

QUARTERLY MANAGEMENT REPORT



- Floresteca S/A -

Year 2018
3rd Quarter (Jan/18 to Sep/18)

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PROPERTY OVERVIEW

Floresteca S/A is located in the State of Mato Grosso, where it manages 17,477.58 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.
- TRC Agroflorestal Ltda. (TRC): Management Services Company retained by Floresteca S.A. to perform harvesting and silvicultural services on the forests;

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

1 EXECUTIVE SUMMARY

Macroeconomic developments commented in the 2Q2018 Management Report were also factors in 3Q2018. Federal elections for President, 2/3s of the Senate and all congressional seats, as well as state governors and assembly seats, were held on October 7th, with the campaigns officially beginning August 15th. The BRL was subject to substantial volatility through most of this period, with net devaluation vs the USD through the end of the quarter. Following the first round, with the definition of a run-off election of the 2 top presidential candidates, the BRL revalued substantially vs the USD on the basis of opinion polls pointing to a probable victory by conservative candidate Jair Bolsonaro. More widely, EM currencies, including the BRL and the Indian Rupee (INR), were also hit by a more general wave of USD appreciation, a reflection of trade and political conflicts between the US and China and the US and Turkey, as well as signaling from the US Federal Reserve that it would continue to raise interest rates. These macroeconomic factors followed the peak harvesting season of Central American teak suppliers. As a result, USD CIF prices to India were hit. Additionally, the trucker's strike in late May affected sales and logistics into July, even though most forestry operations were not substantially affected. 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 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 which in activities as stump removal entails a cost temporal displacement. Harvesting activity was similarly hindered by rain, 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. In 3Q2018 most of the forestry and harvesting activities had no issues and performed to catch up the delays occurred on 1Q2018.

For Floresteca S.A., the negative effects of the strike were partially offset by the 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 shown in Figure 1 below, the year end Earnings Before Interest, Taxes and Depreciation & Amortization (EBITDA) is expected to be USD 3.093 k versus the USD 2,692 k budgeted or a favorable variance of USD 401 k (14%). The reason for this positive result is higher sales revenues, which were budgeted at USD 9,884k and are now estimated at USD 11,105k, or USD 1,221k higher. The underlying factors contributing to the YEE revenues are:

- Carry over volumes from Cocal, Tenda, Vale Dourado, Pimental and Silas farms, providing an additional 11,553 m³ year-to-date (details in section 2.3);
- Higher sales prices for lower diameter logs USD 139.72 budgeted versus USD 145.12 (details in section 5.2);

The higher sales revenues will, however, be partially offset by:

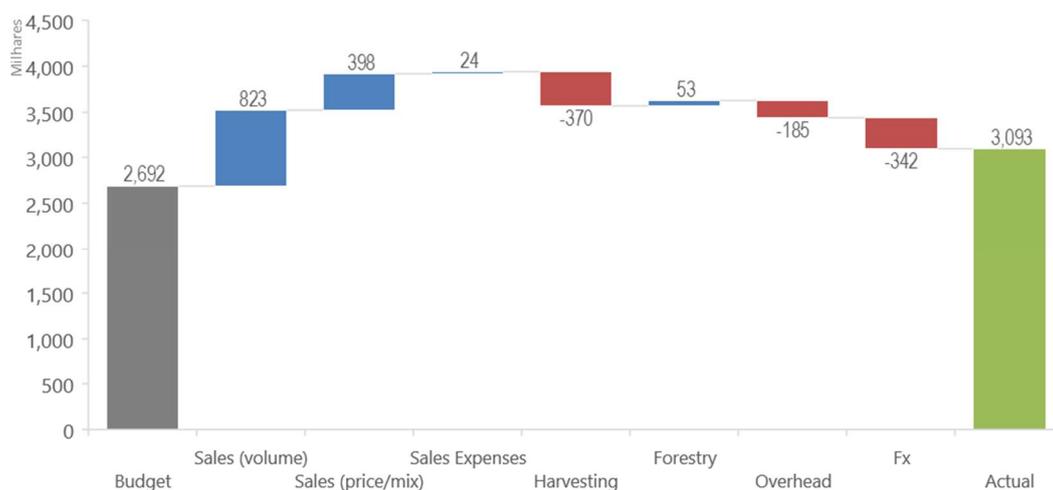
- Higher harvesting costs, as the volume felled will be higher than budgeted as well as the higher than expected social security tax (INSS) over services (see section 6) .
- Forestry activities are expected to finalize the year within the budget since there are some savings in activities as stump removal and pruning which are offset by higher costs in other activities (fertilization and sprout control - see section 7);
- To facilitate comparisons, all values in BRL were converted to the USD using the budget fx rate of BRL 3.24/ USD. As the actual fx rate increased over the year from 3.32 in 1Q to 4.00 in 3Q,

overall results were negatively impacted by this adjustment and shown as a net FX adjustment in the chart.

Other factors that will impact results are:

- Overhead will be unfavorable to budget due to increases in payroll expenses, advisory, 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 1,687 k vs USD 2,019 k budgeted, or an unfavorable variance of USD 332 k.

This result was mainly determined by:

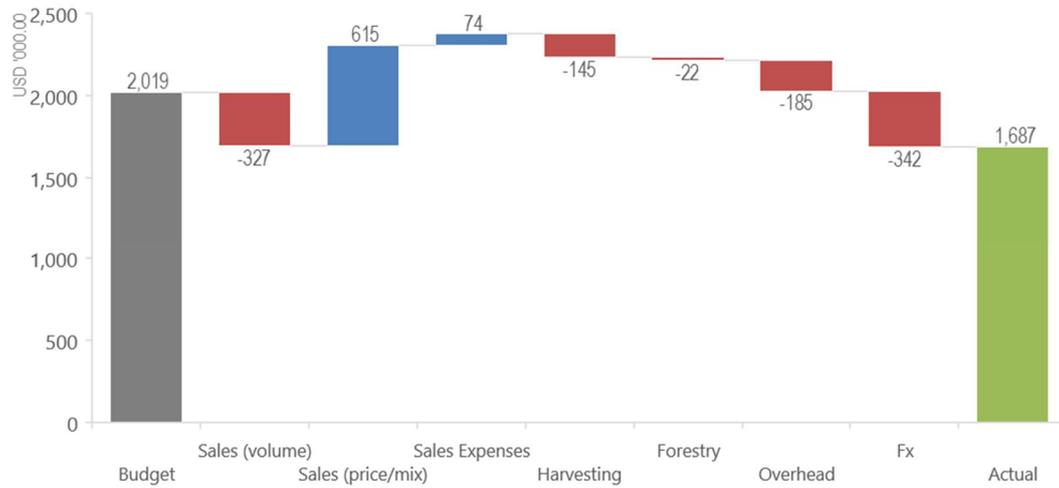
- Higher weighted average roadside sales prices partially offset the lower volumes, USD 143.21 versus USD 131.69 budgeted (table 4)
- Lower overall volume vs the Budget. Harvesting lost 20 working days in 1Q due to unusually heavy rainfall, resulting in lower than planned volume;
- Delayed sales caused 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 14,1 k m³ originally budgeted to be sold through 3Q2018 are now postponed, with 10,4 k m³ to be done in 4Q2018 and 3,7 k m³ in 2019. Commercial restrictions in India may, however, further reduce the final overall volume;

On the cost side:

- Forestry activities had slightly higher costs than budgeted due to costs which are linearly budgeted, such as maintenance, but that in fact occur in different amounts and periods during the year;
- Harvesting costs were higher than budgeted by USD 235 k mostly due to higher than expected social security tax (INSS) over harvesting services. (see section 6). For the next year budget the INSS will be considered for TRC harvesting service, which will increase the service invoice cost in 6.5%;

- Overhead was unfavorable to budget by USD 185k due to increases in payroll expenses (USD 84k), advisory and auditing (USD 49 k) and legal fees (USD 67 k). As commented above, in the year to date, there has been a net negative FX affect vs the budgeted FX rate.

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; 3.86 2Q and 4.00 3Q) 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	2018	
	YEE	Budget
<i>Values in USD</i>		
BRL/USD FX Rate	3,24	3,24
Biomass Sales (m ³)	3.591	0
Log Sales (m ³)	76.525	70.745
Revenues		
Biomass	15.210	0
Logs	11.090.399	9.884.637
Sales Revenues	11.105.609	9.884.637
Sales Revenues per unit (m³)	145,12	139,72
Production Costs		
Logistics ¹	-6.272	0
Taxes on Sales	-324.611	-358.235
Sales Commission ¹	-3.786	0
Harvesting	-1.771.134	-1.401.500
Total Costs of Production / Sales	-2.105.804	-1.759.735
CoP / Sales per unit (m³)	-27,52	-24,87
Total Net Revenues	8.999.805	8.124.902
Stumpage Revenue per unit (m³)	117,61	114,85
Operating Expenses		
Forestry Costs	-2.273.807	-2.326.658
Overhead Costs ²	-3.290.818	-3.106.316
Fx gain (loss) to Actual	-341.879	0
Total Operating Expenses	-5.906.504	-5.432.974
OpEx per unit (ha)	-328,42	-302,09
EBITDA	3.093.301	2.691.927
EBITDA per unit (ha)	172,00	149,68

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 3,093 k vs USD 2,692 k budgeted, a favorable variance of USD 401 k. The main driver for this positive difference is sales revenues which was budgeted at USD 9,884 k and is now estimated in USD 11,105 k or USD 1,221 k higher than budgeted. The increase is due to higher volumes (76,525 vs 70,745) and better average prices (9%).

Comparing to 2Q2018 report the YEE EBITDA show in table 1 rose from USD 3,057 k to USD 3,093. The major changes are as follows:

- Sales revenues: Rose from USD 10.6 M to USD 11.1 M due to volume slightly increase from 76.128 m³ to 76.525 and higher YTD weighted average price, as explained in section above. Further details on sections 2.3 and 5.
- Operating Expenses: The key change on operations was the Fx that increases from USD -22 k to USD -341 k when compared to last report as the fx rate had a continuous growth through the year. Forestry and Overhead had no material variations when compared to YEE in 2Q2018

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 1.6 M versus USD 8.8 M budgeted. Most of this difference is due to the partial payment of 2016 and 2017 Harvesting Report (HR) totaling USD 5.7 M (greater detail on Harvest Report payments is provided in section 2.4. Note that the HR payment estimation is not included in table 2. Netherlands G&A expenses of USD 1.5 M for the year are higher than budgeted, in large part due to the restructuring in process at FBV.

When compared to last report the YEE stakeholder distributions increased from USD 3.5 to USD 7.6 M due to distribution on 3Q, already detailed on the paragraph above. For Capex the major change were a credit of USD 230 K related to forest replenishment and in operations there was a variation from USD 2.4 m to USD 1.7 due to sales receivables partial displacement to 2019.

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 and forest replenishment credits.

It is worth mentioning that FSA has bank accounts in noncurrent currencies in Brazil such as USD and EUR, but the official currency to be accounted to the Treasury is BRL so all financial transactions in non BRL currencies are adjusted by the end of each month to reflect parity with the national currency (BRL). On table 2 below this adjustment is allocated on Increase / (Decrease) from Operations on BRL YEE (column 1), however on USD YEE (column 3) there is only the fx adjustment from actual to budget (3.24) so that is not possible to directly match the values on both columns.

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	-24,686,568	-1,944,000	-7,619,311	-600,000
Increase / (Decrease) in Financial Exp. ²	-402,261	-592,841	-124,155	-182,976
Increase / (Decrease) from Operations	8,366,288	7,519,380	1,777,651	2,320,796
Increase / (Decrease) CapEx	-824,675	-1,684,926	-254,529	-520,039
Income Tax	-10,469	0	-3,231	0
Closing Cash	7,920,274	28,775,572	1,639,992	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 1,687 k vs USD 2,019 k budgeted, or an unfavorable variance of USD 332 k. This result was largely driven by costs, as sales were better than budget YTD:

On the sales side the overall result was favorable when compared to budget in USD 287 K, and sales have two components:

- Volume: Was lower than budgeted (2.5 k m³) due to mainly Buriti and Bocaina volume rescheduled for 4Q2018 and 1Q2019 (14.1 k m³), which will be partially offset by higher volumes coming from Cocal, Tenda, Vale Dourado, Silas and Pimental (11.5 k m³);
- Price and Mix: 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.

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

- Forestry activities had slightly higher costs than budgeted due to maintenance costs, which are linearly budgeted but in fact they can occur in different amounts and periods during the year. Overall forestry costs are expected to be within the budget for the year, although there will be costs variations between activities, specifically higher costs for sprout control and lower cost for pruning.
- Harvesting: higher than budgeted by USD 235 k mostly due to higher than expected social security tax (INSS) over services. (see section 6);
- Overhead: was unfavorable to budget by USD 185k due to increases in payroll expenses (USD 84k), advisory and auditing (USD 49 k) and legal fees (USD 67 k);
- For Capex the major change were a credit of BRL 900 K related to forest replenishment received on 3Q2018
- Fx adjustment to allow values comparison at the budgeted Fx (3.24);

Table 4: Year to Date Summary

Budget Item	2018 (BRL 0.00)			2018 (USD 0,00)		
	YTD			YTD		
	Actual	Budget	Var (A-B)	Actual	Budget	Var (A-B)
BRL/USD FX Rate			-	3.24	3.24	-
Biomass Sales (m ³)	3,591	0	3,591	3,591	0	3,591
Log Sales (m ³)	54,651	57,248	-2,597	54,651	57,248	-2,597
<u>Revenues</u>						
Biomass	49,280	0	49,280	15,210	0	15,210
Logs	25,309,302	24,426,168	883,134	7,811,513	7,538,941	272,572
Sales Revenues	25,358,582	24,426,168	932,414	7,826,723	7,538,941	287,782
Sales Revenues per unit (m³)	464.01	426.67	37.34	143.21	131.69	11.52
<u>Production Costs</u>						
Logistics ¹	-20,323	0	-20,323	-6,272	0	-6,272
Taxes on Sales	-630,906	-902,843	271,936	-194,724	-278,655	83,931
Sales Commission ¹	-12,267	0	-12,267	-3,786	0	-3,786
Harvesting	-4,129,230	-3,660,076	-469,153	-1,274,454	-1,129,653	-144,800
Total Costs of Production / Sales	-4,792,725	-4,562,919	-229,806	-1,479,236	-1,408,308	-70,928
CoP / Sales per unit (m³)	-87.70	-79.70	-7.99	-27.07	-24.60	-2.47
Total Net Revenues	20,565,857	19,863,249	702,607	6,347,487	6,130,632	216,854
Stumpage Revenue per unit (m³)	376.31	346.97	29.34	116.15	107.09	9.06
<u>Operating Expenses</u>						
Forestry Costs	-5,057,348	-5,851,604	794,256	-1,560,910	-1,806,051	245,141
Standard Cost to Accrual adj. ⁴	-865,859	0	-865,859	-267,240	0	-267,240
Overhead Costs	-8,067,980	-7,470,193	-597,787	-2,490,117	-2,305,615	-184,502
Fx gain (loss) to Actual	0	0	0	-341,879	0	-341,879
Total Operating Expenses	-13,991,187	-13,321,798	-669,389	-4,660,146	-4,111,666	-548,480
OpEx per unit (ha)	-777.96	-740.74	-37.22	-259.12	-228.62	-30.50
EBITDA	6,574,670	6,541,452	33,218	1,687,340	2,018,967	-331,626
EBITDA per unit (ha)	365.58	363.73	1.85	93.82	112.26	-18.44
<u>Capital Expenses</u>						
Equipment	-19,900	-143,208	123,308	-6,142	-44,200	38,058
Vehicles	-53,134	-3,500	-49,634	-16,399	-1,080	-15,319
Others	-751,641	-1,507,669	756,028	-231,988	-465,330	233,342
Total Capital Expenses	-824,675	-1,654,377	829,702	-254,529	-510,610	256,081

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

Legend:

FY: Full Year;

YTD: Year to Date;

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

COP: Cost of Production;

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

2.3 YEAR END ESTIMATION

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 3,093 k vs USD 2,692 k budgeted. This result will be due to the following factors:

On the sales side, the estimated overall result will be favorable when compared to budget in USD 1.2 million, due in turn to:

- Volume: higher than expected from the Cocal, Tenda, Vale Dourado, Pimental and Silas on YTD basis (11.5 k m³ in additional volume), which were partially offset by volumes displacement to 1Q2019 from Bocaina and Buriti (5.7 k m³);
- Price and Mix: Higher sales price in small grade logs as the budget conservatively considered the minimum benchmark price, however the buyers have been paying the average rate;

On the cost side the the main unfavorable variations are projected as follows:

- Higher harvesting costs, as the volume cutted down will be higher than budgeted and the higher than expected social security tax (INSS) over services (see section 6).
- Forestry activities are expected to flinalize the year within the budget;
- Fx adjustment to budgeted FX;
- Overhead will be unfavorable to budget due to increases in payroll expenses, advisory, auditing and legal fees.

Table 6: Year End Estimation Summary

Budget Item	2018 (BRL 0,00)					2018 (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					-	3.24	3.24	3.24	3.24	-
Biomass Sales (m³)	3,591	0	3,591	0	3,591	3,591	0	3,591	0	3,591
Log Sales (m³)	54,651	21,874	76,525	70,745	5,780	54,651	21,874	76,525	70,745	5,780
Revenues										
Biomass	49,280	0	49,280	0	49,280	15,210	0	15,210	0	15,210
Logs	25,309,302	10,623,591	35,932,893	32,026,224	3,906,669	7,811,513	3,278,886	11,090,399	9,884,637	1,205,762
Sales Revenues	25,358,582	10,623,591	35,982,173	32,026,224	3,955,949	7,826,723	3,278,886	11,105,609	9,884,637	1,220,972
Sales Revenues per unit (m³)	464.01	485.67	470.20	452.70	17.50	143.21	149.90	145.12	139.72	5.40
Production Costs										
Logistics ¹	-20,323	0	-20,323	0	-20,323	-6,272	0	-6,272	0	-6,272
Taxes on Sales	-630,906	-420,835	-1,051,741	-1,160,682	108,941	-194,724	-129,887	-324,611	-358,235	33,624
Sales Commission ¹	-12,267	0	-12,267	0	-12,267	-3,786	0	-3,786	0	-3,786
Harvesting	-4,129,230	-1,609,246	-5,738,476	-4,540,861	-1,197,614	-1,274,454	-496,681	-1,771,134	-1,401,500	-369,634
Total Costs of Production / Sales	-4,792,725	-2,030,081	-6,822,806	-5,701,543	-1,121,263	-1,479,236	-626,568	-2,105,804	-1,759,735	-346,069
CoP / Sales per unit (m³)	-87.70	-92.81	-89.16	-80.59	-8.57	-27.07	-28.64	-27.52	-24.87	-2.64
Total Net Revenues	20,565,857	8,593,510	29,159,367	26,324,681	2,834,686	6,347,487	2,652,318	8,999,805	8,124,902	874,903
Stumpage Revenue per unit (m³)	376.31	392.86	381.04	372.11	8.94	116.15	121.25	117.61	114.85	2.76
Operating Expenses										
Forestry Costs	-5,057,348	-1,443,929	-6,501,277	-7,538,373	1,037,096	-1,560,910	-445,657	-2,006,567	-2,326,658	320,091
Standard Cost to Accrual adj.4	-865,859	0	-865,859	0	-865,859	-267,240	0	-267,240	0	-267,240
Overhead Costs	-8,067,980	-2,594,270	-10,662,250	-10,064,463	-597,787	-2,490,117	-800,701	-3,290,818	-3,106,316	-184,502
Fx gain (loss) to Actual	0	0	0	0	0	-341,879	0	-341,879	0	-341,879
Total Operating Expenses	-13,991,187	-4,038,199	-18,029,386	-17,602,837	-426,549	-4,660,146	-1,246,358	-5,906,504	-5,432,974	-473,530
OpEx per unit (ha)	-777.96	-224.54	-1,002.50	-978.78	-23.72	-259.12	-69.30	-328.42	-302.09	-26.33
EBITDA	6,574,670	4,555,311	11,129,981	8,721,844	2,408,137	1,687,340	1,405,960	3,093,301	2,691,927	401,373
EBITDA per unit (ha)	365.58	253.29	618.87	484.97	133.90	93.82	78.18	172.00	149.68	22.32
Capital Expenses										
Equipment	-19,900	0	-19,900	-173,757	153,856	-6,142	0	-6,142	-53,629	47,487
Vehicles	-53,134	0	-53,134	-3,500	-49,634	-16,399	0	-16,399	-1,080	-15,319
Others	-751,641	0	-751,641	-1,507,669	756,028	-231,988	0	-231,988	-465,330	233,342
Total Capital Expenses	-824,675	0	-824,675	-1,684,926	860,251	-254,529	0	-254,529	-520,039	265,509

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 1,639,992 and the budgeted was USD 8,881,349 an unfavorable difference of USD 7,241,357. As commented, the main difference is due to the USD 5,5 M Stakeholder Distribution payment for the 2016 Harvesting Report, with the remainder due to funding for Floresteca's restructuring in the Netherlands. It bears emphasizing that operating cash flow will be better than budgeted.

Table 7: Quarterly Cash Flow 2018

Budget Item <i>Values in USD</i>	2018 (USD 0.00)						Var. (YEE- Budget)
	Q1	Q2	Q3	Q4	FY	FY	
	Actual	Actual	Actual	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	2,533,116	7,863,568	7,863,568	0
Biomass Sales (m ²)	0	733	2,858	0	3,591	0	3,591
Log Sales (m ²)	17,964	16,860	19,827	21,874	76,525	70,745	5,780
Revenues							
Biomass	0	2,860	12,350	0	15,210	0	15,210
Logs	2,261,266	2,306,058	3,244,189	3,278,886	11,090,399	9,884,637	1,205,762
Sales Revenues	2,261,266	2,308,918	3,256,540	3,278,886	11,105,609	9,884,637	1,220,972
Production Costs							
Logistics	-6,272	0	0	0	-6,272	0	-6,272
Taxes on Sales	-62,493	-62,495	-69,736	-129,887	-324,611	-358,235	33,624
Sales Commission	-3,786	0	0	0	-3,786	0	-3,786
Harvesting	-495,872	-422,637	-355,944	-496,681	-1,771,134	-1,401,500	-369,634
Total Costs of Production / Sales	-568,423	-485,133	-425,680	-626,568	-2,105,804	-1,759,735	-346,069
Total Net Revenues	1,692,843	1,823,785	2,830,859	2,652,318	8,999,805	8,124,902	874,903
Operating Expenses							
Forestry Costs	-290,502	-560,722	-709,686	-445,657	-2,006,567	-2,326,658	320,091
Standard Cost to Accrual adj.	-287,215	-125,548	145,523	0	-267,240	0	-267,240
Overhead Costs	-896,371	-768,161	-827,585	-800,701	-3,290,818	-3,106,316	-184,502
Cattle Costs	0	0	0	0	0	0	0
Fees (management/performance)	0	0	0	0	0	0	0
Fx gain (loss) to Actual	1,164	-22,382	-320,660	-268,242	-610,120	0	-610,120
Total Operating Expenses	-1,472,924	-1,474,814	-1,712,408	-1,514,599	-6,174,746	-5,432,974	-741,771
EBITDA	219,919	348,971	1,118,451	1,137,719	2,825,059	2,691,927	133,132
Capital Expenses							
Facilities	0	0	0	0	0	0	0
Equipments	-3,575	-1,358	-1,209	0	-6,142	-53,629	47,487
Vehicles	21,759	7,099	-45,257	0	-16,399	-1,080	-15,319
Others	-283,101	-236,947	288,060	0	-231,988	-485,330	233,342
Total Capital Expenses	-264,917	-231,206	241,594	0	-254,529	-620,039	265,509
Accounts Receivable	-659,991	345,151	-775,425	-21,151	-1,111,416	-472,015	-639,401
Accounts Payable	-95,458	-44,993	-327,148	-78,514	-546,113	100,884	-646,996
Fx gain (loss) to Actual	-1,164	22,382	320,660	268,242	610,120	0	610,120
Var. Assets and Liabilities (acc. to cash)	-756,613	322,541	-781,913	168,577	-1,047,408	-371,131	-676,277
Leasing/Finame	-36,829	-38,496	-27,304	-43,039	-145,668	-172,976	27,308
Earnings on investments	4,169	5,201	23,763	0	33,133	0	33,133
Loans/ Bank fees	-3,868	-3,831	-1,421	-2,500	-11,620	-10,000	-1,620
Financial Movements	-36,528	-37,126	-4,962	-45,539	-124,155	-182,976	58,821
Shareholder Contribution / (Repayment)	-2,026,118	-349,556	-1,770,790	-2,153,881	-6,300,345	0	-6,300,345
Other Transfers	-844,626	-316,150	-158,190	0	-1,318,966	-600,000	-718,966
Income Tax	-374	-728	-2,129	0	-3,231	0	-3,231
Cash Transfer / Income Tax	-2,871,118	-666,433	-1,931,110	-2,153,881	-7,622,542	-600,000	-7,022,542
Cash Flow Var.	-3,709,258	-263,255	-1,357,939	-893,124	-6,223,676	1,017,782	7,241,358
Closing Cash	4,154,310	3,891,055	2,533,116	1,639,992	1,639,992	8,881,349	7,241,358

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

2016 HR	7,841,879
2017 HR	5,645,549
Total	13,487,428
Paid	-7,568,500
Provision	5,918,928

Note: The Harvest Report paid values are shown as of November 1st, 2018.

3 CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND EQUITY

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

Floresteca S/A - Balance Sheet position of January 01 to September 30, 2018			
(In thousands of reais/dollars)		FX RATE - ASSETS	4,0033
		FX RATE - LIABILITIES	4,0039
ASSETS	R\$	\$	
CURRENT ASSETS			
Cash and cash equivalents	10.838		2.707
Accounts receivable	11.021		2.753
Inventories	2.637		664
Recoverable taxes	3.033		1.262
Other receivables	1.744		436
Total Current Asset	31.312		7.822
NON-CURRENT ASSETS			
Advances to agricultural partners	3.392		1.347
Other receivables	730		187
Deferred taxes	3.980		1.494
Investment property	2.013		503
Biological Assets	330.871		132.608
Property, plant & equipment	12.733		3.181
Intangible assets	77		19
Total Non-Current Asset	557.821		139.340
TOTAL CURRENT ASSETS	589.133		147.162
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Loans and financing	381		95
Leasing	83		21
Suppliers and other accounts payable	4.113		1.027
Taxes payable	166		42
Salaries, vacations and payroll charges payable	387		97
Other accounts payable	123		31
Total Current Liabilities	5.252		1.312
Non-current liabilities			
Loans and financing	303.124		123.638
Leasing	38		13
Contingencies	330		82
Total Non-Current Liabilities	303.512		123.755
EQUITY			
Capital	27.798	6.943	
Legal reserve	3.359	1.388	
Profit reserve	47.012	11.741	
Foreign exchange adjusts			22
TOTAL EQUITY	80.368		20.095
TOTAL LIABILITIES AND EQUITY	589.133		147.162
	0		0

4 AREA CHANGES

From the initial area position from the beginning of the year, we have finalized harvesting in 998 ha through the end of September.

Table 10: Area variations, in hectares, YTD 2018.

Project	Year	Initial Area	Harvested	Current Area
Buriti	1994	307,91		307,91
Cocal	1996	374,88	374,88	0,00
Tenda	1996	191,42	191,42	0,00
Paiolandia	1997	297,92		297,92
Paraíso	1997	555,05		555,05
Bocaina	1998	431,65	80,12	351,53
Serra da Canastra	1998	44,62		44,62
Paiolandia	1998	93,95		93,95
São Judas Tadeu	1998	26,76		26,76
Vale Dourado	1998	351,68	351,68	0
Araras	1999	98,88		98,88
Bambu	1999	549,07		549,07
Bocaina	1999	108,18		108,18
Cassange	1999	88,49		88,49
Capim Branco	1999	507,87		507,87
Serra das 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		1527,51
Duas Lagoas	2001	2.136,42		2136,42
São Miguel	2001	97,52		97,52
Barranquinho	2002	970,20		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		1085,18
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		1021
Terra Santa	2004	1.143,17		1143,17
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		301,3
Santa Maria do Jauru II	2008	99,87		99,87
Total		17.477,58	998,10	16.479,48

After this year's inventory results, we identified that a significant area of 376 ha in Duas Lagoas farm (DLG), planting year 2001, presented very high mortality. These stands have never developed well and during these last two years, many trees died (last inventory was in 2016). In any case, they have long been underperforming sites and we have not considered that they would ever produce any merchantable volumes in our previous wood flow projections. So, this will not change the future value estimates for the remainder of the Duas Lagoas 2001 project.

Figure 3: Map of Areas in Duas Lagoas with Mortality Rates.



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 3Q2018 was 18% lower than budgeted. A large part of this volume should be made up in 4Q2018.

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 3Q. Table below detail the yield per project, based on volume YEE vs FYB

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

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

Stand	Area (ha)		Production yield (m ³)		Trees Removed		TOTAL (ACTUAL)					
	Actual	Budget	Actual	Budget	Actual	Budget	15-20 cm	20-25 cm	25-30 cm	30-35 cm	35-40 cm	40+ cm
VDO1998	351.68	351.68	24,506	23,372	49,476	44,431	654	4,950	9,534	3,529	4,573	1,267
TEN1996	191.42	191.42	6,158	4,500	31,832	31,242	2,305	2,719	1,061	72	0	0
BUR1998	218.92	375.16	8,033	10,876	38,890	64,575	542	5,390	1,684	368	49	0
COC1996	356.97	272.80	4,897	3,500	118,312	90,702	3,117	1,392	290	97	0	0
COC1998	133.84	0.00	5,600	0.00	18,095	0.00	52	2,195	2,205	343	781	25
PIM1996	64.18	0.00	420	0	10,708	0	0	197	125	75	24	0
SIL1998	24.40	0.00	1,343	0	4,299	0	305	483	338	217	0	0
BOC1998	372.71	372.71	25,568	28,497	51,131	44,356	43	3,382	13,200	6,725	1,706	511
TOTAL	1,714.12	1,563.77	76,525	70,745	322,742	275,306	7,019	20,708	28,436	11,426	7,133	1,803

Note 1: The trees removed are the best estimate at the time of publication.

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

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

Stand	Area (ha)		Production yield (m ³)		Trees Removed		PER HECTARE (ACTUAL)					
	Actual	Budget	Actual	Budget	Actual	Budget	15-20 cm	20-25 cm	25-30 cm	30-35 cm	35-40 cm	40+ cm
VDO1998	351.68	351.68	69.68	66.46	140.69	126.34	1.86	14.07	27.11	10.03	13.00	3.60
TEN1996	191.42	191.42	32.17	23.51	166.29	163.21	12.04	14.21	5.55	0.38	0.00	0.00
BUR1998	218.92	375.16	36.69	28.99	177.64	172.13	2.48	24.62	7.69	1.68	0.22	0.00
COC1996	356.97	272.80	13.72	12.83	331.43	332.48	8.73	3.90	0.81	0.27	0.00	0.00
COC1998	133.84	0.00	41.84	0.00	135.20	0.00	0.39	16.40	16.47	2.56	5.84	0.18
PIM1996	64.18	0.00	6.55	0.00	166.84	0.00	0.00	3.07	1.94	1.16	0.38	0.00
SIL1998	24.40	0.00	55.05	0.00	176.19	0.00	12.50	19.81	13.85	8.90	0.00	0.00
BOC1998	372.71	372.71	68.60	76.46	137.19	119.01	0.12	9.07	35.42	18.04	4.58	1.37
TOTAL	1,714.12	1,563.77	44.64	45.24	188.28	176.05	4.09	12.08	16.59	6.67	4.16	1.05

It is worth mentioning that Pimental (PIM), Silas (SIL), Cocal 98 (COC) and some of Cocal 96 (COC) stands 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 until the 3Q2018, 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 12: 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	11,821	9,880	99	83
15-20 cm	5,128	4,105	43	26
20-25 cm	2,287	2,025	75	40
25-30 cm	1,282	1,000	147	129
30-35 cm	2,975	2,750	187	183
35-40 cm	148	0	229	0
Export	42,808	47,368	155	142
15-20 cm	1,592	0	62	0
20-25 cm	12,136	18,076	73	93
25-30 cm	17,295	21,513	148	155
30-35 cm	2,997	7,779	193	221
35-40 cm	6,985	0	281	0
40+ cm	1,803	0	311	0
Total	54,629	57,248	143	132

5.3 OVERDUE ACCOUNTS

No overdue accounts through September 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

5.4.1 Brazil Economic Overview

The third quarter of the calendar year saw substantial FX volatility of the BRL and the Indian Rupee (INR). In Brazil this was largely driven by speculation regarding the outcome of federal and state elections, in the run up to Oct. 7th first round voting. More widely, EM currencies, including the BRL v and INR, were also hit by a more general wave of USD appreciation, a reflection of trade and political conflicts between USA and China and USA and Turkey, as well as signaling from the US Federal Reserve that it would continue to raise interest rates. These macroeconomic factors followed the peak harvesting season of Central American teak suppliers and an usual unplanned purchases by traders leading to fire sales. As a result, USD CIF prices to India were hit, and TRC was forced to reduce its indicative CIF rates to India.

Brazil Federal Elections

The third quarter saw Brazilian federal and state elections kick off in mid-August, with the first round occurring on Oct. 7th, outside of the reporting period. Beyond the presidential race, 2/3s of the federal senate seats were contested, along with the full house of representatives, as well as state governor races and state assembly races. In the presidential race, there was a wide list of candidates with material support at the outset, signaling a probable run-off, though with a number of potential scenarios. Over the course of the 7+ weeks of campaigning however, the polling saw the polarization in preferences at the two extremes of the political spectrum, with the far-right candidate Jair Bolsonaro and the left-wing Worker's Party (PT) candidate Fernando Haddad ultimately taking 46% and 29% respectively of the votes and moving on to a second round held on October 28th.

The market speculated on the outcome of the elections, driving substantial volatility in BRL/USD FX rates. In large part this reflected a campaign which was remarkably thin on policy discussion of the main economic issues facing Brazil (reforms of federal pensions and taxes, both key parts for structurally balancing the budget, among the most urgent). The winners of the first round largely avoided detailed positions on these issues, and even in the second round, there has been little substantive debate on these issues, with runoff having largely become a referendum on the Worker's Party ability to govern (the PT governed Brazil from 2003 until May 2016, under President's Lula (now serving a 12 year jail sentence for corruption) and his chosen successor, Dilma Rousseff, who was impeached. Mr. Bolsonaro led during second round polling and ultimately won the run-off election, and the BRL rallied on speculation that he will be better positioned to deal with the economic issues cited above.

Trucker Strike

In May Brazil suffered a 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. Fuel and food supplies deliveries only normalized in the first full week of June, while supply chains only normalized in mid-July. TRC 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.

The strike was only settled with the Temer Administration agreeing to price floors for freight rates, which most industry observers consider uneconomic. Moreover, many industry groups, including those in the forestry products industry, have 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 companies contracting freight and freight companies / independent truckers were largely ignoring the agreements, in the expectation that something more permanent and viable is established. The topic will likely land on the desk of the winner of the presidential run-off election.

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 PA would increase by around USD 30-40 /m3, at current FX rates. TRC is studying the possibility of bringing the domestic trucking logistics in house, as it appears that doing would avoid this increase, and potentially even reduce total domestic logistics costs. The results of this study will be shared with our investor partners when completed.

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 September 30th, the BRL depreciated by 28.2%, with 7.5% in 3Q alone.

Figure 4: Comparison between BRL/USD and INR/USD, YTD

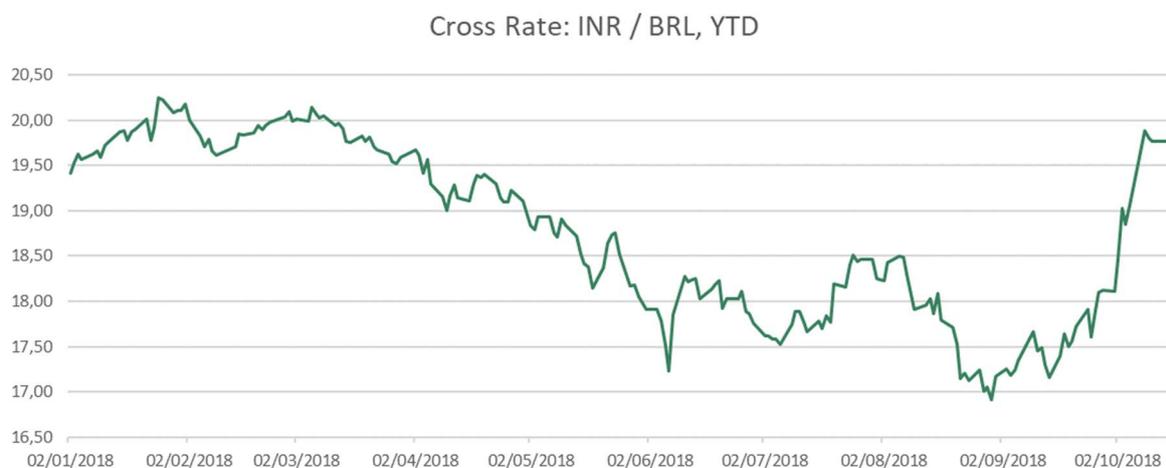


This tendency was already evident prior to the trucker’s strike and continued during the run up to the federal elections. At this writing, with Jair Bolsonaro winning and become the President-elect, the BRL has rallied vs the USD. TRC now expects somewhat less volatility in the FX rate through the end of the year, though much will depend on the new President’s post-election statements and the formation of the cabinet of Ministers. It bears emphasizing that, in the short term at least, the BRL impacts costs in USD terms, and so impacts stumpage results;

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 through the end of the reporting period, by a much lesser amount. Overall, the BRL devalued 11.4% vs the INR in the year to date ending September 30th, most

of which occurred in 2Q2018. However, in early October, following federal elections, the BRL rallied vs the USD, while the INR continued to devalue vs the USD, resulting in a reversal of YTD devaluation at the time of this writing.

Figure 5: INR/BRL Cross Rate, YTD



5.4.2 India Economic Overview

The main market for teak logs, India continues to experience fairly strong growth, reporting 2Q2018 GDP of 8.2% on an annual basis, beating market expectations of 7.6%. 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 Teak Market

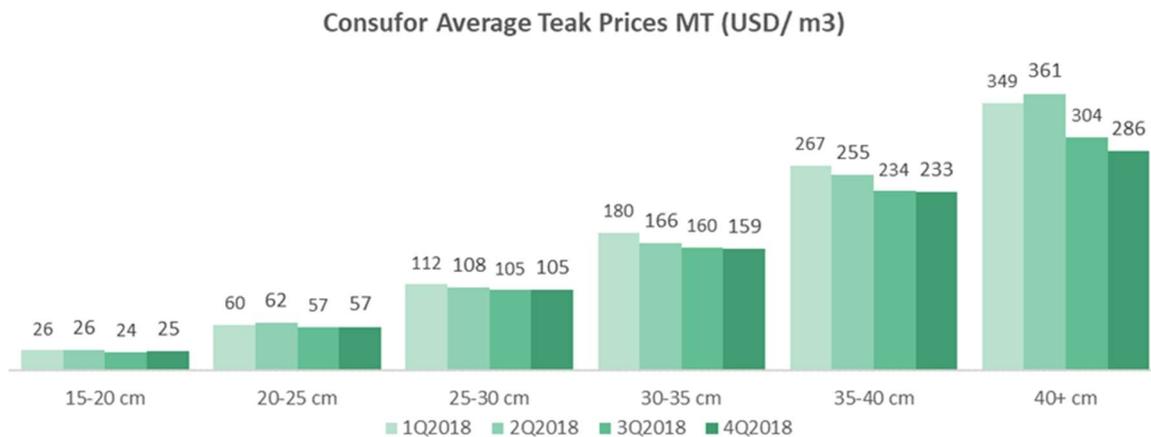
As informed in the previous report, shipment volumes from Latin America to India fell as expected to their yearly low, due the onset of the rainy season in most supplier countries. This will help to reduce the stock levels in India, however, demand factors reported in last quarter persist, impacting prices:

- INR/USD depreciation: as shown in the previous chart, there has been substantial depreciation of the INR over the year, but most heavily during the last 2 months. This is putting extra pressure on importers, who sell on in INR, and need to pass this on to final buyers. As a new FX rate level is not yet clear, importers are in some cases pricing in the uncertainty.
- Importers are facing more difficult access to credit since the bank fraud in March of this year. Current Letters Credit cost more than the import lines offered previously;

5.4.4 Roadside Price Benchmarking

TRC has contracted third-party consultant Consufor to assess Teak prices in the Mato Grosso on a quarterly basis. (Mato Grosso currently supplies the greatest volume of Brazilian teak logs, and thus makes the most sense for the collection of pricing information. We provide the information for reference only, as there is no direct pricing report for the state of Pará). Consufor interviews companies in the region, and its most recent survey consisted of 87 prices samples from 25 companies (excluding TRC and outliers), weighted by traded volume. It is important to highlight that Consufor does not differentiate between length nor quality for the assortments in their survey, which in practice can result in differences in actual commercial prices.

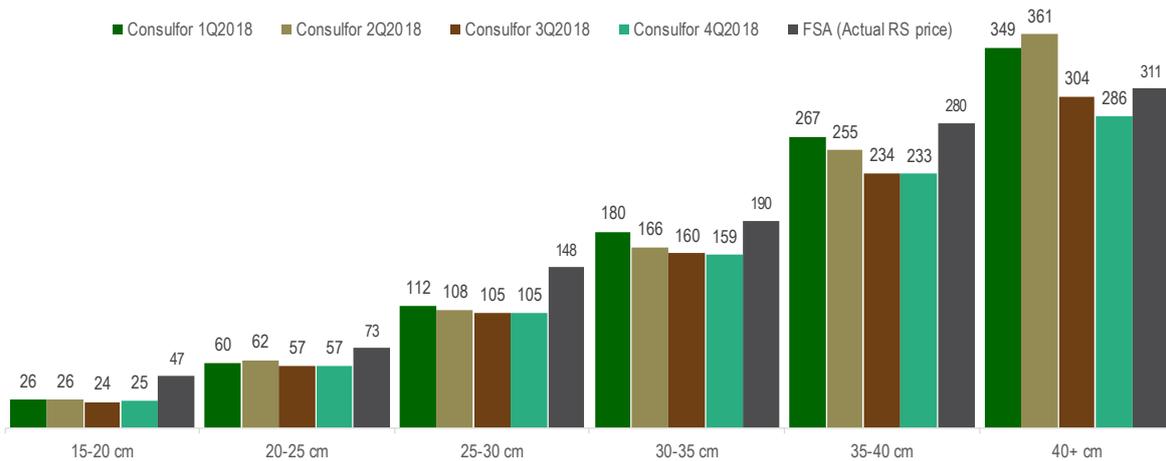
Figure 6: CONSUFOR Average Teak Prices MT (USD/ m3)



Consufor’s most recent report was produced in early October of 2018, based on survey data taken in September (shown as 4Q2018 in the chart above). Log prices for diameters between 15-20 cm until 35-40 cm have been stable, only the price for diameters above 40 cm have decreased by 6%, consistent with the Indian market factors cited above. Additionally, even before the trucker strike, the local transportation costs had increased due increased oil prices. After the strikes, fuel prices have risen as the result of a price floor announced by the federal government as a concession to the truckers. This price floor is still not 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 6 below, is a comparison between prices (all grades and sizes) of the Consufor averages for 4Q2018 and those obtained YTD from the Floresteca S.A properties.

Figure 7: Floresteca S.A. (4Q2018) 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.

Note that the FSA prices are higher than the Consufor prices across all grades, with the exception of th 40+ diameter logos, The main reason for the divergence in Floresteca SA log prices vs those of the Consufor 3Q and 4Q 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	18,8
20-25 cm	22,0
25-30cm	26,8
30-35 cm	32,6
35-40 cm	38,0
40+ cm	40,7

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 3Q was USD 27 versus USD 25 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.

For the year end the relative Cost of Production is expected to be USD 27.52 versus USD 24.87, mostly due to higher than expected social security tax (INSS) over services.

Social security taxes for rural workers, Funrural, incide over gross sales, and have been reported as a sales related expense historically. A change in the law in 2019 will allow the social security taxes to be paid not over sales, but based on the workers income, which will allow for a savings of approximately BRL 500 k, or about 60% of the current amount paid, based on the preliminary budget figures. This will be commented on in greater detail in the preliminary 2019-20 Management Plan & Budget, which will be made available later this month.

Table 13: Harvesting Cost, per activity:

		Budget YTD	Actual YTD	Budget FY
Tree Selection	BRL	0	18,478	0
Harvesting	BRL	1,053,215	1,134,646	1,260,428
Forwarding	BRL	1,544,430	1,596,891	1,966,991
Lot Formation	BRL	540,303	452,875	669,087
Loading	BRL	343,219	413,929	423,233
Tax	BRL	181,216	512,411	223,957
Total	BRL	3,662,383	4,129,229	4,543,697
Sales related taxes and expenses	BRL	902,843	663,496	1,160,682
Commercial Vol.	m ³	57,248	54,651	70,745
BRL/m ³		79.7	87.7	80.6
BRL/USD rate		3.24	3.24	3.24
USD/m ³		24.6	27.1	24.9

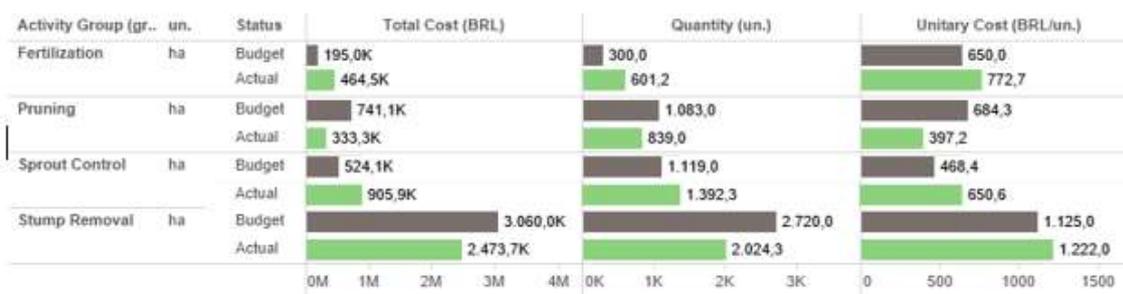
Sales related taxes and expenses refers to:

- Sales related taxes and expenses: 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 third quarter of 2018 operations. The most relevant activities are commented in the following subsections.

Figure 8: Forestry Operations



Overall forestry costs are expected to be within the budget for the year, USD 2.273 k for the year versus USD 2.326 k for the full year budget, although there will be costs variations between activities, specifically higher costs for sprout control and lower cost for pruning.

7.1 STUMP REMOVAL

Favorable weather conditions during 3Q2018 contributed to reduce the area difference between actual and budget that had occurred due to the weather issues early in the year. We expect that all the budgeted area will be performed by year end, with unitary costs close to budget.

7.2 SPROUT CONTROL

The unusually intense rainfall during 1Q2018 and thicker and more intense sprouting areas have resulted in higher than budgeted unit costs for sprout control. The silvicultural teams have also noted that some areas in Fazenda Santa Fé have needed more sprout control than originally planned. As a result, we decided to delay pruning on this farm until this activity is finalized.

7.3 PRUNING

Total area pruned was smaller than budgeted due to the unusually high rainfall, and the decision to prioritize sprout control mentioned above. Unit costs were lower than budgeted, as the team was deployed in areas easier to operate.

7.4 FERTILIZATION

Fertilization was budgeted for 3Q2018, but was brought forward due to favorable weather conditions. Thus, the total area to be fertilized for 2018 has been finalized, and the area difference to budget is only a matter of timing. The total cost for the year will be higher than budgeted, as the fertilizer is sold in USD, and the BRL depreciated over the budget FX.

8 COMPLIANCE & LEGAL ISSUES

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

Regarding the last report there were no updates, but the text is provided to facilitate tracking of these issues.

8.1 PARAISO FARM

Issue 1: Floresteca has received a legal challenge by Mr. Antonio Frigieri, the owner of the Paraíso Farm (“plaintiff”), in a declaratory procedure, requesting the end of the usufruct rights with immediate effect. After being subpoenaed by the Mato Grosso State Court, which held that the plantation area was considered abandoned, the court issued a preliminary decision in August 2016 granting land possession to the plaintiff. However, the preliminary decision did not consider the Usufruct Agreement void, and Floresteca challenged the preliminary decision in the Mato Grosso Superior Court. In May 2017, the Superior Court reversed the initial decision in favor of Floresteca, who has been granted the right to continue under the Usufruct Agreement. Following the court decision and after a relatively short disturbance in the work planning, the maintenance teams of FSA resumed activities at Paraiso. FSA has filed final allegations with the court and was informed in July 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 do not modify any material in the lawsuit. We are waiting for court appointment and/or final decision.

Issue 2: In 2012, the National Agrarian Reform Institute - INCRA, initiated an administrative process aimed at the expropriation of the property, alleging that the property was not being used productively. In (March 27, 2012) LHS filed for a withdrawal of the process in the Federal Court, at Cáceres-MT. On March 28, 2012, the judge decided to suspend INCRA’s administrative procedure. Subsequently, on January 09, 2015, a technical opinion declared the property as productive. A Court Hearing was held on November 9th, 2017, where FSA’s testimonies were heard to clarify the facts. The judge is expected to issue a final decision over the course of 2018. We are still waiting for the court appointment.

9 APPENDIX

9.1 PROPERTIES AREAS BREAKDOWN AT DECEMBER 2017:

Project	Year	SATT	LUD	Total
Buriti	1994	307,91		307,91
Cocal	1996	374,88		374,88
Tenda	1996	191,42		191,42
Paiolandia	1997	210,44	87,48	297,92
Paraíso	1997	524,04	31,01	555,05
Bocaina	1998	431,65		431,65
Serra da Canastra	1998	44,62		44,62
Paiolandia	1998	93,95		93,95
São Judas Tadeu	1998	26,76		26,76
Vale Dourado	1998	351,68		351,68
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	2.136,42		2.136,42
São Miguel	2001	97,52		97,52
Barranquinho	2002	776,15	194,05	970,20
Cacimba	2002	456,87	114,21	571,08
Duas Lagoas	2002	48,41		48,41
São Miguel	2002	5,71		5,71
Santa Maria do Jauru	2002	1.085,18		1.085,18
Barranquinho	2003	10,36	2,59	12,95
Cacimba	2003	8,15	2,04	10,19
Santa Maria do Jauru	2003	207,87		207,87
Santa Fé	2003	2.562,71		2.562,71
Barranquinho	2004	1.021,00		1.021,00
Terra Santa	2004	1.134,45	8,72	1.143,17
Duas Lagoas	2005	207,67		207,67
Duas Lagoas	2006	233,88		233,88
Mutum	2007	539,18		539,18
São José	2007	301,30		301,30
Santa Maria do Jauru II	2008	99,87		99,87
Total		16.978,16	499,42	17.477,58

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