

# QUARTERLY MANAGEMENT REPORT



- Floresteca S/A -

Year 2019  
3<sup>rd</sup> Quarter (Jan/19 to Sep/19)

# TABLE OF CONTENTS

<b>1 EXECUTIVE SUMMARY</b> .....	<b>4</b>
<b>2 FINANCIAL REPORT</b> .....	<b>6</b>
2.1 OVERALL FINANCIAL PERFORMANCE.....	6
2.2 YEAR TO DATE RESULTS.....	8
2.3 YEAR END ESTIMATION .....	10
2.4 DETAILED CASH REPORT.....	11
<b>3 CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND EQUITY</b> .....	<b>13</b>
<b>4 AREA CHANGES</b> .....	<b>14</b>
<b>5 LOG YIELDS AND SALES</b> .....	<b>15</b>
5.1 PRODUCTION YIELD PER PROJECT AND HECTARE.....	15
5.2 ROADSIDE PRICES.....	18
5.3 ACCOUNTS RECEIVABLE.....	18
5.4 TEAK MARKET UPDATE .....	19
5.4.1 <i>Brazil and India Economic Overview</i> .....	19
5.4.2 <i>Roadside Price Benchmarking</i> .....	20
<b>6 THINNING &amp; HARVESTING</b> .....	<b>23</b>
6.1 COST OF PRODUCTIONCOST OF PRODUCTION .....	23
<b>7 FOREST MANAGEMENT</b> .....	<b>24</b>
7.1 STUMP REMOVAL .....	24
7.2 SPROUT CONTROL .....	25
7.3 WEED CONTROL .....	25
7.4 FIREBREAKS .....	25
7.5 OPERATIONAL SUPPORT .....	25
<b>8 FOREST DESCRIPTION – ANNUAL INVENTORY UPDATE</b> .....	<b>26</b>
<b>9 COMPLIANCE &amp; LEGAL ISSUES</b> .....	<b>28</b>
9.1 PARAISO, TERRA SANTA, AND BAMBU IV FARMS .....	28
9.2 MUTUM FARM .....	29
9.3 TRUCKING COMPANY ALLEGATIONS.....	29
<b>10 APPENDIX</b> .....	<b>30</b>
10.1 PROPERTIES AREAS BREAKDOWN AT DECEMBER 2018:.....	30

## PROPERTY OVERVIEW

Floresteca S/A is located in the State of Mato Grosso, where it manages 15,288.85 hectares of *Tectona Grandis* (Teak) at September 30<sup>th</sup> 2019 planted on 52,862.74 of leased land, and composed of 23 individual farms planted between 1994 and 2008. The farm areas are detailed in section 4.

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.

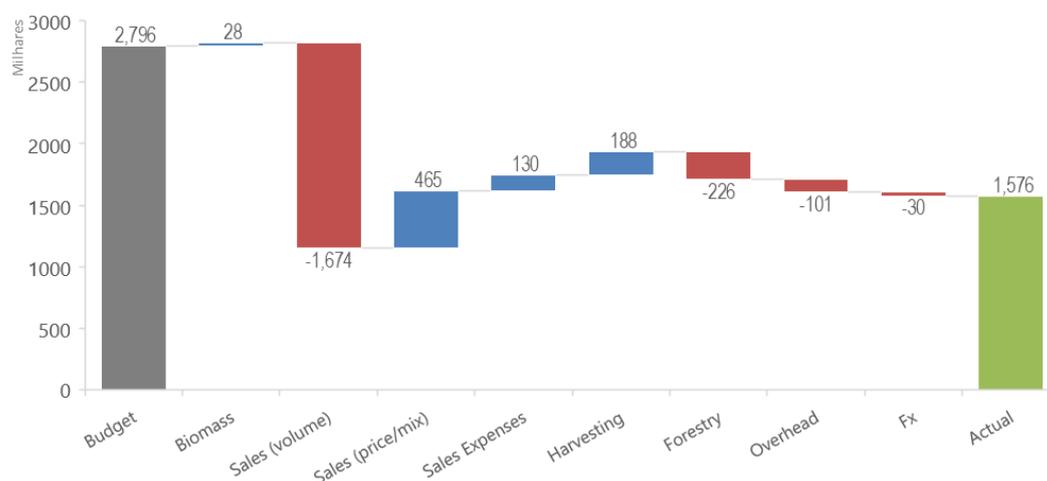
# 1 EXECUTIVE SUMMARY

As shown in Figure 1.1 below, the 2019 year to date Operational Result was USD 1,576 k versus the USD 2,796 k budgeted or an unfavorable variance of USD 1,220 k (44%). The main driver for this result was lower volume sold (15,349 m<sup>3</sup>, or 23% of the budgeted volume for the period) caused by operational difficulties as well as legal disputes and negotiations with land owners affecting projects scheduled for final harvest. The expectation is that these projects will be undertaken in 2020. More detailed information on these issues is provided in Section 5,

The other factors which impacted 3Q2019 results were:

- Price/Mix: higher than budgeted due to a better sales mix with a higher proportion of export grade logs (72% vs 57% in the budget), as well as a higher proportion of 40+ cm logs, 11% actual vs 4% budgeted;
- Sales Expenses were lower than budget, as a consequence of the higher proportion of export log sales;
- Forestry: higher expenses mainly due to stump removal, which occurred earlier than originally budgeted (but within the budgeted unit costs) and also for inputs bought and not yet consumed on activities;
- Total Cost of Production is under budget due to the lower volume felled (details in sections 2.2 and section 5);
- Overhead is higher than budget. The main differences are higher than budgeted legal expenses of USD 40 k related FBV restructuring process and with legal issues involving landowners, and a difference in the actual inflation adjustment of the management contract compared with the assumed inflation, which has resulted in an additional USD 39 k in the YTD.

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

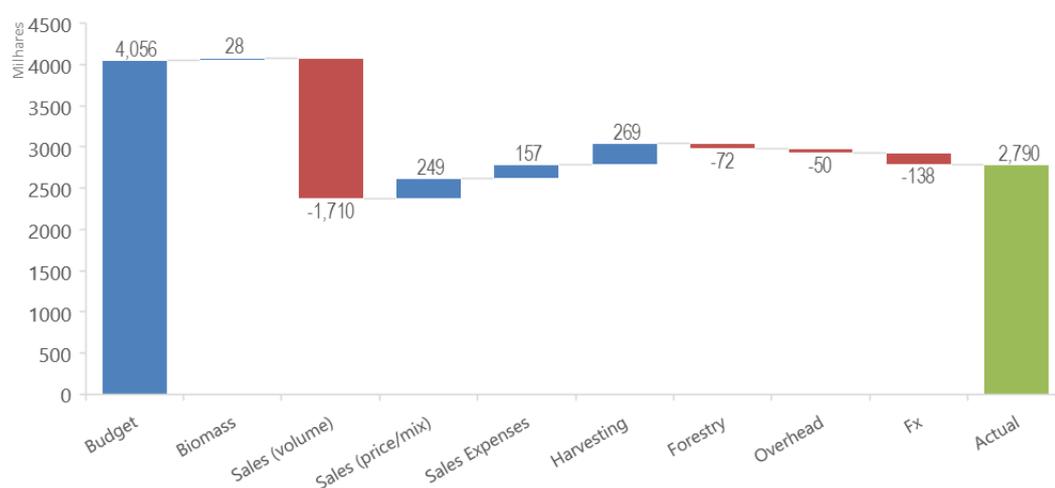


Floresteca expects the Operational Result to be unfavorable to budget by USD 1,266 k or -31% (USD 2,790 k versus the USD 4,056 k budget), basically because the unfavorable YTD result in sales will remain for the year end. This compares to the USD 3,590 k estimated in the 2Q2019 report. The main difference is that negotiations with the land partner have prevented the start of harvesting (Paiolandia). The additional sales volume from Barranquinho and Cacimba, and harvesting at Santa Maria do Jauru will not be able to be completed during 4Q2019, and is the main reason for the change in YEE estimated operating result.

Other factors also contributing to the updated YEE:

- Sales price: partially compensating for the loss of volume, prices will be nearly 3% better on average vs the budget, based on the Consufor Teak Timber Price Report issued in October. More details are provided in section 5.4.2;
- As commented in the YTD section, the higher proportion of export logs will result in lower selling expenses (associated with sawmill sales) partially compensating for the loss of volume;
- Overall costs: forestry activities are expected to be somewhat higher than budgeted (~ 5%).
- The higher YTD BRL/USD fx rate had a slightly negative impact on results. To facilitate comparisons, all values in BRL were converted to the USD using the budget fx rate of BRL 3.80/ USD. As the actual fx rate increased over the year from 3.90 in 1Q to 4.16 in 3Q, overall results were negatively impacted by this adjustment and shown as a net FX adjustment in the chart.

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; 4.16 3Q) was adjusted to the budgeted rate (BRL/USD 3.80), with the difference to actual shown as a line item.

Table 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> )	14.160	7.143
Log Sales (m <sup>3</sup> )	79.815	95.735
<u>Revenues</u>		
Biomass	53.970	26.315
Logs	8.820.119	10.280.479
<b>Sales Revenues</b>	<b>8.874.089</b>	<b>10.306.794</b>
<b>Sales Revenues per unit (m<sup>3</sup>)</b>	<b>111,18</b>	<b>107,66</b>
<u>Production Costs</u>		
Taxes on Sales	-107.985	-265.074
Harvesting	-1.615.024	-1.884.398
<b>Total Costs of Production / Sales</b>	<b>-1.723.009</b>	<b>-2.149.472</b>
<b>CoP / Sales per unit (m<sup>3</sup>)</b>	<b>-21,59</b>	<b>-22,45</b>
<b>Total Net Revenues</b>	<b>7.151.079</b>	<b>8.157.322</b>
<b>Stumpage Revenue per unit (m<sup>3</sup>)</b>	<b>89,60</b>	<b>85,21</b>
<u>Operating Expenses</u>		
Forestry Costs	-1.518.542	-1.446.231
Overhead Costs <sup>2</sup>	-2.705.314	-2.654.973
Fx gain (loss) to Actual	-137.681	0
<b>Total Operating Expenses</b>	<b>-4.361.537</b>	<b>-4.101.204</b>
<b>OpEx per unit (ha)</b>	<b>-285,28</b>	<b>-268,25</b>
<b>Operational Result</b>	<b>2.789.543</b>	<b>4.056.118</b>
<b>Operational Result per unit (ha)</b>	<b>182,46</b>	<b>265,30</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 2,790 k vs USD 4,056 k budgeted, a unfavorable variance of USD 1,266 k (31%), and also lower than what was estimated in the previous quarterly report (USD 3,590 k).

The new sales estimate is lower when compared to the 2Q2019 report due to the inability to proceed with harvesting operations at the Paiolandia, as well as the postponing of the additional volumes from Barranquinho and Cacimba, and Santa Maria do Jauru (which were to compensate for the postponement of Terra Santa farm to 2020). The harvesting for these projects is now scheduled to be completed in 2020. More detail is provided in section 5, and details on 2020 harvesting will be provided in the 2020-22 Management Plan and Budget; a first draft of this document will be made available shortly.

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 709 k versus USD 3.9 M budgeted (USD 3.2 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, totaling USD 1.7 M (additional detail on Harvest Report payments is provided in section 2.4).

The initial cash balance was also 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 overall thinning schedule not being able to offset the volume loss from the Terra Santa farm thinning, lowering the ending balance in ~USD 803 k when compared to the 2Q2019 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).

Table 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	-6,524,823	0	-1,717,059	0
Increase / (Decrease) in Financial Exp. <sup>2</sup>	-292,990	-345,427	-77,103	-90,902
Increase / (Decrease) from Operations	9,061,139	12,994,486	2,384,510	3,419,601
Increase / (Decrease) CapEx	-1,987,074	-1,568,579	-522,914	-412,784
Income Tax	-12,625	0	-3,322	0
Fx gain (loss) to Actual	-42,319	0	-123,068	0
<b>Closing Cash</b>	<b>3,121,093</b>	<b>15,020,802</b>	<b>709,408</b>	<b>3,952,843</b>
<sup>2</sup> Bank fees included				

## 2.2 YEAR TO DATE RESULTS

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

The overall YTD Net Operational Result was USD 1,576 k vs USD 2,796 k budgeted, or an unfavorable variance of USD 1,220 k.

The main driver for this result was the lower sales volume (22,8% less, or 15,349m<sup>3</sup>), and sales revenue (USD 1.209 million or 16.5% less) than budgeted. Most of the lost volume was to come from Barranquinho, Cacimba, and Santa Maria do Jauru farm projects. While the management plan originally called for thinning Terra Santa 2004 (11,862 m<sup>3</sup>), as reported in 1Q2019, due to the high level of competition at Barranquinho, the decision was made to postpone the Terra Santa thinning to 2020. Most of the volume from Terra Santa would be made up by additional volume (over the original thinning) from Barranquinho 2004 (~3.6 k m<sup>3</sup>) and Cacimba 2002 (~4.9 k m<sup>3</sup>), and by anticipating the thinning from 2020 Santa Maria do Jauru 2002 (~2 k m<sup>3</sup>). Unfortunately, none of this this volume will be able to be performed in 2019 due to operational constraints.

The budget considered the thinning system to be performed mechanically, but delays in receiving the machine (feller buncher) from the supplier will result in the lower overall volume for the year

The loss in total final harvest volume was partially offset from several compensating sources. Bocaina 1998 harvesting was brought forward to 1S2019 (originally set to occur later in the year). The Araras 1999 project produced higher sales volume than budgeted (+12%, or 700 m<sup>3</sup>). Finally, the delay in finalizing Buriti in 2018 resulted in 2,285 m<sup>3</sup> in additional volume for the year (more details in Section 5.1).

Despite the higher volume of Buriti, the harvesting yield was substantially poorer than budgeted and the operation was carried out during the rainy season, resulting in a 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 the 1Q2019 and 2Q2019 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. Additionally, also for inputs bought and not yet consumed on activities. Details in the forestry activities in section 7.

Overhead was unfavorable to budget by USD 101 k due to an increase in legal fees (USD 40k), associated in part with the legal expenses of the FBV restructuring and the legal issues with land owners. The difference in the assumed and actual inflation for updating of the management services has lead to USD 39k over the budgeted amount in the year to date.

(Table 2.2.1 follows on the next page)

Table 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)	12,434	5,357	7,076	12,434	5,357	7,076
Log Sales (m³)	51,900	67,249	-15,349	51,900	67,249	-15,349
<b>Revenues</b>						
Biomass	180,088	74,997	105,091	47,392	19,736	27,656
Logs	23,263,216	27,866,414	-4,603,197	6,124,143	7,333,267	-1,209,124
<b>Sales Revenues</b>	<b>23,443,304</b>	<b>27,941,411</b>	<b>-4,498,106</b>	<b>6,171,535</b>	<b>7,353,003</b>	<b>-1,181,468</b>
<b>Sales Revenues per unit (m³)</b>	<b>451.70</b>	<b>415.49</b>	<b>36.21</b>	<b>118.91</b>	<b>109.34</b>	<b>9.57</b>
<b>Production Costs</b>						
Taxes on Sales	-202,550	-697,665	495,115	-53,303	-183,596	130,293
Harvesting	-4,319,523	-5,035,432	715,909	-1,136,717	-1,325,114	188,397
<b>Total Costs of Production / Sales</b>	<b>-4,522,073</b>	<b>-5,733,097</b>	<b>1,211,024</b>	<b>-1,190,019</b>	<b>-1,508,710</b>	<b>318,691</b>
<b>CoP / Sales per unit (m³)</b>	<b>-87.13</b>	<b>-85.25</b>	<b>-1.88</b>	<b>-22.93</b>	<b>-22.43</b>	<b>-0.49</b>
<b>Total Net Revenues</b>	<b>18,921,231</b>	<b>22,208,314</b>	<b>-3,287,082</b>	<b>4,981,515</b>	<b>5,844,293</b>	<b>-862,778</b>
<b>Stumpage Revenue per unit (m³)</b>	<b>364.57</b>	<b>330.24</b>	<b>34.33</b>	<b>95.98</b>	<b>86.91</b>	<b>9.08</b>
<b>Operating Expenses</b>						
Forestry Costs	-3,985,708	-4,122,408	136,700	-1,048,871	-1,084,844	35,974
Standard Cost to Accrual adj. <sup>4</sup>	-995,242	0	-995,242	-261,906	0	-261,906
Overhead Costs	-7,844,142	-7,461,515	-382,627	-2,064,248	-1,963,557	-100,691
Fx gain (loss) to Actual	0	0	0	-30,087	0	-30,087
<b>Total Operating Expenses</b>	<b>-12,825,092</b>	<b>-11,583,923</b>	<b>-1,241,169</b>	<b>-3,405,111</b>	<b>-3,048,401</b>	<b>-356,710</b>
<b>OpEx per unit (ha)</b>	<b>-838.85</b>	<b>-757.67</b>	<b>-81.18</b>	<b>-222.72</b>	<b>-199.39</b>	<b>-23.33</b>
<b>Operational Result</b>	<b>6,096,139</b>	<b>10,624,391</b>	<b>-4,528,251</b>	<b>1,576,404</b>	<b>2,795,892</b>	<b>-1,219,488</b>
<b>Operational Result per unit (ha)</b>	<b>398.73</b>	<b>694.91</b>	<b>-296.18</b>	<b>103.11</b>	<b>182.87</b>	<b>-79.76</b>
<b>Capital Expenses</b>						
Equipment	-154,013	-270,500	116,487	-40,530	-71,184	30,654
Others	-1,486,741	-1,211,244	-275,497	-391,248	-318,748	-72,499
<b>Total Capital Expenses</b>	<b>-1,640,754</b>	<b>-1,481,744</b>	<b>-159,010</b>	<b>-431,777</b>	<b>-389,933</b>	<b>-41,845</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.

The Operational Result estimated for the Year End (YEE) is USD 2,790 k vs USD 4,056 k budgeted, an unfavorable variance of USD 1,266 k. The main driver for this difference is the lower YTD volume which will no longer be offset within the year, as detailed in section 2.1, causing a 15,920 m<sup>3</sup> (-17.63%) difference in volume.

The new forecast also excludes the final harvest volume from Paiolandia 1997 and 1998, due to negotiations with the farm's owners, who are entitled to 20% of the economic rights of the teak planted. Floresteca's legal advisors recommended that the harvesting be delayed until an agreement with the landowners is finalized (see Section 5.1 for additional detail).

The 2Q2019 Report estimated the annual sales of USD 9,752 k, while the current report has revised down sales to USD 8,874 k (or USD 878 k, or 9% less).

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 (m <sup>3</sup> )	12.434	1.726	14.160	7.143	7.017	12.434	1.726	14.160	7.143	7.017
Log Sales (m <sup>3</sup> )	51.900	27.915	79.815	95.735	-15.920	51.900	27.915	79.815	95.735	-15.920
<b>Revenues</b>										
Biomass	180.088	24.999	205.087	99.996	105.091	47.392	6.579	53.970	26.315	27.656
Logs	23.263.216	10.244.707	33.507.923	39.065.820	-5.557.897	6.124.143	2.695.975	8.820.119	10.280.479	-1.460.361
<b>Sales Revenues</b>	<b>23.443.304</b>	<b>10.269.706</b>	<b>33.713.010</b>	<b>39.165.816</b>	<b>-5.452.806</b>	<b>6.171.535</b>	<b>2.702.554</b>	<b>8.874.089</b>	<b>10.306.794</b>	<b>-1.432.705</b>
<b>Sales Revenues per unit (m<sup>3</sup>)</b>	<b>451,70</b>	<b>367,89</b>	<b>422,39</b>	<b>409,11</b>	<b>13,28</b>	<b>118,91</b>	<b>96,81</b>	<b>111,18</b>	<b>107,66</b>	<b>3,52</b>
<b>Production Costs</b>										
Taxes on Sales	-202.550	-207.793	-410.343	-1.007.282	596.939	-53.303	-54.682	-107.985	-265.074	157.089
Harvesting	-4.319.523	-1.817.570	-6.137.093	-7.160.711	1.023.618	-1.136.717	-478.308	-1.615.024	-1.884.398	269.373
<b>Total Costs of Production / Sales</b>	<b>-4.522.073</b>	<b>-2.025.363</b>	<b>-6.547.436</b>	<b>-8.167.993</b>	<b>1.620.557</b>	<b>-1.190.019</b>	<b>-532.990</b>	<b>-1.723.009</b>	<b>-2.149.472</b>	<b>426.462</b>
<b>CoP / Sales per unit (m<sup>3</sup>)</b>	<b>-87,13</b>	<b>-72,56</b>	<b>-82,03</b>	<b>-85,32</b>	<b>3,29</b>	<b>-22,93</b>	<b>-19,09</b>	<b>-21,59</b>	<b>-22,45</b>	<b>0,86</b>
<b>Total Net Revenues</b>	<b>18.921.231</b>	<b>8.244.343</b>	<b>27.165.574</b>	<b>30.997.823</b>	<b>-3.832.249</b>	<b>4.981.515</b>	<b>2.169.564</b>	<b>7.151.079</b>	<b>8.157.322</b>	<b>-1.006.243</b>
<b>Stumpage Revenue per unit (m<sup>3</sup>)</b>	<b>364,57</b>	<b>295,34</b>	<b>340,36</b>	<b>323,79</b>	<b>16,57</b>	<b>95,98</b>	<b>77,72</b>	<b>89,60</b>	<b>85,21</b>	<b>4,39</b>
<b>Operating Expenses</b>										
Forestry Costs	-3.985.708	-1.173.204	-5.158.912	-5.495.676	336.764	-1.048.871	-308.738	-1.357.608	-1.446.231	88.622
Standard Cost to Accrual adj.4	-995.242	383.694	-611.548	0	-611.548	-261.906	100.972	-160.934	0	-160.934
Overhead Costs	-7.844.142	-2.436.050	-10.280.192	-10.088.899	-191.293	-2.064.248	-641.066	-2.705.314	-2.654.973	-50.340
Fx gain (loss) to Actual	0	0	0	0	0	-30.087	-107.594	-137.681	0	-137.681
<b>Total Operating Expenses</b>	<b>-12.825.092</b>	<b>-3.225.560</b>	<b>-16.050.652</b>	<b>-15.584.575</b>	<b>-466.077</b>	<b>-3.405.111</b>	<b>-956.426</b>	<b>-4.361.537</b>	<b>-4.101.204</b>	<b>-260.333</b>
<b>OpEx per unit (ha)</b>	<b>-838,85</b>	<b>-210,97</b>	<b>-1.049,83</b>	<b>-1.019,34</b>	<b>-30,48</b>	<b>-222,72</b>	<b>-62,56</b>	<b>-285,28</b>	<b>-268,25</b>	<b>-17,03</b>
<b>Operational Result</b>	<b>6.096.139</b>	<b>5.018.783</b>	<b>11.114.922</b>	<b>15.413.248</b>	<b>-4.298.326</b>	<b>1.576.404</b>	<b>1.213.138</b>	<b>2.789.543</b>	<b>4.056.118</b>	<b>-1.266.575</b>
<b>Operational Result per unit (ha)</b>	<b>398,73</b>	<b>328,26</b>	<b>727,00</b>	<b>1.008,14</b>	<b>-281,14</b>	<b>103,11</b>	<b>79,35</b>	<b>182,46</b>	<b>265,30</b>	<b>-82,84</b>
<b>Capital Expenses</b>										
Equipment	-154.013	0	-154.013	-270.500	116.487	-40.530	0	-40.530	-71.184	30.654
Others	-1.486.741	-346.320	-1.833.061	-1.298.079	-534.982	-391.248	-91.137	-482.384	-341.600	-140.785
<b>Total Capital Expenses</b>	<b>-1.640.754</b>	<b>-346.320</b>	<b>-1.987.074</b>	<b>-1.568.579</b>	<b>-418.495</b>	<b>-431.777</b>	<b>-91.137</b>	<b>-522.914</b>	<b>-412.784</b>	<b>-110.130</b>

## 2.4 DETAILED CASH REPORT

The estimated closing cash for the year-end is USD 709 k, compared to the USD 3,952 k budgeted, an unfavorable difference of USD 3,243 k. As commented in Section 2.1, the main difference is due to lower the lower estimated operational cash flow (USD 1.3 million) and stakeholder distributions totalling USD 1.7 million for payment of Harvesting Reports for completed plantations and for funding requests from Floresteca B.V for its restructuring in the Netherlands.

The budget only considered operational cash flow, as Floresteca does not control the timing for the Harvest Report payments nor was able to fully anticipate the FBV restructuring expenses. Excluding these distributions, closing cash would be USD 2,300 k, or 1,600 k 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.

Table 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>

Compared to the last report, the new forecast is worse in volume due to the rescheduling of the final harvest volume on “Paiolandia Farm” (15,419 m<sup>3</sup>) and for the from thinnings on Barranquinho, Cacimba, and Santa Maria do Jauru. .

(Table 2.4.2 follows on the next page)

Table 2.4.2: Quarterly Operating Cash Flow 2019

Budget Item <i>Values in USD</i>	2019 (USD 0.00)					2019	Var. (YTD- Budget)
	Q1	Q2	Q3	Q4	FY	FY	
	Actual	Actual	Actual	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>229,444</b>	<b>356,325</b>	<b>774,062</b>	<b>768,364</b>	<b>1,036,927</b>	<b>268,563</b>
Biomass Sales (m³)	5,471	5,082	1,881	1,726	14,160	7,143	7,017
Log Sales (m³)	20,788	17,187	13,925	27,915	79,815	95,735	-15,920
<u>Revenues</u>							
Biomass	20,853	19,370	7,168	6,579	53,970	26,315	27,656
Logs	2,287,294	2,145,598	1,689,007	2,695,975	8,817,875	10,280,479	-1,462,605
<b>Sales Revenues</b>	<b>2,308,147</b>	<b>2,164,968</b>	<b>1,696,176</b>	<b>2,702,554</b>	<b>8,871,845</b>	<b>10,306,794</b>	<b>-1,434,949</b>
<u>Production Costs</u>							
Taxes on Sales	-42,895	-7,218	-3,190	-54,682	-107,985	-265,074	157,089
Harvesting	-535,653	-303,174	-297,889	-478,308	-1,615,024	-1,884,398	269,373
<b>Total Costs of Production / Sales</b>	<b>-578,548</b>	<b>-310,392</b>	<b>-301,080</b>	<b>-532,990</b>	<b>-1,723,009</b>	<b>-2,149,472</b>	<b>426,462</b>
<b>Total Net Revenues</b>	<b>1,729,600</b>	<b>1,854,576</b>	<b>1,395,096</b>	<b>2,169,564</b>	<b>7,148,835</b>	<b>8,157,322</b>	<b>-1,008,487</b>
<u>Operating Expenses</u>							
Forestry Costs	-399,604	-324,699	-324,567	-308,738	-1,357,608	-1,446,231	88,622
Standard Cost to Accrual adj.	-41,390	-205,873	-14,643	100,972	-160,934	0	-160,934
Overhead Costs	-698,946	-632,459	-732,843	-641,066	-2,705,314	-2,654,973	-50,340
Fx gain (loss) to Actual	-15,010	-4,051	-11,026	-107,594	-137,681	0	-137,681
<b>Total Operating Expenses</b>	<b>-1,154,950</b>	<b>-1,167,082</b>	<b>-1,083,079</b>	<b>-956,426</b>	<b>-4,361,537</b>	<b>-4,101,204</b>	<b>-260,333</b>
<b>Operational Result</b>	<b>574,649</b>	<b>687,494</b>	<b>312,017</b>	<b>1,213,138</b>	<b>2,787,299</b>	<b>4,056,118</b>	<b>-1,268,819</b>
<u>Capital Expenses</u>							
Equipment	-5,272	-35,258	0	0	-40,530	-71,184	30,654
Others	15,201	-209,407	-197,041	-91,137	-482,384	-341,600	-140,785
<b>Total Capital Expenses</b>	<b>9,929</b>	<b>-244,665</b>	<b>-197,041</b>	<b>-91,137</b>	<b>-522,914</b>	<b>-412,784</b>	<b>-110,130</b>
Var. Assets to cash	-307,741	362,359	500,721	-1,094,625	-539,286	-636,517	97,231
Var. Liabilities to Cash	-40,531	-11,693	67,626	-16,586	-1,184	0	-1,184
Fx gain (loss) to Actual	2,052	-132,518	9,598	135,479	14,613	0	14,613
<b>Var. Assets and Liabilities (acc. to cash)</b>	<b>-346,219</b>	<b>218,149</b>	<b>577,946</b>	<b>-975,731</b>	<b>-525,857</b>	<b>-636,517</b>	<b>110,660</b>
Leasing/Finame	-23,118	-27,406	-13,508	-15,530	-79,563	-84,586	5,023
Earnings on investments	6,656	1,781	6,558	0	14,994	0	14,994
Loans/ Bank fees	-7,954	-1,664	-1,216	-1,700	-12,534	-6,316	-6,218
<b>Financial Movements</b>	<b>-24,417</b>	<b>-27,289</b>	<b>-8,166</b>	<b>-17,231</b>	<b>-77,103</b>	<b>-90,902</b>	<b>13,799</b>
Stakeholder Distributions (Payments)	-526,777	0	0	0	-526,777	0	-526,777
Other Transfers	-222,763	-506,807	-267,018	-193,693	-1,190,282	0	-1,190,282
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>-267,018</b>	<b>-193,693</b>	<b>-1,720,381</b>	<b>0</b>	<b>-1,720,381</b>
<b>Cash Flow Var.</b>	<b>-538,920</b>	<b>126,881</b>	<b>417,737</b>	<b>-64,654</b>	<b>-58,956</b>	<b>2,915,916</b>	<b>2,974,872</b>
<b>Closing Cash</b>	<b>229,444</b>	<b>356,325</b>	<b>774,062</b>	<b>709,408</b>	<b>709,408</b>	<b>3,952,843</b>	<b>3,243,434</b>

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

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

Floresteca S/A - Balance Sheet position of January 01 to September 30, 2019			
(In thousands of reais/dollars)		FX RATE- ASSETS	4,1638
		FX RATE - LIABILITIES	4,1644
ASSETS	R\$	\$	
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	11.136		2.675
Accounts receivable	6.075		1.459
Inventories	379		91
Recoverable taxes	4.053		973
Other receivables	202		48
<b>Total Current Asset</b>	<b>21.844</b>		<b>5.246</b>
<b>NON-CURRENT ASSETS</b>			
Advances to agricultural partners	5.504		1.322
Other receivables	612		147
Deferred taxes	2.336		561
Biological Assets	539.114		129.476
Related Parties	-		-
Property, plant & equipment	8.108		1.947
Intangible assets	74		18
<b>Total Non-Current Asset</b>	<b>555.748</b>		<b>133.471</b>
<b>TOTAL CURRENT ASSETS</b>	<b>577.592</b>		<b>138.717</b>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Loans and financing	88		21
Leasing	39		9
Suppliers and other accounts payable	501		120
Taxes payable	73		18
Salaries, vacations and payroll charges payable	383		92
<b>Total Current Liabilities</b>	<b>1.084</b>		<b>260</b>
<b>Non-current liabilities</b>			
Loans and financing	479.670		115.184
Leasing	23		6
Contingencies	401		96
Accounts payable with investors	25.087		6.024
<b>Total Non-Current Liabilities</b>	<b>505.181</b>		<b>121.309</b>
<b>EQUITY</b>			
Capital	27.798		6.675
Legal reserve	5.559		1.335
Profit reserve	37.970		9.118
Foreign exchange adjusts			20
<b>TOTAL EQUITY</b>	<b>71.327</b>		<b>17.148</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>577.592</b>		<b>138.717</b>
	-		0
	0		0

## 4 AREA CHANGES

From the initial areas under management at the beginning of the year, Floresteca has finalized harvesting on 223.4 ha through the end of September, as shown in the table below:

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

Project	Year	Initial Area	Harvested	Current Area
Buriti	BUR	1994	0.00	0.00
Paiolandia	PAI	1997	297.92	297.92
Paraíso	PAR	1997	555.05	555.05
Bocaina	BOC	1998	140.36	140.36
São José da Canastra	CAN	1998	44.62	44.62
Paiolandia	PAI	1998	93.95	93.95
São Judas Tadeu	SJT	1998	26.76	26.76
Araras	ARA	1999	98.88	98.88
Bambu	BAM	1999	549.07	549.07
Bocaina	BOC	1999	36.07	36.07
Cassange	CAS	1999	88.49	88.49
Capim Branco	CPB	1999	507.87	507.87
Serra das Araras	SER	1999	105.01	105.01
Vale Dourado	VDO	1999	48.59	48.59
Bambu	BAM	2000	513.83	513.83
Duas Lagoas	DLG	2000	1,527.51	1,527.51
Duas Lagoas	DLG	2001	1,760.42	1,760.42
São Miguel	SMG	2001	97.52	97.52
Barranquinho	BAR	2002	970.2	970.2
Cacimba	CMB	2002	571.08	571.08
Duas Lagoas	DLG	2002	48.41	48.41
São Miguel	SMG	2002	5.71	5.71
Santa Maria do Jauru	SMJ	2002	1,085.18	1,085.18
Barranquinho	BAR	2003	12.95	12.95
Cacimba	CMB	2003	10.19	10.19
Santa Maria do Jauru	SMJ	2003	207.87	207.87
Santa Fé	STF	2003	2,562.71	2,562.71
Barranquinho	BAR	2004	1,021.00	1,021.00
Terra Santa	TST	2004	1,143.17	1,143.17
Duas Lagoas	DLG	2005	207.67	207.67
Duas Lagoas	DLG	2006	233.88	233.88
Mutum	MUT	2007	539.18	539.18
São José	SAJ	2007	301.3	301.3
Santa Maria do Jauru II	SMJII	2008	99.87	99.87
<b>Total</b>			<b>15,512.29</b>	<b>223.44</b>
				<b>15,288.85</b>

## 5 LOG YIELDS AND SALES

### 5.1 PRODUCTION YIELD PER PROJECT AND HECTARE

As shown in tables 5.1.1 and 5.1.2, harvesting and thinning will be performed on 2,325 hectares over the course of 2019, and as commented earlier, will produce 79,815 m<sup>3</sup> of commercial grade logs, in both case and as commented earlier, below the budgeted values due to legal and operational issues, as well as negotiations with the land owners of Paiolandia. A total of 607 hectares from final harvests will produce 56,095 m<sup>3</sup> of volume, and thinning operations on the remaining 1,594 hectares will produce 23,720 m<sup>3</sup> of volume.

In this section we provide detailed information on the harvesting and thinning activity per farm / project over the course of the year and considering the projected volumes to be obtained in the remainder of 2019.

#### ***Final Harvests***

Final cut in BOC98 (Bocaina) started in 2018 and will be completed this year. This affects part of the volume sold in 2019. To estimate the final cut area that resulted in this volume, it was calculated a proportion between volumes produced in each year and applied to the areas. As a result, more area was done and it is now projected to produce more volume than originally forecasted.

Production volume from BOC99 (Bocaina) was lower than budgeted, but within a normal error margin (-8%) for the forest sector, given the natural variability of the forest and stand sampling system.

The final harvest of ARA99 (Araras) produced 12% more volume than budgeted. TRC estimates were based on the latest inventory information (2016) and underestimated the growth of the trees. In addition, some merchantable volume was obtained from areas of with poor development, and that had as a result been excluded from management plan, also contributing to the greater than expected yield.

Regarding CAS99 (Cassange), the last inventory information was from 2017, and wound up overestimating growth, whose final expected yield will be 13% less than budgeted. On SJT98 (Sao Judas Tadeu), the budgeted called for only a partial harvesting in 2019 (12.06 ha vs 26.76 ha total of the farm), but the entire area of the project should be completed in 2019. Total volume is expected to be higher than budgeted.

As commented earlier in this report, Capim Branco (CPB) has begun, but will only be concluded in 2021, and Paiolandia (PAI) clear felling has also been delayed, due to issues raised by the land owners. The land owners have made a series of demands relating to their economic stake and its calculation, the settlement of past advances, and the timing of the release of the land. These negotiations have been carried out extra-judicially, but FSA's legal advisor's have recommended that the final felling be delayed until the issues under consideration are more clearly settled. As a result, PAI is now expected to be clear felled in 2020. This will be further commented in the upcoming MP and Budget.

#### ***Thinning***

On Duas Lagoas (DLG), a lower harvested area and volume were initially 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, resulting in substantially more volume than expected (22%). Thinning has begun at BAR and no more volume than initially planned will be produced as mentioned earlier. At the end of the year thinning will begin at MUT (November) and CMB and SMJ (December).

As commented earlier, thinning at Terra Santa (TST) has been delayed until 2020, with the Barranquinho projects being brought forward, as this farm's competition indicators signaled a more urgent need for thinning under current operational constraints. A legal dispute with the land owners also currently means that Terra Santa farm could not be fully thinned even in the absence of the other constraints (more information in the Legal and Compliance section; the thinning of TST will be part of the upcoming Management Plan for 2020-2022).

Table 5.1.1: Log sales final harvest, 2019 YEE volume

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

Project	Area (ha)		Site Class	DBH	BA	USD Revenue per 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	S2	26.00	7.66	5,669.65	5,608	4,908	14,004	14,004	766.1	2,353.4	1,345.1	584.6	534.9	24.2
BOC1999	108.19	108.19	S1	38.85	10.92	12,606.37	8,294	8,972	9,946	9,946	29.4	457.3	3,879.9	1,367.1	1,632.3	927.8
CAS1999	56.85	56.85	S1	31.40	11.70	12,207.57	3,897	4,725	8,520	8,520	356.3	1,096.9	1,321.2	513.3	609.6	48.7
CAS1999	31.64	31.64	S2	29.16	10.41	21,932.28	2,165	2,124	4,853	4,853	214.5	487.6	829.5	414.4	219.1	0.0
SJT1998	26.76	12.06	S1	33.68	13.94	12,547.48	3,072	1,224	3,841	1,927	325.7	863.6	1,059.8	654.6	144.3	24.2
PAI1997	0.00	66.74	S2	30.48	11.69	0.00	0	5,234	0	10,646	0.0	0.0	0.0	0.0	0.0	0.0
PAI1997	0.00	115.32	S3	20.24	8.92	0.00	0	1,696	0	37,996	0.0	0.0	0.0	0.0	0.0	0.0
PAI1997	0.00	20.14	S1	33.20	13.31	0.00	0	1,999	0	3,102	0.0	0.0	0.0	0.0	0.0	0.0
BOC1998	91.43	91.43	S1	37.86	11.72	26,399.43	14,965	13,100	9,594	9,594	11.4	870.4	6,038.3	3,005.0	3,652.4	1,387.6
PAI1998	0.00	59.28	S1	32.05	11.36	0.00	0	4,895	0	8,298	0.0	0.0	0.0	0.0	0.0	0.0
PAI1998	0.00	34.67	S2	26.10	8.90	0.00	0	1,595	0	5,741	0.0	0.0	0.0	0.0	0.0	0.0
CAN1998	44.62	44.62	S1	33.20	11.55	10,909.70	3,770	3,770	5,860	5,860	16.7	734.2	1,750.3	585.8	596.5	86.4
CPB1999	110.67	55.27	S1	34.30	10.30	9,153.37	8,000	3,758	11,845	6,134	39.3	1,682.1	3,515.0	1,433.0	1,174.4	156.3
BUR1994	0.00	0.00	-	-	-	448,747.29	6,285	4,000	0	0	2,746.9	2,561.5	831.2	122.5	23.1	0.0
<b>TOTAL</b>	<b>607.03</b>	<b>833.08</b>	-	-	-	-	<b>56,095</b>	<b>62,038</b>	<b>68,501</b>	<b>126,659</b>	<b>4,506.3</b>	<b>11,107.0</b>	<b>20,570.3</b>	<b>8,680.4</b>	<b>8,586.7</b>	<b>2,655.2</b>
%	72.9%	100.0%	-	-	-	-	90.4%	100.0%	54.1%	100.0%	8.0%	19.8%	36.7%	15.5%	15.3%	4.7%

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

\* Site class, DBH and BA are provided to the budgeted stands.

Table 5.1.2: Log sales thinning harvest, 2019 YEE volume

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

Project	Area (ha)		Site Class	DBH	BA	USD Revenue per 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
DLG2005	207.68	30.84	S2	26.30	17.30	1,171.70	3,738	552	33,582	4,987	1,093.8	2,362.7	241.7	40.1	0.0	0.0
DLG2006	52.92	52.92	S1	29.00	19.60	6,147.94	1,291	1,962	6,808	6,808	189.5	928.5	108.5	64.5	0.0	0.0
DLG2006	181.00	181.00	S2	25.58	15.68	1,797.40	3,148	3,825	23,941	23,941	698.7	2,127.5	277.7	44.1	0.0	0.0
TST2004	0.00	818.02	S1	29.43	14.00	0.00	0	11,863	0	37,112	0.0	0.0	0.0	0.0	0.0	0.0
BAR2002	377.53	377.53	S2	23.88	14.86	824.98	3,144	3,144	34,049	34,049	1,216.0	2,186.3	166.4	11.9	0.0	0.0
BAR2002	180.53	180.53	S1	27.57	17.89	1,725.18	2,148	2,148	10,773	10,773	581.5	1,045.5	79.6	5.7	0.0	0.0
BAR2003	12.95	12.95	S1	28.98	25.01	2,211.86	430	430	1,291	1,291	141.6	224.6	53.9	9.8	0.0	0.0
BAR2004	79.80	79.80	S2	21.31	18.12	4,588.20	1,640	1,640	21,801	21,801	587.2	979.8	70.1	13.2	0.0	0.0
BAR2004	226.02	226.02	S1	24.53	17.25	1,619.86	4,685	4,685	32,388	32,388	1,663.2	2,775.2	198.5	37.5	0.0	0.0
CMB2002	28.80	28.80	S1	33.20	17.60	1,157.52	500	1,404	1,243	1,243	196.4	201.0	64.9	36.2	1.4	0.0
MUT2007	71.11	71.11	S1	29.01	17.09	1,892.00	2,083	2,083	6,340	6,340	931.6	682.0	330.8	138.7	0.0	0.0
SMJ2008	99.88	99.88	-	-	-	225.53	414	0	0	0	168.8	245.3	0.0	0.0	0.0	0.0
SMJ2002	38.47	0.00	-	-	-	895.11	500	0	1,935	0	105.3	334.3	30.2	30.0	0.2	0.0
<b>TOTAL</b>	<b>1,594.68</b>	<b>2,197.39</b>	-	-	-	<b>4,101.63</b>	<b>23,720</b>	<b>33,774</b>	<b>174,189</b>	<b>180,771</b>	<b>7,573.6</b>	<b>14,092.6</b>	<b>1,622.4</b>	<b>431.7</b>	<b>1.7</b>	<b>0.0</b>
%	72.6%	100.0%	-	-	-	-	70.2%	100.0%	96.4%	100.0%	31.9%	59.4%	6.8%	1.8%	0.0%	0.0%

\* Site class, DBH and BA are provided to the budgeted stands.

Table 5.1.3: Production per project, 2019 YEE volume per hectare.

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

Project	Area (ha)		Site Class	DBH	BA	Production yield (m <sup>3</sup> )		Trees Removed		PER HECTARE (ACTUAL)					
	YEE	FYB				YEE	FYB	YEE	FYB	15-20 cm	20-25 cm	25-30 cm	30-35 cm	35-40 cm	40+ cm
ARA1999	98,87	98,87	S2	26,00	7,66	56,72	49,64	141,63	141,63	7,75	23,80	13,60	5,91	5,41	0,24
BOC1999	108,19	108,19	S1	38,85	10,92	76,66	82,93	91,93	91,93	0,27	4,23	35,86	12,64	15,09	8,58
DLG2005	207,68	30,84	S2	26,30	17,30	18,00	17,90	161,70	161,71	5,27	11,38	1,16	0,19	0,00	0,00
DLG2006	52,92	52,92	S1	29,00	19,60	24,40	37,09	128,65	128,65	3,58	17,55	2,05	1,22	0,00	0,00
DLG2006	181,00	181,00	S2	25,58	15,68	17,39	21,13	132,27	132,27	3,86	11,75	1,53	0,24	0,00	0,00
CAS1999	56,85	56,85	S1	31,40	11,70	68,55	83,11	149,87	149,87	6,27	19,30	23,24	9,03	10,72	0,86
CAS1999	31,64	31,64	S2	29,16	10,41	68,43	67,12	153,38	153,38	6,78	15,41	26,21	13,10	6,93	0,00
SJT1998	26,76	12,06	S1	33,68	13,94	114,82	101,51	143,53	159,78	12,17	32,28	39,61	24,46	5,39	0,91
PAI1997	0,00	66,74	S2	30,48	11,69	0,00	78,42	0,00	159,51	0,00	0,00	0,00	0,00	0,00	0,00
PAI1997	0,00	115,32	S3	20,24	8,92	0,00	14,70	0,00	329,47	0,00	0,00	0,00	0,00	0,00	0,00
PAI1997	0,00	20,14	S1	33,20	13,31	0,00	99,26	0,00	154,05	0,00	0,00	0,00	0,00	0,00	0,00
TST2004	0,00	818,02	S1	29,43	14,00	0,00	14,50	0,00	45,37	0,00	0,00	0,00	0,00	0,00	0,00
BOC1998	91,43	91,43	S1	37,86	11,72	163,68	143,27	104,94	104,94	0,12	9,52	66,04	32,87	39,95	15,18
PAI1998	0,00	59,28	S1	32,05	11,36	0,00	82,58	0,00	139,98	0,00	0,00	0,00	0,00	0,00	0,00
PAI1998	0,00	34,67	S2	26,10	8,90	0,00	46,01	0,00	165,57	0,00	0,00	0,00	0,00	0,00	0,00
CAN1998	44,62	44,62	S1	33,20	11,55	84,49	84,50	131,32	131,32	0,37	16,45	39,23	13,13	13,37	1,94
BAR2002	377,53	377,53	S2	23,88	14,86	8,33	8,33	90,19	90,19	3,22	5,79	0,44	0,03	0,00	0,00
BAR2002	180,53	180,53	S1	27,57	17,89	11,90	11,90	59,67	59,67	3,22	5,79	0,44	0,03	0,00	0,00
BAR2003	12,95	12,95	S1	28,98	25,01	33,20	33,17	99,67	99,67	10,94	17,34	4,17	0,76	0,00	0,00
BAR2004	79,80	79,80	S2	21,31	18,12	20,55	20,55	273,22	273,22	7,36	12,28	0,88	0,17	0,00	0,00
BAR2004	226,02	226,02	S1	24,53	17,25	20,73	20,73	143,30	143,30	7,36	12,28	0,88	0,17	0,00	0,00
CPB1999	110,67	55,27	S1	34,30	10,30	72,29	68,00	107,04	111,00	0,35	15,20	31,76	12,95	10,61	1,41
CMB2002	28,80	28,80	S1	33,20	17,60	17,36	48,75	43,17	43,17	6,82	6,98	2,25	1,26	0,05	0,00
MUT2007	71,11	71,11	S1	29,01	17,09	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	0,00	0,00
SMJII2008	99,88	99,88	-	-	-	4,15	0,00	0,00	0,00	1,69	2,46	0,00	0,00	0,00	0,00
SMJ2002	38,47	0,00	-	-	-	13,00	0,00	50,29	0,00	2,74	8,69	0,79	0,78	0,01	0,00
<b>TOTAL</b>	<b>2.163,71</b>	<b>2.992,47</b>	-	-	-	<b>36,89</b>	<b>32,00</b>	<b>112,15</b>	<b>102,72</b>	<b>5,58</b>	<b>11,65</b>	<b>10,26</b>	<b>4,21</b>	<b>3,97</b>	<b>1,23</b>
%	72%	100%	-	-	-	115%	100%	109%	100%	15%	32%	28%	11%	11%	3%

\* Site class, DBH and BA are provided to the budgeted stands

## 5.2 ROADSIDE PRICES

Table 5.2.1 below shows the volume sold to 3Q2019, compared to the budget. A total of 51,900 cubic meters have been YTD sold versus 67,249 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, April and July 2019). The prices for each Consufor report are detailed in section 5.4.2. The Proforma price refers to the actual price for sales YTD for the specific log mix within the diameter interval (average diameter point), and given the changes in prices over the course of the year.

Table 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	14.501	7.393	26,32	36,04	18,94	17,83
20-25 cm	14.403	14.469	74,74	74,17	22,30	22,72
25-30 cm	20.416	15.306	111,90	120,62	27,40	27,05
30-35 cm	7.729	6.007	149,26	157,24	31,19	32,54
35-40 cm	8.287	6.348	220,51	225,07	37,48	38,44
40+ cm	1.913	2.378	318,65	237,70	45,30	41,19
<b>Weighted Average</b>	<b>67.249</b>	<b>51.900</b>	<b>109,05</b>	<b>118,00</b>	<b>30,43</b>	<b>27,58</b>

The table 5.2.2 below shows that the updated YEE forecast using the weighted average sales prices based on the most recent Consufor Report of October 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.

Table 5.2.2: Road Side Price Assumption for the YEE

	RS Price (USD/m <sup>3</sup> )	
	Budget	Proforma
15-20 cm	26,32	31,66
20-25 cm	74,67	73,41
25-30 cm	111,81	117,05
30-35 cm	150,37	155,90
35-40 cm	221,61	224,27
40+ cm	317,63	243,26
<b>Weighted Average</b>	<b>107,38</b>	<b>110,51</b>

## 5.3 ACCOUNTS RECEIVABLE

No overdue accounts through September 30, 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

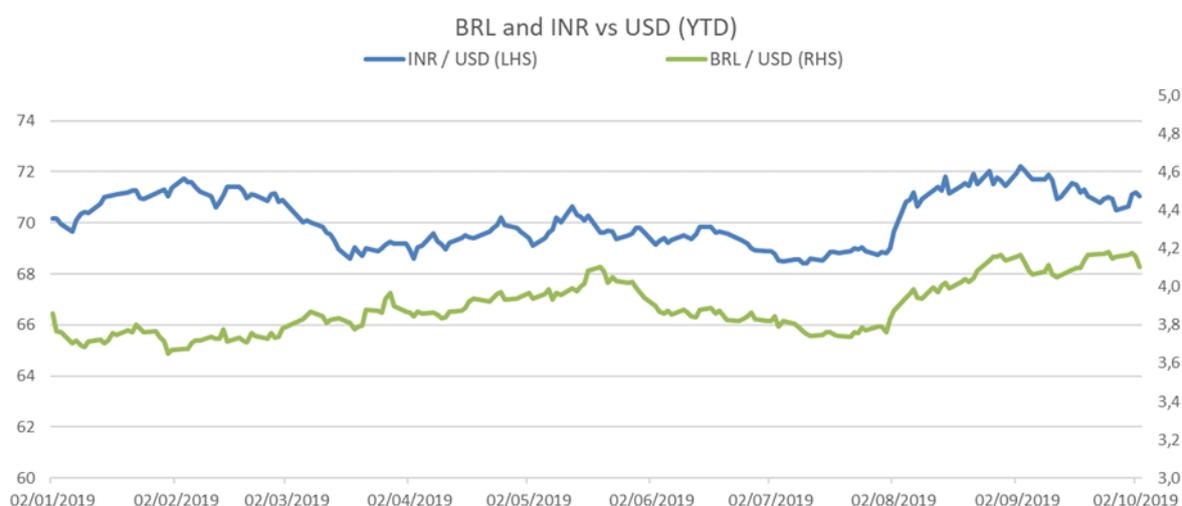
The third quarter of the calendar year saw a great FX volatility of the BRL and the Indian Rupee (INR). In Brazil the volatility was still driven by the pension reform approval, a key measure needed for long term fiscal solvency. The proposed pension reform was approved in the first round of voting at the Senate, the second round of voting is expected to happen in the first half of October. The international image of Brazil had been strongly affected specially during the month of August due to the high increase of fires in the Amazon region, a last-minute meeting of the G7 was set to discuss the climate change and the Amazon forest protection. The reaction of the Brazilian president towards the offered help from the G7 towards the fires in Amazon caused tension between Brazil and France and provoked protests worldwide asking for the protection of the forest.

In India the FX rates had depreciated, in part due to the reported weak quarterly GDP data, lower than estimated by the market, creating a wave of pessimism for the Indian rupee, and also due to the announcement of merges of public sector banks. More generally, the USD strengthened versus most major currencies during 3Q2019 as consequence of the trade war against China.

#### BRL Depreciation

Overall, the BRL FX rate had been more volatile in 3Q2019 than it was during 2Q2019. The BRL suffered an increasing depreciation, with more intensity during the month of August, as a reflect of the trade war between USA e China in the international scenario, the Argentine crisis and national issues such as a possible delay on the approval of the proposed pension reform at the senate and the great increase of fires in the Amazon forest. In India, the INR/USD FX rate also had been hit by the USA and China trade war during the 3Q2019 devaluating the rupee against the US dollar. The average BRL/USD FX rate in 3Q2019 depreciated by 1.2% compared with the 2Q2019 average rate, and the INR had also depreciated by 1.2% on the same comparison of periods.

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

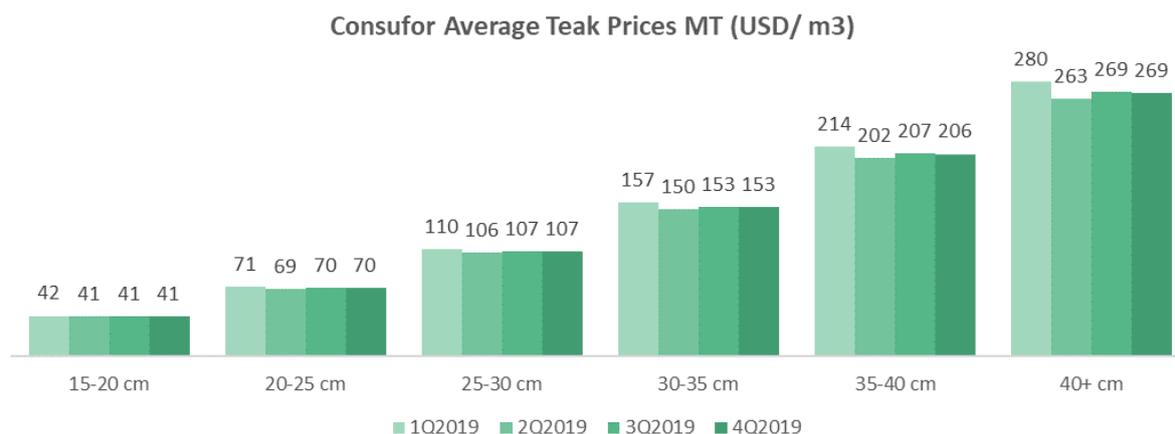


It bears emphasizing that, in the short term at least, the BRL impacts costs in USD terms, and so can impact roadside prices.

## 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 20 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, and 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.

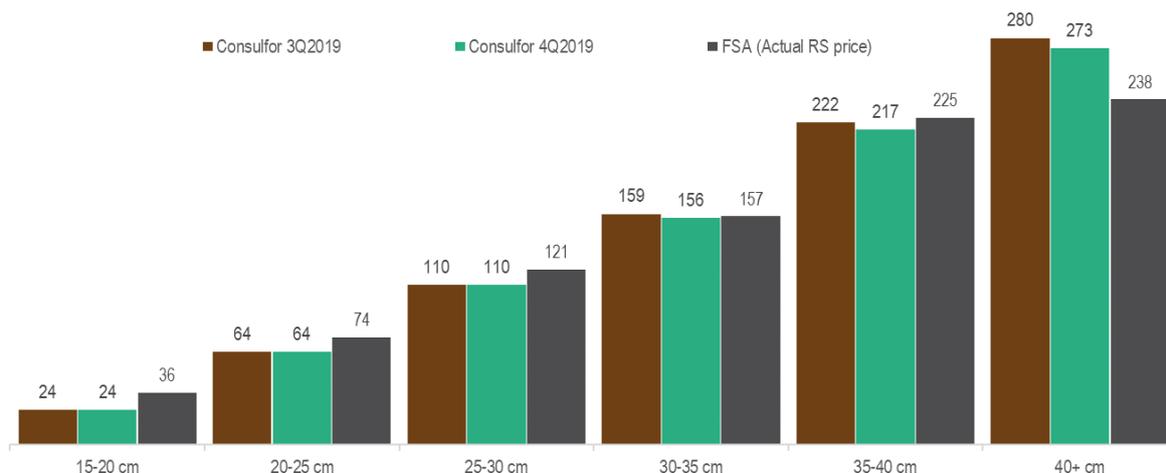
Table 5.4.3.1: CONSUFOR Average Teak Prices MT (USD/ m3)



Consufor's most recent report was released in early October 2019, based on survey data taken in September (shown as 4Q2019 in the chart above) considering an exchange rate of 3.92 BRL/USD. Average log prices across all diameter classes have decreased by 1.5% over the course of 2019, but have been recovering in 2Q and 3Q.

In Figure 5.4.3.2 below, is a comparison between prices (all grades and sizes) of the Consufor averages for for 3Q2019 and 4Q2019 and those obtained YTD from the Floresteca S.A properties.

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

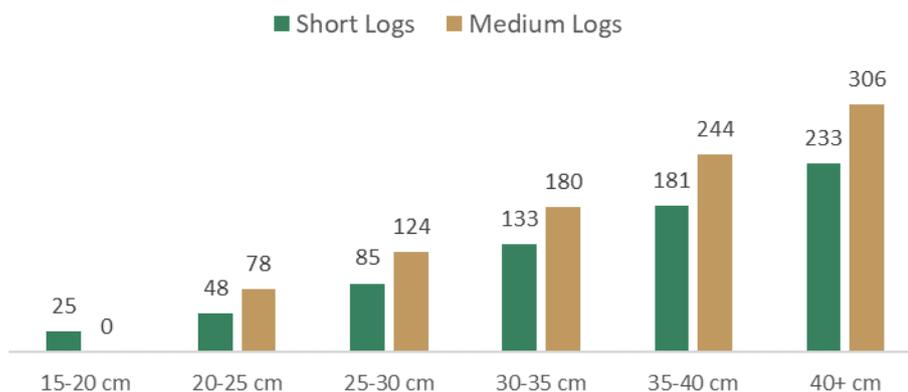


Note that the FSA prices are similar to or above the Consufor prices for most of the grades considered, with the exception of the 30-35 cm and 40+ cm diameter logs. The main reason for the divergence in Floresteca SA log prices vs those of the Consufor 3Q and 4Q price reports are due to the average diameters 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), whereas the Consufor figures would assume diameters closer to the middle of this range.

FSA diameter point	
15-20 cm	17,83
20-25 cm	22,72
25-30 cm	27,05
30-35 cm	32,54
35-40 cm	38,44
40+ cm	41,19

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 3Q was USD 24.01 versus USD 22.43 in the budget, or 7% greater than planned.

The 3Q2019 cost per volume was unfavorable to budget due to the harvesting on Buriti (BUR), and the postponement of the Terra Santa (TST) thinning to 2020. The final cut at BUR was higher given the greater number of tree per hectare (average of around 250 trees/ha) and with operations carried out during the rainy season, which resulted in a slightly higher overall Cost of Production (CoP). The postponement of Terra Santa (in favor of Barranquinho, Cacimba, and Santa Maria do Jaru), has translated into higher CoP, since the additional volume from these projects will not be realizable during 2019, resulting in a lower overall productivity for the year. (The CoP value is dependent on the commercial volume, so lower volume for the same number of harvested trees will result in a higher CoP.)

As a result, TRC's harvesting team expects that the Cost of Production in the YEE will be 7% over the budget per cubic meter of commercial volume.

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

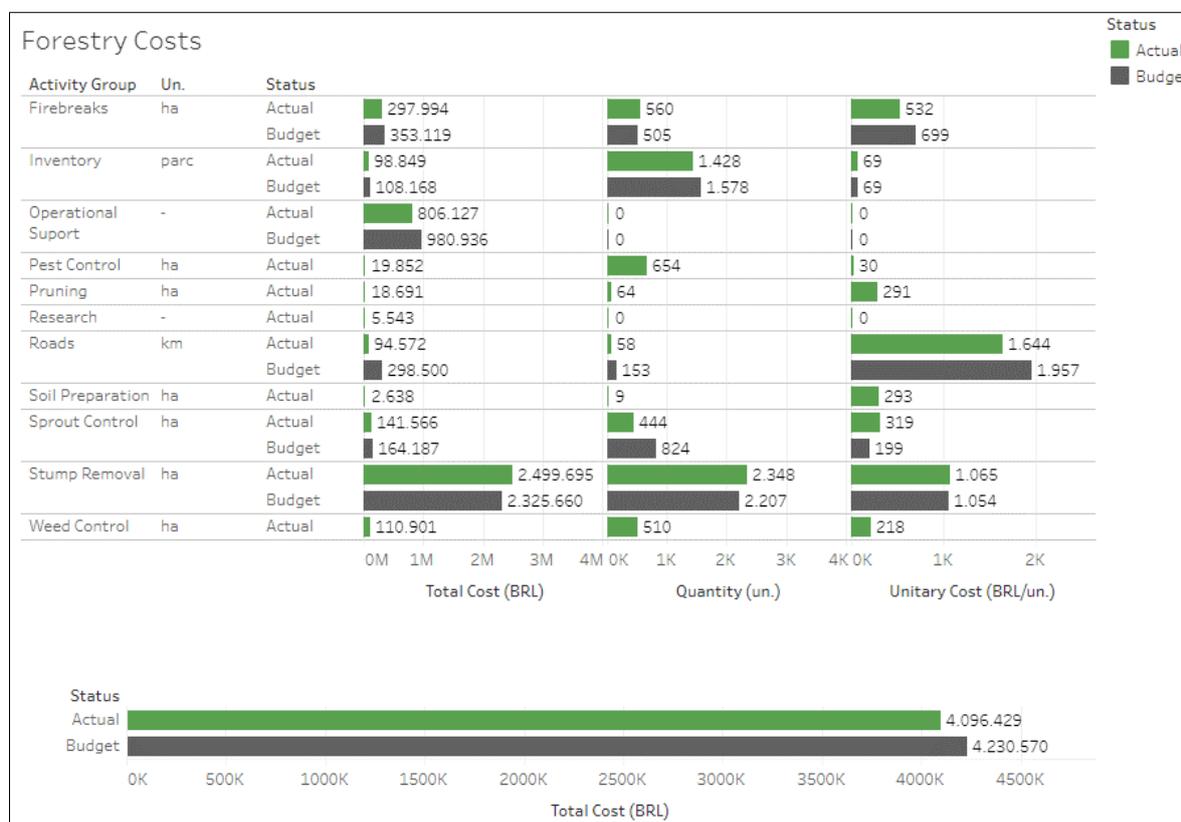
Table 6.1.2: Harvesting Cost, per activity:

		<b>Budget YTD</b>	<b>Actual YTD</b>	<b>Budget FY</b>
Tree Selection	BRL	112.683	15.721	194.406
Harvesting	BRL	1.176.839	1.174.452	1.722.443
Forwarding	BRL	1.894.844	1.720.467	2.629.868
Lot Formation	BRL	653.430	463.140	912.204
Loading	BRL	429.947	333.229	609.287
Tax	BRL	767.686	825.000	1.092.500
<b>Total</b>	<b>BRL</b>	<b>5.035.429</b>	<b>4.532.009</b>	<b>7.160.708</b>
Sales Expenses	BRL	697.665	202.550	1.007.282
Commercial Vol.	m <sup>3</sup>	67.249	51.900	95.735
BRL/m <sup>3</sup>		85,25	91,22	85,32
BRL/USD rate		3,80	3,80	3,8
USD/m <sup>3</sup>		22,43	24,01	22,45

## 7 FOREST MANAGEMENT

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

Figure 7: Forestry Operations YTD



Note that the operational costs here are based on the “Standard Cost” methodology, and are tied to the man and machine hours recorded by the field teams. The costs of inputs (for example, fuel, parts) held in inventory, are not included, as they represent only a difference in timing. When these costs are considered in the YTD results section, overall forest costs are ahead of the budget, due to these timing differences.

On the standard cost basis, overall forestry costs were lower than the budget for the year to date, at BRL 4,096 k versus BRL 4,230 k per the budget (3.2% lower). The most relevant activities are commented below:

### 7.1 STUMP REMOVAL

Stump removal was finished in Bocaina and Araras farms and started at Cassange farm during 3Q2019. The higher expenses than budgeted in the beginning of the year due to timing only, and needed to be accelerated due to the sale of the Buriti farm. The activity has now largely caught up with the budget timing, and unit costs are only marginally higher than budgeted YTD. TRC expects the activity to track the original budget amount for the year (operations will be carried out in Cassange, São Judas Tadeu and São José da Canastra farms till the year end).

## **7.2 SPROUT CONTROL**

The activity has been done at Paraíso Farm and the total cost is line with budget. The budget considered that part of the sprout control would have been done manually and part with chemical spraying. With the clearfell this project having been moved forward to 2020, it was deemed unnecessary to fully complete, so only the manually sprout control already done will be performed.

## **7.3 WEED CONTROL**

Prior to harvesting, the field team verified the need to do partial mechanized weeding to improve the safety of the subsequent operations on the Bocaina, Cassange, Duas Lagoas, Araras, São Judas Tadeu, São José da Canastra and Capim Branco farms. The activities were not originally planned for these farms.

## **7.4 FIREBREAKS**

Firebreak maintenance is finished and only will be necessary again under specific conditions (difficult accessibility due to rain). 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 this to remain through the end of 2019.

## 8 FOREST DESCRIPTION – ANNUAL INVENTORY UPDATE

The monitoring of the development of the forest is done through annual inventory measurement, which is usually carried out during the dry season between May and August. Measurements may happen at different times for specific needs or due to operational constraints of our field team.

The results from the latest available inventory are shown below (2018 and 2019 measurements). In 2019, 13 projects were measured: Paiolândia 1997 and 1998, Paraíso 1997, Serra das Araras 1999, Bambu 1999 and 2000, Barranquinho 2002, 2003 and 2004, Santa Fé 2003 e Terra Santa 2004. It is important to observe that, at 15 years old, Terra Santa is growing on average almost 2.1 cm/year (diameter), with 92% of the farm classified as site I (S1 – Best sites). Compared to the prior 2017 inventory, TST have grown 2.3 cm in diameter on average. Duas Lagoas, planting year 2002, is growing on average 2.5 cm/year in diameter.

On the other hand, diameter growth has decelerated compared to the the prior inventories for Paiolândia, Paraíso, Serra das Araras, Bambu and Barranquinho. The most recent specific project level inventory data are shown in the table below, divided by operational region. A fuller analysis and comparisons will be provided later this month as part of the the 2020-22 Management Plan and Budget:

### Cáceres Region Plantations

Cáceres Region Plantations - 2019 Inventory Data

Project	Planting Year	Area (ha)	Age	DBH (cm)	Height (m)	Dominant Height (m)	Basal Area (m <sup>2</sup> /ha)	Trees/ha	Total Volume (m <sup>3</sup> /ha)	Individual Vol (m <sup>3</sup> /ha)	Total Volume (m <sup>3</sup> )
BAM	1999	549,1	19,1	19,6	14,2	15,3	11,3	366	66,8	0,18	36.668
	2000	513,8	18,1	23,4	16,5	17,3	12,4	285	84,6	0,30	43.446
BAR	2002	970,2	16,5	24,9	19,4	20,6	16,0	325	128,5	0,40	124.627
	2003	12,9	15,7	30,0	24,4	25,3	23,1	326	226,2	0,69	2.930
	2004	1.021,0	14,6	23,6	19,1	20,4	16,6	380	133,8	0,35	136.572
Total geral											344.242

Cáceres Region Plantations - 2018 Inventory Data

Project	Planting Year	Area (ha)	Age	DBH (cm)	Height (m)	Dominant Height (m)	Basal Area (m <sup>2</sup> /ha)	Trees/ha	Total Volume (m <sup>3</sup> /ha)	Individual Vol (m <sup>3</sup> /ha)	Total Volume (m <sup>3</sup> )
DLG	2000	1.527,5	17,5	28,5	19,0	19,6	11,1	173	84,1	0,49	128.492
	2001	1.764,3	16,4	24,6	16,1	16,8	10,1	235	67,0	0,28	118.174
	2002	48,4	15,2	37,2	22,8	23,0	16,2	145	134,3	0,92	6.501
	2005	207,7	12,3	23,3	15,6	16,9	14,3	329	94,4	0,29	19.604
	2006	233,9	11,2	26,3	17,3	18,0	16,6	298	113,4	0,38	26.528
SMG	2001	97,5	16,3	24,9	17,4	18,0	11,3	233	81,3	0,35	7.925
	2002	5,7	15,2	27,6	21,1	21,6	12,3	203	105,8	0,52	604
Total geral											307.828

### Jangada Region Plantations

Jangada Region Plantations - 2019 Inventory Data

Project	Planting Year	Area (ha)	Age	DBH (cm)	Height (m)	Dominant Height (m)	Basal Area (m <sup>2</sup> /ha)	Trees/ha	Total Volume (m <sup>3</sup> /ha)	Individual Vol (m <sup>3</sup> /ha)	Total Volume (m <sup>3</sup> )
PAI	1997	297,9	21,3	28,3	19,9	20,6	12,0	204	99,3	0,49	29.578
	1998	93,4	20,5	30,4	21,6	22,1	11,8	161	101,7	0,63	9.505
PAR	1997	555,0	21,5	21,9	16,8	17,7	10,4	271	73,2	0,27	40.615
SER	1999	105,0	19,5	26,9	21,0	21,9	14,4	241	122,5	0,51	12.863
Total geral											92.561

Jangada Region Plantations - 2018 Inventory Data

Project	Planting Year	Area (ha)	Age	DBH (cm)	Height (m)	Dominant Height (m)	Basal Area (m <sup>2</sup> /ha)	Trees/ha	Total Volume (m <sup>3</sup> /ha)	Individual Vol (m <sup>3</sup> /ha)	Total Volume (m <sup>3</sup> )
BOC	1998	431,6	19,5	37,8	25,6	25,7	11,8	106	111,6	1,05	48.166
	1999	108,2	18,8	38,9	25,0	25,0	10,9	92	101,7	1,11	11.003
CAS	1999	88,5	18,9	30,5	21,8	22,1	11,0	148	95,8	0,65	8.481
CPB	1999	507,9	18,6	35,2	23,5	23,5	10,3	106	91,4	0,86	46.419
SJT	1998	26,8	19,7	34,7	24,2	24,4	12,7	136	113,8	0,84	3.045
VDO	1999	48,6	17,4	34,1	23,1	23,7	13,9	152	124,3	0,82	6.040
Total geral											123.154

## Porto Esperidião Region Plantations

### Porto Esperidião Region Plantations - 2019 Inventory Data

Project	Planting Year	Area (ha)	Age	DBH (cm)	Height (m)	Dominant Height (m)	Basal Area (m <sup>2</sup> /ha)	Trees/ha	Total Volume (m <sup>3</sup> /ha)	Individual Vol (m <sup>3</sup> /ha)	Total Volume (m <sup>3</sup> )
STF	2003	2.562,7	15,5	25,6	18,7	19,5	12,9	272	95,6	0,35	245.070
TST	2004	1.143,2	14,8	30,8	22,9	23,6	15,8	222	138,0	0,62	157.710
Total geral											402.780

### Porto Esperidião Region Plantations - 2018 Inventory Data

Project	Planting Year	Area (ha)	Age	DBH (cm)	Height (m)	Dominant Height (m)	Basal Area (m <sup>2</sup> /ha)	Trees/ha	Total Volume (m <sup>3</sup> /ha)	Individual Vol (m <sup>3</sup> /ha)	Total Volume (m <sup>3</sup> )
CMB	2002	571,1	15,4	30,3	21,3	21,8	14,7	203	120,4	0,59	68.763
	2003	10,2	14,3	32,3	23,6	24,2	17,5	211	153,5	0,73	1.564
MUT	2007	539,2	10,0	22,7	16,4	17,1	14,8	385	100,2	0,26	54.038
SAJ	2007	301,3	10,3	28,0	20,3	20,6	15,6	252	123,0	0,49	37.049
SMJ	2002	1.085,2	15,3	25,4	18,3	19,3	12,9	265	93,7	0,35	101.663
	2003	207,9	14,4	30,2	21,0	21,8	15,9	223	129,4	0,58	26.889
SMJII	2008	99,9	9,1	20,8	14,5	15,3	14,1	395	82,5	0,21	8.241
Total geral											298.206

## 9 COMPLIANCE & LEGAL ISSUES

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

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

Note updates on Issue 2 and 3 only.

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 on February 2020.

**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 3.33 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). A court date has been set for February 2020.

## 9.2 MUTUM FARM

No updates since last report. Issue 2 from the 2Q2019 report has been omitted since the case has been decided.

**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 material change the lawsuit. We are waiting for court appointment and/or final decision.

## 9.3 TRUCKING COMPANY ALLEGATIONS

Note: update in the second paragraph.

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.

During 3Q2019, the lawyer representing Rio Verde contacted FSA's lawyer to propose a settlement. FSA together with its lawyers received a settlement proposal for a substantially lower value, and FSA has suggested a lower value. At the close of this report, an agreement has not yet been reached.

## 10 APPENDIX

### 10.1 PROPERTIES AREAS BREAKDOWN AT DECEMBER 2018:

Project	Year	SATT	LUD	Total
Buriti	BUR 1994	307,91		307,91
Paiolandia	PAI 1997	210,44	87,48	297,92
Paraíso	PAR 1997	524,04	31,01	555,05
Bocaina	BOC 1998	351,53		351,53
São José da Canastra	CAN 1998	44,62		44,62
Paiolandia	PAI 1998	93,95		93,95
São Judas Tadeu	SJT 1998	26,76		26,76
Araras	ARA 1999	78,30	20,58	98,88
Bambu	BAM 1999	549,07		549,07
Bocaina	BOC 1999	108,18		108,18
Cassange	CAS 1999	88,49		88,49
Capim Branco	CPB 1999	507,87		507,87
Serra das Araras	SER 1999	104,01	1,00	105,01
Vale Dourado	VDO 1999	48,59		48,59
Bambu	BAM 2000	476,09	37,74	513,83
Duas Lagoas	DLG 2000	1.527,51		1.527,51
Duas Lagoas	DLG 2001	1.760,42		1.760,42
São Miguel	SMG 2001	97,52		97,52
Barranquinho	BAR 2002	776,15	194,05	970,20
Cacimba	CMB 2002	456,87	114,21	571,08
Duas Lagoas	DLG 2002	48,41		48,41
São Miguel	SMG 2002	5,71		5,71
Santa Maria do Jauru	SMJ 2002	1.085,18		1.085,18
Barranquinho	BAR 2003	10,36	2,59	12,95
Cacimba	CMB 2003	8,15	2,04	10,19
Santa Maria do Jauru	SMJ 2003	207,87		207,87
Santa Fé	STF 2003	2.562,71		2.562,71
Barranquinho	BAR 2004	1.021,00		1.021,00
Terra Santa	TST 2004	1.134,45	8,72	1.143,17
Duas Lagoas	DLG 2005	207,67		207,67
Duas Lagoas	DLG 2006	233,88		233,88
Mutum	MUT 2007	539,18		539,18
São José	SAJ 2007	301,30		301,30
Santa Maria do Jauru II	SMJII 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 projectes on which the teak is planted.*