

QUARTERLY MANAGEMENT REPORT



- Floresteca S/A -

Calendar Year 2017
1st Quarter (Jan/17 to Mar/17)

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1. EXECUTIVE SUMMARY

This management report has been prepared by Floresteca S/A. Floresteca S/A is located in the State of Mato Grosso where its estate is made up of 17,634.57 hectares of *Tectona Grandis* (Teak) composed of several individual forests as demonstrated in appendix 7.1.

The management objective is to maximize the production of high quality teak round logs for hardwood markets.

With the object of gaining long term cost-efficiency and flexibility and securing the highest standards of professionalism in teak plantation, in 2016 the management team of Floresteca S/A (FSA) has been privatized in the independent entity Teak Resource Company S/A (TRC). Sawmilling, sales, logistics and general management services previously conducted by FSA are now performed by TRC under a Management Services and Timber Sales and Purchase Agreement. This quarterly management report is prepared by TRC under the principal responsibility of FSA.

The information shown herein is on calendar year basis (January to December), although, the forestry activities run on an agricultural year basis (July to June).

2. THINNING & HARVESTING

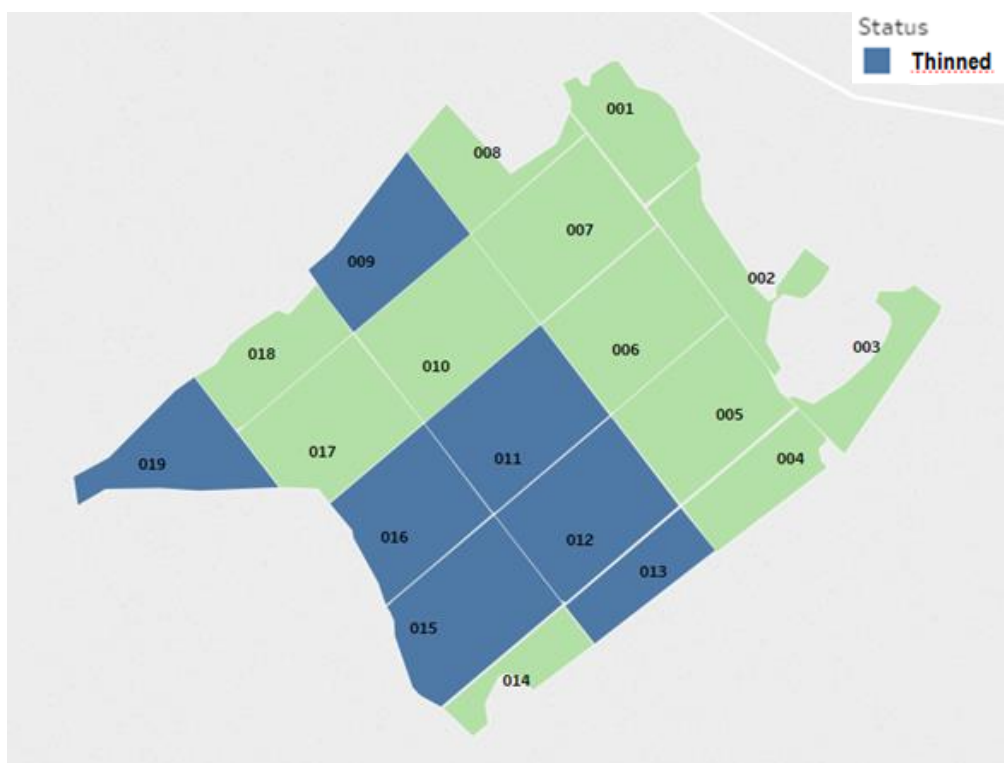
This section segregates activities of thinning from final harvesting.

2.1. THINNING

In accordance with the 2017 Management Plan the projects Mutum 2007 (MUT) and São José 2007 (SAJ) are to be thinned in 2017. Both areas are currently growing above 18 m²/ha of basal area which shows they are reaching competition stage. This is the second thinning of these farms and the objective of the operation is to reduce the number of trees per hectare from 430 to 250.

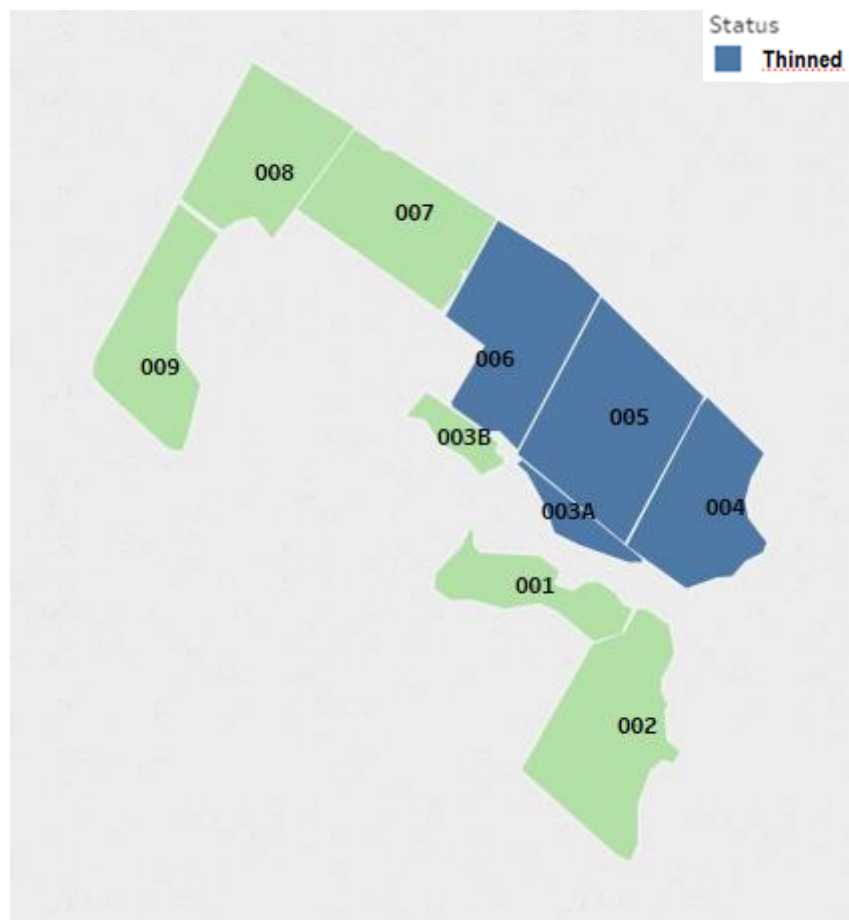
Due to operational constraints, the thinning operation in Mutum began one month earlier than planned, starting in December 7th, 2016, and was finished in mid-January. In the map below, we present the stands thinned in blue, totaling 220 hectares. They represent the areas of site class I in this farm, where growth is better, so they need to be thinned first. Another 243 hectares of site II areas are still planned to be thinned, but as they still present lower basal area (~15 m²/ha), we should come back to them only by the end of the year.

Map 1: YTD – Thinning per stand, Mutum 2007



In São José, the operation started on February 20th, and is still ongoing. So far, 4 stands have been harvested representing 130 ha.

Map 2: YTD – Thinning per stand, São José 2007



All production from the thinnings on these farms is being sold as short logs (2.3m). Only logs above 18 cm at the small end have commercial value to be processed in a sawmill. Below this specification, all wood is considered firewood and was left on site, where it may be sold when dry, and depending on market demand. Production in Mutum is finalized for these stands, while in São José there is more wood to be extracted.

2.2. HARVESTING

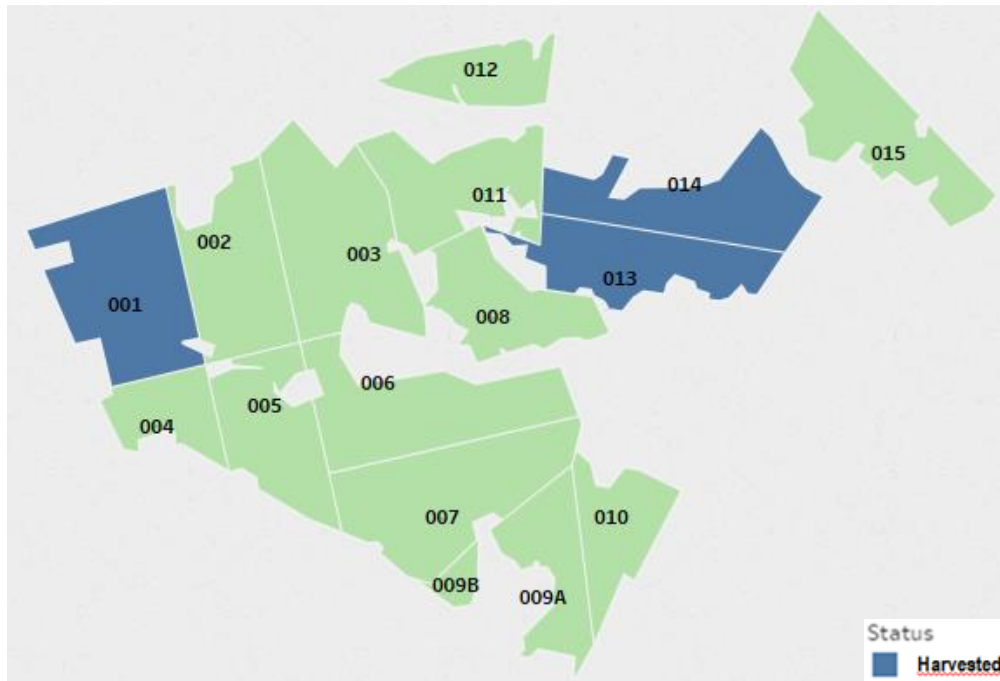
Floresteca started the first final harvest on its older projects in June 2015. By the end of 2016, the Silas and K_8 projects had been harvested completely, while the operation in Pimental started in September 2016. This is the most important operation in the lifecycle of the project as it's where the most valuable timber and hence most of the revenues are generated.

The selection of which areas are to be harvested is done through a complex optimization process, which takes into account the expected future growth and revenues for different harvesting age alternatives, while respecting important operational and market constraints.

During this quarter, we are continuing the operation in Pimental and began harvesting in Buriti, on January 24th. Both projects are being harvested at the same time, so we can reach the markets with a favorable product mix, coming from forests with distinct growth patterns.

In Buriti, although stands 001, 013 and 014 were started (144 ha), none of them are still finalized and more wood is to be extracted from them in the coming months.

Map 3: YTD – Final Cut per stand, Buriti 1994



In Pimental, 258 hectares were harvested during this quarter, but not completely finalized and other activities for wood extraction and sales from this area is still happening.

Map 4: YTD – Final Cut per stand, Pimental 1996



3. FORESTRY MANAGEMENT

The main groups of Silvicultural activities are sprout mowing, weed control and pruning. Table 1 indicate the hectares performed for each group and forest.

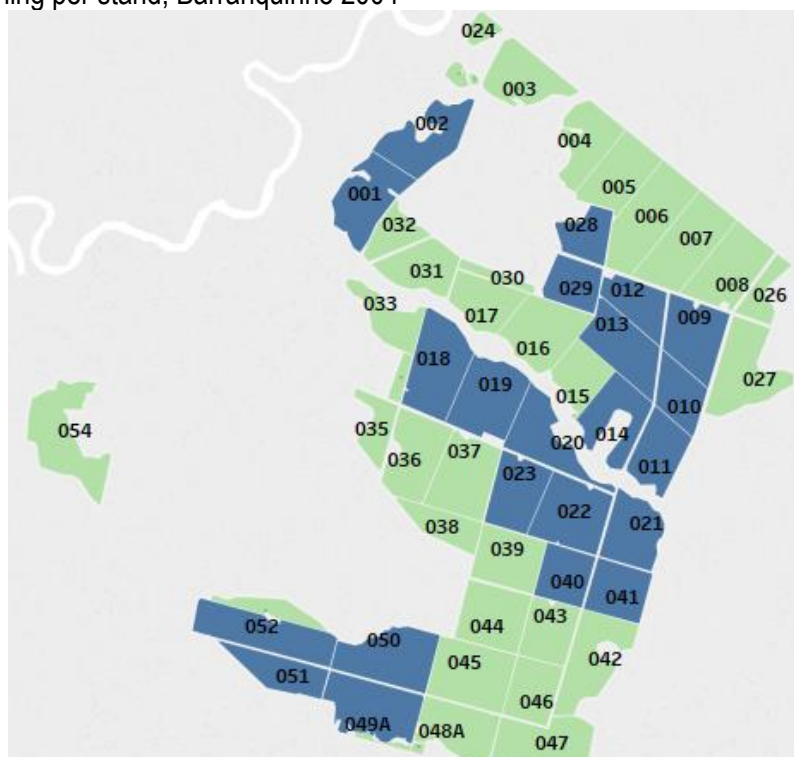
Table 1 – YTD capital forestry activities, per forest

Activity	Project	Unit		Quantity
Sprout Control	BAR	há	2016	200,3
	MUT	há	2016	216,6
	STF	há	2016	16,6
Pruning	BAR	há	2016	86,7
	MUT	há	2016	86,7
	STF	há	2016	13,2
Weed Control	BAR	há	2016	61,9
	BUR	há	2016	9
	PAN	há	2016	5
	PIM	há	2016	277,6
	TST	há	2016	2,5
Total				976,1

3.1. PRUNING

Pruning is presented in detail in the maps hereunder:

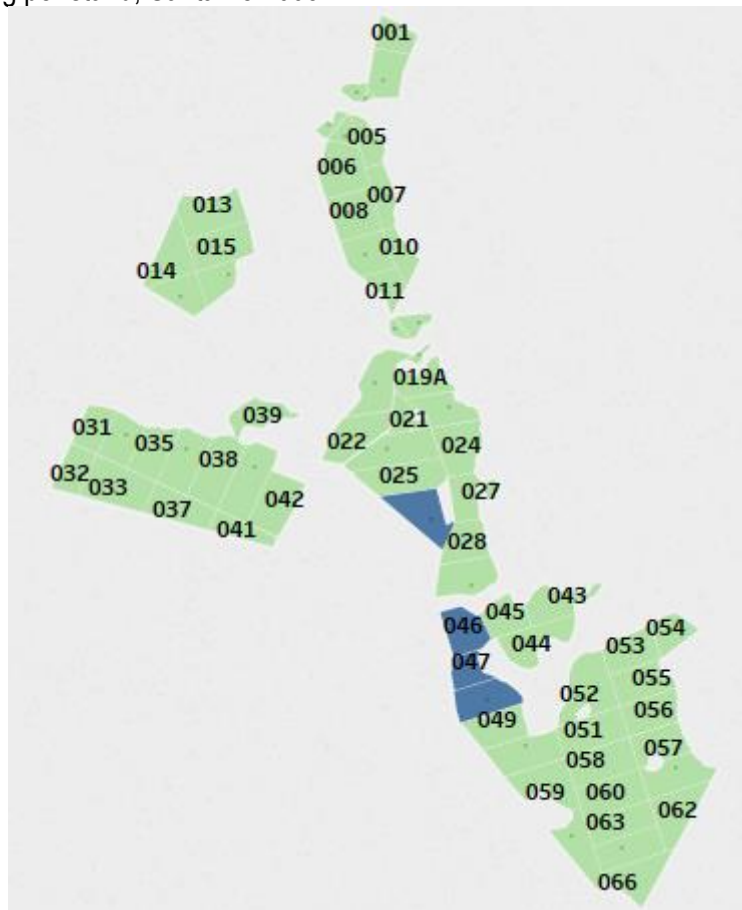
Map 5: YTD Pruning per stand, Barranquinho 2004



Map 6: YTD Pruning per stand, Mutum 2007



Map 7: YTD Pruning per stand, Santa Fé 2003



4. PLANNING AND FOREST DESCRIPTION

<Intentionally left blank – no changes from the Management Plan 2017>

5. LOG SALES

5.1. LOG SALES

The Year to Date sold volume equals to 9,942 m³ with a weighted average price (at roadside) of USD 129/m³. The time difference from forwarding to sales is at least of 30 days in order for drying and loading.

Log prices are determined on the basis of roadside prices in Mato Grosso. As the market for teak logs is largely private and fragmented, TRC on behalf of FSA has contracted Consufor, an independent forestry services firm, to provide a benchmark roadside pricing report for teak log sales in the Mato Grosso region. The first such report was produced in January 2017, was based on a sample of 25 respondents, the majority of which are forest owners, but also included some sawmills and traders.

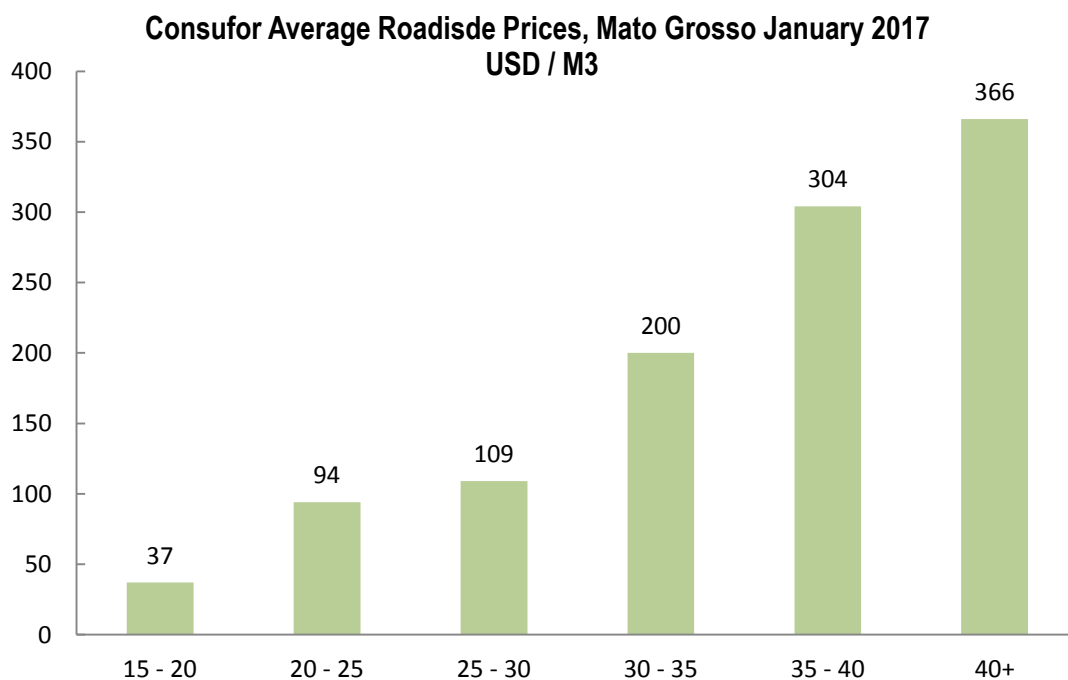


Table 9 – YTD Sales (volume & values)

Planting Year	Project	Total Area (ha)	Volume Sold (m ³)	Roadside Value (USD)		
				Export	Sawmill	Total
1994	BUR	592.29	135.18	1,357.68	8,807.57	10,165.25
1996	PIM	693.42	10,260.56	1,197,355.27	139,920.13	1,337,275.40
1995	SIL	582.80	132.03	11,170.95	0.00	11,170.95
2004	TST	1,143.17	648.96	70,736.86	0.00	70,736.86
2007	MUT	539.18	1,891.82	0.00	77,936.74	77,936.74
2007	SAJ	301.30	1,983.94	0.00	89,547.58	89,547.58
Total		3,852.16	15,052.49	1,280,620.76	316,212.02	1,596,832.78

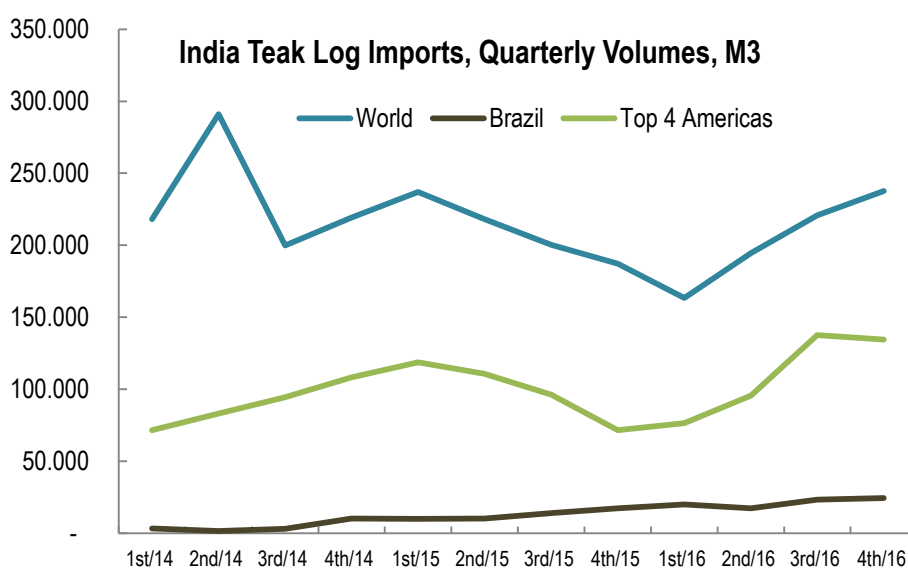
5.2. TROPICAL HARDWOOD AND TEAK MARKET UPDATE

Principal markets for tropical logs

The market for teak is part of the larger market for tropical hardwoods. Teak accounts for around 25-30% of the overall import demand for tropical hardwoods, and is the single largest traded hardwood species. The market for tropical hardwoods generally, and teak is concentrated in Asia, with India as the largest overall market for teak wood.

Focus on India, Main Market for Teak Logs

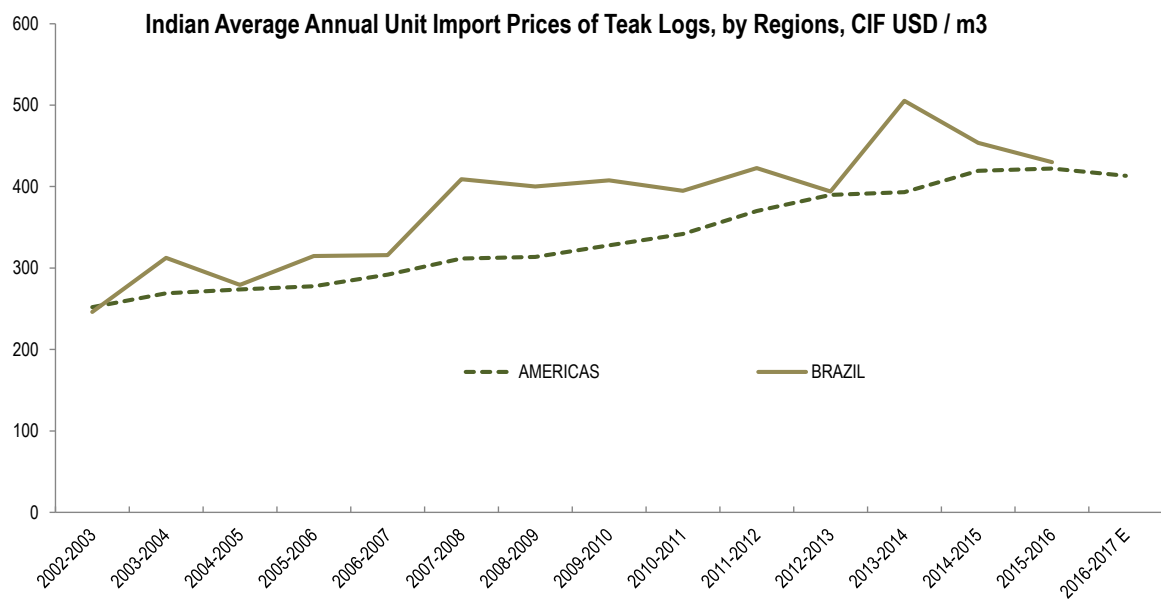
India accounts for over 70% of the global demand for teak logs, and as a result, is the largest market force driving teak demand, and has been the main market historically for Floresteca. In the chart below, we show the recent quarterly teak log market import volumes, highlighting total imports (World), the top 4 Latam suppliers (Brazil, Ecuador, Costa Rica and Panamá), and Brazil individually:



The overall teak log import market declined strongly in 2014, again as the Myanmar import ban kicked in, but following some recovery in the second half of 2014 and into 2015, saw falling volume from 2Q2015 to 1Q2016. Teak log import volumes recovered strongly after 1Q 2016. Latam top 4 volume departed

from the overall trend in 4Q2016, as imports from Costa Rica and Panamá saw substantial quarter on quarter drops. Brazil imports grew strongly through most of this period, however, with only relatively minor contraction in 2Q2016.

Regarding prices, we have compiled Indian import data since 2002. The chart below show the average annual unit import prices in India, comparing overall unit prices (sum of the value of all teak log imports / sum of the volume of all teak log imports), for the Americas (including all countries in Central and South America with exports to India) and those only from Brazil. While the prices for the distinct log grades are not visible in this average, they do indicate a consistent positive trend in unit prices over time for plantation teak logs from the Americas:



Source: India's Department of Commerce website;

Brazilian teak log average import prices to India have been consistently higher than those of the America's average for most the period shown, reflecting the higher quality of logs imported from Brazil. The compound annual growth rate for these nominal teak log prices was 4.4% for Brazilian imports, vs 3.4% for Americas imports, and compared with the 1,9% for all Indian teak log imports.

6. COMPLIANCE & LEGAL ISSUES

6.1. PARAISO FARM

Issue 8.1.1: Floresteca has received a legal challenge by Mr. Antonio Frigieri, the owner of the Paraíso Farm (“plaintiff”), in a declaratory procedure, requesting the end of the usufruct rights with immediate injunctions and asset possession recovery. After being subpoenaed by the Mato Grosso State Court, which held that the plantation area was considered unused, the court issued a preliminary decision in August 2016 granting land possession to the plaintiff. However, the Usufruct Agreement was not considered void, and Floresteca, challenged the preliminary decision at Mato Grosso Superior Court (*Tribunal de Justiça de Mato Grosso*). In May 2017, the Superior Court reverse the initial decision in favor of Floresteca, who has been granted the right to continue with the Usufruct and can now continue forestry operations normally. A final decision from the court is still pending, however, and Floresteca will monitor and update as necessary.

6.2. MUTUM FARM

Issue 8.2.1: Mutum farm was invaded by the Landless Movement MST-in 2011. The owner of the property (LHS) filled in court in order to remove the squatters. The judge ruled in favor of the LHS. Repeatedly the MST has invaded the property, motivating the hiring of a private security guard.

Issue 8.2.2: LHS has filled in court in 2012 against the National Colonization Institute Agrícola -INCRA, due to suspend administrative process aimed at the expropriation of the property, alleging the property was not being used productively. The judge decided to suspend the administrative procedure. Subsequently, a technical opinion declared the property as productive.. The process is still under review by the judge for final decision.

7. APPENDIX

7.1. PLANTED AREA PER PROJECT AT END 2016

Project	Total Managed	
	Area	SATT
1994 BUR	592,29	592,29
1995 K 8	0	0
1995 SIL	0	0
1996 COC	374,88	374,88
1996 PIM	698,26	698,26
1996 TEM	191,42	191,42
1996 PAI	297,92	210,44
1997 PAR	555,05	512,94
1998 BOC	431,65	426,55
1998 COC	133,84	133,84
1998 PAI	93,95	93,95
1998 CAN	44,62	44,62
1998 SJT	26,76	26,76
1998 SIL	24,41	24,41
1998 VDO	351,68	351,68
1999 ARA	98,88	78,3
1998 BAM	549,07	400,17
1999 BOC	108,18	108,18
1999 CPB	507,87	507,87
1999 CAS	88,49	84,89
1999 SER	105,01	104,01
1999 VDO	48,59	48,59
2000 BAM	513,83	404,24
2000 DLG	1527,51	1527,51
2001 DLG	2136,42	2136,42
2001 SMG	97,52	93,02
2002 BAR	970,2	756,75
2002 CMB	571,08	445,75
2002 DLG	48,41	48,41
2002 SMJ	1085,18	1085,18
2002 SMG	5,71	4,57
2003 BAR	12,95	10,36
2003 CMB	10,19	8,15
2003 STF	2562,71	2493,02
2003 SMJ	207,87	207,87
2004 BAR	1201	1000,51
2004 ICR	0	0
2004 TST	1143,17	1134,45
2005 DLG	207,67	170,37
2005 MTV	0	0
2006 STL	0	0
2006 DLG	233,88	190,72
2007 MUT	539,18	522,43
2007 SAJ	301,3	290,91
2008 CEU	0	0
2008 SMJII	99,87	89,88
2008 MUT	0	0
Total	18798,47	17634,57