QUARTERLY MANAGEMENT REPORT

- Floresteca S/A -

Calendar Year 2017
2nd Quarter (Jan/17 to Jun/17)

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1. PROPERTY SUMMARY

This management report has been prepared by Floresteca S/A. Floresteca S/A is located in the State of Mato Grosso where it's estate is made up of 17,634.57 hectares of *Tectona Grandis* (Teak), planted on 52,862.74 of leased land, and composed of 23 individual farms planted between 1994 and 2008, as per 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 management, Floresteca S/A (FSA) has engaged Teak Resource Company S/A (TRC) to perform management services to 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 Mutum 2007 (MUT) and São José 2007 (SAJ) farms are to be thinned in 2017. Both areas have reached 18 m²/ha of basal area, which indicates 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, 2016, and was finished in mid-January of 2017. 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 to be thinned, but as they still present lower basal area (~15 m²/ha), their thinnings will occur later this year.

Map 1: YTD – Thinning per stand, Mutum 2007

The thinning at the São José farm started in February and were completed during 1S2017.

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

All production from the thinnings on these farms was sold as short logs (2.3m). Only logs above 18 cm at the small end have commercial value to be exported or processed in a sawmill. Below 18cm, the logs only have value as firewood, and are left on site, where they may be sold when dry, and depending on market demand for energy biomass. Production in both projects are finalized for these stands.

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 at Pimental began in September 2016. This is the most important operation in the lifecycle of the project, as it is when the most valuable timber and most of the revenues are generated.

The selection of which areas are to be harvested is done through a optimization process, which considers 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 Buriti. 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.

At the Buriti farm, stands 001, 002, 013 and 014 were started (191 ha of 592,29 ha), but have not been finalized, with more wood to be extracted from them in the coming months.

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

The Pimental farm had 535 hectares harvested during 1S2017, and is expected to be completed by the end of August this year, with sales occurring into October.

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

The stands 001A, 001B, 002, 026, 027 027A and 027C were performed in 2016.

3. FORESTRY MANAGEMENT

The main groups of sylvicultural activities are pruning, sprout control and weed control, which will be described hereunder. Table 1 below shows the activities performed and number of hectares on which they were performed for each individual farm in 1S2017.

Table 1 – YTD capital forestry activities, per forest

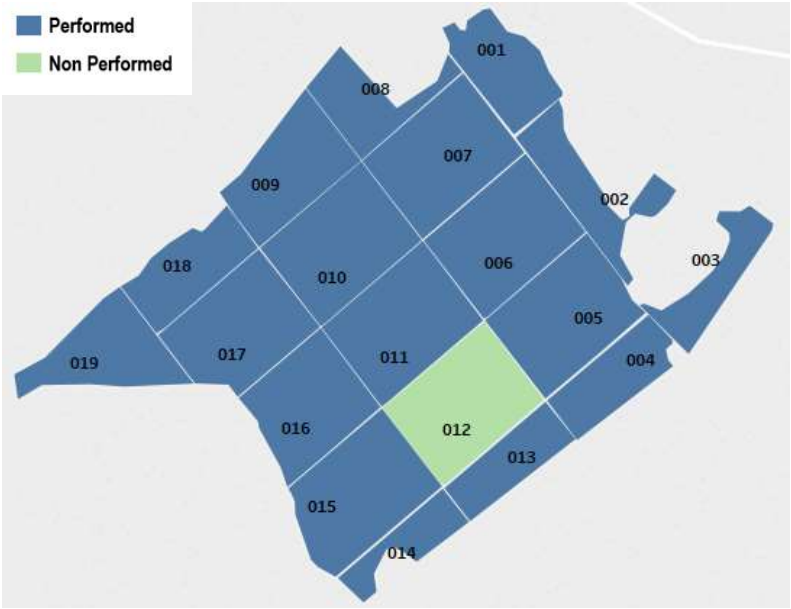
Activity	Project	Unit	Quantity
Pruning	MUT	ha	490.80
	PAR	ha	154.20
	BAR	ha	86.80
	STF	ha	13.20
Sprout Control	MUT	ha	609.70
	BAR	ha	200.30
	PAR	ha	135.00
	SMJ	ha	124.70
	SMJ II	ha	89.90
	CMB	ha	59.10
	STF	ha	16.60
	ARA	ha	4.00
Weed Control	PIM	ha	327.3
	SMJ	ha	76.60
	BAR	ha	61.90
	CMB	ha	34.00
	PAI	ha	27.00
	BUR	ha	20.00
	PAR	ha	11.00
	CAS	ha	8.00
	SMJ II	ha	7.00
	MUT	ha	6.00
	ARA	ha	3.00
	TST	ha	2.50
	SIL	ha	1.00
	STF	ha	1.00
Total			**2,570.60**

3.1. PRUNING

Pruning aims to eliminate the branches of the trees that do not contribute to its growth, as well as to reduce the formation of knots. This activity is very important in the determination of future wood quality, and results in a better shape and marketability of the logs,

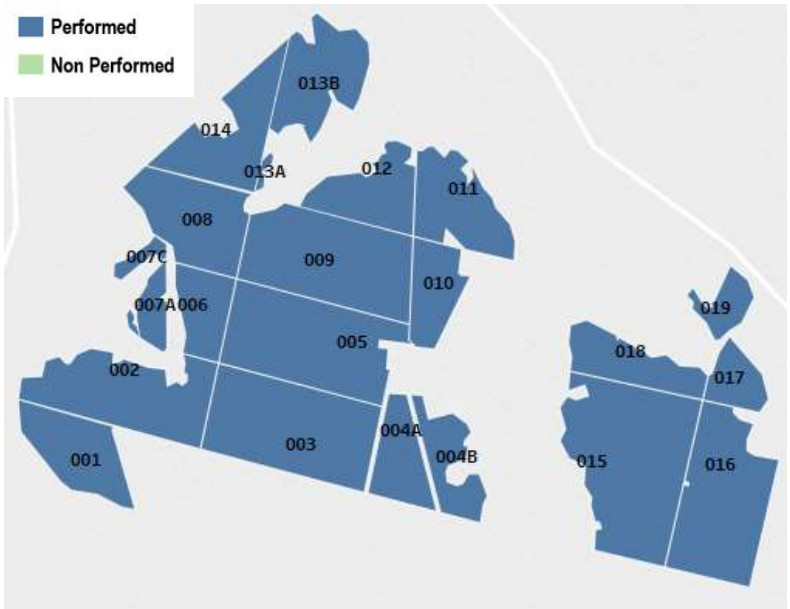
The most relevant pruned areas are presented below:

Map 5: YTD Pruning per stand, Mutum 2007

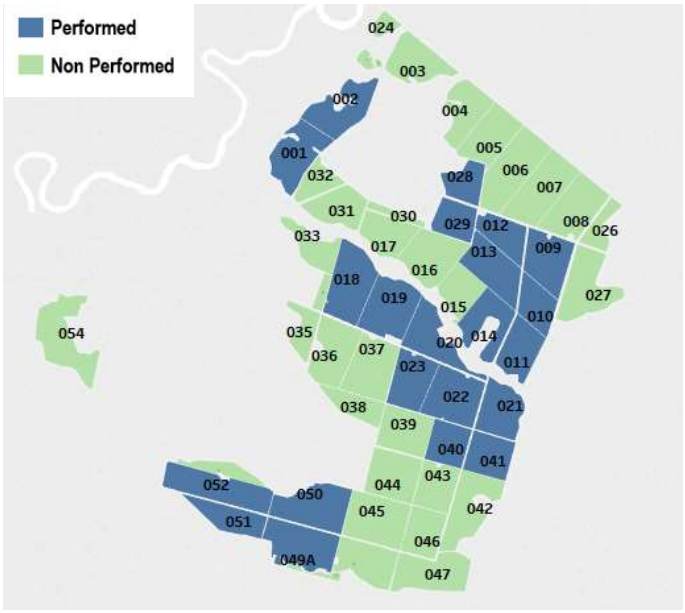


Pruning will be concluded in 2S2017.

Map 6: YTD Pruning per stand, Paraíso 1997



Map 7: YTD Pruning per stand, Barranquinho 2004



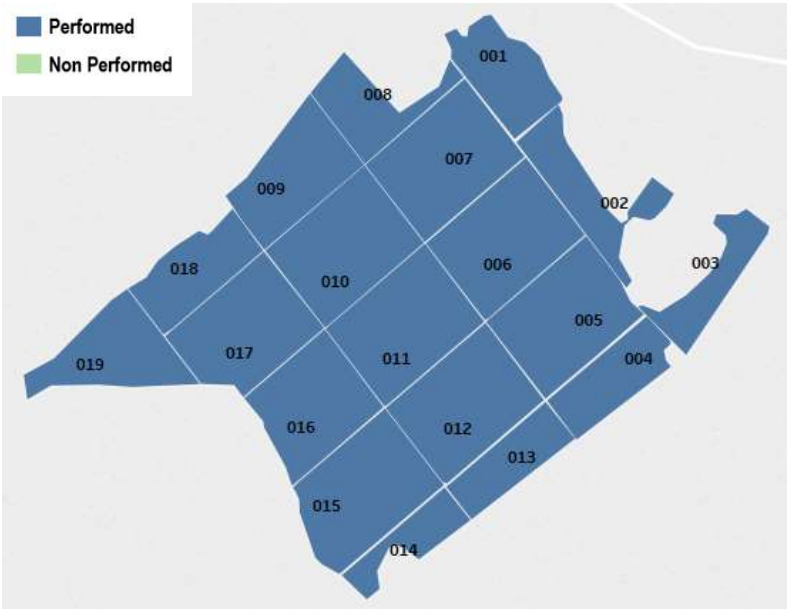
This activity was executed on the border of each stand, which represents about 17% of the area. The stands 025A, 025B, 041, 042, 043, 045, 046, 047, 048ª and 050 were performed in 2016.

3.2. SPROUT CONTROL

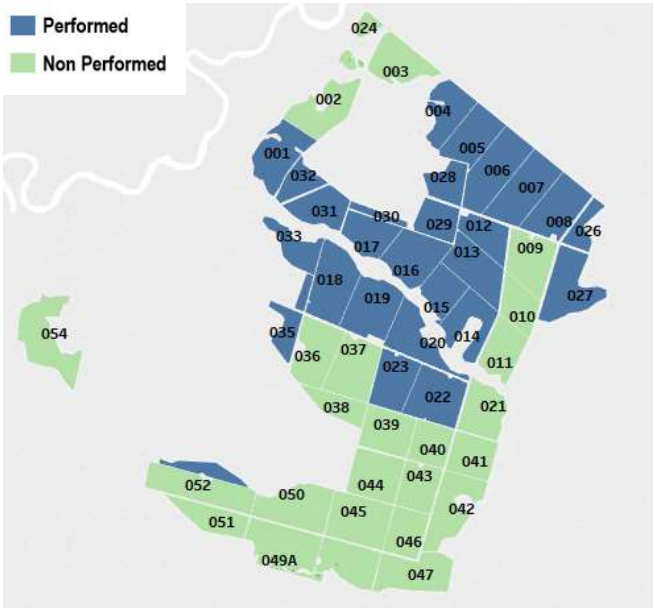
With the opening of the canopy following thinning, the stumps of the removed trees tend to re-sprout and may result in competition with the remaining crop trees. Sprout control involves eliminating sprouts from thinned trees, allowing the remaining trees to grow without this competition.

The most relevant areas performed are shown below:

Map 8: YTD Sprout Control per stand, Mutum 2007



Map 9: YTD Sprout Control per stand, Barranquinho 2004



The stands 002, 003, 009, 010, 011, 024, 025A, 025B, 040, 042, 043, 045, 046, 047, 048A, 049A, 050, 051, 052 and 054 were performed in 2016.

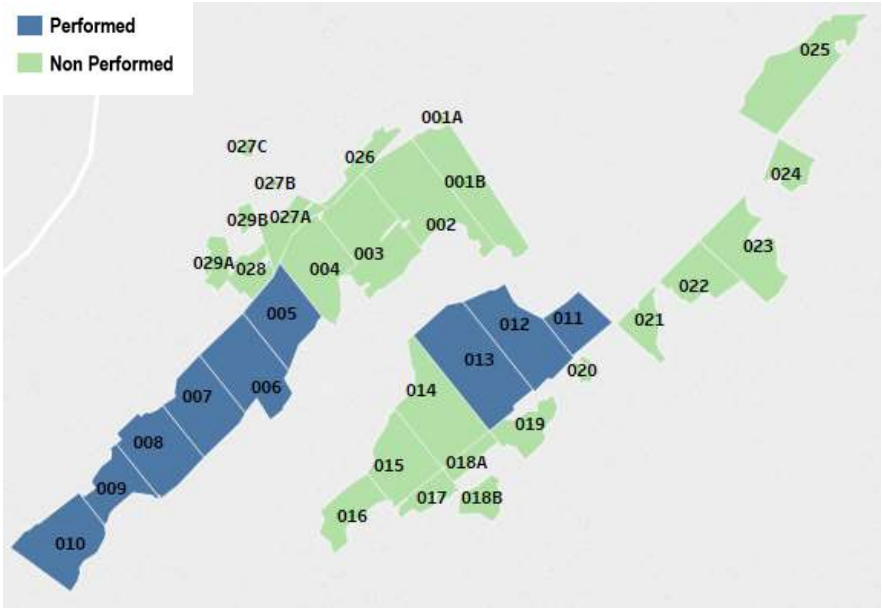
Map 10: YTD Sprout Control per stand, Paraíso 1997

3.3. WEED CONTROL

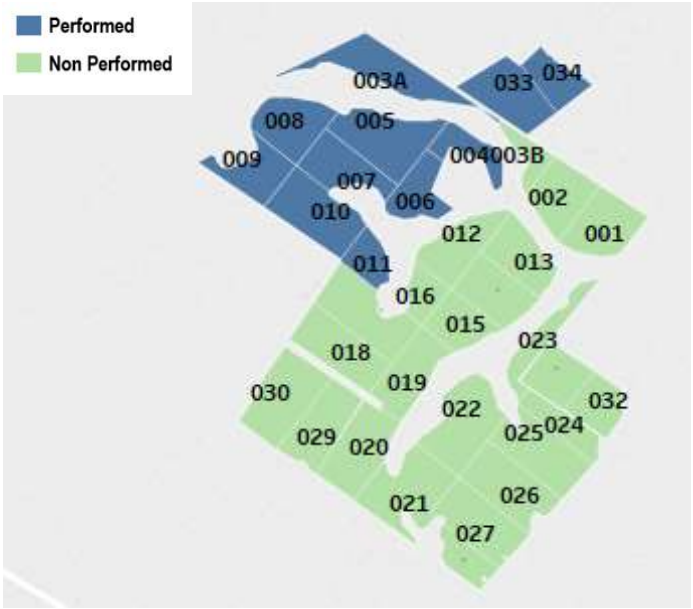
Weed control consists in the prevention of infestations of invasive plants to avoid competition for resources, such as sunlight, nutrients and water. The activitiy is normally done manually, and can be chemical (with dorsal spray tanks) or mechanical (hoe and/or sickle).

The most relevant areas performed are presented in details in the maps hereunder:

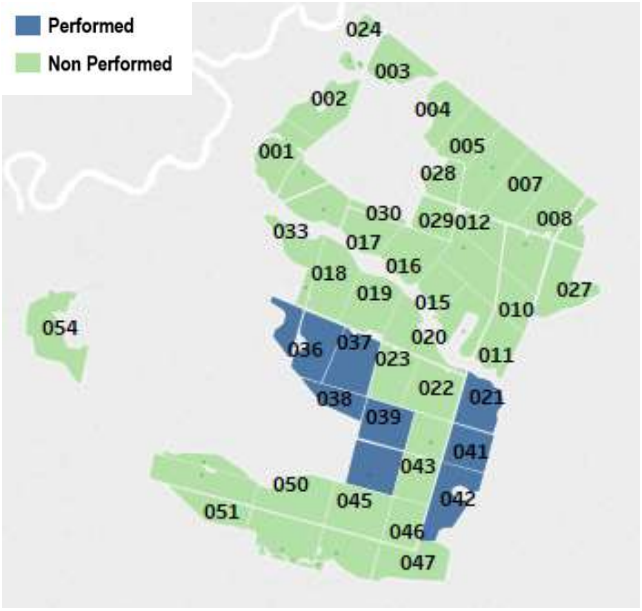
Map 11: YTD Weed Control per stand, Pimental 1996



Map 12: YTD Weed Control per stand, Santa Mª do Jauru 2002/3



Map 13: YTD Weed Control per stand, Barranquinho 2002/3/4



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 32,317,01 m³ with a weighted average price (at roadside) of USD 99/m³. The time difference from forwarding to sales is at least of 30 days for drying and loading.

Table 2 – YTD Sales (volume & values)

Planting Year	Project	Intervention	Total Area (ha)	Volume Sold (m³)	Gross Revenue (USD)			
					Export	Local	Sawmill	Total
1994	BUR	FC	592.29	1,445.63	50,152.12	2,513.76	34,873.16	**87,539.05**
1996	PIM	FC	693.42	19,545.12	2,358,118.77	80,099.45	304,833.77	**2,743,052.00**
1995	SIL	FC	582.80	132.03	24,243.45	0.00	0.00	**24,243.45**
2004	TST	2T	1,143.17	648.96	129,792.40	0.00	0.00	**129,792.40**
2007	MUT	2T	539.18	1,891.82	0.00	0.00	77,936.74	**77,936.74**
2007	SAJ	2T	301.30	8,653.46	0.00	0.00	139,290.01	**139,290.01**
Total			**3,852.16**	**32,317.01**	**2,562,306.74**	**82,613.22**	**556,933.68**	**3,201,853.64**

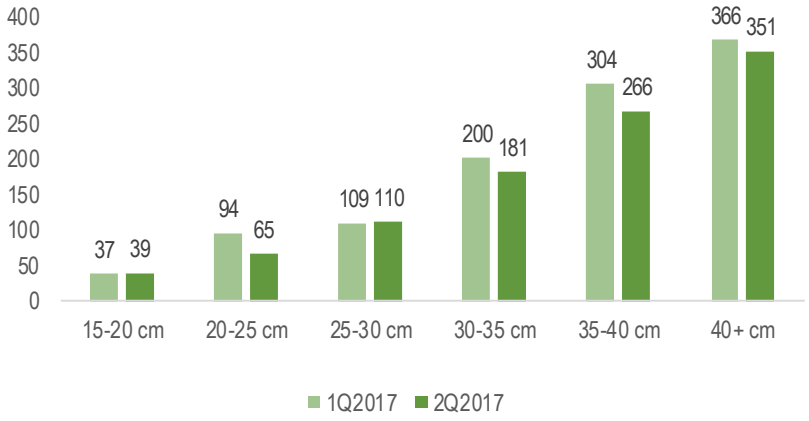
FC = Final Cut
2T = Second thinning
Gross Revenues = revenues before applicable costs including:

- Harvesting costs FC (cutting, forwarding, making land root free)
- Agreed maintenance and general management fees;
- Incentive fee of 5% to FSA;
- Applicable local taxes.

The maintenance and general management fees agreed between Floresteca S.A. and SATT are USD 4,500 for a 20 year rotation project and USD 7,500 for a 20 year rotation project (Agreed fees) . Most of the maintenance and general management activities have been outsourced to TRC and hence reaping the benefits of the scale and knowledge of TRC, whom is serving an international multi-client base. The combined costs for maintenance and general management by Floresteca S.A. and TRC are capped at Agreed fees.

Log prices are determined based on roadside prices in Mato Grosso. As the market for teak logs is largely private and fragmented, Floresteca 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 reports are done quarterly, with the first done in January 2017, and a second done in April 2017. Both were based on based on a sample of respondents, most which are forest owners, but also included some sawmills and traders. Below we show the prices for both months:

Figure 1: CONSUFOR average Teak Prices in Mato Grosso (USD/m³)



Note that prices declined in the second quarter for particularly for the higher diameter classes. Per Consufor, prices were impacted by the rainy season in Mato Grosso, which was the subject of quality issues, as there is the greater possibility of bark damage. Some respondents also cited competition from other supplying countries whose logs are being harvested in the dry season.

5.2. TROPICAL HARDWOOD AND TEAK MARKET UPDATE

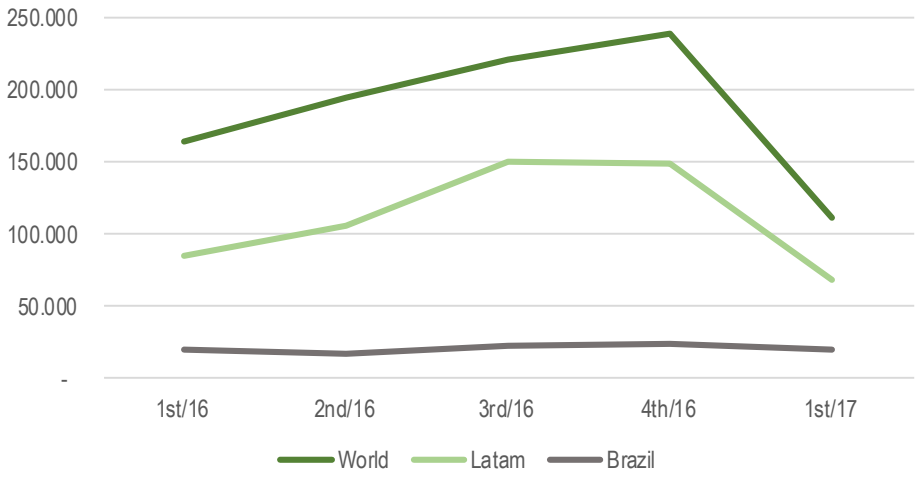
Principal markets for tropical logs

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 Latam suppliers (Brazil, Ecuador, Costa Rica and Panamá), and Brazil individually:

Figure 2: India Teak Log Imports, Volumes (m³)



Overall teak log import volumes declined in 1Q2017, in part due to the impact of the Indian government's Demonetization program, which resulted in a temporary squeeze on liquidity. By the end of 1Q2017 this appeared to have normalized. Also, phyto-sanitary restrictions India introduced for log imports impacted many other supplier countries (though Brazil was much less affected by this). Overall teak log imports were down nearly 16% vs 4Q2016, but were up 3.3% over the same quarter a year earlier. Indian makes its import data available with a 2 to 2.5 month lag, therefore we do not yet have 2Q2017 information.

6. COMPLIANCE & LEGAL ISSUES

6.1. 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 with the Usufruct. Following the court decision and after a relatively short disturbance in the work planning the maintenance teams of FSA where able to start their operational activities at Paraiso again.

6.2. MUTUM FARM

Issue 1: 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 2011). The judge ruled in favor of the LHS (in June, 27, 2011). The MST has repeatedly invaded the property over time, motivating the hiring of a private security guard.

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, Cáceres-MT. In (March, 28, 2012), the judge decided to suspend the administrative procedure. Subsequently, in (January, 09, 2015) 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**