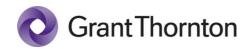


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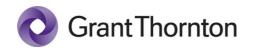
Independent auditor's report on the financial statement of the Project "Tropical Forest Conservation Act (TFCA)"

January 1 to December 31, 2016



Contents

	Page
Independent auditor's report on the financial statement of the Project "Tropical Forest Conservation Act (TFCA)"	3
Financial statement	6
Notes to the Project's financial statement for the period from January 1 to December 31, 2016.	8
Independent auditor's report on the internal control system of the Project "Tropical Forest Conservation Act (TFCA)"	12
Independent auditor's report on the compliance with standards, laws and regulations of the Project "Tropical Forest Conservation Act (TFCA)"	14



Independent auditor's report on the financial statement of the Project "Tropical Forest Conservation Act (TFCA)".

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To the:
Management of
Fundo Brasileiro para Biodiversidade - FUNBIO
Project "Tropical Forest Conservation Act (TFCA)"
Rio de Janeiro – RJ

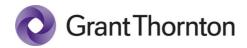
Opinion

We have audited the financial statement of the Project Tropical Forest Conservation Act ("TFCA Agreement"), managed by Fundo Brasileiro para Biodiversidade — FUNBIO ("Entity"), financed with funds from the "TCFA Agreement" of the United States of America Government for the period from January 1 to December 31, 2016, and notes to the financial statement, including a summary of the significant accounting policies.

In our opinion, the accompanying financial statement presents, in all material respects, the receipts and payments made during the period from January 1 to December 31, 2016 in accordance with the "TFCA Agreement" and the accounting policies described in Note 3.

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Project in accordance with the relevant ethical requirements set out in the Code of Ethics for Professional Accountants and the professional standards issued by the Federal Accounting Board (CFC), and we have fulfilled our other ethical responsibilities in accordance with those standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Emphasis of matter

As described in Note 3, the financial statement of the "TFCA Agreement" was prepared on the accounting basis of funds (cash), in conformity with the International Financial Reporting Standard on the accounting basis of funds (cash). The accounting basis of funds recognizes the transactions and facts only when the resources (including those equivalent to the funds) are received or paid by the Entity and not when they result, derive or originate from rights or obligations, even though a movement of funds (cash) has not been produced. Our opinion is not modified in respect of this matter.

Responsibilities of management and those charged with governance for the financial statements

Funbio's management is responsible for the preparation and fair presentation of this financial statement in accordance with International Financial Reporting Standards, supplemented by the provisions of the 'TFCA Agreement", and for such internal control as it determined as necessary to enable the preparation of this financial statement free from material misstatement, whether due to fraud or error.

In preparing the financial statement, management is responsible for assessing the Project, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in the preparation of the financial statement unless Management intends to liquidate the Project.

Those charged with the Project's governance are responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statement.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit
 procedures that are appropriate in the circumstances, but not for the purpose of
 expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statement or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Project to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statement, including the disclosures, and whether the financial statement represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Rio de Janeiro, April 27, 2017

Ana Cristina Linhares Areosa
Accountant CRC RJ-081.409/O-3

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Financial Statement

(Expressed in R\$)	Budgeted				Accumulated								
	2011	2012	2013	2014	2015	2016	2011	2012	2013	2014	2015	2016	Accumulated
Funds received													
Cooperation agreement	13,387,090	12,450,606	8,586,534	2,341,269	383,172	-	14,067,107	12,727,122	9,223,787	2,402,351	550,730	-	38,971,096
Interest received	669,355	997,675	1,000,000	942,849	303,695	167,564	654,238	1,030,168	1,175,131	1,196,355	688,051	348,221	5,092,164
Total income	13,448,282	13,448,282	9,586,534	3,284,118	686,867	167,564	14,721,345	13,757,290	10,398,918	3,598,705	1,238,781	348,221	44,063,261
Personnel expenses													
Contracted services (Administrative fee + Audit)	95,000	1,550,887	2,219,142	887,260	767,222	309,687	100.733	948,191	1,213,115	1,228,920	900.934	216,926	4,391,893
Total personnel expenses	95,000	1,550,887	2,219,142	887,260	767,222	309,687	100,733	948,191	1,213,115	1,228,920	900,934	216,926	4,391,893
Other expenses													
Disbursement - Notice 1 (a) (h)		11,107,474	9,157,581	3,551,539	2,158,669			7,455,185	5,056,916	4,734,914	2,343,915	(118,940)	19,471,990
Disbursement - Notice 2 (b) (h)	•	520,000	1,900,265	679,789	552,116	-	-	462,189	669,077	827,426	621,646	(118,540)	2,546,902
Disbursement - Notice 2 (b) (n)	•	1.056,000	1,535,007	734.621	67.863	-	-	823,665	831,198	924,116	108.259	(114,993)	2,540,402
Disbursement - Notice 4 (d)		1,050,000	4,400,000	2,022,145	2,791,556		-	823,000	3,285,224	3,238,087	2,711,024	77.846	9,312,180
Disbursement - Phase 2 (e)			4,400,000	2,022,143	2,771,330	1,817,395			5,265,224	5,256,067	2,711,024	738,153	738,153
Disbursement - Phase 3 (f)						430,000						470,484	470,484
RedLAC support (g)		_		_	_		_	_	_	_	_	271,625	271,625
Impact assessment		_		_	_	400,000	_	_	_	_	_	38,243	38,243
Training of new projects – Phases 2 and 3		_		_	_	12,100	_	_	_	_	_	11,229	11,229
Travel and accommodation - Committee	65,000	145,000	61,800	42,900	42,900	47,850	53,900	39,989	32,542	40,970	45,845	43,401	256,647
Travel and accommodation - Technical Chamber		108,000				-	18,183	115,999	1,385			23,855	159,422
Travel and accommodation - Project monitoring		100,000	100,800	168,000	229,000	41,081		1,109	84,337	73,734	50,541		209,721
Seminars		_	981,920		500,000	-			365,195	8,131	391,924	16,836	782,086
Mailing		8,001	3,000	1,500	1,650	1,460		2,461	878	1,357	716	1,115	6,527
Communication and reporting		-	-	-	150,000	-	-	-	-	-	156,208	-	156,208
Financial expenses (fees)	900	3,000	2,000	2,000	2,000	2,000	21,443	873	1,136	1,224	1,380	187	26,243
Sundry expenses		1,000	1,000	1,500	1,650	1,460		344	-	401	95	6,762	7,603
Total other expenses	65,900	13,048,475	18,143,373	7,203,994	6,497,404	2,753,346	93,526	8,901,813	10,327,888	9,850,360	6,431,554	1,432,367	37,037,507
TOTAL EXPENSES	160,900	14,599,362	20,362,515	8,091,254	7,264,626	3,063,033	194,259	9,850,004	11,541,002	11,079,280	7,332,488	1,649,293	41,646,326

The accompanying notes are an integral part of the project's financial statement.

Comments:

- The purpose of this call was to select projects for protected areas, landscape management, training, species management and community projects in the 3 biomes, with initial resources of R\$16.5 million and after resolution of the TFCA Account Committee, there was an increase of R\$ 3.5 million, thus, totaling R\$ 20 million.
- (b) The purpose of this call was to select projects for the strengthening of NGO networks in the Atlantic forest and Caatinga in order to strengthen civil society, synergies and exchanges of information between environmental authorities of these biomes, with total resources of R\$ 3.5 million.
- (c) The purpose of this call was to select training projects for the mobilization of financial resources providing new conservation and restoration actions in the 3 biomes, with total resources of R\$ 3.3 million.
- (d) The purpose of this call was to select projects for protected areas, landscape management, training, species management and community projects in the 3 biomes, with total resources of R\$ 7.5 million. Yet, in 2014, more projects were approved, totaling R \$ 1.9 million. In addition, there was the approval of value additives for four other projects, which totaled R \$ 240 thousand
- (e) The purpose of this call was to select projects for the conservation, maintenance and restoration of tropical forests in the Atlantic forest, Caatinga and Cerrado and their transition zones, with total resources of R\$ 2.05 million.
- (f) The purpose of this call was to select projects for strengthening social and biodiversity productive chains in the Caatinga region of the San Francisco Basin, with total resources of R\$ 855,6 thousand.
- (g) Support to the 18th RedLAC Meeting, with total resources of R\$ 271.6 thousand.
- (h) Negative amounts included in 2016 for the Notices 1, 2, and 3 refer to the refund of unused resources by supported projects.

Notes to the Project's financial statement for the period from January 1 to December 31, 2016

1. Operational context of the Project's executor agent

The Brazilian Biodiversity Fund ("Funbio" or "Entity"), is a private, non-profit civil association, in operation since 1996. It is an innovative financial mechanism created to develop strategies that contribute to the implementation of the Convention on Biological Diversity (CBD) in Brazil. It acts as a strategic partner of the public and corporate sectors and of civil society, in initiatives that strengthen conservation policies, enable environmental funding programs and social and environmental investments, reduction and mitigation of their impacts, and in compliance with their legal obligations.

In just over 20 years, FUNBIO already managed \$ 593 million, supported 256 projects in 7 biomes, 206 institutions and 310 protected areas totaling 67 million hectares (approximately 3 times the territory of the State of São Paulo) and has provided the training of more than 1,300 partners. The source of resources leveraged by FUNBIO, with approximately 70 donors in its history, comes from international cooperation agreements, legal obligations and private national and international donations.

FUNBIO is the first and only national implementing agency of the Global Environment Fund (GEF), one of the world's most important funders of environmental projects, which gave accreditation to FUNBIO for its implementation capacity.

The Entity is part of the Latin America and the Caribbean Network of Environmental Funds, with 21 organizations of 16 countries, which, since 1999, have already managed more than \$2 billion in equity and extinguishable funds, supporting more than 900 protected areas.

FUNBIO's governance is led by the Advisory Board (AB), which comprises 16 members of the academic and environmental sectors and of the civil, corporate, and government society and is responsible for setting the strategy and for the overall direction of the organization. In 3 meetings per year the AB assesses strategic directions and institutional management: it establishes a general policy, sets goals and priorities, transformed into actions by the Executive Secretariat. The AB approves annual operational plans, investment policies and developed projects. The Board members participate as volunteers, bringing their experience and knowledge. The Advisory Board is organized into Committees that deal with specific issues, such as Management, Project Standards, and Finances and Audit commissions and an Asset Management Committee.

At the end of this year, FUNBIO has assets under management amounting to R\$732 million (2015 - R\$ 548 million), with approximately 56% linked to long-term actions and projects organized in funds.

The execution of resources by FUNBIO in 2016 presented a growth of 39% to a historical mark of R\$ 81 million (2015 - R\$ 58 million).

Resources for project implementations and those used by the entity to achieve its statutory objectives are segregated and can be identified in this report.

2. Description of the Project TFCA - Tropical Forest Conservation Act

The Tropical Forest Conservation Act (TFCA) results from a bilateral agreement between Brazil and the United States, aimed at exchanging debts incurred by countries with the U.S. Government for investments in the conservation and sustainable use of forests. Worldwide, over ten countries have signed the agreement with the USA. Funbio is the executive secretariat of the TFCA Account, which receives the funds and channels these to the projects at areas with remaining Atlantic Forest, Cerrado and Caatinga biomes, which, together, cover approximately 50 percent of the country. The debt exchange totaled \$20.8 million.

Since 2011, the TFCA has launched seven calls for projects, which resulted in the support to 89 projects, in the following thematic lines: Protected Areas; Landscape Management; Training; Species Management; Community Projects; Network Building; Training for Mobilization of Financial Resources, and support to projects in the São Francisco basin and Caatinga biome.

In 2016 the following activities were performed:

- Completion of technical and financial evaluations of the 82 projects supported until 2015;
- Launching of the Call for Projects Support in the São Francisco river basin in the Caatinga biome (3rd cycle of project support);
- Beginning of the 2nd cycle for project implementation, including meetings of the Account Committee, training of executors, preparation of operational manuals, preparation of the online system (brain) and other pertinent actions;
- Support to the RedLAC event.

During 2016, the operative TFCA Account did not receive installments and made disbursements on the order of R\$ 1.4 million (2015: R\$ 6.4 million), with a balance available at the end of the period in the amount of R\$ 2.4 million (2015: R\$ 3.7 million).

3. Significant accounting policies

Basis of preparation and general information

The financial statement of the Project Tropical Forest Conservation Act ("Agreement TFCA") has been prepared in accordance with the government audit requirements issued by the Comptroller General of the United States of America. The accounting policies adopted by Management are set out below:

- Fund Accountability Statement: as FUNBIO uses its own financial management and
 accounting system for reporting the Project operations, the chart of accounts used has the
 classification of accounting line items. The financial statement of the Tropical Forest
 Conservation Act ("Agreement TFCA"), managed by Fundo Brasileiro para a
 Biodiversidade FUNBIO was prepared using the cash basis, which consists in the
 accounting of revenues when received and in the accounting of costs and expenses only at
 the moment of their actual payment in local currency.
- Revenues: Revenues are recognized on the date in which the resources are transferred by the Brazilian Government to FUNBIO and are made available in a FUNBIO's checking account.
- Exchange rate: The Project's financial records are maintained in Reais, the Brazil's currency.
 On December 29, 2016, the exchange rate of Real against the US Dollar was R\$ 3.25: USD 1.00. The financial statement of the Tropical Forest Conservation Act ("TFCA Agreement") was prepared in Reais.

4. Available funds

In 2016, the balances in bank accounts are composed as follows:

Description	Туре	In R \$
Banco do Brasil - C/C 22206-2	Checking account	356
Banco do Brasil - C/Invest CDB 22206-2	Automatic investment	402,955
Banco do Brasil - C/Invest RF 22206-2	Automatic investment	2,014,278
Total cash and cash equivalents		2,417,589

In 2016, income from financial investments amounted to R\$ 348,221.

The available amounts related to the project are maintained in a specific checking account (TFCA Account) and financial investments in investment funds and bank certificates of deposit - CDBs, which have a liquidity shorter than 90 days, with an insignificant risk of decrease in value. These investments comprise CDBs remunerated at the CDI rate and other investments in investment funds maintained in a first-tier financial institution.

5. Resources transfers - "TFCA agreement"

FUNBIO received financial support by means of a Donation Agreement ("TFCA Agreement"), between the Government of the United States of America and the Federative Republic of Brazil, dated August 12, 2010, for the development of the TFCA Project - Tropical Forest Conservation Act.

The contributed amounts, once received, were credited to the account No. 22206-2 (checking account and automatic investment), maintained at Banco do Brasil, supplied by resources from the

Government of the United States of America transferred through the Federative Republic of Brazil.

Up to December 31, 2016, the Government of the United States of America provided financial resources amounting to thirty-eight million, nine hundred seventy-one thousand, ninety-six reais (R\$ 38,971,096). The contributions are registered in local currency (Reais), without any exchange rate change impact on the Project's financial statement. There were no other contributions during 2016.

The statement of these contributions is shown below:

Date	Amount (in R\$)
Total 2011	14,067,107
Total 2012	12,727,122
Total 2013	9,223,787
Total 2014	2,402,351
Total 2015	550,731
Total 2016	•
Total contributions up to 12/31/2016	38,971,097

6. Reconciliation of available funds

The reconciliation between the excess revenues and costs incurred with amounts available in bank accounts and respective financial investments at December 31st, 2016 is summarized below:

	In R\$
Cash and cash equivalents composition:	
Operative account	
Banco do Brasil - C/C 22206-2	R\$ 356
Banco do Brasil - C/Invest CDB 22206-2	R\$ 402,955
Banco do Brasil - C/Invest RF 22206-2	R\$ 2,014,278
Cash and cash equivalents at December 31, 2016	R\$ 2,417,589
Accounting reconciliation adjustments (*)	(654)
Project book balance	R\$ 2,416,935

(*) Amount related to financial agreement related to the project, but not paid up to 12/31/2016.

7. Contributions for Expenses

The "TFCA Agreement" does not provide a sharing of costs (consideration) for the TFCA project to be supplied by Fundo Brasileiro para a Biodiversidade - FUNBIO.

8. Contingencies

The Project's Management, by means of its internal and external legal counselors, assessed the likelihood of any contingencies that could occur in this Project. Up to December 31, 2016, there were no lawsuits against FUNBIO or this Project.

* * *



Independent auditor's report on the internal control system of the Project Tropical Forest Conservation Act (TFCA)

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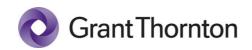
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To the:
Management of
Fundo Brasileiro para Biodiversidade - FUNBIO
Project "Tropical Forest Conservation Act (TFCA)"
Rio de Janeiro – RJ

This is a complementary report to our report on the financial statement of the Project Tropical Forest Conservation Act (TFCA).

The management of Fundo Brasileiro para Biodiversidade - FUNBIO, manager of the Project Tropical Forest Conservation Act (TFCA), is responsible for establishing and maintaining an internal control system sufficient to mitigate the risks posed by distortions of financial information and protect the assets under the project's custody, including the constructed works and other acquired goods. In order to comply with this responsibility, judgments and estimates are required from Management for assessing the expected benefits and costs related to the policies and procedures of the internal control system. The objectives of an internal control system are providing management with a reasonable, but not absolute, assurance that the assets are protected against losses resulting from unauthorized uses or provisions, that transactions are performed in accordance with authorizations given by management and within contractual terms, and are properly recorded in order to enable the preparation of a reliable financial statement. Due to limitations inherent to any internal control system, errors or irregularities may occur and pass undetected. Furthermore, projections of any structure evaluation of future periods are subject to the risk that the procedures may become inadequate due to changes in the conditions, or that the effectiveness of the design and operation of the policies and policies may deteriorate.

In planning and performing our audit of the financial statement of the "TFCA Agreement" for the year ended December 31, 2016, we obtained an understanding of the internal control system in place and assessed the control risk for determining the audit procedures, with the purpose of expressing an opinion on the financial statement of the "TFCA Agreement", and not for expressing an opinion on the effectiveness of the internal control system, and for this reason we do not express such an opinion.



Our audit of the Project Tropical Forest Conservation Act (TFCA) for the year ended December 31, 2016 did not reveal significant deficiencies in the design or operation of the internal control system, which, in our opinion, could adversely affect FUNBIO's capacity to record, process, summarize and present financial information consistently with the management's assertions in the statements of funds received and disbursements made, as well as of accumulated investments.

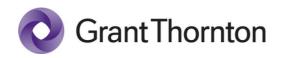
A significant deficiency is a condition in which the design or operation of one or more elements of the internal control system does not reduce to a relatively low level the risk that errors or irregularities may occur in amounts that could be significant in relation to the Project's financial statement, and that could not be timely detected by FUNBIO's employees, during the normal course of tasks they were assigned with.

Our consideration of the internal control system does not necessarily expose all the issues of such system that could be considered as significant deficiencies, therefore, it must not necessarily expose all the conditions to be informed that could be considered as significant deficiencies, in accordance with the previous definition

Rio de Janeiro, April 27, 2017

Ana Cristina Linhares Areosa
Accountant CRC RJ-081.409/O-3

Grant Thornton Auditores Independentes CRC SP-025.583/O-1 "S" - RJ



Independent auditors report on the compliance with standards, laws and regulations of the Project Forest Conservation Act (TFCA)

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To the:
Management of
Fundo Brasileiro para Biodiversidade - FUNBIO
Project "Tropical Forest Conservation Act (TFCA)"
Rio de Janeiro – RJ

We performed an audit of the financial statement on the accountability of the Project Tropical Forest Conservation Act Project ("TFCA Agreement"), managed by Fundo Brasileiro para Biodiversidade - FUNBIO, financed with resources from the "TFCA Agreement" of the Government of the United States of America, which comprise the financial statement for the period from January 1 to December 31, 2016 and we issued our report thereon, dated April 27, 2017.

In connection with our audit, we examined the compliance with clauses and contractual articles established in the "TFCA Agreement", applicable at December 31, 2016, and other agreements signed between the parties, Laws and other legal provisions existing in the Brazilian legislation.

We performed our audit in accordance with International Standards on Auditing and requirements of the Government of the United States of America, formalized by the "United States Government Accountability Office", by means of the fourth chapter of "GAO's Yellow Book". These standards require that we plan and conduct our audit to obtain reasonable assurance that FUNBIO has complied with the relevant clauses of the "TFCA Agreement" and other agreements signed between the parties, Laws and other legal provisions existing in the Brazilian and America legislations. The audit includes the examination, based on proofs, of the appropriate evidence. We considered that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.



In our opinion, in the year ended December 31, 2016, FUNBIO complied, in all material respects, with the contractual clauses of the "TFCA Agreement" for the Project Tropical Forest Conservation Act and all other agreements signed between the parties, Laws and other legal provisions existing in the Brazilian legislation.

Rio de Janeiro, April 27, 2017

Ana Cristina Linhares Areosa
Accountant CRC RJ-081.409/O-3

Grant Thornton Auditores Independentes CRC SP-025.583/O-1 "S" - RJ