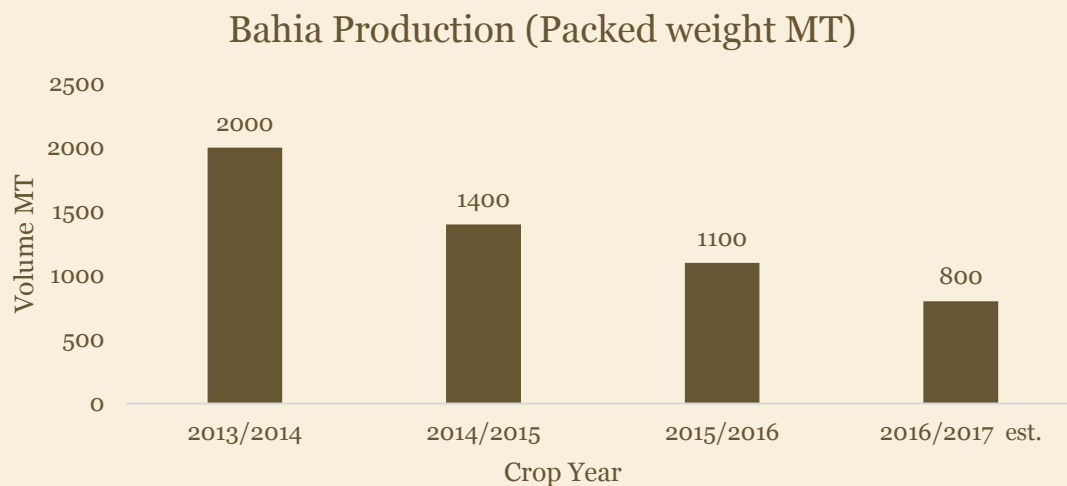
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BRAZIL BAHIA – FILLER

HISTORICAL PRODUCTION



2016/2017 CROP STATUS

Current operational activity:

Most of the tobaccos are completely fermented and have developed well during the process. The pre-selection process confirmed earlier estimates of better quality compared to the previous crop. We have started final selection and packing process.

HCIG/CdF Volume (packed weight) 2016/2017 crop (target): **350 MT**

2017/2018 CROP STATUS

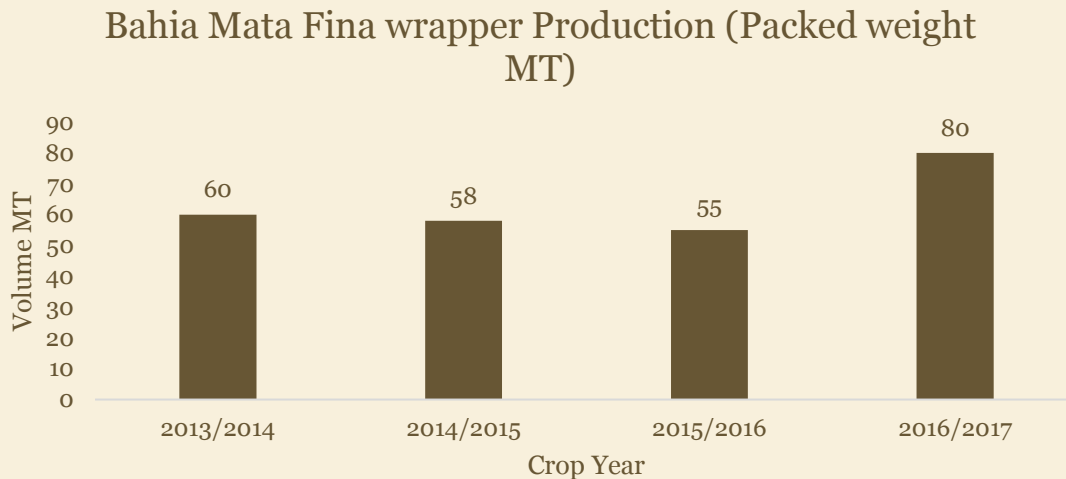
Initial weather conditions were difficult, with almost no rains over a couple of months. This situation led to water rationing in some areas. Since end of May situation has improved and farmers have anticipated sowing and transplanting somewhat to take advantage of the rains. By end of June almost all seedlings were planted out. Since then rainfalls have been regular, in some areas abundant. By the end of July, close to 40% of the crop had been harvested. Overall we expect farmers to produce a normal crop volume, around 1.100/1.200 tons (green, total crop).

ECONOMIC DATA

Exchange Rate August 1: USD 1,00 = 3,12748 BRL
Inflation: 2,71 % July 2017

BRAZIL – BAHIA MATA FINA WRAPPER

HISTORICAL PRODUCTION



2016/2017 CROP STATUS

Current operational activity:

We are about to finish the sorting process and tobaccos will be packed shortly. Initial quality evaluation has been confirmed during the sorting; overall quality and wrapper yield has improved as compared to last crop.

HCIG/CdF Volume (Packed weight) 2016/2017 crop (expected):

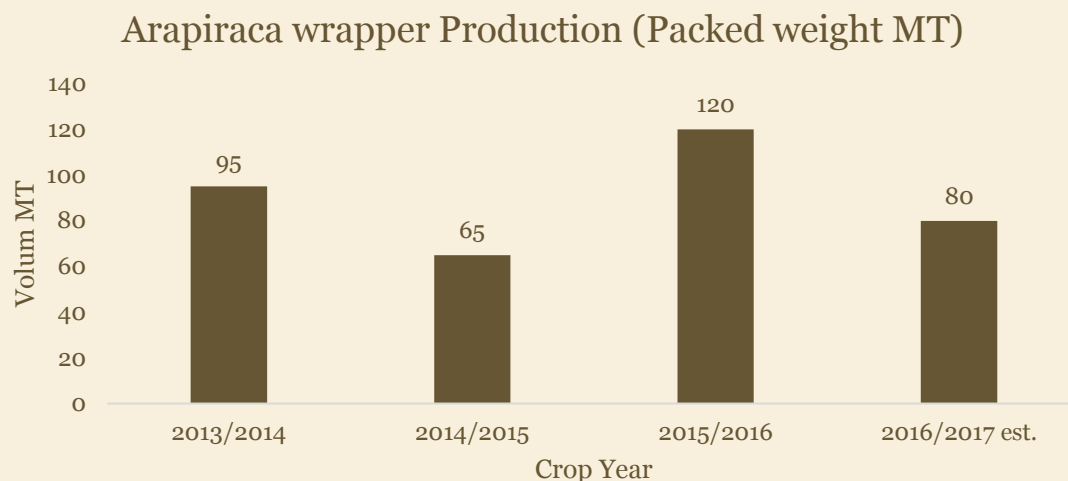
80 MT

2017/2018 CROP STATUS

Despite some delays with the land preparation on our farms due to the dry spell, we have initiated the new growing season according to plan, with the first seedlings planted out in the beginning of April. Rains have normalized since the beginning of May and we were able to plant out our crop as planned, with a 25% bigger area than last year. We finished transplanting by the end of July and overall development is very good. Almost 50% of the crop has been harvested and tobaccos are curing well. Rainfalls have been abundant in the last few weeks, but without negative impact on quality.

BRAZIL – ARAPIRACA WRAPPER

HISTORICAL PRODUCTION



2016/2017 CROP STATUS

Current operational activity:

We have shipped the wrapper material to our operation in the DR for final sorting.

HCIG/CdF Volume (packed weight) 2016/2017 crop (expected): **40 MT**

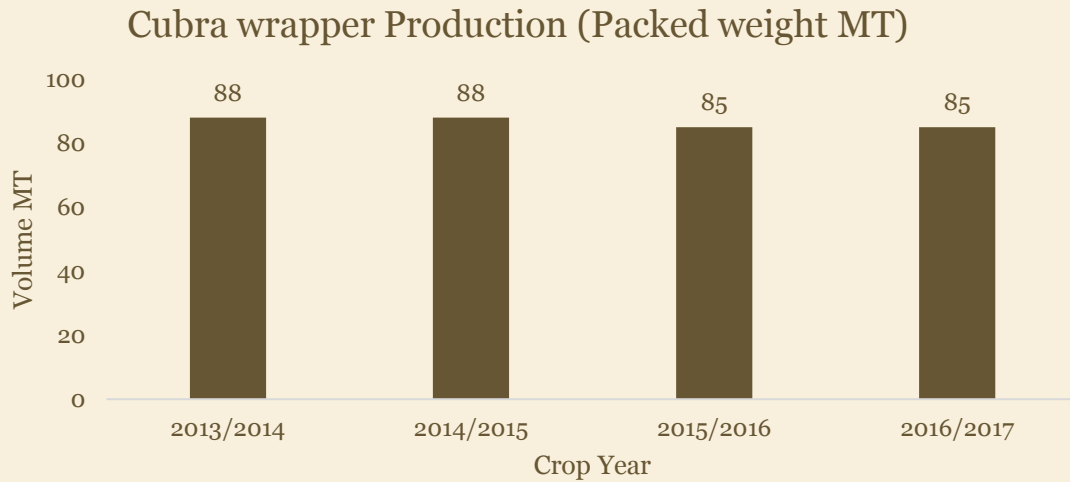
2017/2018 CROP STATUS

After a dry period before the crop season the situation improved by end of May. By end of June all tobaccos had been transplanted. During the month of June until middle of July we had rainfalls above the normal volume for the period. This affected the crop somewhat and will reduce the volume of twist tobacco. By end of July approx. 50% of the crop had been harvested.

We expect a reduction of the wrapper volume as compared to our target volume since we will concentrate on the areas that were less affected by rains to guarantee good quality wrappers.

BRAZIL – CUBRA WRAPPER

HISTORICAL PRODUCTION



2016/2017 CROP STATUS

Current operational activity:

We are still in the sorting process and have processed approx. 50% of the crop so far. We expect to finish by end of October.

Quality is very good until now, and in line with the earlier positive evaluations due to the sunny crop.

HCIG/CdF Volume (packed weight) 2016/2017 crop (expected):

85 MT

2017/2018 CROP STATUS

Similar to the situation of the Mata Fina wrapper, we had some initial delays with land preparation on our farms due to the dry spell, but we initiated the new growing season according to plan, with the first seedlings planted out in the middle of April. Rains have normalized since the beginning of May and we were able to plant out our crop as planned, reducing the area compared to last year. We finished transplanting by the end of May and overall development is very good. 60% of the crop has been harvested and tobaccos are curing well. Rainfalls have been abundant in the last few weeks, but without negative impact on quality.

BRAZIL – FLUE CURED

As of August 8th, 2017

Summary:

- At the beginning of the crop, flue cured tobacco has shown a lower percentage of mahoganies than previously projected, but the volume has increased on later tobaccos
- Received to date around 97% of the 2016/2017 crop.
- Seedling production is following regular schedule with no major disease occurrences.
- Lack of rain in July resulted in the speeding up of seedling and transplanting in some areas.

Rio Grande do Sul

Central Area - Old Belt

- Already transplanted 18% of the crop.

Highlands

- Seedling development phase. Start transplanting late August.

South

- Already transplanted 10% of the crop.

Santa Catarina

Coastal Area

- Santa Catarina's coastal area has already transplanted 55% of the crop.

Itajai Valley

- Already transplanted 5% of the crop.

Highlands North

- Seedling development phase. Start transplanting late August.

Paraná

Irati Area

- Seedling development phase. Start transplanting late August.

Volumes: Total Brazil Flue-Cured

	Planted area: Hectares	Yield: Kgs/Hectare	Volume: Kgs
2017 (Estimated) Source: Afubra	271,111	2,250	610,000,000
2016 Estimated Source: Afubra	252,000	1,826	460,000,000
2015 Final Source Afubra	263,620	2,257	595,000,000

Crop Status: Estimate

Region	Transplanting	Topping	Harvesting	Curing	Purchasing
Rio Grande do Sul	13%	0%	0%	0%	0%
Santa Catarina	33%	0%	0%	0%	0%
Parana	0%	0%	0%	0%	0%

BRAZIL – BURLEY

As of August 8th,2017

Summary:

- Received to date: 100% pf the 2016/2017 crop.
- Seedling production is following regular schedule
- Burley and Galpão Comum transplanting will start during the month of August

Rio Grande do Sul

Highlands

- Seedling development phase. Start transplanting by mid of August.

Santa Catarina and Parana

West SC/PR

- Seedling development phase. Start transplanting late August.

AIR CURED GALPÃO

West SC/PR

- Seedling development phase. Start transplanting late August.

Volumes: Total BRL Burley

	Planted area: Hectares	Yield: Kgs/Hectare	Volume: Kgs
2017 (Estimated) Source: Afubra	35,122	2,221	78,000,000
2016 (Estimated) Source: Afubra	28,572	1,924	55,000,000
2015 Final Source: Afubra	40,090	2,070	83,000,000

Crop Status: Estimate

Region	Transplanting	Topping	Harvesting	Curing	Purchased
Rio Grande do Sul	0%	0%	0%	0%	0%
Santa Catarina/Parana	0%	0%	0%	0%	0%

CANADA - DARK FIRED AND DARK AIR CURED

As of July 20th, 2017

Summary:

- Good growing conditions with more or less normal temperature and rainfall have been reported.
- At this point, we would rate the crop at average plus. A slight loss of tobacco has been reported due to hail affecting primarily the Dark Air Cured crop.
- Topping has just begun this week.

Volumes: Total Canadian DFC and DAC

Type	Planted Area	Yield: Lbs./acre	Volume: Lbs.
2017 DFC	438	3,200	1,400,000 (635 MT)
2017 DAC	179	2,800	500,000 (226 MT)

Crop Status: H&C Estimate

	Transplanting	Topping	Harvesting	Curing	Purchased
DFC	100%	5%	0%	0%	0%
DAC	100%	5%	0%	0%	0%

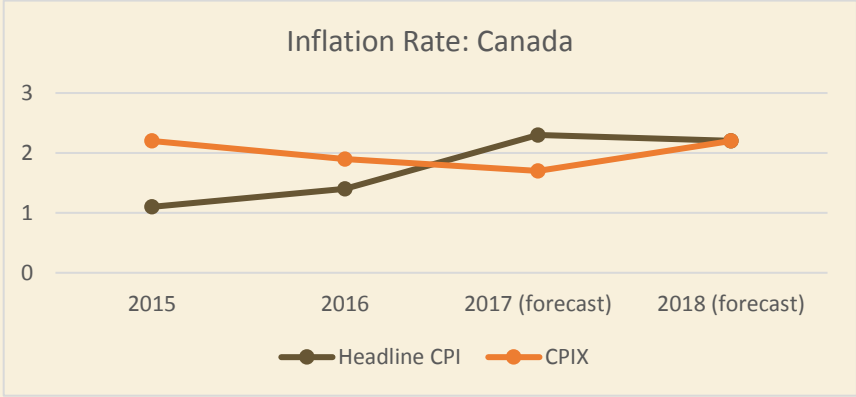
Canadian Economic Update July 2017:

- Growth in the Q1 was 3.7% building on robust gains in the second half of last year. Business investment provided the biggest lift to growth since 2012. The swing in investment is encouraging following two years of significant declines reflecting a drop in investment by energy companies. Mixed signals from business spending intentions surveys suggests that future increases will be more muted. Consumption is forecast to continue to be the mainstay for growth in 2017 although its contribution is likely to wane.
- US government actions on trade present a near term risk with tariffs on Canadian softwood lumber put in place in April 2017 and the plan for the “modernization” of NAFTA set to kick-off in August. The renegotiation of NAFTA presents a larger risk.

Canadian Interest Rates:

- Expect the first move by the bank to come in early 2018 with a total of 75 bps of increases likely next year.

Inflation rate forecast:



Exchange Rate: USD/CAD

2015 (Average)	1.38
2016 (Average)	1.37
2017 (July)	1.26

Exchange Rate EUR/CAD

2015 (Average)	1.41
2016 (Average)	1.45
2017 (July)	1.45

Real GDP:

2015	0.9%
2016	1.4%
2017 (Forecast)	2.6%
2018 (Forecast)	2.1%

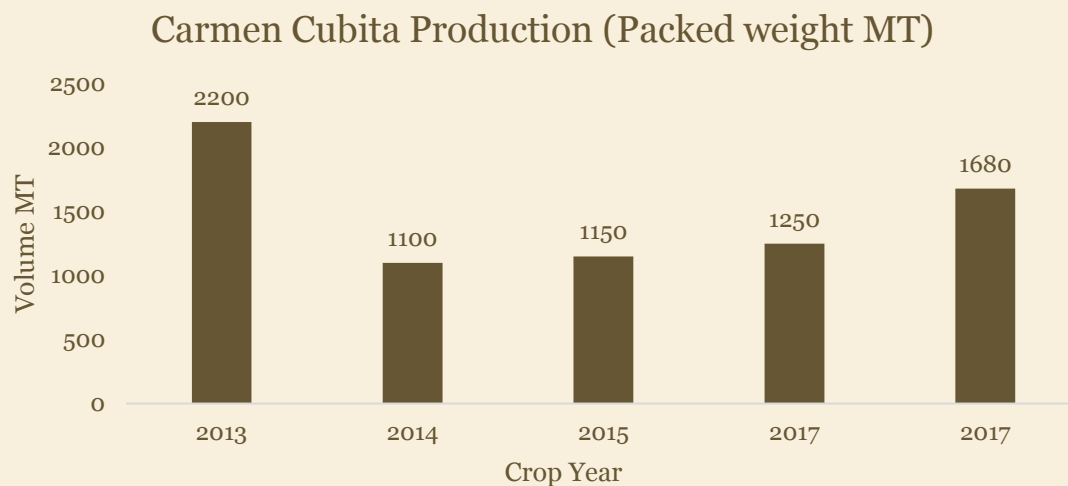
Unemployment:

2015	6.9%
2016	7.0%
2017 (Forecast)	6.87%
2018 (Forecast)	6.75%

Source: Royal Bank of Canada, Department of Statistics Canada

COLOMBIA – CARMEN CUBITA

HISTORICAL PRODUCTION



2017/2018 CROP STATUS

Growing conditions:

Planting is complete and growing conditions so far have been good. Quality of the plants in the field at this time is excellent.

The first primings started last month and these tobaccos are now already in the curing barns (Caneyes).

We are planning to open tobacco purchases the middle of August 2017.

Current operational activity:

Visiting farmers daily with our agronomists and technicians discussing and educating farmers regarding good agricultural practices, especially focused on the correct usage and application of CPA's. Furthermore, emphasizing the NTRM program in the field, GTS, Biodiversity and others.

In addition, the warehouse is undergoing maintenance and equipment is being prepared to start receiving the new crop.

ECONOMIC DATA

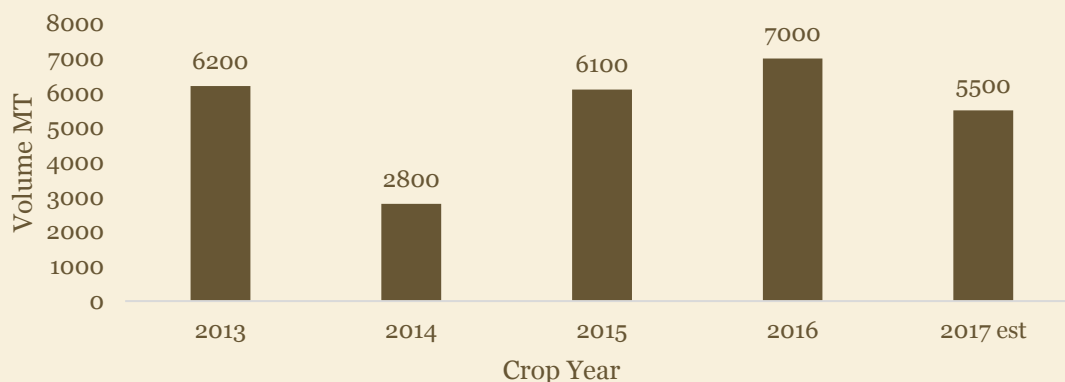
Exchange Rate August 1: USD 1,00 = 2985 COP

Inflation: 3,40 % July 2017

DOMINICAN REPUBLIC

HISTORICAL PRODUCTION

Piloto Cubano/Olor/Criollo Production (Packed weight MT)



2017 CROP STATUS

Growing conditions:

Buying season almost finished and numbers have slightly shifted although still very small.

General comments:

Continue to see improved market conditions, mostly due to improved USA market and low stock levels of certain tobaccos with customers. We will see continued high demand for various wrapper styles and shortly also for filler styles. Reduced demand over the last few years resulted in farmers having to grow less. It will take great effort to get them back growing tobacco. Many farmers have gone into growing different crops and only by financing and paying higher prices, we will be able to increase volumes again.

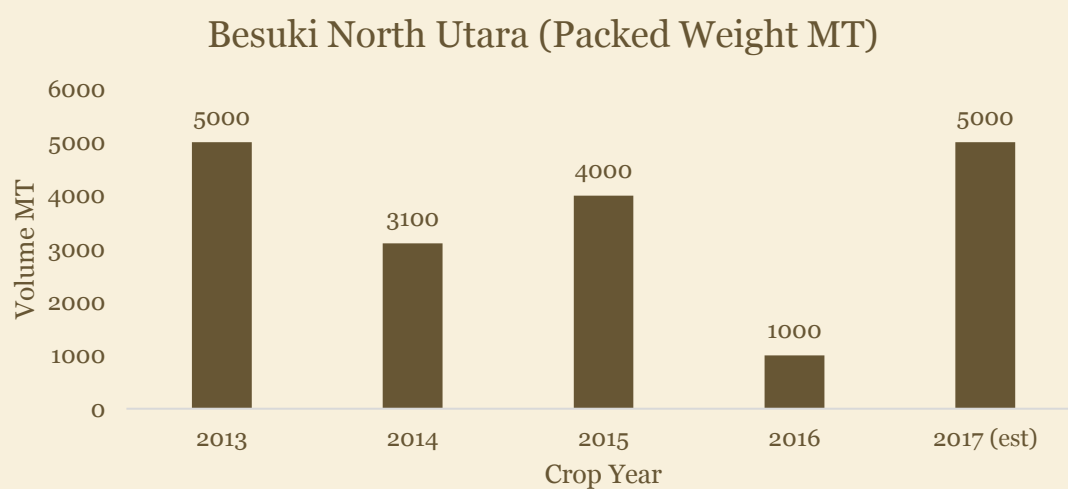
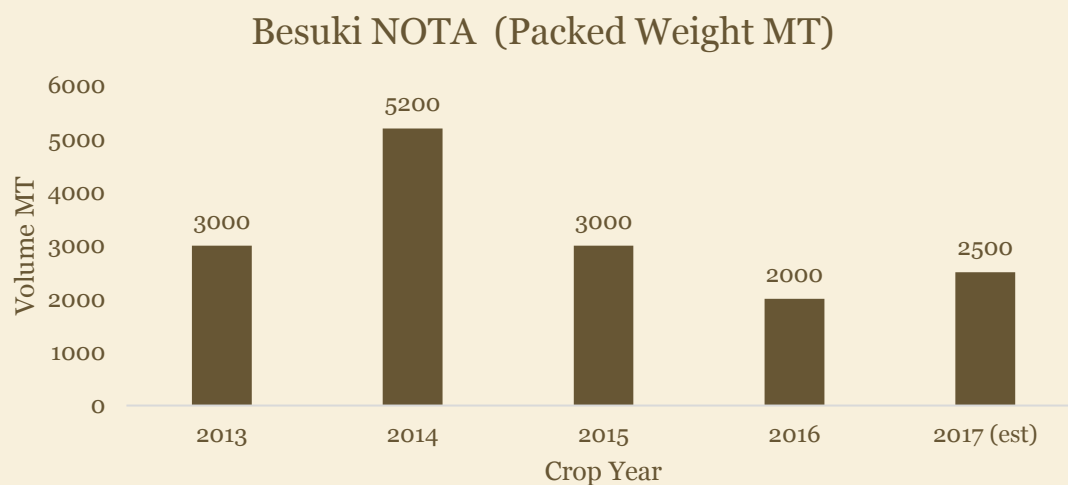
ECONOMIC DATA

Exchange Rate August 1: USD 1,00 = 47,469 DOP

Inflation: 2,55 % June 2017

INDONESIA – BESUKI/NOTA – NORTH UTARA

HISTORICAL PRODUCTION



2016 CROP STATUS

Crop activities NOTA:

All tobaccos from crop 2016 have been packed.

General stock situation of the Besuki NO is low; there are hardly any stocks of wrapper/binder with the exporters.

2017 CROP STATUS

Crop activities NOTA:

Early during the planting season there was increased animo from farmers to grow the NOTA crop. This was mainly driven by the companies that have contracted farmers and at the same time encouraging farmers to plant. Additionally the weather forecast was reasonable and therefore we estimate the total NOTA crop at around 2500 MT.

Growing conditions

Weather has been mostly favourable with the exception of a few wet spells that caused some damage in a few growing areas. Some tobaccos harvested during this short rainy period show signs of curing disorders, such as stem rot, although minimal quantities. During the growing season we experienced a high incidence of Curly virus which remains difficult to control and crop damage was significant in some areas.

PTM has started receiving tobaccos from mid July and progress is as projected. Leaf quality in general is good and farmers are satisfied with their results. Currently purchase prices are about 10 – 15 % above average. NOTA purchasing expected to continue until mid September.

Na Oogst/Utara forecast

Due to the high demand and increased prices for the NOTA crop there is a lot of animo amongst farmers to grow the Na Oogst and Utara crop. Latest estimates show that this could become about 5000 MT total. Weather forecasts show there is a risk of early rainfall which could cause damage to a part of the crop. Contracting for the NaOogst has finished and PTM will soon start distribution of agronomy supplies.

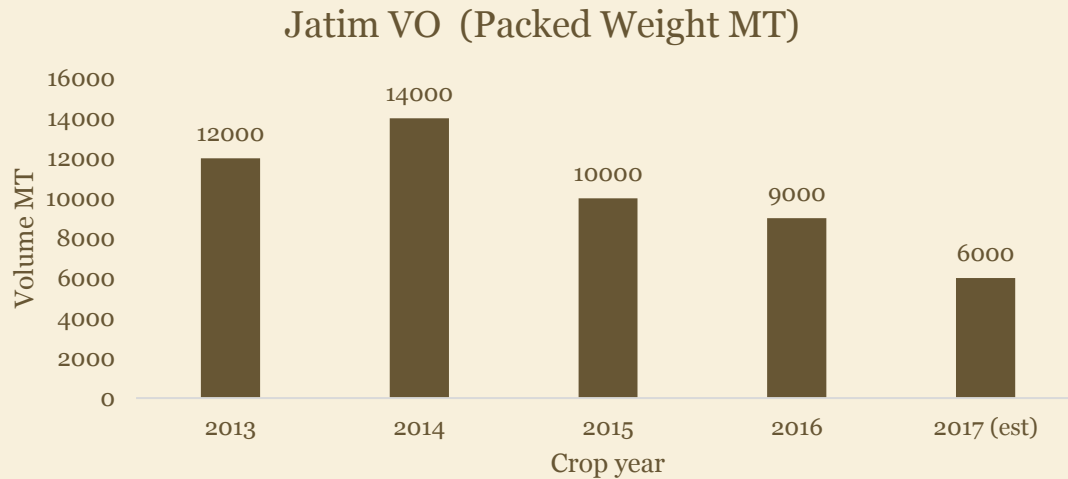
ECONOMIC DATA

Exchange Rate August 1: USD 1, 00 = 13331 IDR

Inflation: 3,88 % July 2017

INDONESIA – JATIM/VO

HISTORICAL PRODUCTION

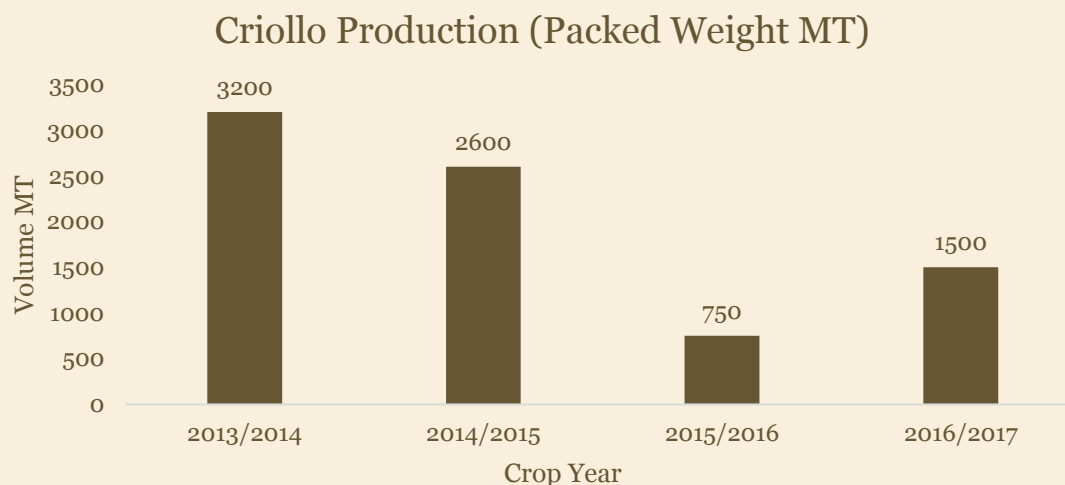


2017 CROP STATUS

The forecast for the traditional Jatim and Madura shows that it will probably become a difficult crop. Estimated volumes are down to approximately 6,000 MT available of these styles. Weather in the Bojonegoro area has had an adverse affect on planting and many farmers need to replant which comes at a cost. Other farmers that are discouraged could plant other crops. Also due to the increased local demand more leaf is used for Rajangan which puts additional pressure on the market. Prices expected to be at least 15-20 % higher than last year. Quality will be mainly towards the CD/BC styles upwards, smaller volume of lower CD2 grade are expected. We have started purchasing and hand stripping the first Paiton tobaccos and yield outcome for now is as expected.

PARAGUAY – CRIOLLO

HISTORICAL PRODUCTION



2017 CROP STATUS

Crop has been of excellent quality, one of the best for the last 20 years. The country has produced 1,500 tons for export.

2018 CROP STATUS

We are at the seedbed stage and waiting for some rain to start transplanting. Good enthusiasm among tobacco growers that have sold all their production, at good prices and without any kind of problems. We expect to increase production for crop 2018. No tobacco remains in the field from 2017.

General comments:

Our agronomists are doing an excellent job broadcasting knowledge, closely monitoring our growers and assisting them in their needs.

ECONOMIC DATA

Exchange Rate August 1 USD 1,00 = 5557 PYG
Inflation: 4,00 % July 2017

PHILIPPINES – ISABELA

HISTORICAL PRODUCTION

Isabela & Cagayan Province Production DAC (Packed Weight MT)



2016 CROP STATUS

Crop 2016 is now fully sorted and packed. Final quality and yields have been good.

Currently hand stripping and finalizing orders, which is estimated to take us into the month of September.

Stock level is now very low and expect all remaining tobacco to be sold out and shipped before the next crop will be ready.

2017 CROP STATUS

Receiving was completed by the end of June.

Overall quality was medium to low.

The crop is now under fermentation and initial sorting and packing will start by mid-August.

2018 CROP STATUS

We are now planning for the next crop and receiving customer indications before recruiting farmers for the next crop.

ECONOMIC DATA

Exchange Rate August 1: USD 1,00 = 50,43 PHP

Inflation: 2,80 % July 2017

US - FLUE CURED

As of July 20th, 2017

Summary:

- A majority of tobacco has been topped and the remainder will be topped over the next two to three weeks. Growth and maturity are average across the growing area to date.
- Approximately 8-10% of tobacco in some belts has been lost due to tomato spotted wilt virus.
- Lug harvest is ongoing or completed in Georgia, South Carolina and eastern North Carolina.
- Harvested/cured tobacco is showing average to above average signs of color and maturity.

PRC/Organic Summary:

- Excessive wet weather in the Eastern Belt has resulted in some disease issues (target spot) for several growers, which is likely to affect yields and quality in some cases.
- Lug harvest has been ongoing for two weeks and harvest of the cutters will begin in its greatest volume over the next two weeks.
- Harvested tobacco is showing good signs of color and maturity in the curing barns despite the disease issues.

Volumes: Total US Flue-Cured

	Planted area: Acres	Yield: lbs./acre	Volume: lbs.
2017 Estimated Source: H&C	207,000	2,100	434,500,000 (197,100 MT)
2016 Final Source: USDA	213,500	2,021	431,450,000 (195,700 MT)

Crop Status: H&C Estimate

Transplanting	Topping	Harvesting	Curing	Purchasing
100%	70%	12%	8%	0%

US BURLEY

As of July 20th, 2017

Summary:

- Tobacco in southern portions of the belt is in the topping stage and showing good signs of growth and maturity to date. Tobacco across the rest of the belt will enter topping stage during the next month.
- Some areas of the belt are 10-14 days behind the normal crop calendar from excessive rainfall during the growing and transplanting season.
- Harvest will begin on the earliest transplanted tobacco around the end of July.

Volumes: Total US Burley

	Planted area: Acres	Yield: lbs./acre	Volume: lbs.
2017 Estimated Source: H&C	75,000	1,900	142,500,00 (64,600 MT)
2016 Final Source: USDA	80,000	1,747	139,750,000* (63,400 MT)

Crop Status: H&C Estimate

Transplanting	Topping	Harvesting	Curing	Purchasing
100%	25%	0%	0%	0%

* - The 2016 crop volume listed above reflects what has been reported by the United States Department of Agriculture. Hail & Cotton, Inc. estimates final volume for the 2016 crop to be approximately 110,000,000 pounds (49,900 MT)

US DARK FIRED AND DARK AIR CURED

As of July 20th, 2017

Summary:

- Transplanting of the 2017 crop is complete
- Excessive rainfall has caused some crop damage in isolated areas. Majority of the belt has been more normal with regard to rainfall and temperature.
- Some growers are having issues with angular leaf spot disease, but to this point the damage has been minimal.
- Topping is well underway and harvesting has just begun
- We rate this crop as average at this point of the season.

Volumes: Total US DFC and DAC

	Planted area: Acres	Yield: lbs./acre	Volume: lbs.
2017 DFC Estimated Source: H&C	16,693	3,055	51,000,000 (23,100 MT)
2016 DFC Final Source: USDA	16,760	2,385	39,520,000 (17,900 MT)
2017 DAC Estimated Source: H&C	5,714	2,713	15,500,000 (7,000 MT)
2016 DAC Final Source: USDA	6,000	1,670	10,020,000 (4,500 MT)

Crop Status: H&C Estimate

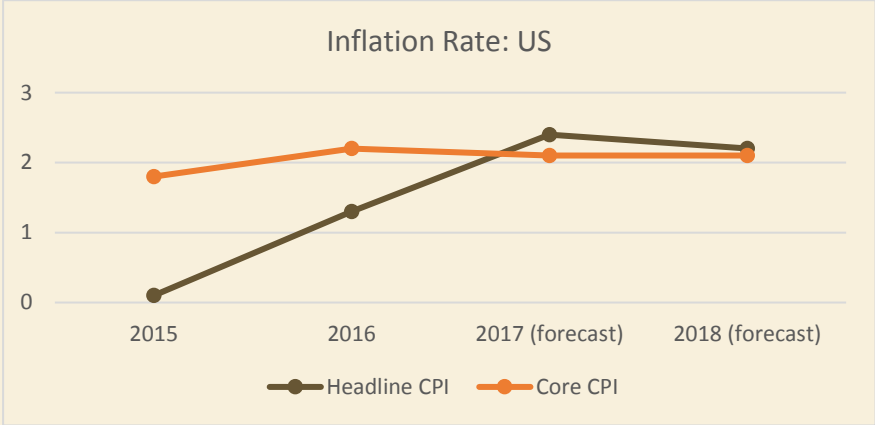
Transplanting	Topping	Harvesting	Curing	Purchasing
100%	45%	1%	0%	0%

United States Economic Update July 2017

- US economy grew by 1.2% in Q1. Since 2000, growth in the first quarter usually lags all other quarters by a large margin only to be followed by a strong rebound in the second quarter, a pattern we are confident will play out in 2017.
- U.S. business grew at the fastest pace since mid-2011 in the Q1 2017. Gains were based with the largest increase in spending on non-residential structures as oil producers boosted the number of rigs in operation. Investment in machinery, equipment and intellectual property also grew strongly in the first quarter.

USA interest rates:

- Expect the Fed to increase the fed funds target by an additional 50 bps this year and by a full percentage in 2018



Exchange Rates			
	USD/EUR	EUR/BRL	USD/BRL
2015 (Avg)	1.10	3.69	3.32
2016 (Avg)	1.10	3.85	3.48
2017 (July)	1.15	3.63	3.15

Real GDP	
2015	2.60%
2016	1.60%
2017 (Forecast)	2.20%
2018 (Forecast)	2.30%

Unemployment	
2014	6.16%
2015	5.25%
2016	4.85%
2017 (July)	4.40%

Sources: Royal Bank of Canada (RBC), Bureau of Labor Statistics, Federal Reserve