

# QUARTERLY MANAGEMENT REPORT



- Floresteca S/A -

Year 2019  
2<sup>nd</sup> Quarter (Jan/19 to Jun/19)

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## PROPERTY OVERVIEW

Floresteca S/A is located in the State of Mato Grosso, where it manages 15,512.29 hectares of *Tectona Grandis* (Teak) at December 31<sup>th</sup> 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;

Financial information is presented on a calendar year basis.

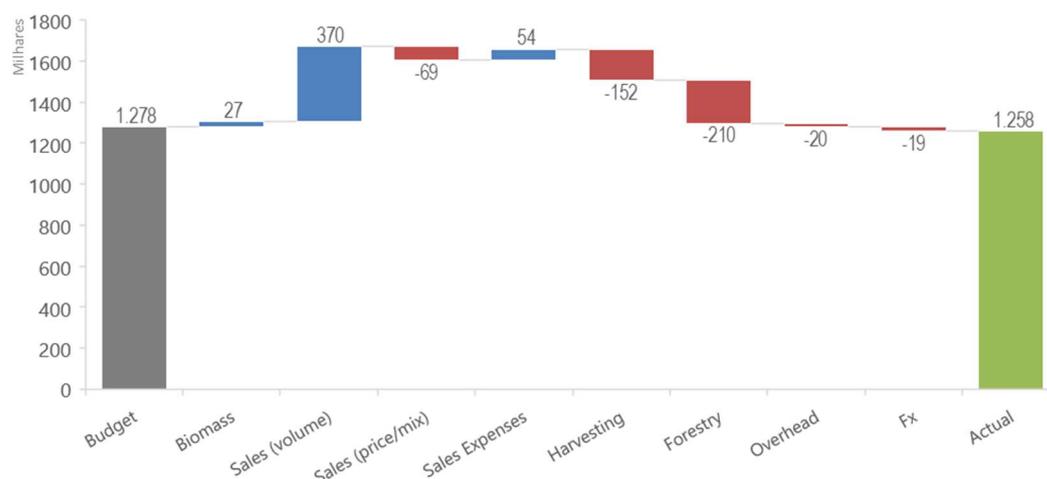
# 1 EXECUTIVE SUMMARY

As shown in Figure 1.1 below, the 2019 year to date Operational Result was USD 1,258 k versus the USD 1,278 k budgeted or an unfavorable variance of USD 20 k (2%). The main driver for this result was higher sold volume from “Buriti 1994” (2,277 m<sup>3</sup>) and “Duas Lagoas farm” (1,868 m<sup>3</sup>) than budgeted for the period and due to the anticipation on harvesting on Bocaina 1998. Nevertheless it was partially offset by lower volume on “Bocaina 1999” (631 m<sup>3</sup>) for more details see section 5.1.

The other factors which impacted 2Q2019 results were:

- Price/Mix: weighted average price were lower than budgeted, consistent with the lower prices reported by Consufor during 1S2019. The sales mix was better than the budget, with a higher proportion of sales of export grade logs logs (69% vs 59% in the budget), which partially offset the low prices. There was also a higher proportion of 40+ cm logs, 12% actual vs 5% budgeted
- Forestry: higher expenses mainly due to stump removal, which occurred earlier than expected, but within the budgeted unit costs, so is only a timing issue;
- Overall harvesting expenses were higher than budgeted due to the higher volume felled (details in sections 2.2 and 6.1);

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

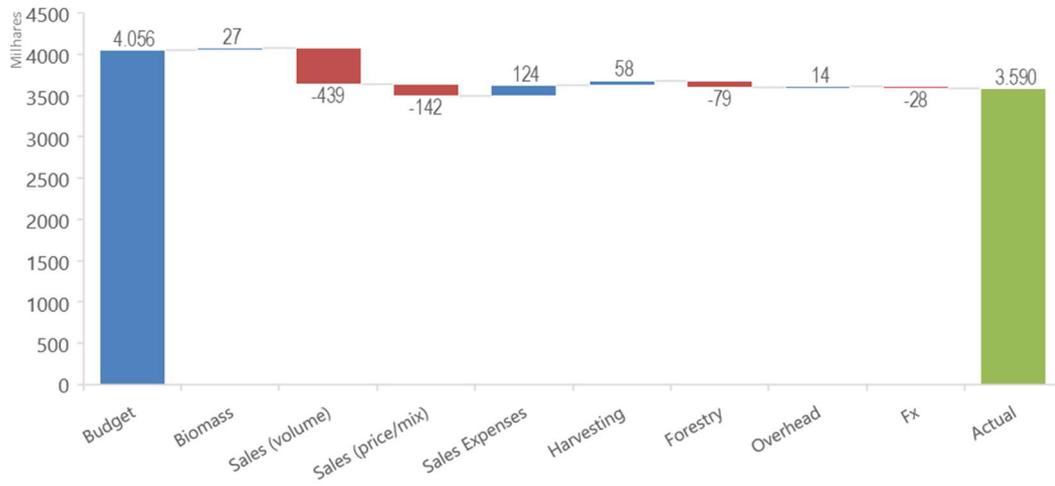


For the forecast for the remainder of the year, Floresteca expects the Operational Result to be unfavorable to budget by USD 466 k or -11% (USD 3,590 k versus the USD 4,056 k budget), due to:

- Sales volume: expected to be lower in 4,100 m<sup>3</sup> than originally planned due to rescheduling of the overall harvesting plan. On section 2.3 all the changes and reasons for the new schedule are detailed;
- Sales price: The updated forecast considers the most recent Consufor Teak Timber Price Report issued in July. The variation from the last report was favorable in ~6% on average (more details in section 5.4.2);
- Overall costs: forestry activities are expected to be somewhat higher than budgeted, but will be offset by lower harvesting (as less overall volume will be harvested in the year),

taxes on sales, and overhead. The higher YTD 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; 3.83 2Q) was adjusted to the budgeted rate (BRL/USD 3.80), with the difference to actual shown as a line item.

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 <sup>3</sup> )	14,005	7,143
Log Sales (m <sup>3</sup> )	91,647	95,735
<u>Revenues</u>		
Biomass	53,381	26,315
Logs	9,699,047	10,280,479
<b>Sales Revenues</b>	<b>9,752,428</b>	<b>10,306,794</b>
<b>Sales Revenues per unit (m<sup>3</sup>)</b>	<b>106.41</b>	<b>107.66</b>
<u>Production Costs</u>		
Taxes on Sales	-141,268	-265,074
Harvesting	-1,826,733	-1,884,398
<b>Total Costs of Production / Sales</b>	<b>-1,968,000</b>	<b>-2,149,472</b>
<b>CoP / Sales per unit (m<sup>3</sup>)</b>	<b>-21.47</b>	<b>-22.45</b>
<b>Total Net Revenues</b>	<b>7,784,427</b>	<b>8,157,322</b>
<b>Stumpage Revenue per unit (m<sup>3</sup>)</b>	<b>84.94</b>	<b>85.21</b>
<u>Operating Expenses</u>		
Forestry Costs	-1,525,491	-1,446,231
Overhead Costs <sup>2</sup>	-2,640,926	-2,654,973
Fx gain (loss) to Actual	-27,693	0
<b>Total Operating Expenses</b>	<b>-4,194,110</b>	<b>-4,101,204</b>
<b>OpEx per unit (ha)</b>	<b>-260.45</b>	<b>-254.68</b>
<b>Operational Result</b>	<b>3,590,317</b>	<b>4,056,118</b>
<b>Operational Result per unit (ha)</b>	<b>222.95</b>	<b>251.88</b>

Note<sup>2</sup>: 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 3,590 k vs USD 4,056 k budgeted, a unfavorable variance of USD 466 k, however a bit better than what was estimated (YEE) in the previous report of USD 3,166 k.

The sales forecast calls for higher revenue compared to the 1Q2019 report (an additional USD 286 k), taking into account the higher prices of the latest Consufor Mato Grosso Teak Timber Price Report (prices 6% higher on average). While still lower than the budget prices, they do represent an improvement, and are the main difference in the updated projected result.

The volume forecasted for the year is lower than the 1Q2019 forecast, and 4,088 m<sup>3</sup> below the budget. The budget considered the use of a feller machine, but delays in receiving the machine from the supplier have forced a slippage in this plan, which will result in the lower overall volume for the year. The original expectation was that the feller would begin operations in May, but will only be operational in September. Additionally, the new harvesting schedule will bring forward the Capim Branco final harvest by a few months, commencing in late 2019.

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 1.4 M versus USD 3.6 M budgeted (USD 2.5 M difference). 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, jointly totaling USD 1.8 M (additional 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 only occurred in 2019, resulting in lower opening cash.

For Operations, the difference from YEE to Budget is mostly due to the sales reforecast, which considers lower than budgeted volume, as already explained. Nevertheless, higher prices are favorably impacting operations and increasing YEE closing cash in ~USD 562 k when compared to the 1Q2019 Report.

It is worth mentioning that FSA maintains bank accounts which can hold 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 (1<sup>st</sup> column).

Figure 2.1.2: Cash Summary

	BRL		USD	
	YEE	Budget	YEE	Budget
BRL/USD FX Rate			3.80	3.80
<b>Opening Cash</b>	<b>2,919,784</b>	<b>3,940,322</b>	<b>768,364</b>	<b>1,036,927</b>
Stakeholder Distributions	-6,895,192	0	-1,814,524	0
Increase / (Decrease) in Financial Exp. <sup>2</sup>	-338,887	-345,427	-89,181	-90,902
Increase / (Decrease) from Operations	11,263,103	12,994,486	2,963,974	3,419,601
Increase / (Decrease) CapEx	-1,792,057	-1,568,579	-471,594	-412,784
Income Tax	-12,625	0	-3,322	0
Fx gain (loss) to Actual	-51,353	0	46,345	0
<b>Closing Cash</b>	<b>5,092,774</b>	<b>15,020,802</b>	<b>1,400,063</b>	<b>3,952,843</b>

<sup>2</sup> 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 1,258 k vs USD 1,278 k budgeted, or an unfavorable variance of USD 20 k.

This result was driven by higher sales volume coming from “Buriti 1994” (2,277 m<sup>3</sup>) “Duas Lagoas farm” (1,868 m<sup>3</sup>) and also “Araras 1999” (480 m<sup>3</sup> not yet finished) and the bringing forward of harvesting of Bocaina 1998 to the first semester (originally set to occur later in the year), to avoid operating in this area over the rainy season, during which access is extremely limited and operation substantially more difficult and expensive.

Despite the higher volume on Buriti, the harvesting yield was substantially poorer than budgeted and the operation was carried out during the rainy season, resulting in a slightly higher overall Cost of Production (CoP). Further details on CoP in section 6.1. On the Forestry side, the main variation was due to stump removal costs done following final harvests, and in this case concentrated on the Buriti farm, as stated in 1Q2019 Report. The stump removal was originally expected to occur over a longer period of time, but was brought forward due to sale of the property. Details in the forestry activities in section 7.

(The table follows on the next page)

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)	10,553	3,571	6,981	10,553	3,571	6,981
Log Sales (m³)	37,960	34,840	3,120	37,960	34,840	3,120
Cattle Sales (animal)	0	0	0	0	0	0
<u>Revenues</u>						
Biomass	152,848	49,998	102,850	40,223	13,157	27,066
Logs	16,844,989	15,687,360	1,157,629	4,429,203	4,128,253	300,950
<b>Sales Revenues</b>	<b>16,997,837</b>	<b>15,737,358</b>	<b>1,260,479</b>	<b>4,469,426</b>	<b>4,141,410</b>	<b>328,016</b>
<b>Sales Revenues per unit (m³)</b>	<b>447.78</b>	<b>451.70</b>	<b>-3.93</b>	<b>117.74</b>	<b>118.87</b>	<b>-1.13</b>
<u>Production Costs</u>						
Taxes on Sales	-190,427	-394,598	204,171	-50,112	-103,842	53,729
Harvesting	-3,187,543	-2,609,802	-577,741	-838,827	-686,790	-152,037
<b>Total Costs of Production / Sales</b>	<b>-3,377,970</b>	<b>-3,004,400</b>	<b>-373,570</b>	<b>-888,939</b>	<b>-790,632</b>	<b>-98,308</b>
<b>CoP / Sales per unit (m³)</b>	<b>-88.99</b>	<b>-86.23</b>	<b>-2.75</b>	<b>-23.42</b>	<b>-22.69</b>	<b>-0.72</b>
<b>Total Net Revenues</b>	<b>13,619,867</b>	<b>12,732,958</b>	<b>886,909</b>	<b>3,580,487</b>	<b>3,350,779</b>	<b>229,708</b>
<b>Stumpage Revenue per unit (m³)</b>	<b>358.79</b>	<b>365.47</b>	<b>-6.68</b>	<b>94.32</b>	<b>96.18</b>	<b>-1.85</b>
<u>Operating Expenses</u>						
Forestry Costs	-2,551,173	-2,894,989	343,816	-671,361	-761,839	90,478
Standard Cost to Accrual adj. <sup>4</sup>	-1,140,779	0	-1,140,779	-300,205	0	-300,205
Overhead Costs	-5,059,337	-4,982,053	-77,284	-1,331,404	-1,311,067	-20,338
Fx gain (loss) to Actual	0	0	0	-19,061	0	-19,061
<b>Total Operating Expenses</b>	<b>-8,751,289</b>	<b>-7,877,042</b>	<b>-874,247</b>	<b>-2,322,032</b>	<b>-2,072,906</b>	<b>-249,126</b>
<b>OpEx per unit (ha)</b>	<b>-543.44</b>	<b>-489.15</b>	<b>-54.29</b>	<b>-144.19</b>	<b>-128.72</b>	<b>-15.47</b>
<b>Operational Result</b>	<b>4,868,578</b>	<b>4,855,917</b>	<b>12,661</b>	<b>1,258,454</b>	<b>1,277,873</b>	<b>-19,418</b>
<b>Operational Result per unit (ha)</b>	<b>302.33</b>	<b>301.54</b>	<b>0.79</b>	<b>78.15</b>	<b>79.35</b>	<b>-1.21</b>
<u>Capital Expenses</u>						
Equipment	-154,013	-270,500	116,487	-40,530	-71,184	30,654
Others	-737,986	-1,274,076	536,090	-194,207	-335,283	141,076
<b>Total Capital Expenses</b>	<b>-891,999</b>	<b>-1,544,576</b>	<b>652,577</b>	<b>-234,737</b>	<b>-406,467</b>	<b>171,731</b>

<sup>4</sup> 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.

Operational Result estimated for the Year End (YEE) is USD 3,590 k vs USD 4,056 k budgeted, a unfavorable variance of USD 466 k. The main driver for this unfavorable difference is lower forecast volume as detailed on section 2.1. The difference in volume of 3,061 m<sup>3</sup> represents -4.27% in volume, well within the normal variation typical of harvesting operations, which are susceptible to both delays arising from inclement weather, as well as differences in the confirmed biological growth (compared with the estimated amounts in the budget). Additionally, the weighted average prices for the year will be lower than budgeted, as highlighted in the executive summary (further details in section 5.2)

The 1Q2019 Report estimated annual sales revenue of USD 9,453 k, while the current report has revised sales revenue to USD 9,752 k (or an additional USD 299k). Though total volume for the year is now forecast to be lower, this will be compensated by the price increase from the latest Consufor Report issued in July (favorable in ~6%).

The budget and current reforecast do not contemplate any harvesting at the Paraiso for the remainder of the year, although it is in the list of harvestable projects. In view of an ongoing legal issue with the landowner, it is possible that the clear felling of Paraiso farm may be brought forward and begin in the next coming months. The final cut in Paraiso was originally scheduled for March 2020 in the budget, and moving forward to 2S2019 will not have a material impact on harvest results.

(The table follows on the next page)

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)	10,553	3,452	14,005	7,143	6,862	10,553	3,452	14,005	7,143	6,862
Log Sales (m³)	37,960	53,687	91,647	95,735	-4,088	37,960	53,687	91,647	95,735	-4,088
<u>Revenues</u>										
Biomass	152,848	49,998	202,846	99,996	102,850	40,223	13,157	53,381	26,315	27,066
Logs	16,844,989	20,025,408	36,870,397	39,065,820	-2,195,423	4,429,203	5,269,844	9,699,047	10,280,479	-581,432
<b>Sales Revenues</b>	<b>16,997,837</b>	<b>20,075,406</b>	<b>37,073,243</b>	<b>39,165,816</b>	<b>-2,092,573</b>	<b>4,469,426</b>	<b>5,283,002</b>	<b>9,752,428</b>	<b>10,306,794</b>	<b>-554,366</b>
<b>Sales Revenues per unit (m³)</b>	<b>447.78</b>	<b>373.94</b>	<b>404.52</b>	<b>409.11</b>	<b>-4.59</b>	<b>117.74</b>	<b>98.40</b>	<b>106.41</b>	<b>107.66</b>	<b>-1.25</b>
<u>Production Costs</u>										
Taxes on Sales	-190,427	-346,390	-536,817	-1,007,282	470,465	-50,112	-91,155	-141,268	-265,074	123,807
Harvesting	-3,187,543	-3,754,041	-6,941,584	-7,160,711	219,127	-838,827	-987,906	-1,826,733	-1,884,398	57,665
<b>Total Costs of Production / Sales</b>	<b>-3,377,970</b>	<b>-4,100,431</b>	<b>-7,478,401</b>	<b>-8,167,993</b>	<b>689,592</b>	<b>-888,939</b>	<b>-1,079,061</b>	<b>-1,968,000</b>	<b>-2,149,472</b>	<b>181,472</b>
<b>CoP / Sales per unit (m³)</b>	<b>-88.99</b>	<b>-76.38</b>	<b>-81.60</b>	<b>-85.32</b>	<b>3.72</b>	<b>-23.42</b>	<b>-20.10</b>	<b>-21.47</b>	<b>-22.45</b>	<b>0.98</b>
<b>Total Net Revenues</b>	<b>13,619,867</b>	<b>15,974,975</b>	<b>29,594,842</b>	<b>30,997,823</b>	<b>-1,402,982</b>	<b>3,580,487</b>	<b>4,203,941</b>	<b>7,784,427</b>	<b>8,157,322</b>	<b>-372,895</b>
<b>Stumpage Revenue per unit (m³)</b>	<b>358.79</b>	<b>297.56</b>	<b>322.92</b>	<b>323.79</b>	<b>-0.87</b>	<b>94.32</b>	<b>78.30</b>	<b>84.94</b>	<b>85.21</b>	<b>-0.27</b>
<u>Operating Expenses</u>										
Forestry Costs	-2,551,173	-2,104,914	-4,656,087	-5,495,676	839,589	-671,361	-553,925	-1,225,286	-1,446,231	220,944
Standard Cost to Accrual adj.4	-1,140,779	0	-1,140,779	0	-1,140,779	-300,205	0	-300,205	0	-300,205
Overhead Costs	-5,059,337	-4,976,180	-10,035,517	-10,088,899	53,382	-1,331,404	-1,309,521	-2,640,926	-2,654,973	14,048
Fx gain (loss) to Actual	0	0	0	0	0	-19,061	-8,632	-27,693	0	-27,693
<b>Total Operating Expenses</b>	<b>-8,751,289</b>	<b>-7,081,094</b>	<b>-15,832,383</b>	<b>-15,584,575</b>	<b>-247,808</b>	<b>-2,322,032</b>	<b>-1,872,078</b>	<b>-4,194,110</b>	<b>-4,101,204</b>	<b>-92,906</b>
<b>OpEx per unit (ha)</b>	<b>-543.44</b>	<b>-439.72</b>	<b>-983.17</b>	<b>-967.78</b>	<b>-15.39</b>	<b>-144.19</b>	<b>-116.25</b>	<b>-260.45</b>	<b>-254.68</b>	<b>-5.77</b>
<b>Operational Result</b>	<b>4,868,578</b>	<b>8,893,881</b>	<b>13,762,459</b>	<b>15,413,248</b>	<b>-1,650,789</b>	<b>1,258,454</b>	<b>2,331,863</b>	<b>3,590,317</b>	<b>4,056,118</b>	<b>-465,801</b>
<b>Operational Result per unit (ha)</b>	<b>302.33</b>	<b>552.30</b>	<b>854.63</b>	<b>957.14</b>	<b>-102.51</b>	<b>78.15</b>	<b>144.80</b>	<b>222.95</b>	<b>251.88</b>	<b>-28.93</b>
<u>Capital Expenses</u>										
Equipment	-154,013	0	-154,013	-270,500	116,487	-40,530	0	-40,530	-71,184	30,654
Others	-737,986	-900,058	-1,638,044	-1,298,079	-339,965	-194,207	-236,857	-431,064	-341,600	-89,464
<b>Total Capital Expenses</b>	<b>-891,999</b>	<b>-900,058</b>	<b>-1,792,057</b>	<b>-1,568,579</b>	<b>-223,478</b>	<b>-234,737</b>	<b>-236,857</b>	<b>-471,594</b>	<b>-412,784</b>	<b>-58,810</b>

## 2.4 DETAILED CASH REPORT

The estimated closing cash for the year-end is USD 1,400 k, compared to the USD 3,952 k budgeted, an unfavorable difference of USD 2,552 k. As commented in section 2.1, the main difference is due stakeholder distributions totalling USD 1.8 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 budget only considers operating cash flow, due to the uncertainty of the timing of the stakeholder distributions. Excluding these distributions, closing cash would be USD 3,200k, or 752k below the budgeted closing cash.

The outstanding Harvest Report paid amounts and provisions are shown in the figure below. The outstanding value is unchanged since the last Quarterly Report.

Figure 2.4.1: Harvest Report Amounts Paid and Provisions (in USD):

2016 HR	7.841.879
2017 HR	5.645.549
<b>Total</b>	<b>13.487.428</b>
<b>Paid</b>	<b>-9.315.263</b>
<b>Outstanding</b>	<b>4.172.165</b>

The initial cash balance was USD 268 k lower than originally budgeted, having been set in October 2018 assuming that harvesting of “Buriti 1994” and “Bocaina 1998” farms would be concluded at 4Q2018, which did not occur until 2019.

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

Compared to the last report, the main update is related to better actual volume in first semester due to higher harvesting volume on “Buriti 1994” (2,277 m<sup>3</sup>) and “Duas Lagoas farm” (1,868 m<sup>3</sup>), and the bringing forward of harvesting of Bocaina 1998 to the first semester. Also, the July 2019 Consufor report prices are ~6% higher than the prior report, and are assumed to hold for the remainder of the year, increasing the cash inflow (these prices are still below the 2019 budget, however, so their improvement is relative to the YTD prices). Both the greater YTD volume and mix, and higher reforecast prices account for the higher cash generation of USD 492 k.

(The table follows on the next page)

Figure 2.4.2: Quarterly Operating Cash Flow 2019

Budget Item <i>Values in USD</i>	2019 (USD 0.00)						Var. (YTD-Budget)
	Q1	Q2	Q3	Q4	FY	FY	
	Actual	Actual	Forecast	Forecast	YEE	Budget	
BRL/USD FX Rate	3.80	3.80	3.80	3.80	3.80	3.80	
<b>Opening Cash</b>	<b>768,364</b>	<b>223,283</b>	<b>514,215</b>	<b>1,018,639</b>	<b>768,364</b>	<b>1,036,927</b>	<b>268,563</b>
Biomass Sales (m³)	5,471	5,082	1,726	1,726	14,005	7,143	6,862
Log Sales (m³)	20,773	17,187	22,208	31,479	91,647	95,735	-4,088
<b>Revenues</b>							
Biomass	20,853	19,370	6,579	6,579	53,381	26,315	27,066
Logs	2,287,294	2,145,598	2,497,931	2,771,914	9,702,736	10,280,479	-577,743
<b>Sales Revenues</b>	<b>2,308,147</b>	<b>2,164,968</b>	<b>2,504,509</b>	<b>2,778,492</b>	<b>9,756,117</b>	<b>10,306,794</b>	<b>-550,677</b>
<b>Production Costs</b>							
Taxes on Sales	-42,895	-7,218	-29,800	-61,355	-141,288	-265,074	123,807
Harvesting	-535,653	-303,174	-358,758	-629,148	-1,826,733	-1,884,398	57,665
<b>Total Costs of Production / Sales</b>	<b>-578,548</b>	<b>-310,392</b>	<b>-388,558</b>	<b>-690,503</b>	<b>-1,968,000</b>	<b>-2,149,472</b>	<b>181,472</b>
<b>Total Net Revenues</b>	<b>1,729,599</b>	<b>1,854,576</b>	<b>2,115,951</b>	<b>2,087,989</b>	<b>7,788,116</b>	<b>8,157,322</b>	<b>-369,206</b>
<b>Operating Expenses</b>							
Forestry Costs	-399,604	-329,627	-258,627	-295,298	-1,283,156	-1,446,231	163,074
Standard Cost to Accrual adj.	-41,390	-200,945	0	0	-242,335	0	-242,335
Overhead Costs	-698,946	-632,459	-635,297	-674,224	-2,640,926	-2,654,973	14,048
Fx gain (loss) to Actual	-15,010	-4,051	-9,044	-8,632	-36,737	0	-36,737
<b>Total Operating Expenses</b>	<b>-1,154,950</b>	<b>-1,167,082</b>	<b>-902,968</b>	<b>-978,153</b>	<b>-4,203,154</b>	<b>-4,101,204</b>	<b>-101,950</b>
<b>Operational Result</b>	<b>574,649</b>	<b>687,494</b>	<b>1,212,983</b>	<b>1,109,836</b>	<b>3,584,963</b>	<b>4,056,118</b>	<b>-471,155</b>
<b>Capital Expenses</b>							
Equipment	-5,272	-35,258	0	0	-40,530	-71,184	30,654
Others	15,201	-209,407	-145,721	-91,137	-431,064	-341,600	-89,464
<b>Total Capital Expenses</b>	<b>9,929</b>	<b>-244,665</b>	<b>-145,721</b>	<b>-91,137</b>	<b>-471,594</b>	<b>-412,784</b>	<b>-58,810</b>
Var. Assets to cash	-307,741	362,359	-122,237	-451,753	-519,372	-636,517	117,145
Var. Liabilities to Cash	-40,531	-11,693	-84,979	-1,151	-138,353	0	-138,353
Fx gain (loss) to Actual	-4,109	31,533	29,106	26,552	83,083	0	83,083
<b>Var. Assets and Liabilities (acc. to cash)</b>	<b>-352,380</b>	<b>382,199</b>	<b>-178,110</b>	<b>-426,352</b>	<b>-574,643</b>	<b>-636,517</b>	<b>61,874</b>
Leasing/Finame	-23,118	-27,406	-18,594	-15,530	-84,649	-84,586	-63
Earnings on investments	6,656	1,781	0	0	8,437	0	8,437
Loans/ Bank fees	-7,954	-1,664	-1,650	-1,700	-12,968	-6,316	-6,652
<b>Financial Movements</b>	<b>-24,417</b>	<b>-27,289</b>	<b>-20,244</b>	<b>-17,231</b>	<b>-89,181</b>	<b>-90,902</b>	<b>1,721</b>
Stakeholder Distributions (Payments)	-526,777	0	0	0	-526,777	0	-526,777
Other Transfers	-222,763	-506,807	-364,484	-193,693	-1,287,747	0	-1,287,747
Income Tax	-3,322	0	0	0	-3,322	0	-3,322
<b>Cash Transfer / Income Tax</b>	<b>-752,862</b>	<b>-506,807</b>	<b>-364,484</b>	<b>-193,693</b>	<b>-1,817,846</b>	<b>0</b>	<b>-1,817,846</b>
<b>Cash Flow Var.</b>	<b>-545,081</b>	<b>290,932</b>	<b>504,424</b>	<b>381,424</b>	<b>631,699</b>	<b>2,915,916</b>	<b>2,284,217</b>
<b>Closing Cash</b>	<b>223,283</b>	<b>514,215</b>	<b>1,018,639</b>	<b>1,400,063</b>	<b>1,400,063</b>	<b>3,952,843</b>	<b>2,552,779</b>

### 3 CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND EQUITY

Figure 3.1: Assets, Liabilities and Equity at June, 30<sup>th</sup>.

Floresteca S/A - Balance Sheet position of January 01 to June 30, 2019			
(In thousands of reais/dollars)			
	R\$	\$	
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	10.468		2.732
Accounts receivable	7.960		2.077
Inventories	-		-
Recoverable taxes	4.155		1.084
Other receivables	309		81
<b>Total Current Assest</b>	<b>22.891</b>		<b>5.974</b>
<b>NON-CURRENT ASSETS</b>			
Advances to agricultural partners	5.519		1.440
Other receivables	612		160
Deferred taxes	3.853		1.006
Investment property	-		-
Biological Assets	515.122		134.441
Property, plant & equipment	8.618		2.249
Intangible assets	75		20
<b>Total Non-Current Assest</b>	<b>533.799</b>		<b>139.315</b>
<b>TOTAL CURRENT ASSETS</b>	<b>556.691</b>		<b>145.289</b>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Loans and financing	177		46
Leasing	39		10
Suppliers and other accounts payable	3.064		800
Taxes payable	1.341		350
Salaries, vacations and payroll charges payable	341		89
<b>Total Current Liabilities</b>	<b>4.961</b>		<b>1.295</b>
<b>Non-current liabilities</b>			
Loans and financing	458.495		119.643
Leasing	32		8
Contingencies	400		104
Accounts payable with investors	25.087		6.546
<b>Total Non-Current Liabilities</b>	<b>484.013</b>		<b>126.302</b>
<b>EQUITY</b>			
Capital	27.798		7.254
Legal reserve	5.559		1.451
Profit reserve	34.360		8.966
Foreign exchange adjusts			23
<b>TOTAL EQUITY</b>	<b>67.717</b>		<b>17.693</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>556.691</b>		<b>145.290</b>

## 4 AREA CHANGES

From the initial area position from the beginning of the year, Floresteca has finalized harvesting in 199.9 ha through the end of June, as shown in the table below:

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

Project	Year	Initial Area	Harvested	Current Area
Buriti	1994	89.8	89.8	0,00
Paiolandia	1997	297.92		297.92
Paraíso	1997	555.05		555.05
Bocaina	1998	178.35	37.99	140.36
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	98.88		98.88
Bambu	1999	549.07		549.07
Bocaina	1999	108.18	72.11	36.07
Cassange	1999	88.49		88.49
Capim Branco	1999	507.87		507.87
Serra das Araras	1999	105.01		105.01
Vale Dourado	1999	48.59		48.59
Bambu	2000	513.83		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	970.2		970.2
Cacimba	2002	571.08		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	12.95		12.95
Cacimba	2003	10.19		10.19
Santa Maria do Jauru	2003	207.87		207.87
Santa Fé	2003	2,562.71		2562.71
Barranquinho	2004	1,021.00		1,021.00
Terra Santa	2004	1,143.17		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	301.3		301.3
Santa Maria do Jauru II	2008	99.87		99.87
<b>Total</b>		<b>15,712.19</b>	<b>199.9</b>	<b>15,512.29</b>

## 5 LOG SALES

### 5.1 YIELD PER HECTARE

The estimated year end volume is expected to be -4% unfavorable to budget. This volume reduction is expected because the budget considered thinning to be operated by a feller machine, which was to begin operations in May. However, the supplier delayed delivery, and the machine has not yet been put fully into service. The revised forecast considers that feller operations will begin only in September and, therefore negatively impact the thinning volume. Additionally, the updated schedule considers that Capim Branco farm to have its final cut brought forward by several months, and will begin in the second half of 2019.

Production volume from Bocaina 1999 should be lower than budgeted, but within a normal error margin (-7%), given the natural variability of the forest and stand sampling system.

On Duas Lagoas (DLG), a lower harvested area and volume were initial considered in the budget. As the thinning operations started earlier than planned (December of 2018), the harvesting team was able to perform the entire area of DLG05 and DLG06 during the YTD, in more and resulted in substantially more volume than expected (+22%).

The final harvest of Araras (ARA99) has already produced higher volume than budgeted (+9%). TRC estimates were based on the latest inventory information (2016) and underestimated the growth of the trees, affecting the expected final yield. In addition, on this project it was able to get some merchantable volume from areas of Teak with poor development that were out of the management plan, which also contributed to the increase.

Figure 5.1.1: Log sales per project, 2019 YEE volume

**Total volume (m<sup>3</sup>) - per diameter class from all lengths**

Project	Area (ha)		Production yield (m <sup>3</sup> )		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
ARA1999	98,87	98,87	5.389	4.908	14.004	14.004	766	2.353	1.272	487	486	24
BOC1999	108,19	108,19	8.270	8.972	9.946	9.946	29	457	3.880	1.343	1.632	928
DLG2005	207,68	30,84	3.710	552	33.582	4.987	1.094	2.337	255	24	0	0
DLG2006	233,92	233,92	4.461	5.788	30.749	30.749	888	3.099	355	119	0	0
CAS1999	88,49	88,49	6.850	6.849	13.373	13.373	220	1.637	2.959	935	994	105
SJT1998	12,06	12,06	1.224	1.224	1.927	1.927	8	282	470	214	207	42
PAI1997	202,20	202,20	8.928	8.928	51.744	51.744	380	3.480	2.685	1.438	902	44
TST2004	0,00	818,02	0	11.863	0	37.112	0	0	0	0	0	0
BOC1998	91,43	91,43	13.098	13.100	9.594	9.594	71	799	5.005	2.664	3.215	1.344
PAI1998	34,67	93,95	1.500	6.491	5.741	14.039	34	463	583	243	166	11
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	6.324	6.324	82.334	54.190	1.941	3.996	325	61	0	0
CPB1999	94,12	55,27	9.352	3.758	10.239	6.134	46	1.966	4.070	1.714	1.373	183
CMB2002	296,45	78,72	4.000	1.404	11.975	3.265	1.571	1.608	519	290	12	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	6.277	4.000	0	0	2.768	2.533	831	122	23	0
SMJII2008	99,88	99,88	414	0	0	0	169	245	0	0	0	0
SMJ2002	168,30	0,00	4.006	0	14.394	0	844	2.678	242	240	2	0
<b>TOTAL</b>	<b>2.883,29</b>	<b>3.004,39</b>	<b>91.647</b>	<b>95.735</b>	<b>342.054</b>	<b>309.375</b>	<b>13.576</b>	<b>32.101</b>	<b>24.178</b>	<b>10.062</b>	<b>9.012</b>	<b>2.681</b>

\* 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 (m<sup>3</sup>) per hectare - per diameter class from all lengths**

Project	Production yield (m <sup>3</sup> )		Trees Removed		PER HECTARE (ACTUAL)					
	YEE	FYB	YEE	FYB	15-20 cm	20-25 cm	25-30 cm	30-35 cm	35-40 cm	40+ cm
ARA1999	54,51	49,64	141,63	141,63	7,75	23,80	12,86	4,93	4,92	0,24
BOC1999	76,44	82,93	91,93	91,93	0,27	4,23	35,86	12,41	15,09	8,58
DLG2005	17,87	17,90	161,70	161,71	5,27	11,25	1,23	0,12	0,00	0,00
DLG2006	19,07	24,74	131,45	131,45	3,80	13,25	1,52	0,51	0,00	0,00
CAS1999	77,41	77,39	151,13	151,13	2,48	18,50	33,44	10,57	11,23	1,19
SJT1998	101,52	101,51	159,78	159,78	0,68	23,36	39,00	17,78	17,18	3,51
PAI1997	44,15	44,15	255,90	255,90	1,88	17,21	13,28	7,11	4,46	0,22
TST2004	0,00	14,50	0,00	45,37	0,00	0,00	0,00	0,00	0,00	0,00
BOC1998	143,26	143,27	104,94	104,94	0,78	8,74	54,74	29,14	35,16	14,70
PAI1998	43,26	69,09	165,57	149,43	0,97	13,37	16,82	7,00	4,79	0,32
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	12,53	20,68	163,07	177,20	3,84	7,92	0,64	0,12	0,00	0,00
CPB1999	99,37	68,00	108,79	111,00	0,49	20,89	43,25	18,21	14,59	1,94
CMB2002	13,49	17,83	40,40	41,48	5,30	5,42	1,75	0,98	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	23,80	0,00	85,53	0,00	5,01	15,91	1,44	1,43	0,01	0,00
<b>TOTAL</b>	<b>31,79</b>	<b>31,87</b>	<b>118,63</b>	<b>102,97</b>	<b>4,71</b>	<b>11,13</b>	<b>8,39</b>	<b>3,49</b>	<b>3,13</b>	<b>0,93</b>

## 5.2 ROADSIDE PRICES

Table 5.2.1 below shows the volume sold to 2Q2019, compared to the budget. A total of 37,837 cubic meters have been sold versus 34,840 originally budgeted for the period. The budget considered the benchmark price of October 2018 (Consufor) and the actual prices were based on the Consufor Mato Grosso Teak Timber Price Reports (January and April 2019). The prices for each Consufor report are detailed in section 5.4.2.

Figure 5.2.1: Roadside Prices comparison 2019 YTD

	Volume (m <sup>3</sup> )		RS Price (USD/m <sup>3</sup> )		Diameter Point	
	Budget	Proforma	Budget	Proforma	Budget	Proforma
15-20 cm	6.188	5.908	26	39	18,94	18,23
20-25 cm	6.131	11.914	73	75	22,35	22,77
25-30 cm	11.417	10.098	112	125	27,48	27,25
30-35 cm	4.556	3.635	149	157	31,24	32,19
35-40 cm	5.302	4.512	219	226	37,32	38,64
40+ cm	1.247	1.894	320	234	45,28	41,15
<b>Weighted Average</b>	<b>34.840</b>	<b>37.960</b>	<b>118</b>	<b>117</b>	<b>30,15</b>	<b>27,01</b>

The table 5.2.2 below shows that the updated forecast using the weighted average sales prices based on the most recent Consufor Report of July 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 <sup>3</sup> )	Budget Proforma	
15-20 cm	26	31
20-25 cm	75	72
25-30 cm	112	115
30-35 cm	150	152
35-40 cm	222	221
40+ cm	318	251
<b>Total Geral</b>	<b>107,38</b>	<b>105,83</b>

### 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.

### 5.4 TEAK MARKET UPDATE

#### 5.4.1 Brazil and India Economic Overview

The second quarter of the calendar year saw some FX volatility of the BRL and the Indian Rupee (INR). In Brazil this was still largely driven by the expectations regarding on measures that the new Brazilian administration would take under Jair Bolsonaro, and particularly regarding plans for pension reform, a key measure needed for long term fiscal solvency and of which has not been decided yet. Protests around the country against the proposed pension reform happened during the month of May. Yet the lower house of Congress passed a substantial pension reform package in July, and the second round of voting in the lower chamber and subsequent voting in the Senate is now expected to be concluded by the end of August. Financial markets reacted moderately well, partly due to the result having been somewhat priced in, and partly due to the fact the reform is still not passed (though the initial vote provides a high likelihood for final approval).

In India the FX rates had appreciated, in part due to speculation around federal elections, including the presidency, which began in April and ended on May 23<sup>rd</sup>, resulting on the reelection of Narendra Modi as prime minister. More generally, the USD had strengthened versus most major currencies during 2Q2019 as consequence of the trade war against China and the speculation over a possible currency war led by the USA.

## **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.

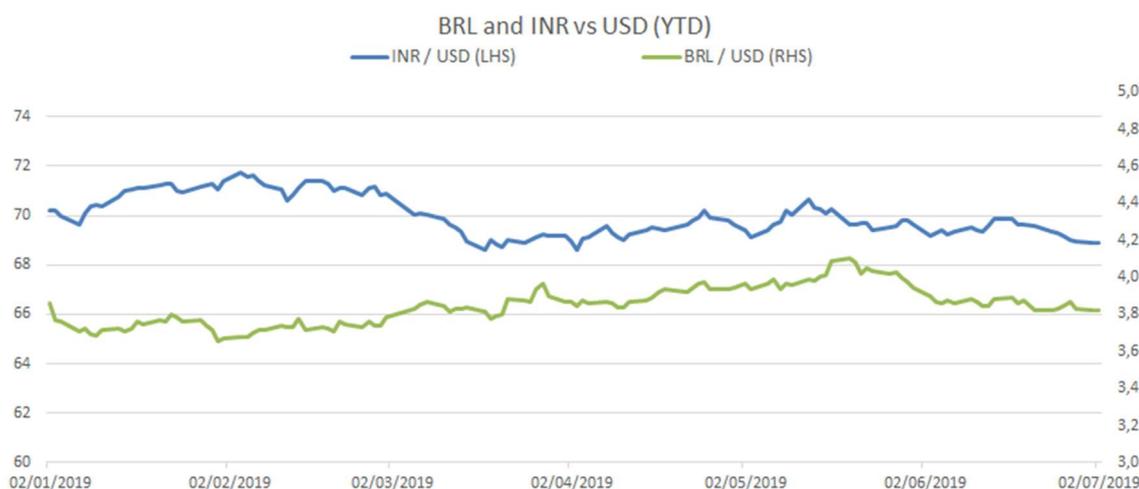
The topic has thus been inherited by President Bolsonaro. Truckers were largely supportive of his candidacy during the elections, and Mr. Bolsonaro made several statements favorable to measures to help the truckers. Most recently, in a move widely criticized, the President requested that Petrobras (the 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 trucker strikes had been raised but have not effectively happened yet. Politically, it seems likely that the matter will only be settled in the courts, with no clarity in terms of the timing.

TRC 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, the BRL FX rate have been as volatile in 2Q2019 as it was during 1Q2019. The BRL suffered a increasing depreciation, with more intensity during the month of May, as a reflect of the difficulty on approving the pension reform due to the lack of governmental influence over the congress, and the manifestations against the proposed pension reform in the main cities of Brazil. 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 and a considerable appreciation during April/19 pushed by the federal elections. The INR/USD FX rate had been overall stable during the 2Q2019. The average BRL/USD FX rate in 2Q2019 depreciated by 4% compared with the 1Q2019 average rate, and the INR depreciated by 1% on the same comparison of periods.

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

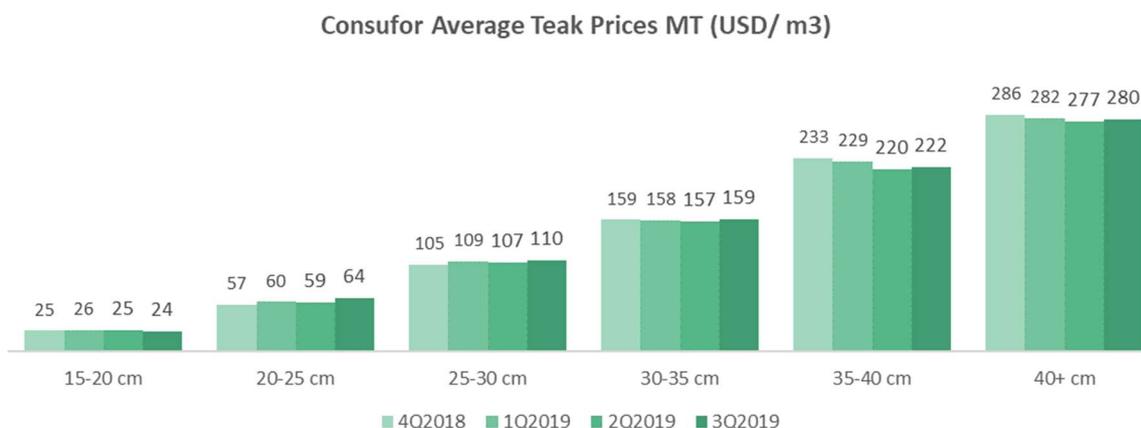


TRC sees the BRL and INR FX rates as being driven by internal and external political events in 3Q2019 and going forward until the year end. The success (or failure) of the Bolsonaro government in passing the pension reform proposal is still the main focus in Brazil, with success potentially signifying material appreciation of the BRL. In India, the development of the recently reelected government will be the main driver of FX for the 3<sup>rd</sup> quarter as decisions towards unemployment, national security, the recent conflict with Pakistan and the GST tax, 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 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 only recently begun to provide information on log length classes, but does not provide pricing differentials for quality characteristics for the assortments in their survey. Regarding this later point, they have indicated in their most recent reports that the prices reflect logs of the highest perceived quality.

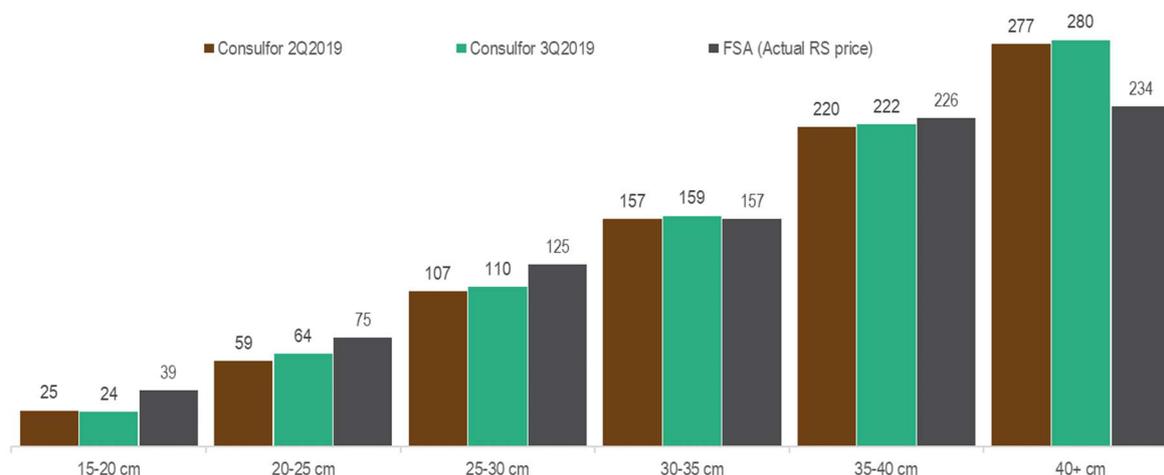
Figure 5.4.3.1: CONSUFOR Average Teak Prices MT (USD/ m3)



Consufor’s most recent report was released in early July of 2019, based on survey data taken in June (shown as 3Q2019 in the chart above). Log prices for diameters between 15-20 cm have suffered a minor decrease of 4% and log prices for diameters from 20-25 cm until +40 cm have seen a slight increase of 3% on average.

In Figure 5.4.3.2 below, is a comparison between prices (all grades and sizes) of the Consufor averages for 3Q2019, 2Q2019 and those obtained YTD from the Floresteca S.A properties.

Figure 5.4.3.2: Floresteca S.A. (2Q2019) versus CONSUFOR roadside prices (USD/m<sup>3</sup>)

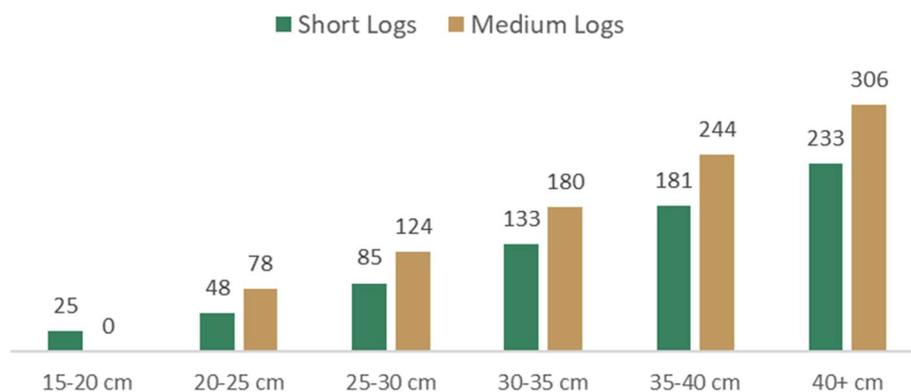


Note that the FSA prices are higher than the Consufor prices for most of the grades considered, with the exception of the 30-35 cm and 40+ cm diameter logs. The main reason for the divergence in Floresteca SA log prices vs those of the Consufor 1Q and 2Q price reports are due to the average diameters 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	18.2
20-25 cm	22.8
25-30 cm	27.2
30-35 cm	32.2
35-40 cm	38.6
40+ cm	41.2

Consufor has also begun providing additional information, with 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/m<sup>3</sup>)



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 2Q was USD 23.42 versus USD 22.69 in the budget, or 3% greater than planned.

The 2Q2019 cost per volume was slightly unfavorable to budget due to the harvesting on Buriti. The thin forest, the stands population (~250 trees/ha) and the operation was carried out during the rainy season, resulting in a slightly higher overall Cost of Production (CoP).

In the 1Q2019 report the YTD CoP per cubic meter was USD 26.73, and has now fallen to USD 23.42. As commented last quarter, with the beginning of the dry season harvesting operations are more predictable and operationally efficient, resulting in lower costs per unit. For the updated forecast through the end of 2019, the Cost of Production is expected to be essentially in line with the budget.

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

Figure 6.1.2: Harvesting Cost, per activity:

		<b>Budget YTD</b>	<b>Actual YTD</b>
Tree Selection	BRL	27.397	3.331
Harvesting	BRL	570.942	896.661
Forwarding	BRL	1.045.752	1.245.968
Lot Formation	BRL	326.698	334.714
Loading	BRL	229.462	240.006
Tax	BRL	409.549	466.863
<b>Total</b>	<b>BRL</b>	<b>2.609.800</b>	<b>3.187.543</b>
Sales Expenses	BRL	394.598	190.427
Commercial Vol.	m <sup>3</sup>	34.840	37.960
BRL/m <sup>3</sup>		86,23	88,99
BRL/USD rate		3,80	3,80
USD/m <sup>3</sup>		22,69	23,42

## 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



Overall forestry costs were lower than the budget for the year to date, at BRL 2.771 k versus BRL 2.996 k per the budget. The most relevant activities are commented below:

### 7.1 STUMP REMOVAL

Stump removal was finished in Buriti and Vale Dourado farms and started at Bocaina farm. The higher expenses than budgeted in the beginning of the year were necessary due to the sale of the Buriti farm, and so needed to be accelerated. Nonetheless, TRC expects the activity to track the original budget amount for the year.

### 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, Cassange, Duas Lagoas and Araras farms. The activities were not originally planned for these farms.

### **7.4 FIREBREAKS**

Firebreak maintenance was finished in Bocaina, Araras, Cassange, São Judas Tadeu, Capim Branco, Paraíso, Cacimba, Santa Maria do Juru, Barranquinho e Bambu farms. The activity was carried out to allow the access for the harvesting team and to provide fire prevention. Nonetheless, TRC expects the activity to track the original budget amount in the end of the year.

### **7.5 OPERATIONAL SUPPORT**

Operational support is slightly under the budget and TRC expects to keep this difference in the end of the year.

## 8 COMPLIANCE & LEGAL ISSUES

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

### 8.1 PARAISO, TERRA SANTA, AND BAMBU IV FARMS

The Paraiso, Terra Santa and Bambu IV farms all have land use deals (“LUDs”, also “Usufruct Agreements”) with the same land owners, Mr. Antonio Frigieri Filho, and his wife Jacqueline da Costa Marque Frigeiri (“Landowners”). Under these LUD agreements, in all three farms, the Landowners receive a percentage of the wood, or the proceeds from the sale of the wood, following the final harvest. The precise terms and the percentage of the wood differ in each agreement. For each farm, the Landowners received some advance payments for the final harvest proceeds under the agreements where these advances will be deducted from the actual final proceeds. It bears stating that the likely amounts to be received by the Landowners for the 3 farms are at present less than the advance payments, and at best will largely reduce the net amounts payable to them. It bears noting that Mr. Frigieri and his wife are the only LUD partners with whom Floresteca has any pending litigation, of a total of 22 outstanding LUD farm agreements.

**Issue 1: Paraiso:** In April 2016, Floresteca received a legal challenge by the Landowners in a declaratory procedure, requesting the end of the usufruct rights with immediate effect, including the return of the land. 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 provided the information requested by the judge and the expert. After release of the experts report (the judicial investigation), Floresteca presented its own partially divergent report for the judge's analysis. Floresteca is now awaiting final decision.

**Issue 2: Bambu IV:** Late in 2018, FSA received a summons from the Landowners, similar calling for the termination of the Usufruct Agreement and indemnifications for losses they expect of the planted teak. The procedure was filed regularly (not summary as in the case of Paraiso), and is with the 8<sup>th</sup> Lower Civil Court of Cuiabá, Mato Grosso. In May the court decided against a motion for a preliminary decision in the Landowners favor, and a hearing is set for September 2019.

**Issue 3: Terra Santa:** The Landowners filed a new lawsuit early in 2019 regarding this property, with FSA receiving a summons on 4/24/2019. Different from the other 2 cases, the Landowners allege that their right to the proceeds is over 94 hectares, whereas Floresteca only recognizes 3.26 hectares, with the difference due to a flooding of areas which killed some of the teak. The flood was the result of an agreement of the Landowners with a hydroelectric plant operator, whose damming of adjacent areas resulted in the flooding and subsequent damage to the planted teak areas of the Landowners. The areas are clearly delimited in the Usufruct Agreement. The procedure is also on a regular basis in this case (not summary). No court date has yet been set.

## 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 subsequently and spontaneously left the farm, however, they have repeatedly invaded the property over time, motivating the hiring of a private security guard. The Public Prosecutor's Office has filed 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. On 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.

## 8.3 TRUCKING COMPANY ALLEGATIONS

A trucking company called Vale do Rio Verde (Rio Verde), which had provided services to FSA in 2012-13, has claimed that FSA violated Law 10.209/01, which obligates domestic freight services to provide for the separate pre-payment of tolls as part of the freight services. Under this law, if tolls were not prepaid, the transport company would be due two times the value of the freight contract. In the suit, Rio Verde alleges the freight amounts in question total BRL 1.6 million, meaning they would be due double this value. FSA learned of this case indirectly, and has not as yet been summoned. The case was originated in 2016, and Rio Verde has been inactive for several years, having run into financial problems. If and when FSA is summoned, the first step will be an audience with the judge to establish the facts, whom will promote an out of court settlement. Should there be no agreement, FSA will have 15 days to provide its defense arguments. FSA has retained outside counsel to establish the merits of the case, and outline potential defense arguments and alternatives, should the court deem the claim worthy of consideration (thusfar the Court has not done so, on different technical grounds).

## 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
<b>Total</b>		<b>15.604,06</b>	<b>499,42</b>	<b>16.103,48</b>

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