

QUARTERLY MANAGEMENT REPORT



- Floresteca S/A -

Year 2018
2nd Quarter (Jan/18 to Jun/18)

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PROPERTY OVERVIEW

Floresteca S/A is located in the State of Mato Grosso, where it manages 17,460.29 hectares of *Tectona Grandis* (Teak) at December 31th 2017, 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.

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

1 EXECUTIVE SUMMARY

Several significant macroeconomic developments impacted operations in 2Q2018. In Brazil, a trucker's strike in late May severely impacted logistics operations nationally, and may result in some increases in domestic freight costs, though this will likely be felt mostly in 2S2018. Sales were delayed, even though most forestry operations were not substantially affected. The delayed sales should be made up over the course of June and July. The BRL also experienced a substantial devaluation vs the USD, more than most other EM currencies, and most relevantly less than the Indian rupee (INR). In India, the tightening of credit conditions following a high-profile default hitting the largest banks, and overall growth of non-performing loans in the banking system, also impacted sales in this key market. As a result, sales suffered some delays, as clients needed additional time to arrange working capital for payment, and some reduction in final CIF prices over the full range of log sizes. Towards the end of the quarter, sales had largely resumed their normal pace and timing. These factors are discussed in greater detail in the market update in section 5.4.

The forest areas under FSA management received substantially higher rainfall than normal during the first quarter of 2018, and this higher rainfall directly impacted forestry and harvesting activities. Forestry activities such as land clearing and sprout control had higher than budgeted unit costs, given the more difficult operating environment, and in some cases work had to cease until the rain ended. Harvesting activity was similarly hindered by the rains, as well as by some unanticipated maintenance arising out of equipment upgrades at the sawmill. The harvesting teams prioritized areas with more export logs during the 1Q2018, but could catch up on the projects with more sawmill volume during the dry season, beginning in 2Q2018.

For Floresteca S.A., the negative effects of the strike were partially offset by better than expected forest yields on the projects whose harvesting was completed, as well as carry over of sales revenue originally expected in 2017. On the whole, year-to-date (YTD) actual results are worse than forecast, however, our updated year end estimate (YEE) is for a better final result than originally budgeted.

As stated in Figure 1 the year end Earnings Before Interest, Taxes and Depreciation & Amortization (EBITDA) is expected to be USD 3,057 k versus the USD 2,692 k budgeted or a favorable variance of USD 365 k (14%). The main driver for this variation relates to the sales revenues which was budgeted at USD 9,884 k and is now estimated in USD 10,634 k or USD 749 k higher than budgeted. The major factors contributing to the YEE result are listed below:

- The higher than expected volumes from the Cocal, Tenda and Silas farms on 1Q2018 (8.280 m³ in additional volume);
- Higher sales price in small grade logs;

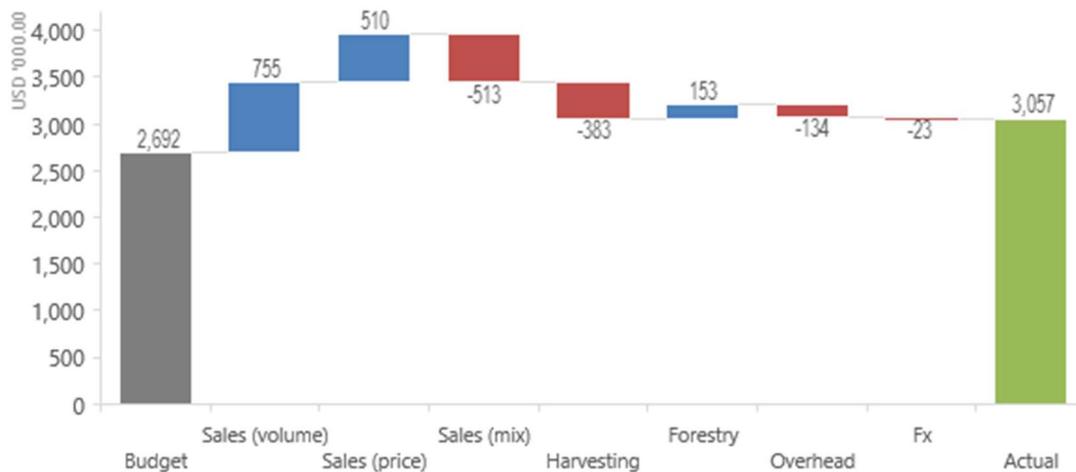
Although, the result will be partially offset by:

- A lower projected volume for the 2S2018 (2,897 m³ or 7.4%), due to the more adverse market conditions in India, which partially offset the extra volume;
- A poorer sales mix due to a proportionally lower volume in higher grade logs;
- Harvesting costs will also be higher on an absolute basis, as the volume sold will be higher than budgeted (see details on section 6).

Other minor factors that will impacted results are:

- Forestry savings came from lower soil preparation activity on finalized projects;
- Overhead will be unfavorable to budget due to increases in payroll expenses, advisory and auditing and legal fees.

Figure 1: Year End Estimated EBITIDA vs. Budget, main differences (USD, '000s)



As shown in figure 2 below, the 2018 year to date EBITDA was USD 578 k vs USD 1,051 k budgeted, or an unfavorable variance of USD 473 k.

Most of this result was affected by sales revenues unfavorable variance of USD 361 k. The main reason for this difference refers to lower than expected log sales (7,424 m³) due to:

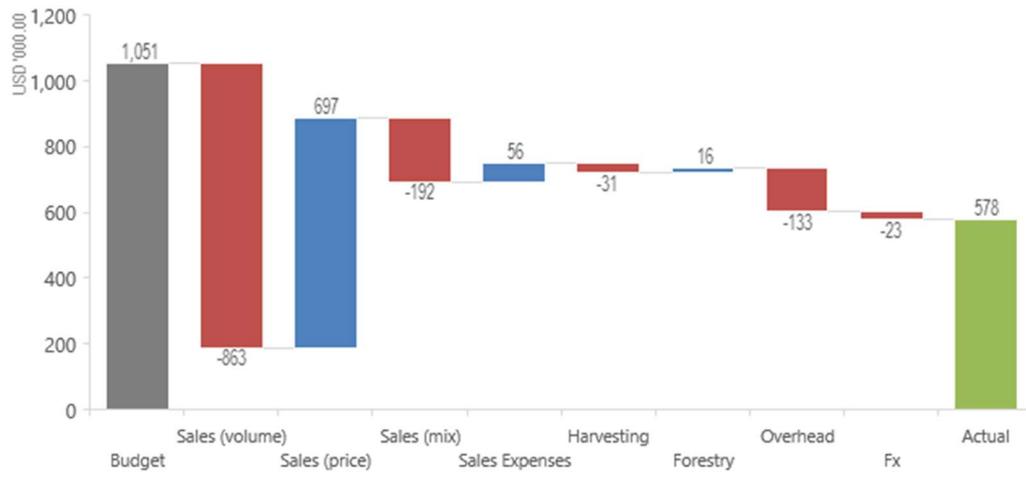
- Harvesting lost 20 working days in 1Q due to unusually high rainfall, resulting in lower than planned volume;
- Delayed sales caused by the trucker strike in late may (around 15 days due to the strike itself, as well as more complicated logistics in its aftermath, widely affecting agribusinesses operating in the region).
- As consequence a total of 15,7 k m³ originally budgeted to be sold on Q12018 are now expected to be sold in 2S2018, although, due to commercial restriction in India there will be a volume discount of 2,9 k m³, so the displacement expected for 2S2018 is 12,8 k m³.
- Together, these factors were responsible for a negative revenue impact of USD 1,3 M (see section 2.2 for further details);

The lower volume was partially offset by the volume carried over from 2017 (8,3 k m³) resulting in additional revenues (USD 930 k) as well as higher volume than budgeted from some of the areas that completed their harvesting (section 2.2 for further details). Additionally, higher weighted average roadside prices had a favorable contribution to budget (budgeted prices for small diameter logs conservatively used the minimum Consufor benchmark prices, while the actual prices were the average)

Other minor factors that impacted results were:

- Overhead was unfavorable to budget due to increases in payroll expenses, advisory and auditing and legal fees.
- Harvesting costs were higher than budgeted (by USD 31k) due to higher than expected social security tax (INSS) over harvesting services. (see section 6);
- Sales Expenses was favorable due to lower Taxes on Sales. Most of this favorable result was affected by sales revenues unfavorable variance of USD 361 k.

Figure 2: Year to Date (YTD) EBITDA vs. 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: 3.32 1Q and 3.86 2Q) was adjusted to the budgeted rate (BRL/USD 3.24), with the difference to actual shown as a line item factor. In the table below, we updated our revised year end estimate (YEE) and compare to the budget for the full year:

Table 1: Consolidated Annual Summary

Budget Item <i>Values in USD</i>	2018	2018
	YEE	Budget
BRL/USD FX Rate	3.24	3.24
Biomass Sales (m ³)	732.85	0.00
Log Sales (m ³)	76,128.07	70,745.00
Revenues		
Biomass	2,860	0
Logs	10,634,116	9,884,637
Sales Revenues	10,636,976	9,884,637
Sales Revenues per unit (m³)	139.72	139.72
Production Costs		
Logistics ¹	-6,272	0
Taxes on Sales	-349,063	-358,235
Sales Commission ¹	-3,786	0
Harvesting	-1,784,321	-1,401,500
Total Costs of Production / Sales	-2,143,443	-1,759,735
CoP / Sales per unit (m³)	-28.16	-24.87
Total Net Revenues	8,493,533	8,124,902
Stumpage Revenue per unit (m³)	111.57	114.85
Operating Expenses		
Forestry Costs	-2,174,054	-2,326,658
Overhead Costs ²	-3,239,503	-3,106,316
Cattle Costs	0	0
Fees (management/performance)	0	0
Fx gain (loss) to Actual	-22,887	0
Total Operating Expenses	-5,436,444	-5,432,974
EBITDA	3,057,089	2,691,927

Note¹: Logistics and Sales Commission: The general agreement is to sell logs on roadside terms whereby Logistics and Commissions is at cost of the buyer. In some cases where it is advantageous to do so, however FSA carried the costs of Logistics and Sales Commission and increased the price accordingly;
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 before logistics, taxes on sales, sales commission and harvesting

EBITDA estimated for the Year End (YEE) is USD 3,057 k vs USD 2,692 k budgeted, a favorable variance of USD 365 k. The main driver for this variation relates to the sales revenues which was budgeted at USD 9,884 k and is now estimated in USD 10,634 k or USD 749 k higher than budgeted. The increase is due to higher volumes and better prices for the small girth assortments, however a poorer sales mix partially offset the previous increase.

Table 2 shows the cash summary to the year-end versus the full year budget. Stakeholder Distribution refers to the capital flows (loan repayments) sent/received during the year.

Expected closing cash by the year end is USD 6,1 M versus a USD 8,8 M budgeted. Most of this difference is due to the partial payment of 2016 Harvesting Report (2016 HR) amounts totaling USD 2,3 M (greater detail on the Harvest Report payments is provided in section 2.4); note that the HR payment estimation is not included on table 2. Netherlands G&A expenses of USD 1.3 M for the year are higher than budgeted, in large part due to the restructuring in process at FBV.

For Operations, the difference from YEE to Budget is mostly due to higher than budgeted reforecasted revenues, which consider a higher prices and greater sales volumes.

Capital Expenses (Capex) refers to LUD (Land Use Deal) payments to the owners of the land on which the teak forests are planted.

Table 2: Cash Summary

	BRL		USD	
	YEE	FY Budget	YEE	FY Budget
BRL/USD FX Rate			3.24	3.24
Opening Cash	25,477,959	25,477,959	7,863,568	7,863,568
Stakeholder Distributions	-11,458,097	-1,944,000	-3,536,450	-600,000
Increase / (Decrease) in Financial Exp. ²	-516,789	-592,841	-159,503	-182,976
Increase / (Decrease) from Operations	10,103,394	7,519,380	2,467,428	2,320,796
Increase / (Decrease) CapEx	-1,607,440	-1,684,926	-496,124	-520,039
Income Tax	-3,570	0	-1,102	0
Closing Cash	21,995,457	28,775,572	6,137,818	8,881,349

² Bank fees included

2.2 YEAR TO DATE RESULTS

Table 4 presents the consolidated Year to Date results on an accrual basis.

Overall YTD EBITDA was USD 578 k vs USD 1,051 k budgeted, or an unfavorable variance of USD 473.

The major factor of this result was sales revenues, which were USD 4,567 k vs USD 4,928 k budgeted, or a unfavorable variance of USD 361 k. Most of this difference refers to lower than expected log sales (7,424 m³) due to several reasons:

- Unanticipated maintenance arising out of equipment upgrades at the sawmill which caused the harvesting teams to prioritize areas with more export logs during the quarter, so there was a partial displacement of Vale Dourado and the complete displacement of Buruti clear-fell to 2S2018. The sales displacement affected the YTD revenue in USD 1,3 M, or, 12,8 k in volume;
- Stop on harvesting for 20 days on 1Q cause by unusually high rainfall, and;
- Stop on sales caused by the trucker strike in late may (~15 days) and the next 45 days after the strike was a recovery period.

Notwithstanding, others factors had a positive impact on sales:

- YTD volume was quite higher than budgeted (8,3 k m³) as well as for the revenues (USD 930 k) due to carried over volume of Cocal from 2017 to 2018 (5,5 k m³) and a higher volume from Tenda, Pimental and Silas (2,8 k m³);
- Also, a higher weighted average roadside prices had a favorable contribution to budget. The small end diameter logs were conservatively budgeted using the minimum benchmark price, however the buyers have been paying the average rate. Additionally, the majority of the assortment classes had a higher weighted average than the midpoint used for budgeting.

Forestry costs incurred are within budgeted (activities details in section 7).

Overhead was unfavorable to budget (by USD 133 k) due to increases in payroll expenses, (USD 60 k) advisory and auditing (USD 20 k) and legal fees (USD 21 k)

Harvesting costs were higher than budgeted (by USD 31k) due to higher than expected social security tax (INSS) over harvesting services. (see section 6);

The "Other Expenses" (CapEx label) were higher than budgeted due to higher than expected taxes on Land Use Deal (LUD) payments for a specific land owner.

Table 4: Year to Date Summary

Budget Item	2018 (BRL)			2018 (USD)		
	YTD			YTD		
	Actual	Budget	Var (A-B)	Actual	Budget	Var (A-B)
BRL/USD FX Rate			-	3.24	3.24	-
Biomass Sales (m³)	732.85	0.00	732.85	732.85	0.00	732.85
Log Sales (m³)	34,824.07	42,248.00	-7,423.93	34,824.07	42,248.00	-7,423.93
Revenues						
Biomass	9,265	0	9,265	2,860	0	2,860
Logs	14,798,129	15,969,547	-1,171,419	4,567,324	4,928,873	-361,549
Sales Revenues	14,807,394	15,969,547	-1,162,154	4,570,183	4,928,873	-358,689
Sales Revenues per unit (m³)	425.21	378.00	47.21	131.24	116.67	14.57
Production Costs						
Logistics ¹	-20,323	0	-20,323	-6,272	0	-6,272
Taxes on Sales	-404,961	-620,591	215,630	-124,988	-191,541	66,552
Sales Commission ¹	-12,267	0	-12,267	-3,786	0	-3,786
Harvesting	-2,820,964	-2,720,120	-100,844	-870,668	-839,543	-31,125
Total Costs of Production / Sales	-3,258,514	-3,340,711	82,197	-1,005,714	-1,031,084	25,369
CoP / Sales per unit (m³)	-93.57	-79.07	-14.50	-28.88	-24.41	-4.47
Total Net Revenues	11,548,879	12,628,836	-1,079,957	3,564,469	3,897,789	-333,320
Stumpage Revenue per unit (m³)	331.63	298.92	32.71	102.36	92.26	10.10
Operating Expenses						
Forestry Costs	-2,757,965	-4,251,866	1,493,901	-851,224	-1,312,304	461,081
Standard Cost to Accrual adj. ⁴	-1,441,650	0	-1,441,650	-444,954	0	-444,954
Overhead Costs	-5,403,469	-4,971,942	-431,527	-1,667,737	-1,534,550	-133,187
Total Operating Expenses	-9,603,084	-9,223,808	-379,276	-2,986,802	-2,846,854	-139,947
EBITDA	1,945,796	3,405,028	-1,459,233	577,667	1,050,935	-473,267
EBITDA per unit (ha)	108.19	189.33	-81.14	32.12	58.44	-26.32
Capital Expenses						
Equipments	-15,983	-114,045	98,062	-4,933	-35,199	30,266
Vehicles	93,500	-3,500	97,000	28,858	-1,080	29,938
Others	-1,684,957	-1,507,669	-177,288	-520,048	-465,330	-54,718
Total Capital Expenses	-1,607,440	-1,625,214	17,774	-496,124	-501,609	5,486

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.

2.3 YEAR END ESTIMATION

Table 6 presents the Year End Estimation (YEE) on Accrual basis.

Overall, estimated year end consolidated EBITDA is expected to be 14% higher than budget, or USD 3,057 k actual vs USD 2,692 k budgeted. The main reasons for this estimation are:

- The higher YTD volume from Cocal, Tenda, Pimental and Silas (8,3 k m³);
- A lower projected volume for the 2S2018 (2,9 k m³), due to commercial restrictions in India;

Since the 12,8 k m³ displaced from Vale Dourado and Buriti will be sold within the year and is not expected to impact full year 2018 EBITDA result.

Harvesting costs will also be higher on an absolute basis, as the volume sold will be higher than budgeted (see details on section 6)

Table 6: Year End Estimation Summary

Budget Item	2018 (BRL)					2018 (USD)				
	YEE			FY	Var (YEE - B)	YEE			FY	Var (YEE - B)
	YTD	Forecast	Total YEE	Budget		YTD	Forecast	Total YEE	Budget	
BRL/USD FX Rate					-	3.24	3.24	3.24	3.24	-
Biomass Sales (m ³)	732.85	0.00	732.85	0.00	732.85	732.85	0.00	732.85	0.00	732.85
Log Sales (m ³)	34,824.07	41,304.00	76,128.07	70,745.00	5,383.07	34,824.07	41,304.00	76,128.07	70,745.00	5,383.07
Revenues										
Biomass	9,265	0	9,265	0	9,265	2,860	0	2,860	0	2,860
Logs	14,798,129	19,656,407	34,454,536	32,026,224	2,428,312	4,567,324	6,066,792	10,634,116	9,884,637	749,479
Sales Revenues	14,807,394	19,656,407	34,463,801	32,026,224	2,437,577	4,570,183	6,066,792	10,636,976	9,884,637	752,339
Sales Revenues per unit (m³)	425.21	475.90	452.71	452.70	0.01	131.24	146.88	139.72	139.72	0.00
Production Costs										
Logistics ¹	-20,323	0	-20,323	0	-20,323	-6,272	0	-6,272	0	-6,272
Taxes on Sales	-404,961	-726,002	-1,130,963	-1,160,682	29,719	-124,988	-224,075	-349,063	-358,235	9,172
Sales Commission ¹	-12,267	0	-12,267	0	-12,267	-3,786	0	-3,786	0	-3,786
Harvesting	-2,820,964	-2,960,238	-5,781,202	-4,540,861	-1,240,340	-870,668	-913,654	-1,784,321	-1,401,500	-382,821
Total Costs of Production / Sales	-3,258,514	-3,686,240	-6,944,754	-5,701,543	-1,243,211	-1,005,714	-1,137,728	-2,143,443	-1,759,735	-383,707
CoP / Sales per unit (m³)	-93.57	-89.25	-91.22	-80.59	-10.63	-28.88	-27.55	-28.16	-24.87	-3.28
Total Net Revenues	11,548,879	15,970,167	27,519,046	26,324,681	1,194,365	3,564,469	4,929,064	8,493,533	8,124,902	368,631
Stumpage Revenue per unit (m³)	331.63	386.65	361.48	372.11	-10.62	102.36	119.34	111.57	114.85	-3.28
Operating Expenses										
Forestry Costs	-2,757,965	-2,844,320	-5,602,285	-7,538,373	1,936,089	-851,224	-877,877	-1,729,100	-2,326,658	597,558
Standard Cost to Accrual adj.4	-1,441,650	0	-1,441,650	0	-1,441,650	-444,954	0	-444,954	0	-444,954
Overhead Costs	-5,403,469	-5,092,521	-10,495,990	-10,064,463	-431,527	-1,667,737	-1,571,766	-3,239,503	-3,106,316	-133,187
Total Operating Expenses	-9,603,084	-7,936,841	-17,539,925	-17,602,837	62,912	-2,986,802	-2,449,642	-5,436,444	-5,432,974	-3,470
EBITDA	1,945,796	8,033,326	9,979,122	8,721,844	1,257,277	577,667	2,479,422	3,057,089	2,691,927	365,162
Capital Expenses										
Equipments	-15,983	0	-15,983	-173,757	157,773	-4,933	0	-4,933	-53,629	48,696
Vehicles	93,500	0	93,500	-3,500	97,000	28,858	0	28,858	-1,080	29,938
Others	-1,684,957	0	-1,684,957	-1,507,669	-177,288	-520,048	0	-520,048	-465,330	-54,718
Total Capital Expenses	-1,607,440	0	-1,607,440	-1,684,926	77,486	-496,124	0	-496,124	-520,039	23,915

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

2.4 DETAILED CASH REPORT

The estimated closing cash for the year-end is USD 6,137,818 and the budgeted was USD 8,881,349 an unfavorable difference of USD 2,743,532. As commented, the main difference is due to the USD 2,3 M Stakeholder Distribution payment for the 2016 Harvesting Report, with the remainder due to Floresteca's restructuring in the Netherlands. It bears emphasizing that operating cash flow will be somewhat better than budgeted.

Table 7: Quarterly Cash Flow Chart 2018

Budget Item <i>Values in USD</i>	2018 (USD)					2018	Var. (YEE- Budget)
	Q1	Q2	Q3	Q4	FY	FY	
	Actual	Actual	Forecast	Forecast	YEE	Budget	
BRL/USD FX Rate	3.24	3.24	3.24	3.24	3.24	3.24	
Opening Cash	7,863,568	4,154,310	3,891,055	4,287,229	7,863,568	7,863,568	0
Biomass Sales (m³)	0.00	732.85	0.00	0.00	732.85	0.00	732.85
Log Sales (m³)	17,963.85	16,860.22	24,421.00	16,883.00	76,128.07	70,745.00	5,383.07
Revenues							
Biomass	0	2,860	0	0	2,860	0	2,860
Logs	2,261,266	2,306,058	3,547,498	2,519,294	10,634,116	9,884,637	749,479
Sales Revenues	2,261,266	2,308,918	3,547,498	2,519,294	10,636,976	9,884,637	752,339
Production Costs							
Logistics	-6,272	0	0	0	-6,272	0	-6,272
Taxes on Sales	-62,493	-62,495	-137,884	-86,191	-349,063	-358,235	9,172
Sales Commission	-3,786	0	0	0	-3,786	0	-3,786
Harvesting	-468,236	-402,432	-540,202	-373,452	-1,784,321	-1,401,500	-382,821
Total Costs of Production / Sales	-540,787	-464,928	-678,086	-459,642	-2,143,443	-1,759,735	-383,707
Total Net Revenues	1,720,479	1,843,990	2,869,412	2,059,652	8,493,533	8,124,902	368,631
Operating Expenses							
Forestry Costs	-290,502	-560,722	-430,137	-447,740	-1,729,100	-2,326,658	597,558
Standard Cost to Accrual adj.	-314,852	-130,102	0	0	-444,954	0	-444,954
Overhead Costs	-896,371	-771,366	-771,065	-800,701	-3,239,503	-3,106,316	-133,187
Fx gain (loss) to Actual	1,164	-24,051	-42,059	-20,452	-85,398	0	-85,398
Total Operating Expenses	-1,500,560	-1,486,241	-1,243,261	-1,268,893	-5,498,955	-5,432,974	-65,981
EBITDA	219,919	357,749	1,626,151	790,759	2,994,577	2,691,927	302,650
Capital Expenses							
Equipments	-3,575	-1,358	0	0	-4,933	-53,629	48,696
Vehicles	21,759	7,099	0	0	28,858	-1,080	29,938
Others	-283,101	-236,947	0	0	-520,048	-465,330	-54,718
Total Capital Expenses	-264,917	-231,206	0	0	-496,124	-520,039	23,915
Accounts Receivable	-659,991	345,151	-1,244,102	1,083,023	-475,919	-472,015	-3,904
Accounts Payable	-95,458	-55,439	12,375	1,893	-136,629	100,884	-237,513
Fx gain (loss) to Actual	-1,164	24,051	42,059	20,452	85,398	0	85,398
Var. Assets and Liabilities (acc. to cash)	-756,613	313,763	-1,189,668	1,105,369	-527,149	-371,131	-156,018
Leasing/Finame	-36,829	-38,496	-37,810	-43,039	-156,173	-172,976	16,802
Earnings on investments	4,169	5,201	0	0	9,370	0	9,370
Loans/ Bank fees	-3,868	-3,831	-2,500	-2,500	-12,699	-10,000	-2,699
Financial Movements	-36,528	-37,126	-40,310	-45,539	-159,503	-182,976	23,473
Shareholder Contribution / (Repayment)	-2,026,118	-349,556	0	0	-2,375,673	0	-2,375,673
Other T transfers	-844,626	-316,150	0	0	-1,160,776	-600,000	-560,776
Income Tax	-374	-728	0	0	-1,102	0	-1,102
Cash Transfer / Income Tax	-2,871,118	-666,433	0	0	-3,537,551	-600,000	-2,937,551
Cash Flow Var.	-3,709,258	-263,255	396,173	1,850,589	-1,725,750	1,017,782	2,743,532
Closing Cash	4,154,310	3,891,055	4,287,229	6,137,818	6,137,818	8,881,349	2,743,532

Note: the stakeholder distribution is recognized in this table under Shareholder Contribution (repayment)

The outstanding Harvest Report paid amounts and provisions are shown in table 8 below in USD:

Table 8: Harvest Report Amounts Paid and Provisions

	Total	Paid	Provision
2016 HR	7,841,879	- 4,188,500	3,653,379
2017 HR Provision	5,645,549	0	5,645,549
Total	13,498,568	- 4,188,500	9,310,068

The 2017 HR value is shown as of June 4th, 2018. These distributions were not considered as cash out in the detailed cash report above.

3 CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND EQUITY

Table 9: Assets, Liabilities and Equity at June, 30th.

Floresteca S/A - Balance Sheet position of January 01 to June 30, 2018		
(In thousands of reais/dollars)		
	R\$	\$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	14,745	3,825
Accounts receivable	7,626	1,978
Inventories	3,234	839
Recoverable taxes	5,117	1,327
Other receivables	2,367	614
Total Current Asset	33,089	8,583
NON-CURRENT ASSETS		
Advances to agricultural partners	5,259	1,364
Other receivables	641	166
Deferred taxes	3,161	820
Investment property	2,015	523
Biological Assets	524,198	135,972
Property, plant & equipment	13,293	3,448
Intangible assets	78	20
Total Non-Current Asset	548,645	142,313
TOTAL CURRENT ASSETS	581,734	150,896
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Loans and financing	379	98
Leasing	96	25
Suppliers and other accounts payable	2,343	608
Taxes payable	114	29
Salaries, vacations and payroll charges payable	354	92
Other accounts payable	139	36
Total Current Liabilities	3,425	888
Non-current liabilities		
Loans and financing	492,243	127,663
Leasing	65	17
Contingencies	105	27
Total Non-Current Liabilities	492,414	127,707
EQUITY		
Capital	27,798	7,209
Legal reserve	5,559	1,442
Profit reserve	52,538	13,626
Foreign exchange adjusts		23
TOTAL EQUITY	85,895	22,300
TOTAL LIABILITIES AND EQUITY	581,734	150,895

4 AREA CHANGES

No areas changes took place to date. An update is expected in September, following the annual forestry inventory.

5 LOG SALES

5.1 YIELD PER HECTARE

As mentioned above, there was substantial volume carried over from 2017 into 2018 that is reflected in the YTD sales to the date of this report. Disregarding this carried volume, the actual volume for the 2Q2018 was 31% lower than budgeted.

As previously commented, approximately 20 working days were lost on 1Q due to unusually severe rains. Also, the truckers strike on late May negatively impacted the sales during ~45 days, also resulting in lower sales to the end of the semester. Table below detail the yield per project, based on volume YEE vs FYB

Table 10: Log sales per project, 2018 YEE volume.

Stand	Area (ha)		Production yield (m ³)		Trees Removed		TOTAL (ACTUAL)					
	YEE	FYB	YEE	FYB	YEE	FYB	15-20 cm	20-25 cm	25-30 cm	30-35 cm	35-40 cm	40+ cm
	VDO1998	351.72	351.68	23,000	23,372	23,292	23,292	360	5,160	9,340	4,272	2,992
TEN1996	191.42	191.42	5,553	4,500	31,858	31,242	2,087	2,405	989	72	0	0
BUR1998	418.90	258.00	10,247	10,876	44,307	44,307	991	6,637	2,121	450	49	0
COC1996	500.99	272.80	8,964	3,500	139,246	90,702	2,349	3,020	2,422	367	781	25
PIM1996	64.30	0.00	420	0	0	0	0	197	125	75	24	0
SIL1998	24.40	0.00	1,343	0	0	0	305	483	338	217	0	0
BOC1998	372.71	372.71	26,607	28,497	44,357	44,357	0	3,652	14,396	8,559	0	0
TOTAL	1,924.44	1,446.61	76,135	70,745	283,059	233,899	6,092	21,554	29,730	14,011	3,846	901

Note 1: The trees removed are the best estimate at the time of publication. Actual measurement occurs after the forest inventory, which occurs in September, and will be reflected in the next quarterly report.

Table 11: Production per project, 2018 YEE volume per hectare.

Stand	Area (ha)		Production yield (m ³)		Trees Removed		PER HECTARE (ACTUAL)					
	YEE	FYB	YEE	FYB	YEE	FYB	15-20 cm	20-25 cm	25-30 cm	30-35 cm	35-40 cm	40+ cm
	VDO1998	351.72	351.68	65.39	66.46	66.23	66.23	1.02	14.67	26.55	12.14	8.51
TEN1996	191.42	191.42	29.01	23.51	166.43	163.21	10.90	12.56	5.17	0.38	0.00	0.00
BUR1998	418.90	258.00	24.46	42.16	171.73	171.73	2.36	15.84	5.06	1.07	0.12	0.00
COC1996	500.99	272.80	17.89	12.83	277.94	332.48	4.69	6.03	4.83	0.73	1.56	0.05
PIM1996	64.30	0.00	6.54	0.00	0.00	0.00	0.00	3.06	1.94	1.16	0.38	0.00
SIL1998	24.40	0.00	55.05	0.00	0.00	0.00	12.50	19.81	13.85	8.90	0.00	0.00
BOC1998	372.71	372.71	71.39	76.46	119.01	119.01	0.00	9.80	38.63	22.96	0.00	0.00
TOTAL	1,924.44	1,446.61	39.56	48.90	147.09	161.69	3.17	11.20	15.45	7.28	2.00	0.47

Note 2: For Pimental and Silas there are carried over volume sold on 1Q2018 that was felled on 2017. The amount of trees removed will be known by the time the forestry inventory is finalized, and will be reflected in the following quarterly report.

It is worth mentioning that some of Cocal (COC) blocks were partially realized in 2017, but the area accounted for in table 10 is the total amount, which distorts the analysis of the yield per hectare comparisons between projects.

5.2 ROADSIDE PRICES

The table below shows the volume sold in 1S2018, compared to the budget. As commented above, the budget conservatively considered the minimum benchmark price (Consufor) for small grade logs, while the actual assumed average Consufor prices applied for export grades..

Table 11: YTD Budget vs Actual Volume and Roadside Price

Diameter Class	Volume YTD (m ³)		RS Price YTD (USD/m ³)	
	Actual	Budget	Actual	Budget
Sawmill	8,004	9,130	95	75
15-20 cm	3,760	4,105	41	26
20-25 cm	1,444	2,025	71	40
25-30 cm	733	1,000	136	129
30-35 cm	1,969	2,000	195	183
35-40 cm	97	0	238	0
Export	26,821	33,118	142	128
15-20 cm	1,375	0	61	0
20-25 cm	8,481	16,009	63	91
25-30 cm	10,463	13,365	142	146
30-35 cm	1,851	3,744	191	221
35-40 cm	3,749	0	284	0
40+ cm	901	0	312	0
Total	34,825	42,248	131	117

5.3 OVERDUE ACCOUNTS

No overdue accounts through June 30, 2018.

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 AND TRC INITIATIVES

5.4.1 Brazil Economic Overview

The second quarter of the (calendar) year saw several significant and material events arise in Brazil, which have impacted to some degree TRC's management of the plantations.

Trucker Strike

On May 21st, several organizations representing truckers, called for a national strike to protest, among other grievances, the high price of diesel fuel. Within just a few days, the strike led to widespread shortages of all kinds of fuel, and began to spread to the food supply chain as well, as deliveries ceased or were greatly reduced. The federal government negotiated with the trucker's representatives over the course of the first week, granting them a substantial number of demands, including a subsidy for diesel fuel, as well as a price floor for road transport freights, the latter substantially above the previous market rate. Despite the quick concessions, the truckers continued to strike into the week of May 28th, with fuel and food supplies only back to normal in the first full week of June.

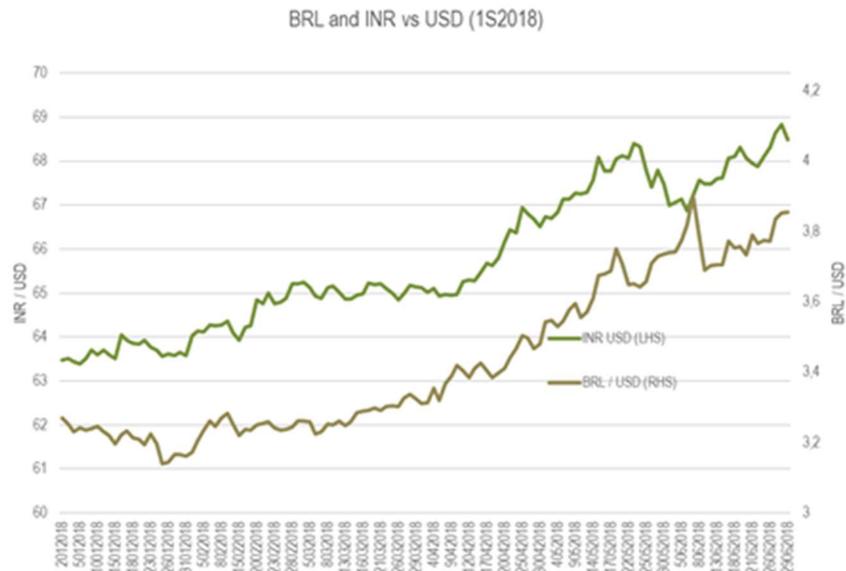
Recently released figures on industrial production for the month of May registered a decline of nearly 11%, directly tied to the strike, and which will certainly impact 2018 GDP figures, previously expected at around 2%. operations were impacted mainly in terms of transport of logs. Field operations were not greatly affected, as stocks of fuel and foodstuffs were sufficient to make it through the most critical period.

A large swath of industry groups has challenged the freight price floors in the courts, arguing that they represent an unconstitutional and unjustified intervention in the market, resulting large material increases in operating costs. The government decrees have left much margin for interpretation, for example, the standing of prior existing freight contracts. While these challenges wind their way through the judicial system, the press reports that both company's contracting freight and freight companies / independent truckers were largely ignoring the agreements, in the expectation that something more permanent and viable is established.

TRC has been closely monitoring the ongoing negotiations lead by the various industry groups. If the price floor were to effectively be declared legal and binding, the domestic freight rates would increase approximately 30% over prior rates, and in MT would increase by around USD 10 /m³, at current FX rates.

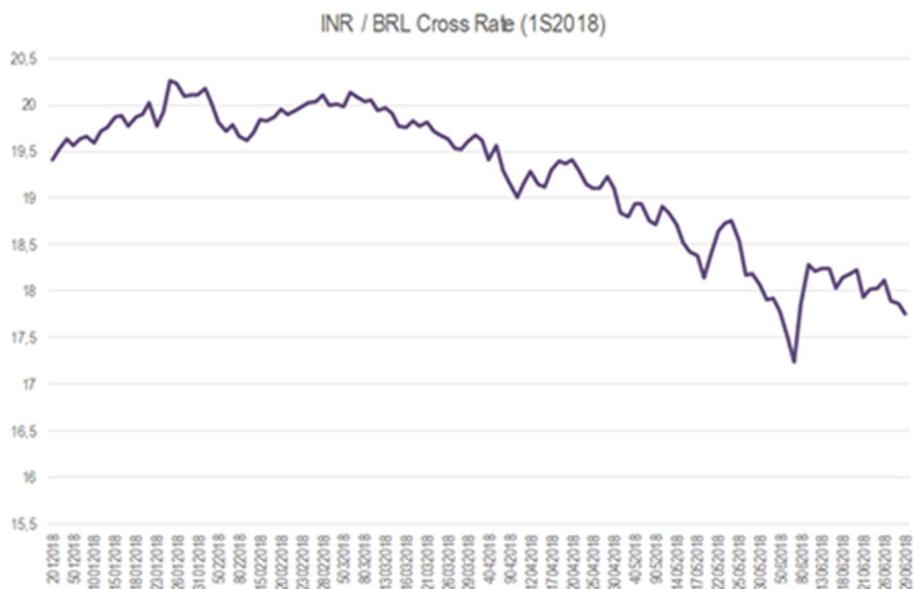
BRL Depreciation

While currencies globally have depreciated vs the USD over the course of the last several months, in expectation of further base interest rates increases in the US, the BRL has depreciated more than most of the other main EM currencies. In the year to June 30th, the BRL depreciated by 17.9%, with 16.0% in 2Q alone.



This tendency was already evident prior to the trucker’s strike, in part due to concerns about the course Brazil will take following federal elections in 4Q2018. There are many candidates, with widely differing views, and as observed in other countries, including a fair amount of populist rhetoric. The truckers strike did however add fuel to these doubts, as it was handled very poorly, with yet no definitive resolution, and quashed any remaining hopes for substantive reforms in the remaining months of the Temer administration. TRC expects continued volatility in the FX rate through the end of the year, particularly leading up to the elections. It bears emphasizing that, in the short term at least, the BRL devaluation results in lower USD costs, and so is in principal accretive to stumpage and roadside results, all else remaining the same. However, given the long sales cycle, any impact on results will be diluted over the remaining months of the year in course.

Ultimately the relation between the BRL and INR is what matters from a demand standpoint. The INR has also devalued relative to the USD, but by a much lesser amount. Overall, the BRL devalued 8.5% vs the INR in the year to date ending June 30th, most of which occurred in 2Q2018.



5.4.2 India Economic Overview

The main market for teak logs, India continues to experience fairly strong growth, reporting 1Q2018 GDP of 7.7% on an annual basis. The IMF, World Bank and Moody's have all recently updated their forecasts for India, and signal continued growth in the 7 to 8% range for the next several years, building on 2016 and 2017 growth of 7.1% and 6.7% respectively.

Part of the growth story is down to fiscal stimulus, as the Modi administration looks to fortify its position ahead of next year's elections, with increased focus on public investment, but also including some directed tax relief to electorally significant segments.

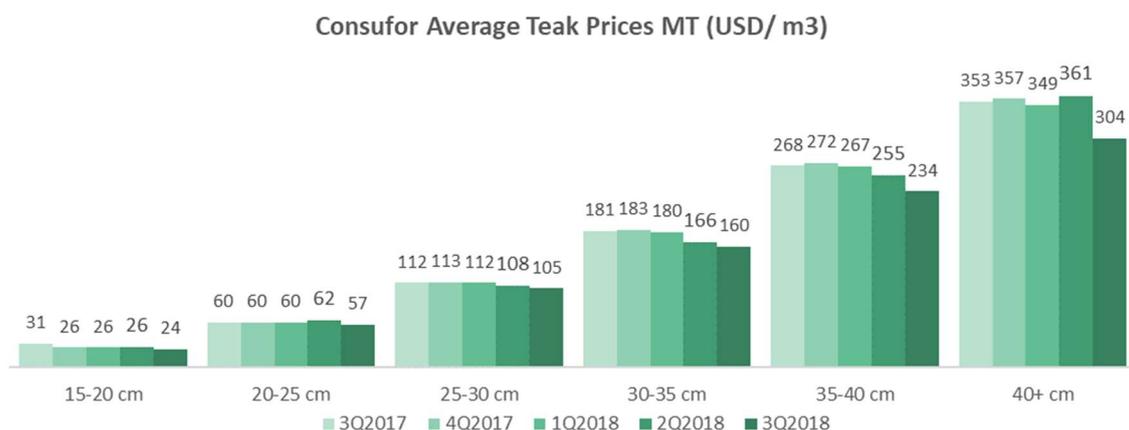
The financial sector continues to be a drag on economic activity, in the wake of a banking scandal involving a high-profile jewelry group, responsible for a USD 2.4 billion default to a number of the largest Indian banks. Overall, non-performing loans as a percentage of total financial system assets has continued to grow, reaching 12% in the Reserve Bank of India's most recent accounting. This has resulted in a tightening of credit conditions generally, and resulted in less working capital being made available in certain segments, and at higher rates.

Construction investment, which accounts for around 8% of Indian GDP, has been a big focus of the Modi government. It had slowed somewhat in 2016 and 2017, with a buildup of unsold residential units in several the largest cities. In the first quarter of 2018, however, construction began to surge, and the Modi administration is contemplating additional stimulus measures, such as a reduction of the Goods and Services Tax on construction materials, according to local press reports. The administration's Housing for All program entails a number of other measures, aimed at increasing the supply of affordable housing, and should continue to provide stimulus to the sector.

5.4.3 Mato Grosso Roadside Price Benchmarking

TRC has contracted a third-party consultant, Consufor, to assess teak prices in Mato Grosso on a quarterly basis. Consufor interviews companies in the region, its most recent survey consisting of 80 prices samples, and 26 companies (not considering TRC, outliers), weighted by traded volume. It is important to highlight that Consufor does not differentiate between length for the assortments in their survey, though they have more recently indicated that prices apply to the highest grades (A), implying that prices for poorer quality grades are lower.

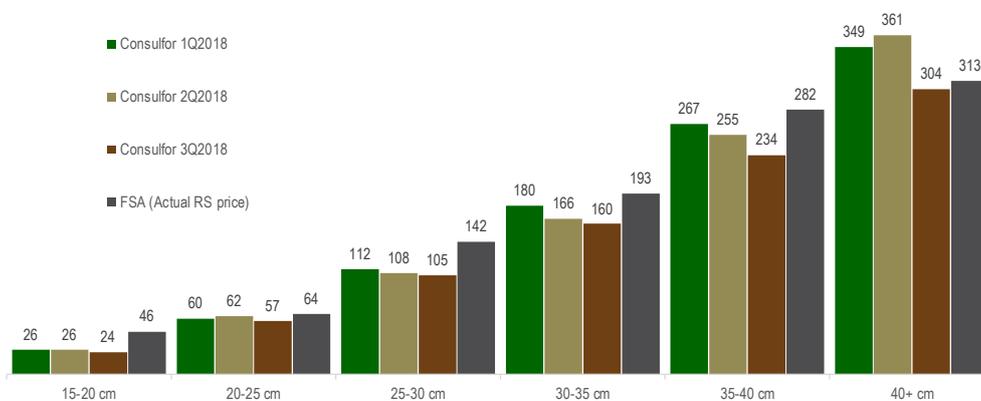
Figure 3: CONSUFOR Average Teak Prices MT (USD/ m3)



Consufor’s most recent report was produced in early July of 2018, based on survey data taken in June (shown as 3Q2018 in the chart above). Log prices for diameters between 25-30 cm, 30-35 cm and 35-40 cm faced a considerable decreases, largely related to the factors in Indian supply and demand already discussed earlier. Additionally, even before the trucker strike the local transportation costs had increased due to increased oil prices. Following the strikes, fuel prices may further rise as the result of a price floor announced by the federal government as a concession to the truckers. This price floor is not yet being practiced in the market, and is the subject of a number of legal challenges, whose outcome is not yet known. With the maritime freight cost also increasing (also due to higher oil prices), total logistics costs are higher than last quarter, and have impacted local roadside prices as a result.

In Figure 7 below, is a comparison between prices (all grades and sizes) of the Consufor averages for 2Q2018 and those obtained thus far from the Floresteca S.A properties.

Figure 4: Floresteca S.A. (1S2018) versus CONSUFOR roadside prices (USD/m³)*



Note: The diameter classes are determined by the Consufor report, but are not on a fully comparable basis, as TRC log classifications for the sub-25 cm diameters are distinct (16-20cm, 20-23 cm and 23-25 cms). We have used TRC 20-23 cm logs to compare with Consufor 20-25 cm logs, which implies a richer mix / higher price for the Consufor survey estimates. TRC typically seeks to sell the 23-25 cm logs as semi-long or long logs, or together with the 25-30 cm short logs, obtaining better prices.

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)

FSA diameter point	
15-20 cm	18.9
20-25 cm	22.1
25-30 cm	26.8
30-35 cm	32.7
35-40 cm	38.1
40+ cm	40.6

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 2Q was USD 29 versus USD 24 in the budget.

Basically the relative cost per volume is unfavorable to budget because of the lower than expected YTD sales (delays in harvesting, resulting in lower volume, previously commented). Additionally, the total costs were unfavorable to budget due to higher than expected social security tax over harvesting service.

Table 12: Harvesting Cost, per activity:

		Budget YTD	Actual YTD	Budget FY
Tree Selection	BRL	0	18,478	0
Harvesting	BRL	831,417	817,119	1,260,428
Forwarding	BRL	1,091,834	1,118,700	1,966,991
Lot Formation	BRL	405,332	377,487	669,087
Loading	BRL	257,492	280,018	423,233
Tax	BRL	135,822	209,162	223,957
Total	BRL	2,721,896	2,820,963	4,543,697
Sales Expenses	BRL	620,591	437,551	1,160,682
Commercial Vol.	m ³	42,248	34,824	70,745
BRL/m ³		79	94	81
BRL/USD rate		3.24	3.24	3.24
USD/m ³		24	29	25

Sale Expenses refers to:

- Taxes on sales: Federal Taxes (Funrural 2.85% on billing) Social Security Taxes (PIS/COFINS 9.25% on billing);
- Logistics and Sales Commission: Only on actual, a total of BRL 32,587 (USD 10,058). The general agreement is to sell logs on roadside terms whereby Logistics and Commissions is at cost of the buyer. In a very few cases however FSA carried the costs of Logistics and Sales Commission and increased the price accordingly, as it was more advantageous to do so.

7 FORESTRY MANAGEMENT

The figure below shows the budget and actual forest activities for the second quarter of 2018 operations. The most relevant activities are commented in the following subsections.

Figure 5: Forestry Operations

Activity Group	un.	Status	Total Cost (BRL)	Quantity (un.)	Unitary Cost (BRL/un.)
Stump Removal	ha	Budget	1.560,0K	1.040,0	1.500,0
		Actual	1.356,4K	1.023,5	1.325,2
Sprout Control	ha	Budget	389,2K	823,0	472,9
		Actual	621,8K	974,4	638,1
Pruning	ha	Budget	538,2K	787,0	683,9
		Actual	206,3K	561,7	367,3

7.1 STUMP REMOVAL

Stump removal operations are below budget thusfar. When compared to last report, the area not done in Q1 due to the heavy rains has been fully covered in 2Q.

7.2 SPROUT CONTROL

Unit costs were higher than budgeted due to low productivity in areas with more difficult access at 1Q, and also due to the unusually heavy and frequent rains. In 2Q, the dryer conditions allowed us to catch up and perform more hectares than budgeted, lowering the unitcost when compared to last report (BRL 681 vs BRL 638).

7.3 PRUNING

Total area pruned was smaller than budgeted due to the unusually high rainfall, and the decision to prioritize Sprout Control. Unit costs were lower than budgeted, as the team was deployed in areas of relatively easier operation. However, is expected that unit costs will revert budget over the course of the year, as work is done over the remaining areas planned, which are operationally more difficult.

Overall forestry costs are expected to be within the budget for the year, although there will be cost variations between activities, specifically higher costs for sprout control and lower cost for pruning.

8 COMPLIANCE & LEGAL ISSUES

Regarding the last report the changes occurred on this topic are:

- Item 8.1, regarding Paraiso Farm, an expert was nominated for the case and Floresteca is waiting for the judge to schedule the forensics.

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

8.1 PARISO 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 that the judge has nominated an expert for the case. We have filled the requirements for the forensics and information requested by the judge. We expect to have an update in the next quarterly report.

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. However, the MST has repeatedly invaded the property over time, motivating the hiring of a private security guard. Prosecutor’s Office has filed an opinion which does not modify any material in the lawsuit. We are awaiting 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 judge is expected to issue a final decision over the course of 2018. We are still awaiting for the court appointment.

9 APPENDIX

9.1 PROPERTIES AREAS BREAKDOWN AT DECEMBER 2017:

AREA BY OWNER				
PROJECT	PLANTING YEAR	SATT	LUD	TOTAL
Buriti	1994	548.53	-	548.53
K8	1995	-	-	-
Silas	1995	-	-	-
Cocal	1996	374.88	-	374.88
Fimental	1996	69.02	-	69.02
Tenda	1996	191.42	-	191.42
Paiolândia	1997	210.44	87.48	297.92
Paraiso	1997	512.94	31.01	543.95
Bocaina	1998	426.55	-	426.55
Cocal	1998	133.84	-	133.84
Paiolândia	1998	93.95	-	93.95
São José Canastra	1998	44.62	-	44.62
São Judas	1998	26.76	-	26.76
Silas	1998	24.41	-	24.41
Vale Dourado	1998	351.68	-	351.68
Araras	1999	78.30	20.58	98.88
Bambú	1999	400.17	-	400.17
Bocaina	1999	108.18	-	108.18
Capim Branco/V.Grande	1999	507.87	-	507.87
Cassange	1999	84.49	-	84.49
Serra das Araras	1999	104.01	1.00	105.01
Vale Dourado	1999	48.59	-	48.59
Bambú	2000	404.24	37.74	441.98
Duas Lagoas	2000	1,527.51	-	1,527.51
Duas Lagoas	2001	2,136.42	-	2,136.42
São Miguel	2001	93.02	-	93.02
Barranquinho	2002	756.75	194.05	950.80
Cacimba	2002	445.45	114.21	559.66
Duas Lagoas	2002	48.41	-	48.41
Santa Maria do Jauru	2002	1,085.18	-	1,085.18
São Miguel	2002	4.57	-	4.57
Barranquinho	2003	10.36	2.59	12.95
Cacimba	2003	8.15	2.04	10.19
Santa Fé	2003	2,493.02	-	2,493.02
Santa Maria do Jauru	2003	207.87	-	207.87
Barranquinho	2004	1,000.51	-	1,000.51
Terra Santa	2004	1,134.45	8.72	1,143.17
Duas Lagoas	2005	170.37	-	170.37
Monte Verde - SCP	2005	-	-	-
Santa Lucia - SCP	2006	-	-	-
Duas Lagoas	2006	190.72	-	190.72
Mutum	2007	522.43	-	522.43
São José	2007	290.91	-	290.91
Santa Maria do Jauru II	2008	89.88	-	89.88
Total		16,960.87	499.42	17,460.29

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