

QUARTERLY MANAGEMENT REPORT



- Floresteca S/A -

Year 2019
1st Quarter (Jan/19 to Mar/19)

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PROPERTY OVERVIEW

Floresteca S/A is located in the State of Mato Grosso, where it manages 16,103.48 hectares of *Tectona Grandis* (Teak) at December 31th 2018 planted on 52,862.74 of leased land, and composed of 23 individual farms planted between 1994 and 2008. The area is detailed on appendix 9.1.

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 management, Floresteca S/A (FSA) has engaged TRC Agroflorestal Ltda, or Teak Resource Company (TRC) to perform certain management services to FSA per the Management Services and Timber Purchase and Sale Agreement (MSA), put into effect in March of 2017.

The Companies are structured as follows:

- Floresteca S.A (FSA): Management Company
- Floresteca BV: Controlling shareholder of FSA, and channel to the final beneficial owners of the forests.
- TRC Agroflorestal Ltda. (TRC): Management Services Company retained by Floresteca S.A. to perform harvesting and silvicultural services on the forests;

For simplification purposes, the information is presented on a consolidated basis. Financial information is presented on a calendar year.

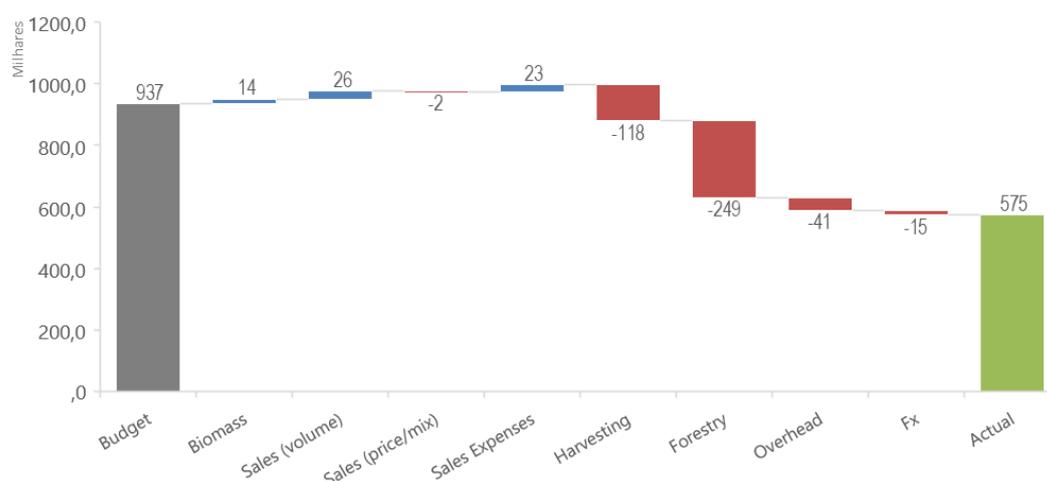
1 EXECUTIVE SUMMARY

As shown in Figure 1.1 below, the 2019 year to date Operational Result was USD 575 k versus the USD 937 k budgeted or an unfavorable variance of USD 362 k (38%). Although sales revenues were higher than forecast, the unfavorable result is due to costs for stump removal which occurred earlier than expected. The costs are nonetheless in line, and total cost are expected to be in line with the budget.

The other factors which impacted 1Q2019 results were:

- Sales volume finished a bit higher than budget, due to higher overall volume;
- Harvesting costs were higher than budget due to greater operational difficulties encountered in working on the less productive areas in Buriti and Araras farms (details in section 6.1);

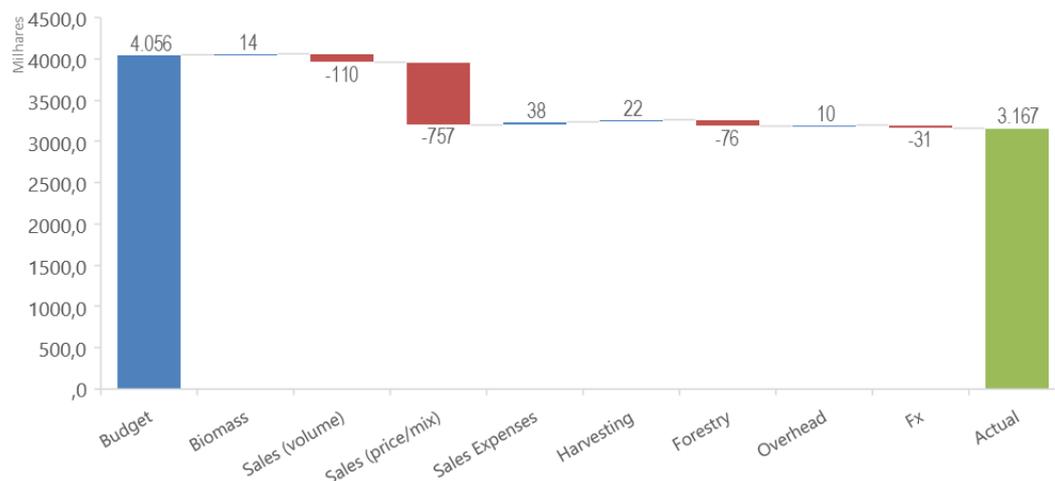
Figure 1.1: Year to Date (YTD) Operational Result vs. Budget, main differences (USD, '000s)



For the forecast for the remainder of the year end, Floresteca expects the Operational Result to be unfavorable to budget by USD 889 k or -22% (USD 3,167 k versus the USD 4,056 k budget), due to:

- Prices from the most recent Consufor Report completed in March 2019, and assumed for the remainder of the year, are ~12% lower than the budget prices (more details in section 5.4.3);
- Product mix, which affects average price, is expected to be slightly worse than originally planned. Recently Floresteca re-optimized the harvesting schedule of “Canastra 1998” and “Terra Santa 2004” to 2020 and will harvest “Capim Branco 1999”, “Santa Maria do Jauru 2002” and “Barranquinho 2004” plantations instead. The replacement decision is based on the greater competition of trees at Barranquinho 2004, than in Terra Santa 2004. More details are provided in section 2.3;
- Forestry activities are expected to be somewhat higher than budgeted, but will be offset by lower harvesting, sales expenses and overhead. The YTD higher BRL / USD fx rate, if maintained for the remainder of 2019, will also have a slightly negative impact on results.

Figure 1.2: YEE Operational Result vs. Full Year Budget, main differences (USD, '000s)



2 FINANCIAL REPORT

2.1 OVERALL FINANCIAL PERFORMANCE

For comparison purposes, the actual foreign exchange rate at the end of each quarter (BRL/USD: 3.89 1Q) was adjusted to the budgeted rate (BRL/USD 3.80), with the difference to actual shown as a line item factor.

Figure 2.1.1: Consolidated Annual Summary

Budget Item	2019	2019
	YEE	Budget
<i>Values in USD</i>		
BRL/USD FX Rate	3,80	3,80
Biomass Sales (m ³)	10.649	7.143
Log Sales (m ³)	94.708	95.735
<u>Revenues</u>		
Biomass	40.589	26.315
Logs	9.413.305	10.280.479
Sales Revenues	9.453.894	10.306.794
Sales Revenues per unit (m³)	99,82	107,66
<u>Production Costs</u>		
Taxes on Sales	-226.701	-265.074
Harvesting	-1.861.949	-1.884.398
Total Costs of Production / Sales	-2.088.650	-2.149.472
CoP / Sales per unit (m³)	-22,05	-22,45
Total Net Revenues	7.365.245	8.157.322
Stumpage Revenue per unit (m³)	77,77	85,21
<u>Operating Expenses</u>		
Forestry Costs	-1.522.702	-1.446.231
Overhead Costs ²	-2.644.599	-2.654.973
Fx gain (loss) to Actual	-31.175	0
Total Operating Expenses	-4.198.476	-4.101.204
OpEx per unit (ha)	-260,72	-254,68
Operational Result	3.166.768	4.056.118
Operational Result per unit (ha)	196,65	251,88

Note²: General and administrative cost, including outsourced management services as well as property related expenses.

Legend:

FY: Full Year;

YTD: Year to Date;

YEE: Year End Estimated means the actual costs/revenues plus the forecast;

COP: Cost of Production;

Stumpage: Is the net revenue after logistics, taxes on sales, sales commission and harvesting costs

Operational Result estimated for the Year End (YEE) is ~USD 3,167 k vs USD 4,056 k budgeted, a unfavorable variance of USD 889 k. The main driver for this negative difference is a lower forecast weighted average price, as highlighted in the executive summary. The budget price used the Consufor Report dated of October 2018, while the reforecast uses the most current price report from March 2019, where there has been an average reduction of ~ USD 10 per m³ or -12% in value (details in section 5.2)

Figure 2.1.2 shows the cash summary to the year-end versus the full year budget. Stakeholder distribution refers to the capital flows (loan repayments) sent during the year.

Expected closing cash through the end of 2019 is USD 838 k versus USD 3.6 M budgeted. Most of this difference is due to the partial payment of the past Harvest Reports (HR) results and Netherlands G&A expenses in large part due to the restructuring in process at FBV, both of them totaling USD 1.9 M (greater detail on Harvest Report payments is provided in section 2.4).

The initial cash balance is USD 268 k lower than originally expected. The budget estimate for the initial cash balance was made in October 2018 assuming that harvesting of “Buriti 1994” and “Bocaina 1998” farms would be concluded at 4Q2018, which did not occur.

For Operations, the difference from YEE to Budget is mostly due to the sales reforecast, which considers a lower price (from the newest Consufor report) and a higher proportion of sawmill grade logs (owing to the change in the projects to be harvested, as commented in the executive summary).

It is worth mentioning that FSA maintains bank accounts in with deposits in USD and EUR, but the official currency of the company is BRL, so all financial transactions in non-BRL currencies are adjusted at the end of each month at the prevailing exchange rate (1st column).

Figure 2.1.2: Cash Summary

	BRL		USD	
	YEE	Budget	YEE	Budget
BRL/USD FX Rate			3.80	3.80
Opening Cash	2,919,784	3,940,322	768,364	1,036,927
Stakeholder Distributions	-7,251,073	0	-1,908,177	0
Increase / (Decrease) in Financial Exp. ²	-352,898	-345,427	-92,868	-90,902
Increase / (Decrease) from Operations	9,437,837	12,994,486	2,483,641	3,419,601
Increase / (Decrease) CapEx	-1,704,594	-1,568,579	-448,577	-412,784
Income Tax	-12,625	0	-3,322	0
Fx gain (loss) to Actual	-50,877	0	39,327	0
Closing Cash	2,985,555	15,020,802	838,388	3,952,843

² Bank fees included

2.2 YEAR TO DATE RESULTS

Figure 2.2.1 presents the consolidated Year to Date results on an accrual basis.

The overall YTD Net Operational Result was USD 575 k vs USD 937 k budgeted, or an unfavorable variance of USD 362 k. This result was largely driven by some forestry costs being brought forward from the budget timing, while sales were better than budgeted YTD:

On the cost side, the main variations were as follows:

- Forestry activities had slightly higher costs than budgeted due to land clearing costs, done following final harvests, and in this case concentrated on the Buriti farm. (details in section 7);
- Harvesting is unfavorable to budget by USD 118 k mostly due to greater than anticipated operational difficulties on the less productive areas of Buriti and Araras farms (see section 6.1);
- Overhead is unfavorable to budget mainly due to TRC administrative services that were billed in error by USD 35 k over the budgeted amount. TRC will adjust its billing to compensate for this in 2Q2019.

Figure 2.2.1: Year to Date Summary

Budget Item	2019 (BRL 0.00)			2019 (USD 0,00)		
	YTD			YTD		
	Actual	Budget	Var (A-B)	Actual	Budget	Var (A-B)
BRL/USD FX Rate			-	3,80	3,80	-
Biomass Sales (m³)	5.471	1.786	3.685	5.471	1.786	3.685
Log Sales (m³)	20.734	20.500	234	20.734	20.500	234
Revenues						
Biomass	79.242	24.999	54.243	20.853	6.579	14.274
Logs	8.691.717	8.600.006	91.711	2.287.294	2.263.160	24.134
Sales Revenues	8.770.959	8.625.005	145.954	2.308.147	2.269.738	38.409
Sales Revenues per unit (m³)	423,02	420,73	2,29	111,32	110,72	0,60
Production Costs						
Taxes on Sales	-163.000	-249.344	86.344	-42.895	-65.617	22.722
Harvesting	-1.943.366	-1.493.228	-450.138	-511.412	-392.955	-118.457
Total Costs of Production / Sales	-2.106.366	-1.742.572	-363.794	-554.307	-458.572	-95.735
CoP / Sales per unit (m³)	-101,59	-85,00	-16,59	-26,73	-22,37	-4,36
Total Net Revenues	6.664.593	6.882.433	-217.841	1.753.840	1.811.167	-57.327
Stumpage Revenue per unit (m³)	321,43	335,73	-14,30	84,59	88,35	-3,76
Operating Expenses						
Forestry Costs	-1.291.084	-822.342	-468.742	-339.759	-216.406	-123.353
Standard Cost to Accrual adj. ⁴	-476.808	0	-476.808	-125.476	0	-125.476
Overhead Costs	-2.655.994	-2.499.416	-156.578	-698.946	-657.741	-41.205
Fx gain (loss) to Actual	0	0	0	-14.963	0	-14.963
Total Operating Expenses	-4.423.887	-3.321.758	-1.102.129	-1.179.144	-874.147	-304.997
OpEx per unit (ha)	-274,72	-206,28	-68,44	-73,22	-54,28	-18,94
Operational Result	2.240.706	3.560.675	-1.319.969	574.696	937.020	-362.324
Operational Result per unit (ha)	139,14	221,11	-81,97	35,69	58,19	-22,50
Capital Expenses						
Equipment	-20.033	-270.500	250.467	-5.272	-71.184	65.912
Others	50.569	-500.879	551.448	13.308	-131.810	145.118
Total Capital Expenses	30.536	-771.379	801.915	8.036	-202.994	211.030

⁴ Difference between Accrual and "Standard Cost". Accrual values takes place in the month that their correspondent invoices are dated, while the "Standard Cost" is placed by the consumption/ use date. Differences are due to timing.

Legend:

FY: Full Year;

YTD: Year to Date;

YEE: Year End Estimated means the actual costs/revenues plus the forecast;

COP: Cost of Production;

Stumpage: Is the net revenue before logistics, taxes on sales, sales commission and harvesting

2.3 YEAR END ESTIMATION

Figure 2.3.1 presents the Year End Estimation (YEE) on an accrual basis.

Overall, estimated year end consolidated Net Operational Result is expected to be 22% lower than budget, or USD 3,167 k vs USD 4,028 k budgeted. The reforecast considers a lower price (from the newest Consufor report) and a higher proportion of sawmill grade logs (from the replacements of “Terra Santa” and “Canastra”), both of which impact sales, and account for most of the difference in the projected result.

Both the Terra Santa and Barranquinho farms can only be harvested in the dry season due to operational constraints. However, Barranquinho shows a higher competition between trees than Terra Santa (higher basal area per m² and more trees per hectare). Serra da Canastra’s final cut was moved to 2020 as part of the overall optimizing of harvesting reschedule.

The loss in volume from those replacements will be offset by Capim Branco and Santa Maria do Jauru, moved from 2020 to 2019.

Figure 2.3.1: Year End Estimation Summary

Budget Item	2019 (BRL 0,00)					2019 (USD 0,00)				
	YEE			FY	Var (YEE - B)	YEE			FY	Var (YEE - B)
	YTD	Forecast	Total YEE	Budget		YTD	Forecast	Total YEE	Budget	
BRL/USD FX Rate					-	3,80	3,80	3,80	3,80	-
Biomass Sales (m³)	5.471	5.178	10.649	7.143	3.506	5.471	5.178	10.649	7.143	3.506
Log Sales (m³)	20.734	73.973	94.708	95.735	-1.027	20.734	73.973	94.708	95.735	-1.027
Revenues										
Biomass	79.242	74.997	154.239	99.996	54.243	20.853	19.736	40.589	26.315	14.274
Logs	8.691.717	27.078.842	35.770.559	39.065.820	-3.295.261	2.287.294	7.126.011	9.413.305	10.280.479	-867.174
Sales Revenues	8.770.959	27.153.839	35.924.798	39.165.816	-3.241.018	2.308.147	7.145.747	9.453.894	10.306.794	-852.900
Sales Revenues per unit (m³)	423,02	367,08	379,32	409,11	-29,78	111,32	96,60	99,82	107,66	-7,84
Production Costs										
Taxes on Sales	-163.000	-698.464	-861.464	-1.007.282	145.818	-42.895	-183.806	-226.701	-265.074	38.373
Harvesting	-1.943.366	-5.132.038	-7.075.404	-7.160.711	85.307	-511.412	-1.350.536	-1.861.949	-1.884.398	22.449
Total Costs of Production / Sales	-2.106.366	-5.830.502	-7.936.868	-8.167.993	231.125	-554.307	-1.534.343	-2.088.650	-2.149.472	60.822
CoP / Sales per unit (m³)	-101,59	-78,82	-83,80	-85,32	1,51	-26,73	-20,74	-22,05	-22,45	0,40
Total Net Revenues	6.664.593	21.323.337	27.987.930	30.997.823	-3.009.893	1.753.840	5.611.405	7.365.245	8.157.322	-792.077
Stumpage Revenue per unit (m³)	321,43	288,26	295,52	323,79	-28,27	84,59	75,86	77,77	85,21	-7,44
Operating Expenses										
Forestry Costs	-1.291.084	-3.548.564	-4.839.648	-5.495.676	656.028	-339.759	-933.833	-1.273.592	-1.446.231	172.639
Standard Cost to Accrual adj.4	-476.808	-469.811	-946.619	0	-946.619	-125.476	-123.634	-249.110	0	-249.110
Overhead Costs	-2.655.994	-7.393.483	-10.049.477	-10.088.899	39.422	-698.946	-1.945.653	-2.644.599	-2.654.973	10.374
Fx gain (loss) to Actual	0	0	0	0	0	-14.963	-16.212	-31.175	0	-31.175
Total Operating Expenses	-4.423.887	-11.411.858	-15.835.745	-15.584.575	-251.169	-1.179.144	-3.019.333	-4.198.476	-4.101.204	-97.272
OpEx per unit (ha)	-274,72	-708,66	-983,37	-967,78	-15,60	-73,22	-187,50	-260,72	-254,68	-6,04
Operational Result	2.240.706	9.911.479	12.152.185	15.413.248	-3.261.063	574.696	2.592.072	3.166.768	4.056.118	-889.350
Operational Result per unit (ha)	139,14	615,49	754,63	957,14	-202,51	35,69	160,96	196,65	251,88	-55,23
Capital Expenses										
Equipment	-20.033	0	-20.033	-270.500	250.467	-5.272	0	-5.272	-71.184	65.912
Others	50.569	-1.735.130	-1.684.561	-1.298.079	-386.482	13.308	-456.613	-443.306	-341.600	-101.706
Total Capital Expenses	30.536	-1.735.130	-1.704.594	-1.568.579	-136.015	8.036	-456.613	-448.577	-412.784	-35.793

2.4 DETAILED CASH REPORT

The estimated closing cash for the year-end is USD 838,388 and the budgeted was USD 3,952,843 an unfavorable difference of USD 3,048,476. As commented earlier, the main difference is due stakeholder distributions totalling USD 1.9 million for payment of Harvesting Reports for completed plantations, as well as for funding requests from Floresteca B.V for its restructuring in the Netherlands.

The initial cash balance is USD 268 k lower than originally expected. The budget estimate for the initial cash balance was made in October 2018 assuming that harvesting of “Buriti 1994” and “Bocaina 1998” farms would be concluded at 4Q2018, which did not occur.

The differences in the budget and reforecast sales prices and mix commented earlier are the main reason for the lower forecast year end result.

Figure 2.4.1: Quarterly Operating Cash Flow 2019

Budget Item <i>Values in USD</i>	2019 (USD 0.00)					2019	Var. (YTD-Budget)
	Q1	Q2	Q3	Q4	FY	FY	
	Actual	Forecast	Forecast	Forecast	YEE	Budget	
BRL/USD FX Rate	3.80	3.80	3.80	3.80	3.80	3.80	
Opening Cash	768,364	223,330	64,349	666,868	768,364	1,036,927	268,563
Biomass Sales (m³)	5,471	1,726	1,726	1,726	10,649	7,143	3,506
Log Sales (m³)	20,734	19,357	27,614	27,003	94,708	95,735	-1,027
Revenues							
Biomass	20,853	6,579	6,579	6,579	40,589	26,315	14,274
Logs	2,287,294	2,238,474	2,488,147	2,399,390	9,413,305	10,280,479	-867,174
Sales Revenues	2,308,147	2,245,053	2,494,726	2,405,968	9,453,894	10,306,794	-852,900
Production Costs							
Taxes on Sales	-42,895	-39,882	-87,976	-55,948	-226,701	-265,074	38,373
Harvesting	-511,412	-353,394	-504,148	-492,994	-1,861,949	-1,884,398	22,449
Total Costs of Production / Sales	-554,307	-393,277	-592,124	-548,942	-2,088,650	-2,149,472	60,822
Total Net Revenues	1,753,840	1,851,776	1,902,602	1,857,027	7,365,245	8,157,322	-792,077
Operating Expenses							
Forestry Costs	-339,759	-462,330	-217,416	-254,086	-1,273,592	-1,446,231	172,639
Standard Cost to Accrual adj.	-125,476	-41,211	-41,211	-41,211	-249,110	0	-249,110
Overhead Costs	-698,946	-636,132	-635,297	-674,224	-2,644,599	-2,654,973	10,374
Fx gain (loss) to Actual	-14,963	-12,152	-25,031	-16,212	-68,359	0	-68,359
Total Operating Expenses	-1,179,144	-1,151,826	-918,956	-985,734	-4,235,660	-4,101,204	-134,456
Operational Result	574,696	699,950	983,646	871,293	3,129,585	4,056,118	-926,533
Capital Expenses							
Equipment	-5,272	0	0	0	-5,272	-71,184	65,912
Others	13,308	-222,403	0	-234,211	-443,306	-341,600	-101,706
Total Capital Expenses	8,036	-222,403	0	-234,211	-448,577	-412,784	-35,793
Accounts Receivable	-307,741	498	-109,294	-252,126	-668,662	-636,517	-32,145
Accounts Payable	-40,531	-46,976	76,518	-34,651	-45,641	0	-45,641
Fx gain (loss) to Actual	-4,109	43,278	36,377	32,139	107,686	0	107,686
Var. Assets and Liabilities (acc. to cash)	-352,380	-3,199	3,602	-254,638	-606,617	-636,517	29,900
Leasing/Finame	-23,118	-26,984	-18,594	-15,530	-84,227	-84,586	359
Earnings on investments	6,656	0	0	0	6,656	0	6,656
Loans/ Bank fees	-7,954	-3,992	-1,650	-1,700	-15,296	-6,316	-8,981
Financial Movements	-24,417	-30,976	-20,244	-17,231	-92,868	-90,902	-1,966
Stakeholder Distributions (Payments)	-526,777	0	0	0	-526,777	0	-526,777
Other Transfers	-220,870	-602,353	-364,484	-193,693	-1,381,400	0	-1,381,400
Income Tax	-3,322	0	0	0	-3,322	0	-3,322
Cash Transfer / Income Tax	-750,969	-602,353	-364,484	-193,693	-1,911,499	0	-1,911,499
Cash Flow Var.	-545,034	-158,982	602,519	171,520	70,024	2,915,916	2,845,892
Closing Cash	223,330	64,349	666,868	838,388	838,388	3,952,843	3,114,455

The outstanding Harvest Report paid amounts and provisions are shown in the figure below :

Figure 2.4.2: Harvest Report Amounts Paid and Provisions (in USD):

2016 HR	7.841.879
2017 HR	5.645.549
Total	13.487.428
Paid	-9.315.263
Outstanding	4.172.165

3 CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND EQUITY

Figure 3.1: Assets, Liabilities and Equity at March, 31th.

Floresteca S/A - Balance Sheet position of January 01 to March 31, 2019		FX RATE - ASSETS FX RATE - LIABILITIES	3,8961 3,8967
(In thousands of reais/dollars)			
ASSETS	R\$	\$	
CURRENT ASSETS			
Cash and cash equivalents	904		232
Accounts receivable	9.333		2.395
Inventories	434		111
Recoverable taxes	4.251		1.091
Other receivables	327		84
Total Current Asset	15.250		3.914
NON-CURRENT ASSETS			
Advances to agricultural partners	5.409		1.388
Other receivables	603		155
Deferred taxes	3.671		942
Investment property	4.453		1.143
Biological Assets	519.712		133.393
Property, plant & equipment	9.001		2.310
Intangible assets	76		19
Total Non-Current Asset	542.926		139.351
TOTAL CURRENT ASSETS	558.175		143.265
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Loans and financing	252		65
Leasing	54		14
Suppliers and other accounts payable	1.563		401
Taxes payable	99		25
Salaries, vacations and payroll charges payable	307		79
Total Current Liabilities	2.275		584
Non-current liabilities			
Loans and financing	462.879		118.787
Leasing	41		11
Contingencies	416		107
Accounts payable with investors	25.087		6.438
Total Non-Current Liabilities	488.423		125.343
EQUITY			
Capital	27.798		7.134
Legal reserve	5.559		1.427
Profit reserve	34.120		8.756
Foreign exchange adjusts			22
TOTAL EQUITY	67.477		17.338
TOTAL LIABILITIES AND EQUITY	558.175		143.265

4 AREA CHANGES

From the initial area position from the beginning of the year, Floresteca has finalized harvesting in 391.29 ha through the end of March, as shown in the table below:

Figure 4.1: Area variations, in hectares, YTD 2019.

Project	Year	Initial Area	Harvested	Current Area
Buriti	1994	307.91	218.11	89.80
Paiolandia	1997	297.92		297.92
Paraiso	1997	555.05		555.05
Bocaina	1998	351.53	173.18	178.35
São José da	1998	44.62		44.62
Paiolandia	1998	93.95		93.95
São Judas T	1998	26.76		26.76
Araras	1999	98.88		98.88
Bambu	1999	549.07		549.07
Bocaina	1999	108.18		108.18
Cassange	1999	88.49		88.49
Capim Branco	1999	507.87		507.87
Serra das A	1999	105.01		105.01
Vale Dourac	1999	48.59		48.59
Bambu	2000	513.83		513.83
Duas Lagoa	2000	1,527.51		1,527.51
Duas Lagoa	2001	1,760.42		1,760.42
São Miguel	2001	97.52		97.52
Barranquinh	2002	970.2		970.2
Cacimba	2002	571.08		571.08
Duas Lagoa	2002	48.41		48.41
São Miguel	2002	5.71		5.71
Santa Maria	2002	1,085.18		1,085.18
Barranquinh	2003	12.95		12.95
Cacimba	2003	10.19		10.19
Santa Maria	2003	207.87		207.87
Santa Fé	2003	2,562.71		2,562.71
Barranquinh	2004	1,021.00		1,021.00
Terra Santa	2004	1,143.17		1,143.17
Duas Lagoa	2005	207.67		207.67
Duas Lagoa	2006	233.88		233.88
Mutum	2007	539.18		539.18
São José	2007	301.3		301.3
Santa Maria	2008	99.87		99.87
Total		16,103.48	391.29	15,712.19

5 LOG SALES

5.1 YIELD PER HECTARE

The estimated year end volume is expected to be close to budget. Overall production in 1Q2019 was in line with the budget. The change in the harvesting commented earlier, with the substitution of Terra Santa (TST) and Canastra (CAN) being postponed to 2020, and the Santa Maria do Jauru (SMJ) and Barranquinho (BAR) thinnings being brought forward to 2019, will not materially change the total forecast volume.

Production volume from Bocaina 1999 is expected to be lower than planned, but within what we consider an acceptable error margin (-7%) for our estimates, given the natural variability of the forest and our sampling system.

Figure 5.1.1: Log sales per project, 2019 YEE volume

Total volume (m³) - per diameter class from all lengths

Project	Area (ha)		Production yield (m ³)		Trees Removed		TOTAL (ACTUAL)					
	FY	FYB	FY	FYB	FY	FYB	15-20 cm	20-25 cm	25-30 cm	30-35 cm	35-40 cm	40+ cm
ARA1999	98.87	98.87	4,910	4,908	14,004	14,004	595	2,295	1,367	104	531	18
BOC1999	108.19	108.19	8,341	8,972	9,946	9,946	225	1,232	2,911	1,771	1,658	545
DLG2005	188.63	188.63	3,635	552	30,742	30,742	1,094	2,281	203	57	0	0
DLG2006	233.92	233.92	4,516	5,788	30,749	30,749	959	3,053	288	216	1	0
CAS1999	88.49	88.49	6,848	6,849	13,373	13,373	115	1,514	3,106	934	1,052	127
SJT1998	12.06	12.06	1,224	1,224	1,927	1,927	8	282	521	133	238	42
PAI1997	150.56	150.56	8,928	8,928	51,744	51,744	380	3,480	3,015	807	1,202	44
TST2004	0.00	818.02	0	11,863	0	37,112	0	0	0	0	0	0
BOC1998	91.43	91.43	13,151	13,100	9,594	9,594	72	832	5,199	2,289	3,422	1,336
PAI1998	93.95	93.95	4,500	6,491	14,039	14,039	101	1,390	1,801	677	498	33
CAN1998	0.00	44.62	0	3,770	0	5,860	0	0	0	0	0	0
BAR2002	558.06	558.06	5,292	5,292	44,822	44,822	1,674	3,260	340	17	0	0
BAR2003	12.95	12.95	430	430	1,291	1,291	142	225	54	10	0	0
BAR2004	504.91	305.81	9,984	6,324	82,334	54,190	3,296	6,145	543	0	0	0
CPB1999	81.27	55.27	5,852	3,758	8,509	6,134	21	981	2,654	986	998	212
CMB2002	571.07	78.72	6,325	1,404	24,745	3,265	1,092	3,845	1,018	348	22	0
MUT2007	71.11	71.11	2,083	2,083	6,340	6,340	932	682	331	139	0	0
BUR1994	0.00	0.00	6,272	4,000	0	0	2,375	2,920	831	122	23	0
SMJII2008	99.88	99.88	414	0	0	0	169	245	0	0	0	0
SMJ2002	206.88	0.00	2,003	0	16,936	0	422	1,339	198	43	1	0
TOTAL	3,172.23	3,110.54	94,708	95,735	361,092	335,130	13,670	36,002	24,378	8,655	9,647	2,357

* BUR area is zero since the volume sold 2019 was meant to be sold in 2018.

Figure 5.1.2: Production per project, 2019 YEE volume per hectare.

Total volume (m³) per hectare - per diameter class from all lengths

Project	Production yield (m ³)		Trees Removed		PER HECTARE (ACTUAL)					
	FY	FYB	FY	FYB	15-20 cm	20-25 cm	25-30 cm	30-35 cm	35-40 cm	40+ cm
ARA1999	49.66	49.64	141.63	141.63	6.02	23.22	13.82	1.06	5.37	0.18
BOC1999	77.10	82.93	91.93	91.93	2.08	11.39	26.90	16.37	15.32	5.03
DLG2005	19.27	2.93	162.97	162.97	5.80	12.09	1.08	0.30	0.00	0.00
DLG2006	19.30	24.74	131.45	131.45	4.10	13.05	1.23	0.92	0.00	0.00
CAS1999	77.39	77.39	151.13	151.13	1.30	17.11	35.10	10.56	11.89	1.44
SJT1998	101.52	101.51	159.78	159.78	0.68	23.36	43.18	11.06	19.72	3.51
PAI1997	59.30	59.30	343.67	343.67	2.52	23.11	20.02	5.36	7.99	0.29
TST2004	0.00	14.50	0.00	45.37	0.00	0.00	0.00	0.00	0.00	0.00
BOC1998	143.83	143.27	104.94	104.94	0.79	9.10	56.87	25.03	37.43	14.61
PAI1998	47.90	69.09	149.43	149.43	1.07	14.80	19.17	7.20	5.30	0.35
CAN1998	0.00	84.50	0.00	131.32	0.00	0.00	0.00	0.00	0.00	0.00
BAR2002	9.48	9.48	80.32	80.32	3.00	5.84	0.61	0.03	0.00	0.00
BAR2003	33.20	33.17	99.67	99.67	10.94	17.34	4.17	0.76	0.00	0.00
BAR2004	19.77	20.68	163.07	177.20	6.53	12.17	1.07	0.00	0.00	0.00
CPB1999	72.00	68.00	104.69	111.00	0.26	12.07	32.65	12.13	12.28	2.60
CMB2002	11.08	17.83	43.33	41.48	1.91	6.73	1.78	0.61	0.04	0.00
MUT2007	29.29	29.29	89.16	89.16	13.10	9.59	4.65	1.95	0.00	0.00
BUR1994	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SMJII2008	4.15	0.00	0.00	0.00	1.69	2.46	0.00	0.00	0.00	0.00
SMJ2002	9.68	0.00	81.86	0.00	2.04	6.47	0.96	0.21	0.00	0.00
TOTAL	29.86	30.78	113.83	107.74	4.31	11.35	7.68	2.73	3.04	0.74

5.2 ROADSIDE PRICES

The table 5.2.1 below shows the volume sold during 1Q2019, compared to the budget. A total of 20,736 cubic meters have been sold versus 20,500 originally budgeted for the period. The budget considered the benchmark price of October 2018 (Consufor) and the actual prices were updated in January, from the Consufor report from released in that month. The prices for each Consufor report are detailed in section 5.4.3.

Figure 5.2.1: Roadside Prices comparison 2019 YTD

	Volume (m ³)		RS Price (USD/m ³)		Diameter Point	
	Budget	Actual	Budget	Actual	Budget	Actual
15-20 cm	4,050	4,319	26	40	18.94	18.82
20-25 cm	4,720	6,701	74	72	22.45	22.72
25-30 cm	5,841	4,774	112	128	27.45	27.07
30-35 cm	2,574	1,895	146	159	31.28	32.34
35-40 cm	2,720	1,980	216	230	37.23	38.83
40+ cm	595	1,065	321	228	45.23	40.96
Weighted Average	20,500	20,734	110.40	109.27	29.66	26.90

Note: Incorrect billings in the 40+ cm class were identified, resulting in the lower price shown, and negatively affected the revenues in USD 17.5 k. The prices for the invoices in question will be adjusted, and paid in 2Q2019.

The table 5.2.2 below shows that the updated forecast using weighted average sales prices based on the most recent Consufor Report of March 2019. The YEE updated forecast assumes that these prices will apply for the remainder of 2019. Note that the prices are different from the Consufor reported prices, as they consider the forecast mix within the diameter range.

Figure 5.2.2: Road Side Price Assumption for the YEE

	RS Price (USD/m ³)	
	Budget	Forecast
15-20 cm	26	31
20-25 cm	75	69
25-30 cm	112	109
30-35 cm	150	146
35-40 cm	222	206
40+ cm	318	251
Grand Total	107.38	99.16

5.3 OVERDUE ACCOUNTS

No overdue accounts through March 31, 2019.

Per the Management Services and Timber Purchase Agreement, payment term for sales is 120 days. For export grades the payment may occur earlier if final export customers pay earlier, or if delivery time is shorter.

5.4 TEAK MARKET UPDATE

5.4.1 Brazil and India Economic Overview

The first quarter of the calendar year saw some FX volatility of the BRL and the Indian Rupee (INR). In Brazil this was largely driven by the expectations regarding on measures that the new Brazilian administration would take under Jair Bolsonaro, and particularly in regard to plans for pension reform, a key measure need for long term fiscal solvency. In India the FX rates have been appreciating, in part due to speculation around federal elections, including the presidency, beginning in April and to end on May 23rd. More generally, the USD have been stable vs most major currencies during 1Q2019 after the US Federal Reserve announced no change in its policy rates. TRC has been able to maintain its indicative CIF log prices rate for India remained throughout 1Q2019 and into April 2019, following the drops in prices in the over the course of 2018.

Trucker Strike – A lingering issue

As reported previously, in May 2018 Brazil was hit by a national trucker's strike, which lasted nearly 10 days in total, resulting in a substantial halting of economic activity, largely down to the lack of petrol, whose distribution is mostly done by truckers. The strike was only settled with the previous Temer Administration agreeing to price floors for freight rates, which most industry observers consider uneconomic, and has been subject to court challenges by various industry groups, including those in the forestry products industry, who argue that the measure is unconstitutional. No substantive conclusions have been reached, and both companies contracting freight and freight companies / independent truckers have been ignoring the price floor. The decline of diesel prices (the main rationale for the price floor) also took some of the bite out of the truckers demands.

The topic has thus been inherited by President Bolsonaro. Truckers were largely supportive of his candidacy during the elections, and Mr. Bolsonaro made a number of statements favorable to measures to help the truckers. Most recently, in a move widely criticized, the President requested that Petrobras (the national oil company, majority controlled by the federal government) refrain from increasing diesel prices. The diesel price freeze was quickly reversed, and some additional relief measures for the truckers were offered instead, however appear to have not been well received. The specter of new truckers strikes has now been raised, according to press reports. Politically, it would appear that the matter will only be settled in the courts, with no clarity in terms of the timing.

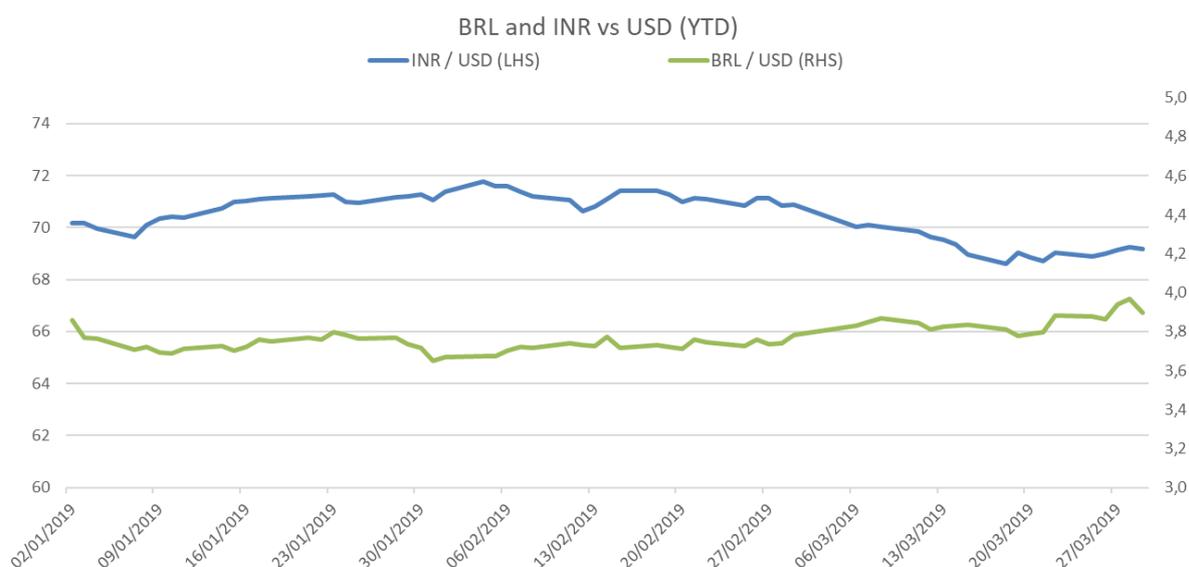
FSA has been closely monitoring developments. If the price floor is finally determined to be legal and binding, domestic freight rates would increase in Mato Grosso, and would result in lower roadside prices, all else equal.

BRL Depreciation

Overall, both the BRL and INR FX rates have been less volatile in 1Q2019 than they were during 2018. The BRL suffered some depreciation, with more intensity by the end of the first quarter as the markets reacted to the possible postponement of the pension reform. In India, while the first quarter saw several

important political events (change in top post of the RBI, leaked figures on unemployment, and local elections where the ruling BJP suffered important losses), all of which saw depreciation of the INR during most of the quarter, only to be reversed in March and ending the quarter below the opening rate.

Figure 5.4.1.1: Comparison between BRL/USD and INR/USD, YTD



TRC sees the BRL and INR FX rates as being driven by political events in 2Q2019 and going forward in the year. The success (or failure) of the Bolsonaro government in passing the pension reform proposal will be the main focus in Brazil, with success potentially signifying material appreciation of the BRL. In India, the outcome of the federal elections will be the main driver of FX, as the other macroeconomic indicators appear to be largely performing per the market's expectations. It bears emphasizing that, in the short term at least, the BRL impacts costs in USD terms, and so can impact stumpage results.

5.4.2 Teak Market

As expected by TRC and informed in the previous report, shipment volumes from Latin America to India fell as expected to their yearly low, due the onset of the rainy season in most supplier countries and it helped to reduce the stock levels in India to its lower level since January 2017, however, demand factors reported in last quarter persist, maintaining prices since the last reduction:

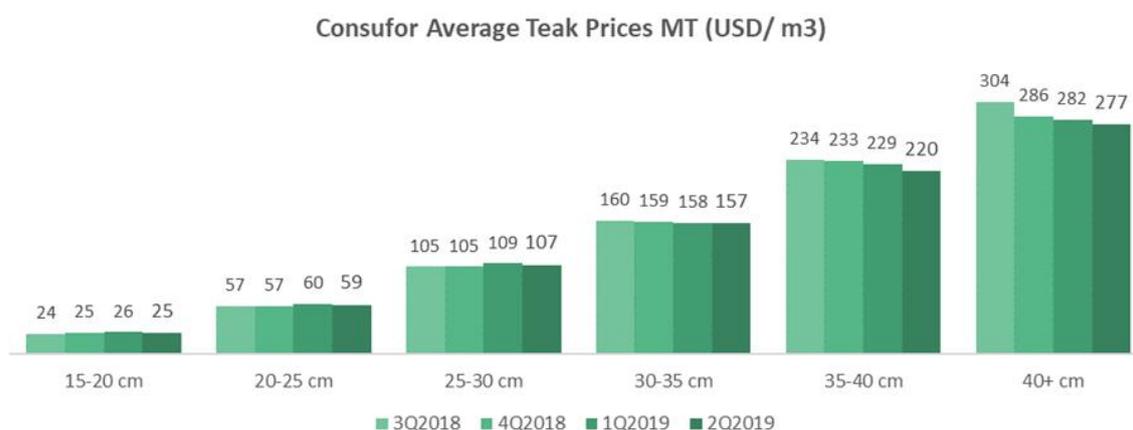
- INR/USD appreciation: as shown in the previous chart, there has been substantial appreciation of the INR over the first quarter of the year, but most heavily during the last month. This is releasing the pressure on importers, who sell on in INR, and need to pass this on to final buyers. As a new FX rate level is not yet clear, importers are in some cases pricing in the uncertainty.
- Importers are still facing difficulties on accessing credit since the bank fraud in March of 2018. Current Letters Credit cost more than the import lines offered previously;

5.4.3 Roadside Price Benchmarking

TRC has contracted third-party consultant Consufor to assess Teak prices in the Mato Grosso on a quarterly basis. Consufor interviews companies in the region, and its most recent survey consisted of 76 prices samples from 25 companies (excluding TRC and outliers), weighted by traded volume. It is important to highlight that Consufor has not differentiate between log length classes, nor considered

quality characteristics for the assortments in their survey, which in practice can result in differences in actual commercial prices.

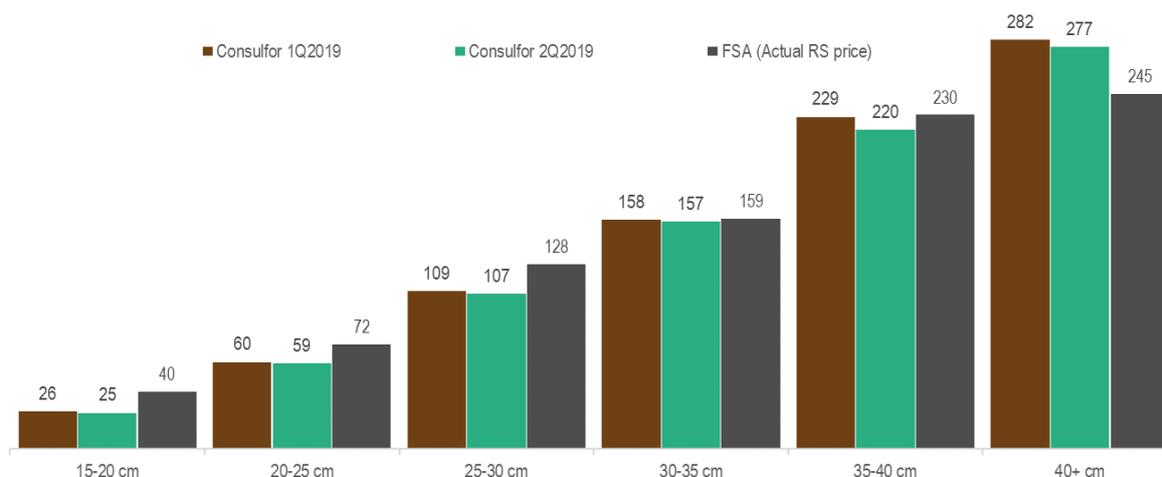
Figure 5.4.3.1: CONSUFOR Average Teak Prices MT (USD/ m3)



Consufor’s most recent report was released in early April of 2019, based on survey data taken in March (shown as 2Q2019 in the chart above). Log prices for diameters between 15-20 cm until 30-35 cm have suffered a minor decrease of 1.95% on average, and log prices for diameters above 35-40 cm have suffered a higher decrease of 2.8% on average.

In Figure 5.4.3.2 below, is a comparison between prices (all grades and sizes) of the Consufor averages for 4Q2018 and those obtained YTD from the Floresteca S.A properties.

Figure 5.4.3.2: Floresteca S.A. (1Q2019) versus CONSUFOR roadside prices (USD/m³)



Note: Incorrect billings in the 40+ cm class were identified, resulting in the lower price shown in Figure 5.2.1. We have corrected the price here, to reflect how the billing prices should have been. As indicated earlier, the prices for the invoices in question will be adjusted, and paid in 2Q2019.

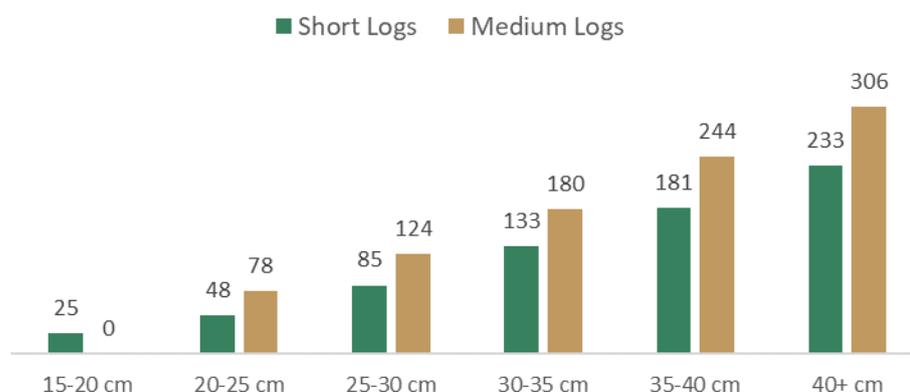
Note that the FSA prices are higher than the Consufor prices across all grades, with the exception of the 40+ diameter logs. (The 40+ cm log sales in 1Q2019 had incorrect billings, and an adjustment will be made in 2Q2019. The prices shown here correct this error, to facilitate the comparison). The main reason for the divergence in Floresteca SA log prices vs those of the Consufor 1Q and 2Q price reports are due to the average diameters of Floresteca SA log sales. Floresteca SA 40+ records were of assortments

close to the minimum of this range (typically to 40 to 45 cm), whereas the Consufor figures would assume diameters closer to the middle of the this range.

FSA diameter point	
15-20 cm	18.8
20-25 cm	22.7
25-30 cm	27.1
30-35 cm	32.3
35-40 cm	38.8
40+ cm	41.0

Consufor has also published for the first time a new analysis approach of teak wood roadside prices split into short logs (up to 2.3 m in length) and medium logs (up to 5.8 m in length). It is very common for logs to be traded in these different length categories, and their prices differ, as the measuring point and wood volume is distinct for each length category. In the Consufor survey used to date (and continued in the most recent report), the logs of different length classifications have been grouped together. In the chart below, the log prices by log size from this most recent report are shown:

Figure 5.4.3.3: CONSUFOR average Teak Prices MT by log size (USD/m³)



It is visually clear that the medium logs command a higher price than short logs of the same diameter class, which is to be expected, as the longer log contains a higher volume of wood.

To maintain continuity with the budget and reporting to date, the combined Consufor prices will continue to be used as the main reference, but we will include this additional information on price differences by size, as it allows for a more accurate view of actual market practice.

6 THINNING & HARVESTING

6.1 COST OF PRODUCTION

The table below shows the actual versus budget comparison for harvesting (production) cost. The actual cost per cubic meter sold in 1Q was USD 26.73 versus USD 22.37 in the budget.

The 1Q2019 cost per volume was unfavorable to budget due to main reasons. Project Buriti and Araras are less productive than other farms, and greater than normal rainy weather in February and March, negatively contributed to harvesting and forwarding operations.

For the updated forecast through the end of 2019, the Cost of Production is expected to be USD 23 versus USD 22 in the budget. The dry season, beginning in May, allows for more a predictable and greater yield in operations, resulting in lower costs per unit.

Sales expenses refers to taxes on sales, specifically federal sales taxes on sawmill grade log sales.

Figure 6.1.2: Harvesting Cost, per activity:

		Budget YTD	Actual YTD	Budget FY
Tree Selection	BRL	27,397	587	194,406
Harvesting	BRL	355,477	585,532	1,722,443
Forwarding	BRL	584,405	760,061	2,629,868
Lot Formation	BRL	156,871	174,082	912,204
Loading	BRL	135,017	125,000	609,287
Tax	BRL	234,059	298,104	1,092,500
Total	BRL	1,493,226	1,943,366	7,160,708
Sales Expenses	BRL	249,344	163,000	1,007,282
Commercial Vol.	m ³	20,500	20,734	95,735
BRL/m ³		85.00	101.59	85.32
BRL/USD rate		3.80	3.80	3.8
USD/m ³		22.37	26.73	22.45

7 FOREST MANAGEMENT

The figure below shows the budget and actual forest activities for the first quarter of 2019 operations. The most relevant activities are commented in the following subsections.

Figure 7: Forestry Operations YTD

Activity Group	un.	Status	Total Cost (BRL)	Quantity (un.)	Unitary Cost (BRL/un.)
Pruning	ha	Actual	7,9K	16,4	484,3
Weed Control	ha	Actual	17,6K	75,4	233,1
Sprout Control	ha	Actual	62,5K	258,1	242,1
		Budget	72,6K	368,0	197,3
Stump Removal	ha	Actual	931,1K	718,6	1.295,8
		Budget	385,8K	250,5	1.540,0
Soil Preparation	ha	Actual	0,9K	0,0	0,0
Firebreaks	ha	Actual	71,8K	111,1	645,9
Inventory	parc	Actual	14,6K	38,0	384,3
		Budget	9,7K	141,0	68,9
Operational Suport	-	Actual	155,1K	0,0	0,0
		Budget	341,5K	0,0	0,0
Research	-	Actual	2,5K	0,0	0,0
Roads	km	Actual	27,1K	10,8	2.500,0
		Budget	22,5K	7,5	3.000,0
Total		Actual	1.291,1K	1.228,4	
		Budget	832,1K	767,0	

Overall forestry costs were higher than the budget for the year to date, at USD 1.290 k versus USD 832 k per the budget, essentially due to the costs for stump removal. The most relevant activities are commented below:

7.1 STUMP REMOVAL

With the winding down of final harvesting, stump removal activity was concentrated at Buriti farm. Originally, the stump removal was to happen more evenly distributed over the year, however, the majority was done during 1Q2019. The unit cost per hectare is 16% below budget so far. We nonetheless expect that the activity will track the original budgeted amount.

7.2 SPROUT CONTROL

The activity has been done at Paraíso Farm and the total cost is line with budget.

7.3 WEED CONTROL

Prior to harvesting, the field team verified the need to do mechanized weeding, to improve the safety of the subsequent operations on the Bocaina and Araras farms. The activities were not originally planned for these farms.

7.4 FIREBREAKS

Firebeak maintenance activity was carried out at Bocaina, Duas Lagoas, Araras and Santa Fé farms. The objective was to facilitate access for the subsequent harvesting activity. The activity was not originally budgeted for 1Q2019.

8 COMPLIANCE & LEGAL ISSUES

The text that follows provides the historical context and present situation of each outstanding case.

8.1 PARAISO FARM

Issue 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 effect. After being subpoenaed by the Mato Grosso State Court, which held that the plantation area was considered abandoned, the court issued a preliminary decision in August 2016 granting land possession to the plaintiff. However, the preliminary decision did not consider the Usufruct Agreement void, and Floresteca challenged the preliminary decision in the Mato Grosso Superior Court. In May 2017, the Superior Court reversed the initial decision in favor of Floresteca, who has been granted the right to continue under the Usufruct Agreement. Following the court decision and after a relatively short disturbance in the work planning, the maintenance teams of FSA resumed activities at Paraiso. FSA has filed final allegations with the court and was informed in July/2018 that the judge has nominated an expert for the case. We have filled the requirements for the forensics and information requested by the judge. After the judicial investigation, Floresteca presented its own divergent partial report for the judge's analysis. Floresteca is now awaiting final decision.

8.2 MUTUM FARM

Issue 1: The Mutum farm was invaded by the MST Landless Movement in 2011. The owner of the property (LHS) filed a court order to remove the squatters in the same year. The judge ruled in favor of LHS on June 27, 2011. The squatters spontaneously left the farm, however, they have repeatedly invaded the property over time, motivating the hiring of a private security guard. Prosecutor's Office has filled an opinion which does not materially change the lawsuit. We are waiting for court appointment and/or final decision.

Issue 2: In 2012, the National Agrarian Reform Institute - INCRA, initiated an administrative process aimed at the expropriation of the property, alleging that the property was not being used productively. In (March 27, 2012) LHS filed for a withdrawal of the process in the Federal Court, at Cáceres-MT. On March 28, 2012, the judge decided to suspend INCRA's administrative procedure. Subsequently, on January 09, 2015, a technical opinion declared the property as productive. A Court Hearing was held on November 9th, 2017, where FSA's testimonies were heard to clarify the facts. The Court finally decided in favor of LHS, on 12/18/2018, declaring the farm productive. This decision can be appealed by INCRA.

9 APPENDIX

9.1 PROPERTIES AREAS BREAKDOWN AT DECEMBER 2018:

Project	Year	SATT	LUD	Total
Burií	1994	307,91		307,91
Paiolandia	1997	210,44	87,48	297,92
Paraíso	1997	524,04	31,01	555,05
Bocaina	1998	351,53		351,53
São José da Canastra	1998	44,62		44,62
Paiolandia	1998	93,95		93,95
São Judas Tadeu	1998	26,76		26,76
Araras	1999	78,30	20,58	98,88
Bambu	1999	549,07		549,07
Bocaina	1999	108,18		108,18
Cassange	1999	88,49		88,49
Capim Branco	1999	507,87		507,87
Serra das Araras	1999	104,01	1,00	105,01
Vale Dourado	1999	48,59		48,59
Bambu	2000	476,09	37,74	513,83
Duas Lagoas	2000	1.527,51		1.527,51
Duas Lagoas	2001	1.760,42		1.760,42
São Miguel	2001	97,52		97,52
Barranquinho	2002	776,15	194,05	970,20
Cacimba	2002	456,87	114,21	571,08
Duas Lagoas	2002	48,41		48,41
São Miguel	2002	5,71		5,71
Santa Maria do Jauru	2002	1.085,18		1.085,18
Barranquinho	2003	10,36	2,59	12,95
Cacimba	2003	8,15	2,04	10,19
Santa Maria do Jauru	2003	207,87		207,87
Santa Fé	2003	2.562,71		2.562,71
Barranquinho	2004	1.021,00		1.021,00
Terra Santa	2004	1.134,45	8,72	1.143,17
Duas Lagoas	2005	207,67		207,67
Duas Lagoas	2006	233,88		233,88
Mutum	2007	539,18		539,18
São José	2007	301,30		301,30
Santa Maria do Jauru II	2008	99,87		99,87
Total		15.604,06	499,42	16.103,48

*LUD refers to "Land Use Deals", and the hectares belonging to the land owners of the projects on which the teak is planted.