

ANNUAL MANAGEMENT REPORT



- Floresteca S/A -

Year 2019
(Jan/19 to Dec/19)

TABLE OF CONTENTS

1 EXECUTIVE SUMMARY	4
2 FINANCIAL REPORT	5
2.1 OVERALL FINANCIAL PERFORMANCE	5
2.2 FULL YEAR RESULTS	8
2.3 DETAILED CASH REPORT	9
3 CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND EQUITY	11
4 AREA CHANGES	12
5 LOG YIELDS AND SALES	13
5.1 PRODUCTION YIELD PER PROJECT AND HECTARE.....	13
5.2 ROADSIDE PRICES.....	16
5.2.1 <i>New Proposed Pricing Criteria for FSA Log Sales</i>	16
5.3 ACCOUNTS RECEIVABLE	17
5.4 TEAK MARKET UPDATE.....	17
5.4.1 <i>Brazil and India Economic Overview</i>	17
5.4.2 <i>Roadside Price Benchmarking</i>	18
6 THINNING & HARVESTING	21
6.1 COST OF PRODUCTION	21
7 FOREST MANAGEMENT	22
7.1 STUMP REMOVAL	22
7.2 SPROUT CONTROL.....	23
7.3 WEED CONTROL	23
7.4 FIREBREAKS	23
7.5 OPERATIONAL SUPPORT	23
8 COMPLIANCE & LEGAL ISSUES	24
8.1 PARAISO, TERRA SANTA, AND BAMBU IV FARMS.....	24
8.2 MUTUM FARM	25
8.3 TRUCKING COMPANY ALLEGATIONS.....	25
9 APPENDIX – PROPERTIES BREAKDOWN AND LAND ISSUES	27
9.1 PROPERTIES AREAS BREAKDOWN AND CHANGES IN AREA FROM 2018:.....	27

PROPERTY OVERVIEW

Floresteca S/A is located in the State of Mato Grosso, where it manages 15,109.11 hectares of *Tectona Grandis* (Teak) at December 31th 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.
- Buriti Imoveis SA: (Prior) Land owner of the Buriti farm.

Financial information is presented on a calendar year basis.

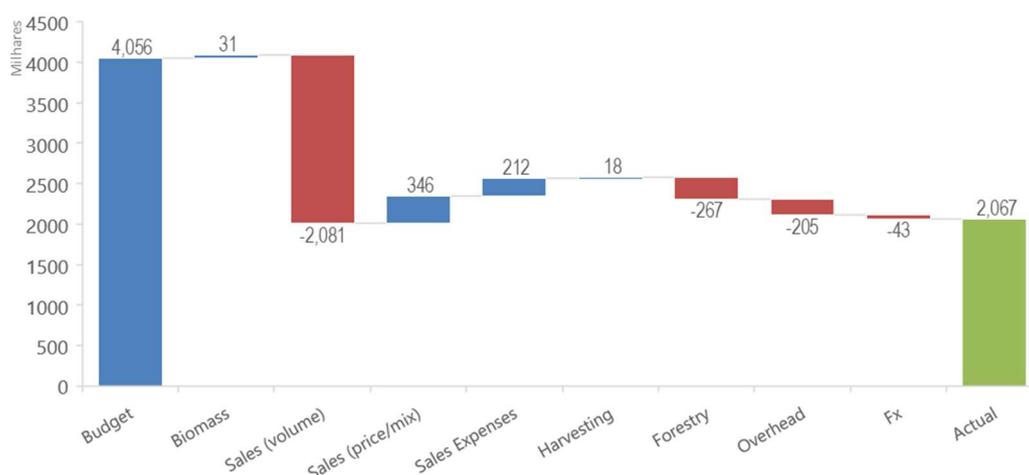
1 EXECUTIVE SUMMARY

As shown in Figure 1.1 below, the 2019 full year Operational Result was USD 2,067 k versus the USD 4,056 k budgeted or an unfavorable variance of USD 1,989 k (49%). The main reason for this result was lower sold volume (19,376 m³, 20% lower than budgeted) caused legal issues which prevented some projects (Paiolandia and Terra Santa farms) from being harvested during the year, as well as some operational issues. More detailed information on these issues is provided in Section 5.

The other factors which impacted full year results were:

- Price/Mix: higher than budgeted due to a better sales mix with a higher proportion of export grade logs (67% vs 55% in the budget), as well as a higher proportion of 35+ cm logs, 16% actual vs 10% budgeted;
- Sales Expenses were lower than budget, as a consequence of the higher proportion of export log sales (only domestic / sawmill sales incur taxes);
- Forestry costs were 22% higher than budget. Overall, on the standard cost basis, forestry costs were lower than the budget for the full year. However, with the inclusion costs of inputs used in the activities (for example, fuel, parts) not yet used in 2019 activities (held in inventory), the overall costs were higher than budgeted. This essentially only amounts to a difference in timing;
- Total Cost of Production was slightly over budget due to the lower volume felled. Final harvesting on Buriti (BUR), and the postponement of the Terra Santa (TST) thinning to 2020 specifically contributed negatively in for this result (details in section 6.1);
- Overhead was higher than budget mainly due to higher legal expenses of USD 127 k. Overall, related to the FBV restructuring as well as with legal issues involving landowners. More details on section 2.2;
- The higher 2019 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 4.03 in 4Q, overall results were negatively impacted by this adjustment and shown as a net FX adjustment in the chart.

Figure 1.1: Full Year (FY) Operational Result 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: 3.89 1Q; 3.83 2Q; 4.16 3Q; 4.03 4Q) 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	Var.	%
<i>Values in USD</i>				
BRL/USD FX Rate	3.80	3.80	3.80	-3.80
Biomass Sales (m³)	15,932	7,143	8,789	23%
Log Sales (m³)	76,359	95,735	-19,376	-20%
Revenues				
Biomass	57,333	26,315	31,018	18%
Logs	8,545,864	10,280,479	-1,734,615	-17%
Sales Revenues	8,603,197	10,306,794	-1,703,597	-17%
Sales Revenues per unit (m³)	112.67	107.66	-	-
Production Costs				
Taxes on Sales	-53,482	-265,074	211,593	80%
Harvesting	-1,866,666	-1,884,398	17,732	1%
Total Costs of Production / Sales	-1,920,147	-2,149,472	229,325	11%
CoP / Sales per unit (m³)	-26.15	-22.45	-12	-
Total Net Revenues	6,683,050	8,157,322	-1,474,272	-18%
Stumpage Revenue per unit (m³)	87.52	85.21	76	-
Operating Expenses				
Forestry Costs	-1,713,562	-1,446,231	-267,332	-18%
Overhead Costs ²	-2,859,942	-2,654,973	-204,969	-8%
Fx gain (loss) to Actual	-42,981	0	0	0
Total Operating Expenses	-4,616,485	-4,101,204	-472,300	-12%
OpEx per unit (ha)	-305.54	-271.44	-31	-
Operational Result	2,066,565	4,056,118	-1,946,573	-48%
Operational Result per unit (ha)	136.78	268.46	-129	-48%

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 after logistics, taxes on sales, sales commission and harvesting costs

Comparing the actual figures to 3Q Management Report, 4Q sales volume was lower (2,210 m³) than estimated, due to shortages of shipping containers. Also, as commented on last report, the inability to proceed with harvesting operations at Paiolandia and Terra Santa resulted in lower than planned volume in the second semester of the year. The harvesting for these projects is now scheduled to be completed in 2020.

To better the differences in harvesting volume in the 2019 and 2020 Management Plans, we have prepared the table 2.1.2 below.

The 2020 Management plan calls for a 33% overall increase in volume vs the 2019 Management Plan for 2020, with higher final harvest volume and lower thinning volume. More detail is provided in section 5, and details on the current 2020 harvesting schedule has been provided in the 2020-24 Management Plan and Budget. Paiolandia and Terra Santa operations are highlighted.

Table 2.1.2 Sales Volumes 2020 Prior vs Current Plan (m³):

Intervention Project	2020		Var.
	MP2020	MP2019	
Thinning	34.524	28.850	5.674
BAR2004	0	6.700	(6.700)
CMB2002	9.369	4.000	5.369
MUT2007	0	850	(850)
SAJ2007	0	0	0
SMJ2002	7.634	10.393	(2.759)
SMJ2003	2.504	5.107	(2.603)
STF2003	0	1.800	(1.800)
TST2004	15.017	0	15.017
Final Harvest	70.135	50.000	20.135
BAM1999	2.877	0	2.877
BAM2000	7.798	0	7.798
BAR2002	0	0	0
CMB2002	0	0	0
CMB2003	0	0	0
CPB1999	13.523	33.000	(19.477)
DLG2000	0	0	0
DLG2001	0	0	0
DLG2002	0	0	0
PAI1997	20.066	0	20.066
PAI1998	6.712	0	6.712
PAR1997	14.156	12.000	2.156
SMG2001	0	0	0
SMJ2002	0	0	0
SMJ2003	0	0	0
STF2003	0	0	0
TST2004	0	0	0
VDO1999	5.003	5.000	3
Total	104.659	78.850	25.809

Figure 2.1.3 shows the cash summary to the full year versus the full year budget. Stakeholder distribution refers to the capital flows (loan repayments) sent during the year. The closing cash of 2019 was USD 284 k versus USD 3.9 M budgeted (USD 3.6 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 1.9 M, and were not budgeted items (additional detail on Harvest Report payments is provided in section 2.3).

For Operations, the difference from full year (FY) to Budget was mostly related to lower sales revenues, as discussed earlier in this report, and mostly from not realizing the Terra Santa farm thinning the Paiolandia farm final harvests. As a result, lowering the ending balance in ~USD 867 k when compared to the 1Q2019 Report, in which the forecast included the re-optimized harvesting schedule.

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.

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 (1st column).

Table 2.1.3: Cash Summary

	BRL		USD		Var.
	FY	Budget	FY	Budget	
BRL/USD FX Rate			3.80	3.80	
Opening Cash	2,919,784	3,940,322	768,364	1,036,927	-268,563
Stakeholder Distributions	-7,336,006	0	-1,930,528	0	-1,930,528
Increase / (Decrease) in Financial Exp. ²	-48,231	-345,427	-12,692	-90,902	78,209
Increase / (Decrease) from Operations	8,362,439	12,994,486	2,200,642	3,419,601	-1,218,960
Increase / (Decrease) CapEx	-2,548,668	-1,568,579	-670,702	-412,784	-257,918
Income Tax	-12,625	0	-3,322	0	-3,322
Fx gain (loss) to Actual	-44,029	0	-67,012	0	-67,012
Closing Cash	1,292,665	15,020,802	284,750	3,952,843	-3,668,093

² Bank fees included

2.2 FULL YEAR RESULTS

Figure 2.3.1 presents the consolidated Full Year results on an accrual basis. The Full Year result was USD 2,067 k vs USD 4,056 k budgeted, an unfavorable variance of USD 1,989 k. The main driver for this difference is the lower volume, as detailed in section 2.1, causing a 19,376 m³ (-20.24%) difference in volume.

The full year harvest also excluded the final harvest volume from Paiolandia 1997 and 1998, where the land use agreement with the farm's owners entitles them to 20% of the economic rights of the planted teak. The land owners raised a number of issues regarding the timing and payment of these rights, and Floresteca's legal advisors recommended that the harvesting be delayed until an agreement on those terms with the landowners has been finalized.

The 3Q2019 Report estimated the annual sales of USD 8,874 k, but ultimately achieved USD 8,602 k (USD 272 k, or 4% less).

Overhead expenses were 7.7% higher than budget due to higher legal expenses, as commented in the executive summary, related to the FBV restructuring and legal issues involving landowners. Also, there was a difference in the actual inflation adjustment of the management contract compared with the assumed inflation, which resulted in an additional USD 53 k in the FYA.

Figure 2.3.1: Full Year Summary

Budget Item	2019 (BRL 0.00)			2019 (USD 0.00)		
	FY			FY		
	Actual	Budget	Var (A-B)	Actual	Budget	Var (A-B)
BRL/USD FX Rate			-	3.80	3.80	-
Biomass Sales (m ³)	15,932	7,143	8,789	15,932	7,143	8,789
Log Sales (m ³)	76,359	95,735	-19,376	76,359	95,735	-19,376
Revenues						
Biomass	217,866	99,996	117,870	57,333	26,315	31,018
Logs	32,474,282	39,065,820	-6,591,538	8,545,864	10,280,479	-1,734,615
Sales Revenues	32,692,148	39,165,816	-6,473,668	8,603,197	10,306,794	-1,703,597
Sales Revenues per unit (m³)	428.14	409.11	19.03	112.67	107.66	5.01
Production Costs						
Taxes on Sales	-203,230	-1,007,282	804,052	-53,482	-265,074	211,593
Harvesting	-7,093,329	-7,160,711	67,382	-1,866,666	-1,884,398	17,732
Total Costs of Production / Sales	-7,296,559	-8,167,993	871,434	-1,920,147	-2,149,472	229,325
CoP / Sales per unit (m³)	-95.56	-85.32	-10.24	-25.15	-22.45	-2.69
Total Net Revenues	25,395,589	30,997,823	-5,602,234	6,683,050	8,157,322	-1,474,272
Stumpage Revenue per unit (m³)	332.58	323.79	8.79	87.52	85.21	2.31
Operating Expenses						
Forestry Costs	-5,499,558	-5,495,676	-3,882	-1,447,252	-1,446,231	-1,022
Standard Cost to Accrual adj. ⁴	-1,011,979	0	-1,011,979	-266,310	0	-266,310
Overhead Costs	-10,867,780	-10,088,899	-778,881	-2,859,942	-2,654,973	-204,969
Fx gain (loss) to Actual	0	0	0	-42,981	0	-42,981
Total Operating Expenses	-17,379,317	-15,584,575	-1,794,742	-4,616,485	-4,101,204	-515,281
OpEx per unit (ha)	-1,150.25	-1,031.47	-118.79	-305.54	-271.44	-34.10
Operational Result	8,016,272	15,413,248	-7,396,976	2,066,565	4,056,118	-1,989,553
Operational Result per unit (ha)	530.56	1,020.13	-489.57	136.78	268.46	-131.68
Capital Expenses						
Equipment	-154,013	-270,500	116,487	-40,530	-71,184	30,654
Vehicles	40,820	0	40,820	10,742	0	10,742
Land Use Deal	-2,435,519	-1,202,676	-1,232,843	-640,926	-316,484	-324,432
Total Capital Expenses	-2,548,712	-1,473,176	-1,075,536	-670,714	-387,678	-283,036

2.3 DETAILED CASH REPORT

The estimated closing cash for full year was USD 284 k, compared to the USD 3,952 k budgeted, an unfavorable difference of USD 3,668 k. As commented in Section 2.1, the main difference is due to stakeholder distributions totalling USD 1.9 million for payment of Harvesting Reports for completed plantations and for funding requests from Floresteca B.V for its restructuring in the Netherlands and the lower realized revenues (USD 1.7 million).

Table 2.3.1: Quarterly Operating Cash Flow 2019

Budget Item <i>Values in USD</i>	2019 (USD 0.00)					2019
	Q1	Q2	Q3	Q4	FY	FY
	Actual	Actual	Actual	Actual	YEE	Budget
BRL/USD FX Rate	3.80	3.80	3.80	3.80	3.80	3.80
Opening Cash	768,364	229,444	356,325	779,266	768,364	1,036,927
Biomass Sales (m³)	5,471	5,259	2,438	2,764	15,932	7,143
Log Sales (m³)	20,788	17,187	13,925	24,459	76,359	95,735
Revenues						
Biomass	20,853	19,370	7,404	9,706	57,333	26,315
Logs	2,287,294	2,145,598	1,689,007	2,423,965	8,545,864	10,280,479
Sales Revenues	2,308,147	2,164,968	1,696,411	2,433,671	8,603,197	10,306,794
Production Costs						
Taxes on Sales	-42,895	-7,218	-3,190	-179	-53,482	-265,074
Harvesting	-550,876	-326,044	-308,327	-681,418	-1,866,666	-1,884,398
Total Costs of Production / Sales	-593,771	-333,262	-311,517	-681,597	-1,920,147	-2,149,472
Total Net Revenues	1,714,376	1,831,706	1,384,894	1,752,073	6,683,050	8,157,322
Operating Expenses						
Forestry Costs	-406,917	-337,048	-363,102	-340,185	-1,447,252	-1,446,231
Standard Cost to Accrual adj.	-18,830	-170,261	31,540	-108,760	-266,310	0
Overhead Costs	-698,893	-632,783	-738,616	-789,651	-2,859,942	-2,654,973
Fx gain (loss) to Actual	-14,858	-4,021	-4,928	-19,173	-42,981	0
Total Operating Expenses	-1,139,497	-1,144,113	-1,075,105	-1,257,770	-4,616,485	-4,101,204
Operational Result	574,879	687,593	309,789	494,304	2,066,565	4,056,118
Capital Expenses						
Equipment	-5,272	-35,258	0	0	-40,530	-71,184
Vehicles	6,203	3,632	424	484	10,742	0
Others	8,998	-213,039	-258,399	-178,474	-640,914	-341,800
Total Capital Expenses	9,929	-244,665	-257,976	-177,990	-670,702	-412,784
Var. Assets to cash	-307,741	362,359	500,486	-495,627	59,476	-636,517
Var. Liabilities to Cash	-40,609	-11,762	137,122	-53,132	31,620	0
Fx gain (loss) to Actual	1,900	-132,547	8,704	97,912	-24,031	0
Var. Assets and Liabilities (acc. to cash)	-346,449	218,050	646,312	-450,847	67,065	-636,517
Leasing/Finame	-23,118	-27,406	-13,508	-1,473	-65,506	-84,586
Earnings on investments	6,656	1,781	6,558	5,629	20,623	0
Loans/ Bank fees	-7,954	-1,664	-1,216	43,024	32,190	-6,316
Financial Movements	-24,417	-27,289	-8,166	47,180	-12,692	-90,902
Stakeholder Distributions (Payments)	-526,777	0	0	0	-526,777	0
Other Transfers	-222,763	-506,807	-267,018	-407,163	-1,403,751	0
Income Tax	-3,322	0	0	0	-3,322	0
Cash Transfer / Income Tax	-752,862	-506,807	-267,018	-407,163	-1,933,850	0
Cash Flow Var.	-538,920	126,881	422,940	-494,516	-483,615	2,915,916
Closing Cash	229,444	356,325	779,266	284,750	284,750	3,952,843

The budget only considered operational cash flow, as Floresteca S.A. does not control the timing for the Harvest Report payments nor fully anticipate the FBV restructuring expenses. Excluding these distributions, closing cash would be USD 2,215 k, or 1,737 k below the budgeted closing cash (essentially the difference from lower sales volume). The outstanding Harvest Report amounts paid and provisions are shown in the figure below. The outstanding value now includes the 2018 Harvest Report amounts, released during 4Q2019:

Table 2.3.2: Harvest Report Amounts Paid and Provisions (in USD):

2016 HR	7.841.879
2017 HR	5.645.549
2018 HR	1.961.038
Total	15.448.466
Paid	-9.315.263
Outstanding	6.133.203

Compared to the 3Q2019 Management Report, initial 2020 cash is USD 533 k lower, as shown in Table 2.3.3. Cash outflows to BV (~USD 213 k), lower cash flow from operations (sales) as discussed earlier (USD 252k) were the main reason. Also, Land Use Deal expenses were higher (included in the Capex line), resulted in a further 87k in the difference in cash. Partially offsetting these differences, FSA received cash income from forest replacement credits during 4Q2019, totaling USD 280 k (and reflected in the Operations / Income line).

Table 2.3.3 Cash Summary Q32019 Vs. Q42019

USD	Q32019	Q42019	Variation
MP 2020 - Opening Cash			817,040.0
Stakeholder Distributions	-193,693.4	-407,162.6	-213,469.2
Increase / (Decrease) in Financial Exp. ²	-17,230.5	47,179.7	64,410.3
Increase / (Decrease) from Operations	209,521.6	-35,281.8	-252,803.4
Increase / (Decrease) CapEx	-91,136.8	-177,989.7	-86,852.9
Income Tax	0.0	0.0	0.0
Fx gain (loss) to Actual	18,613.0	-25,031.0	-43,644.0
Closing Cash - December 2019			284,680.7

Table 2.3.4 below shows the cash flow projected for 2020 and beyond, per the 2020-2024 Management Plan and Budget. Cash flow will be limited during 2020 and 2021, but will increase substantially from 2022. More detail on the reasons for the lower cash flow are provided in the 2020-24 MP & Budget.

Table 2.3.4: Floresteca S.A Projected Cash Flow 2020 (USD):

FSA
Cash Flow
(In USD 0,00)

	1Q2020	2Q2020	3Q2020	4Q2020	2020	2021	2022	2023	2024
Fx rate	3,82	3,82	3,82	3,82	3,82	3,82	3,82	3,82	3,82
Initial Balance	817.040	1.020.891	47.621	343.052	817.040	988.241	934.668	7.206.666	16.700.841
Gross Revenues	2.167.768	2.169.385	2.775.339	2.466.552	9.579.044	7.855.087	14.220.994	19.422.681	18.041.566
Internal Market	532.873	238.832	269.130	258.890	1.299.724	397.505	680.454	549.480	46.532
External Market	1.634.895	1.930.553	2.506.209	2.207.663	8.279.320	7.457.582	13.540.540	18.873.201	17.995.034
(-) Sales Deductions	(28.354)	(31.223)	(30.936)	(11.444)	(101.957)	(194.776)	(245.282)	(415.007)	(371.278)
Net Revenues	2.139.414	2.138.162	2.744.403	2.455.108	9.477.087	7.660.311	13.975.712	19.007.675	17.670.288
Operational expenses	(1.741.902)	(2.862.084)	(2.190.978)	(1.641.225)	(8.436.189)	(7.655.227)	(7.661.408)	(9.484.390)	(6.932.828)
Financial expenses	(35.350)	(72.753)	(7.469)	(11.587)	(127.158)	(58.656)	(42.306)	(29.110)	(19.266)
Income tax	0	0	0	0	0	0	0	0	0
Transfers	(158.312)	(176.595)	(250.525)	(157.107)	(742.540)	0	0	0	0
Operational Cash Generator	397.513	(723.922)	553.425	813.883	1.040.898	5.084	6.314.304	9.523.285	10.737.460
Closing Balance	1.020.891	47.621	343.052	988.241	988.241	934.668	7.206.666	16.700.841	27.419.035

*Transfers refers to FBV Expenses for 2020.

3 CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND EQUITY

Figure 3.1: Assets, Liabilities and Equity at December, 31th.

Floresteca S/A - Balance Sheet position of January 01 to December 31, 2019		FX RATE- ASSETS	4,0301
(In thousands of reais/dollars)		FX RATE - LIABILITIES	4,0307
ASSETS	R\$	\$	
CURRENT ASSETS			
Cash and cash equivalents	8.863		2.199
Accounts receivable	9.047		2.245
Inventories	44		11
Recoverable taxes	3.761		933
Other receivables	255		63
Total Current Assest	21.971		5.452
NON-CURRENT ASSETS			
Advances to agricultural partners	5.360		1.330
Other receivables	405		101
Biological Assets	546.715		135.658
Property, plant & equipment	7.667		1.902
Intangible assets	49		12
Total Non-Current Assest	560.196		139.003
TOTAL CURRENT ASSETS	582.166		144.455
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Loans and financing	18		5
Leasing	40		10
Suppliers and other accounts payable	9.449		2.344
Taxes payable	158		39
Salaries, vacations and payroll charges payable	352		87
Total Current Liabilities	10.017		2.485
Non-current liabilities			
Loans and financing	473.087		117.371
Leasing	13		3
Contingencies	28.595		7.094
Deferred taxes	8.207		2.036
Accounts payable with investors	41.420		10.276
Total Non-Current Liabilities	551.322		136.781
EQUITY			
Capital	27.798		6.896
Legal reserve	5.559		1.379
Profit reserve	(12.530)		(3.109)
Translation Reserve			
Foreign exchange adjusts			22
TOTAL EQUITY	20.827		5.189
TOTAL LIABILITIES AND EQUITY	582.166		144.455

4 AREA CHANGES

From the initial areas under management at the end of the 3Q, Floresteca has finalized harvesting on 183.66 ha in the through at the last quarter of 2019, as shown in the table below:

Table 4.1: Area variations, in hectares, 3Q vs 4Q 2019.

Project	Planting Year	Initial Area (ha) - End of 3Q	Harvested Area (ha)	Current Area (ha) - End of 4Q
Buriti	1994	0.00		0.00
Paiolandia	1997	297.92		297.92
Paraíso	1997	555.05		555.05
Bocaina	1998	140.36	140.36	0.00
São José da	1998	44.62	16.54	28.08
Paiolandia	1998	93.95		93.95
São Judas Tã	1998	26.76	26.76	0.00
Araras	1999	0.00		0.00
Bambu	1999	549.07		549.07
Bocaina	1999	0.00		0.00
Cassange	1999	0.00		0.00
Capim Branco	1999	507.87		507.87
Serra das Arç	1999	105.01		105.01
Vale Dourado	1999	48.59		48.59
Bambu	2000	513.83		513.83
Duas Lagoas	2000	1,527.51		1,527.51
Duas Lagoas	2001	1,764.34		1,764.34
São Miguel	2001	97.52		97.52
Barranquinho	2002	970.2		970.2
Cacimba	2002	571.08		571.08
Duas Lagoas	2002	48.41		48.41
São Miguel	2002	5.71		5.71
Santa Maria (2002	1,085.18		1,085.18
Barranquinho	2003	12.95		12.95
Cacimba	2003	10.19		10.19
Santa Maria (2003	207.87		207.87
Santa Fé	2003	2,562.71		2562.71
Barranquinho	2004	1,021.00		1,021.00
Terra Santa	2004	1,143.17		1,143.17
Duas Lagoas	2005	207.67		207.67
Duas Lagoas	2006	233.88		233.88
Mutum	2007	539.18		539.18
São José	2007	301.3		301.3
Santa Maria (2008	99.87		99.87
Total		15,288.85	183.66	15,109.11

Table 9.1 in the appendix at the end of this report shows the full changes in area for the whole of 2019 by farm and project year.

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 were performed on 2,188 hectares over the course of 2019, and produced 76,358 m³ of commercial grade logs, below the budgeted amounts due to legal and operational issues as commented earlier. A total of 669 hectares from final harvests produced 54,145 m³ of volume, and thinning operations produced 22,213 m³ of volume in 1,518 hectares.

In this section we provide detailed information on the harvesting and thinning activity per farm / project over the course of 2019.

Final Harvests

Final cut in BOC98 (Bocaina) started in 2018 and finished at the end of 2019. Considering the initial planned stands for 2019, we overestimated the volume by 5% (7,713 m³ vs 8,100 m³ in the budget). Considering the initial planned stands for 2019, we overestimated the volume in 5% (7,713 m³ actual vs 8,100 m³ planned). As final harvest occurred over the 2 years, more stands were felled in 2019, this volume was added to the carry over and increased the outcomes (8,428 m³ actual vs 5,000 m³ planned). Overall, more volume was sold than originally forecasted (16,141 m³ vs 13,100 m³ in the budget).

Regarding CAS99 (Cassange), the last inventory information was from 2017. Comparing our estimates with data collected in pre-harvest inventory, realized in the end of 2018, the growth was overestimated. We expect to review our projections in 2020. The final yield was 11% lower than budgeted (6,135 m³ vs 6,849 m³). The final yield was 11% lower than budgeted (6,135 m³ actual vs 6,849 m³ planned).

At 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 was felled during this period. As a result, 3,051 m³ were produced in 26.76 ha. The initial plan was to produce a total of 1,224 m³ in 12.06 ha.

Operations at Canastra (CAN1998) started in September 2019 and will continue in 2020. Through the end of 2019, 3,473 m³ was sold.

As commented in the 3Q2019 report, Capim Branco (CPB) operations started in October 2019 as planned. Given the high volumes expected from this farm, the operations will only be concluded in 2021.

Paiolandia (PAI) clear felling has also been delayed, due to legal issues with the landowner. PAI is now expected to be clear felled in 2020, assuming the issues with the land owners are resolved (they have been notified and have in principal authorized the final harvesting as of the writing of this report).

Thinning

At Mutum (MUT) thinning began in November and will continue during 2020. A total of 670 m³ were sold in 2019, vs the 2,083 m³ budgeted. In December 2019, Cacimba (CMB) and Santa Maria do Jauru (SMJ) operations began, but no sale volume was registered through the end of 2019.

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 may not be fully thinned, even in the absence of the other constraints (more information in the Legal and Compliance section; the thinning of TST has been however included in the 2020-2024 Management Plan).

Thinning operations at BAR started in August 2019 and finished in November 2019, and resulted in 12,916 m³ of merchantable volume, 7% higher than initially planned.

Table 5.1.1: Final Harvest Log Sales, FY 2019 (volume)

Total volume final harvest (m³) - per diameter class from all lengths

Project	Area (ha)		Site Class	DBH	BA	USD Revenue per ha	Production yield (m ³)		Trees Removed		TOTAL (ACTUAL)					
	FY	FYB					FY	FYB	FY	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	2,353	1,345	585	535	24
BOC1999	108.19	108.19	S1	38.85	10.92	12,606.37	8,416	8,972	9,946	9,946	83	453	3,880	1,367	1,584	928
CAS1999	56.85	56.85	S1	31.40	11.70	7,854.31	3,946	4,725	8,520	8,520	356	1,097	1,321	513	610	49
CAS1999	31.64	31.64	S2	29.16	10.41	8,342.81	2,189	2,124	4,853	4,853	215	488	829	414	219	0
SJT1998	26.76	12.06	S1	33.68	13.94	14,123.53	3,051	1,224	3,841	1,927	166	640	1,368	512	244	122
PAI1997	0.00	66.74	S2	30.48	11.69	0.00	0	5,234	0	10,646	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
PAI1997	0.00	20.14	S1	33.20	13.31	0.00	0	1,999	0	3,102	0	0	0	0	0	0
BOC1998	91.43	91.43	S1	37.86	11.72	28,670.38	7,713	8,100	9,594	9,594	121	291	3,524	1,218	1,866	692
BOC1998CO	0.00	0.00	S1	0.00	0.00	2,621,390.36	8,428	5,000	0	0	23	501	3,199	1,634	2,044	1,027
PAI1998	0.00	59.28	S1	32.05	11.36	0.00	0	4,895	0	8,298	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
CAN1998	44.62	44.62	S1	33.20	11.55	9,669.33	3,473	3,770	5,860	5,860	171	952	1,273	397	583	98
CPB1999	211.34	55.27	S1	34.30	10.30	3,574.38	5,036	3,758	22,111	6,134	46	659	2,668	568	949	268
BUR1994	0.00	0.00	-	-	-	448,747.29	6,285	4,000	0	0	2,747	2,561	831	122	23	0
TOTAL	669.70	795.08	-	-	-	-	54,145	62,000	78,728	126,621	4,671	9,493	17,040	5,697	6,613	2,180
%	84%	100%	-	-	-	-	87%	100%	62%	100%	10%	21%	37%	12%	14%	5%

* BUR and BOC1998CO area are zero since the volume sold 2019 was meant to be sold in 2018.

* Site class, DBH (Diameter at breast height) and BA (Basal area) are provided to the budgeted stands.

Where:

FYB – Full Year Budget

FY – Full Year Actual

Table 5.1.2: Thinning Log Sales, FY 2019 (volume)

Total volume thinning harvest (m³) - per diameter class from all lengths

Project	Area (ha)		Site Class	DBH	BA	USD Revenue per ha	Production yield (m ³)		Trees Removed		TOTAL (ACTUAL)					
	FY	FYB					FY	FYB	FY	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	1,191.02	3,738	552	33,582	4,987	1,094	2,363	242	40	0	0
DLG2006	52.92	52.92	S1	29.00	19.60	1,937.35	1,327	1,962	6,808	6,808	190	928	109	64	0	0
DLG2006	181.00	181.00	S2	25.58	15.68	1,231.00	3,148	3,825	23,941	23,941	699	2,128	278	44	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
BAR2002	377.53	377.53	S2	23.88	14.86	567.97	3,983	3,144	39,141	34,049	1,424	2,317	197	44	0	0
BAR2002	180.53	180.53	S1	27.57	17.89	567.97	1,904	2,148	12,284	10,773	681	1,108	94	21	0	0
BAR2003	12.95	12.95	S1	28.98	25.01	1,477.86	282	430	1,291	1,291	81	177	24	0	0	0
BAR2004	79.80	79.80	S2	21.31	18.12	1,056.46	1,760	1,640	21,801	21,801	819	935	6	0	0	0
BAR2004	226.02	226.02	S1	24.53	17.25	1,056.46	4,986	4,685	32,388	32,388	2,319	2,649	18	0	0	0
CMB2002	28.80	28.80	S1	33.20	17.60	0.00	0	1,404	1,243	1,243	0	0	0	0	0	0
MUT2007	71.11	71.11	S1	29.01	17.09	416.14	670	2,083	6,314	6,340	339	331	0	0	0	0
SMJII2008	99.88	99.88	-	-	-	225.53	414	0	0	0	169	245	0	0	0	0
TOTAL	1,518.21	2,159.39	-	-	-	-	22,213	33,736	178,793	180,733	7,815	13,181	967	214	0	0
%	70%	100%	-	-	-	-	66%	100%	99%	100%	35%	59%	4%	1%	0%	0%

* Site class, DBH (Diameter at breast height) and BA (Basal area) are provided to the budgeted stands.

Where:

FYB – Full Year Budget

FY – Full Year Actual

Table 5.1.3: Final Harvest production per project, 2019 FY volume per hectare.

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

Project	Area (ha)		Site Class	DBH	BA	USD Revenue per ha	Production yield (m ³)		Trees Removed		PER HECTARE (ACTUAL)					
	FY	FYB					FY	FYB	FY	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	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	12.606,37	77,79	82,93	91,93	91,93	0,76	4,18	35,86	12,64	14,64	8,58
CAS1999	56,85	56,85	S1	31,40	11,70	7.854,31	69,41	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	8.342,81	69,19	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	14.123,53	114,04	101,51	143,53	159,78	6,19	23,92	51,15	19,13	9,10	4,54
PAI1997	0,00	66,74	S2	30,48	11,69	0,00	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	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	0,00	99,26	0,00	154,05	0,00	0,00	0,00	0,00	0,00	0,00
BOC1998	91,43	91,43	S1	37,86	11,72	28.670,38	84,36	88,59	104,94	104,94	1,32	3,18	38,54	13,32	20,41	7,57
BOC1998CO	0,00	0,00	S1	0,00	0,00	2.621.390,36	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
PAI1998	0,00	59,28	S1	32,05	11,36	0,00	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	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	9.669,33	77,83	84,50	131,32	131,32	3,83	21,33	28,52	8,89	13,07	2,19
CPB1999	211,34	55,27	S1	34,30	10,30	3.574,38	23,83	68,00	104,62	111,00	0,22	3,12	12,62	2,69	4,49	1,27
BUR1994	0,00	0,00	-	-	-	448.747,29	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
TOTAL	669,70	795,08	-	-	-	-	80,85	77,98	117,56	159,25	6,97	14,18	25,44	8,51	9,87	3,25
%	84%	100%	-	-	-	-	104%	100%	74%	100%	10%	21%	37%	12%	14%	5%

* Site class, DBH (Diameter at breast height) and BA (Basal area) are provided to the budgeted stands.

Where:

FYB – Full Year Budget

FY – Full Year Actual

Table 5.1.4: Thinning harvest production per project, 2019 FY volume per hectare.

Project	Area (ha)		Site Class	DBH	BA	USD Revenue per ha	Production yield (m ³)		Trees Removed		PER HECTARE (ACTUAL)					
	FY	FYB					FY	FYB	FY	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	1.191,02	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	1.937,35	25,08	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	1.231,00	17,39	21,13	132,27	132,27	3,86	11,75	1,53	0,24	0,00	0,00
TST2004	0,00	818,02	S1	29,43	14,00	0,00	0,00	14,50	0,00	45,37	0,00	0,00	0,00	0,00	0,00	0,00
BAR2002	377,53	377,53	S2	23,88	14,86	567,97	10,55	8,33	103,68	90,19	3,77	6,14	0,52	0,12	0,00	0,00
BAR2002	180,53	180,53	S1	27,57	17,89	567,97	10,55	11,90	68,04	59,67	3,77	6,14	0,52	0,12	0,00	0,00
BAR2003	12,95	12,95	S1	28,98	25,01	1.477,86	21,78	33,17	99,67	99,67	6,28	13,63	1,87	0,00	0,00	0,00
BAR2004	79,80	79,80	S2	21,31	18,12	1.056,46	22,06	20,55	273,22	273,22	10,26	11,72	0,08	0,00	0,00	0,00
BAR2004	226,02	226,02	S1	24,53	17,25	1.056,46	22,06	20,73	143,30	143,30	10,26	11,72	0,08	0,00	0,00	0,00
CMB2002	28,80	28,80	S1	33,20	17,60	0,00	0,00	48,75	43,17	43,17	0,00	0,00	0,00	0,00	0,00	0,00
MUT2007	71,11	71,11	S1	29,01	17,09	416,14	9,42	29,29	88,80	89,16	4,77	4,65	0,00	0,00	0,00	0,00
SMJII2008	99,88	99,88	-	-	-	225,53	4,15	0,00	0,00	0,00	1,69	2,46	0,00	0,00	0,00	0,00
TOTAL	1.518,21	2.159,39	-	-	-	-	14,63	15,62	117,77	83,70	5,15	8,68	0,64	0,14	0,00	0,00
%	70%	100%	-	-	-	-	94%	100%	141%	100%	35%	59%	4%	1%	0%	0%

* Site class, DBH (Diameter at breast height) and BA (Basal area) are provided to the budgeted stands.

FYB – Full Year Budget

FY – Full Year Actual

5.2 ROADSIDE PRICES

Table 5.2.1 below shows the volume sold to full year, as well as prices and average diameter, compared to the budget values. As commented earlier, total volume was substantially lower than budgeted, and resulted in lower than budgeted volumes across nearly all the diameter classes (only the 20-25cm class had higher than budgeted volume). Regarding prices, 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, July and October 2019). The average prices based on the volume sold were higher than the budgeted average. (The prices for each Consufor report are detailed below in section 5.4.2.) The Proforma price refers to the actual price for full year (FY) sales for the specific log mix within the diameter interval (average diameter point), and given the changes in prices over the course of the year. Note that the prices are different from the Consufor reported prices, as they consider the forecast mix within the diameter range.

Table 5.2.1: Roadside Prices comparison 2019 FY

	Volume (m ³)		Value USD		RS Price (USD/m ³)		Diameter Point	
	Budget	FY	Budget	FY	Budget	FY	Budget	FY
15-20 cm	20.833	12.080	548.235	382.408	26,32	31,66	18,94	18,06
20-25 cm	22.047	25.198	1.646.266	1.849.677	74,67	73,41	22,33	22,69
25-30 cm	28.650	22.206	3.203.267	2.599.316	111,81	117,05	27,39	27,10
30-35 cm	10.319	9.087	1.551.626	1.416.718	150,37	155,90	31,29	32,22
35-40 cm	11.243	8.588	2.491.487	1.926.104	221,61	224,27	37,50	38,15
40+ cm	2.643	2.655	839.598	645.895	317,63	243,26	45,33	41,96
Weighted Average	95.735	79.815	10.280.479	8.820.119	107,38	110,51	30,25	27,69

5.2.1 New Proposed Pricing Criteria for FSA Log Sales

Under the pricing convention used through the end of 2019, FSA logs sales do not make any distinction between thinning and final harvests, nor does it consider any discounts for quality (such as for channels / fluting). However, both are factors buyers take into consideration, and which result in lower prices in market practice, as the amount of usable heartwood is lower for both thinning and channel logs. To continue to fully purchase all merchantable timber from FSA, TRC has proposed to modify the existing pricing convention to take account of these market factors, but within the scope of the existing market survey report produced by Consufor. For final harvest export logs and sawmill logs, there will be no change in the current pricing criteria. For thinning logs, the proposal is to use the lower end of the survey price range, and for channel logs, apply a market based discount to the equivalent non-channel log grade (different for final cut and thinning logs). More details for comparison between price on 1Q2020 and FY 2019 are provided in section 5.4.2.

Table 5.2.2 Current and Proposed Log Pricing Criteria

Current		Proposal for 2020 forward		
Log Type	Criteria	Final Harvests	Thinning	Channel Logs
Sawmill	Up to 20 cm - Consufor Lower End of Range From 20-23 cm Consufor Curve	same as current	same as current	Not applicable
Export	Consufor Curve	same as current	Lower end of Range	Discount of 30% for Final Cuts and 40% for thinnings

5.3 ACCOUNTS RECEIVABLE

No overdue accounts through December 31, 2019.

Per the Management Services and Timber Purchase Agreement, payment term for sales is 120 days.

5.4 TEAK MARKET UPDATE

5.4.1 Brazil and India Economic Overview

The fourth quarter of the calendar year saw a continuous FX volatility of the BRL and the Indian Rupee (INR) as had been seen in the third quarter. In Brazil the volatility was still driven by the pension reform approval, a key measure needed for long term fiscal solvency of which the second round of voting was held at the end of October and approved but with no significant BRL appreciation towards the USD as it was expected by the market. The interest rate of Brazil had reached its lowest recorded level resulting in low attractiveness for foreign investors in Brazilian fixed income.

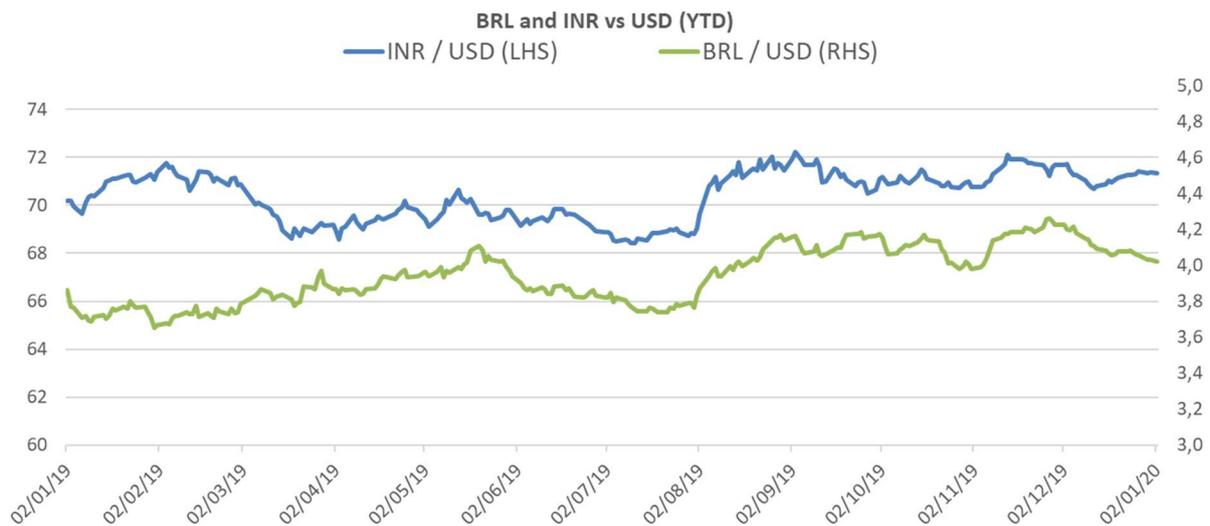
In India the FX rates had also depreciated, in part due to the continuous weak quarterly GDP data reported, lower than estimated by the market, maintaining a wave of pessimism for the Indian rupee, and due to the announcement of mergers of public sector banks. Modi's administration has also been targeted as inefficient on addressing systemic problems from the Indian economy such as in the financial sector by only reducing corporate taxes and by focusing on a privatization program. More generally, the USD strengthened versus most major currencies during 4Q2019 because of the expectation of a "phase 1" trade agreement between the US and China.

The more challenging market in India necessitated some reductions in roadside prices in 4Q2019 due to both the weakening of demand and the increase in thinner log supplies from Central America and Africa, commented in greater detail below.

BRL Depreciation

Overall, the BRL FX rate had been as volatile in 4Q2019 as it was during 3Q2019. The BRL suffered its highest depreciation reaching its historical peak in the month of November reflecting tension regarding a "phase 1" trade deal between USA and. Additionally, the economic instability of some Latin American countries such as Argentina, Chile, Bolivia, Venezuela and Ecuador are believed to have impacted foreign investments in the region, and base interest rates in Brazil reached their historical low, making fixed income investment much less attractive. In India, the INR/USD FX rate also had been hit by USA / China trade tensions during the 4Q2019, and the rupee devalued in the quarter against the US dollar. The average BRL/USD FX rate in 4Q2019 depreciated by 3.7% compared with the 3Q2019 average rate, and the INR had also depreciated by 1.2% versus the USD on the same comparison period.

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

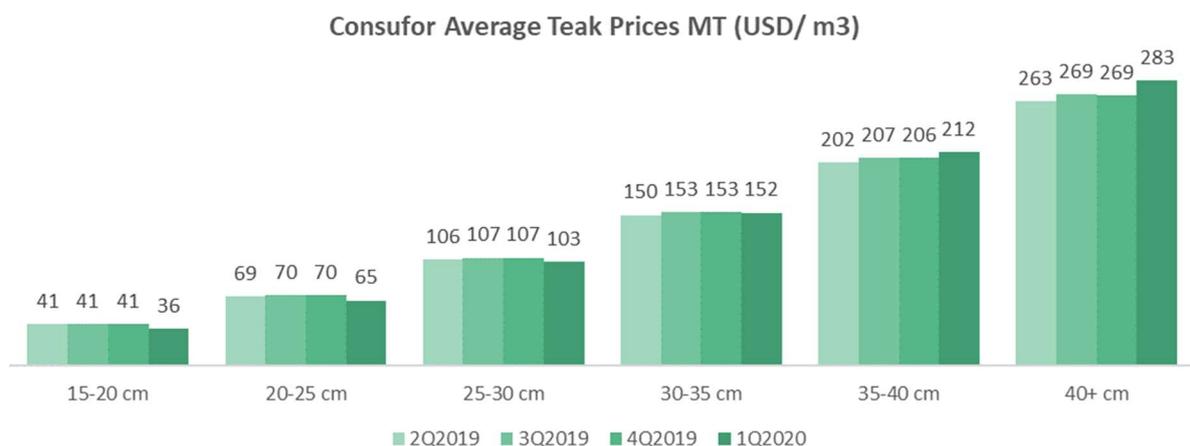


It bears emphasizing that, in the short term at least, the BRL impacts costs in USD terms, and so can impact roadside prices.

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 87 prices samples from 20 companies (excluding TRC and outliers), weighted by traded volume. It is important to highlight that Consufor has been providing 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.

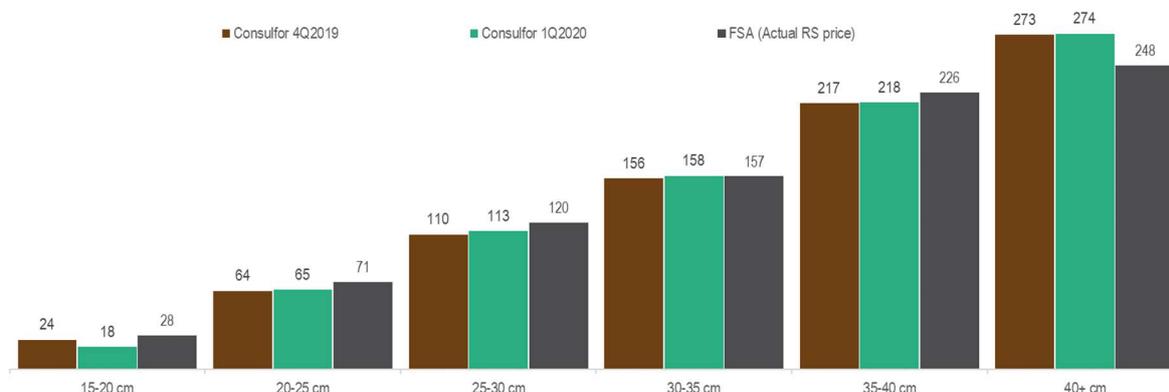
Table 5.4.3.1: CONSUFOR Average Teak Prices MT (USD/ m3)



Consufor's most recent report was released in early January 2020, based on survey data taken in December 2019 (shown as 1Q2020 in the chart above) considering an exchange rate of 4.15 BRL/USD. Log prices for diameters between 15-20 cm to 25-30 cm had decreased, reflecting an increase in competing supply thinner diameter logs from Central America and Africa. Log prices for diameters over 35 cms have increased 4% on average, reflecting the lower levels of competing supply in these grades.

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

Figure 5.4.3.2: Floresteca S.A. (FY 2019) versus CONSUFOR roadside prices (USD/m³)

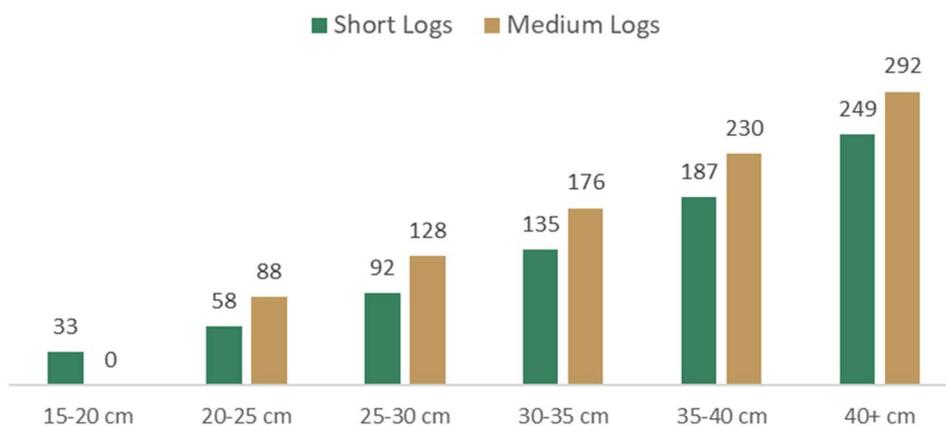


Note that the FSA prices are similar to or above the Consufor prices for most of the grades considered, with the exception of the 30-35 cm and 40+ cm diameter logs. The main reason for the divergence in Floresteca SA log prices vs those of the Consufor 4Q2019 and 1Q2020 price reports are due to the average diameters of Floresteca SA log sales. Floresteca SA 40+cm log sales averaged close to the minimum of this range (typically to 40 to 45 cm), whereas the Consufor survey diameters were higher than the middle of the range.

Weighted Average Diameter		
Assortment Class	FSA	Consufor
15-20 cm	17,5	16,5
20-25 cm	22,2	22,7
25-30 cm	27,0	27,2
30-35 cm	32,5	31,9
35-40 cm	38,2	36,9
+ 40 cm	41,4	44,0

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/m³)



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 FY 2019 was USD 25.15 versus USD 22.45 in the budget, or 12% greater than planned.

The annual 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, which negatively impacted the volume to be harvested during 2020 - TST accounted for ~11.9k m³. The final cut cost at BUR was higher given the greater number of tree per hectare (average of around 250 trees/ha), operations carried out during the rainy season and the low volume per hectare, 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 did not compensate the volume during 2019, resulting in a lower overall productivity for the year. Basically, the CoP value is highly dependent on the commercial volume - the lower the volume, the higher the CoP.

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

Table 6.1.2: Harvesting Cost, per activity:

		Budget FY	Actual FY	Variation
Tree Selection	BRL	194.406	78.939	115.467
Harvesting	BRL	1.722.443	2.000.344	-277.901
Forwarding	BRL	2.629.868	2.672.964	-43.096
Lot Formation	BRL	912.204	769.214	142.990
Loading	BRL	609.287	511.225	98.062
Tax	BRL	1.092.500	1.060.644	31.856
Total	BRL	7.160.708	7.093.329	67.379
Sales Expenses	BRL	1.007.282	203.230	804.052
Commercial Vol.	m ³	95.735	76.359	-19.376
BRL/m ³		85,32	95,56	-10,24
BRL/USD rate		3,80	3,80	3,8
USD/m ³		22,45	25,15	-2,69

7 FOREST MANAGEMENT

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

Figure 7: Forestry Operations FY

Forestry Costs						Status
Activi..	Un.	Status	Total Cost (BRL)	Quantity (un.)	Unitary Cost (BRL/un.)	
Firebreaks	ha	Actual	313K	560	559	
		Budget	353K	505	699	
Inventory	parc	Actual	129K	1.792	72	
		Budget	108K	1.578	69	
Operational Suport	-	Actual	1.272K	0	0	
		Budget	1.396K	0	0	
Pest Control	ha	Actual	21K	654	33	
		Budget	0K	0	0	
Pruning	ha	Actual	33K	85	390	
		Budget	0K	0	0	
Research	-	Actual	6K	0	0	
		Budget	0K	0	0	
Roads	km	Actual	116K	71	1.633	
		Budget	365K	181	2.019	
Soil Preparation	ha	Actual	6K	9	647	
		Budget	0K	0	0	
Sprout Control	ha	Actual	263K	621	423	
		Budget	221K	1.124	196	
Stump Removal	ha	Actual	3.158K	2.863	1.103	
		Budget	3.161K	3.000	1.054	
Weed Control	ha	Actual	181K	725	250	
		Budget	0K	0	0	
Total		Actual	5,50M	7.380		
		Budget	5,60M	6.387		

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) purchase during the year, but not yet used (held in inventory), must be added to the activity cost to determine the total cost of forestry operations. When these input costs are considered in the FY results section, overall forest costs were 18% greater than budget, as commented in section 2.

On the standard cost (activity) basis, overall forestry costs were lower than the budget for the full year, at BRL 5.6 M versus BRL 5.5 M per the budget (1.8% lower). The most relevant activities are commented below:

7.1 STUMP REMOVAL

The higher expenses than budgeted in the beginning of the year occurred due to the acceleration of the Buriti farm stump removal and cleaning of the Buriti farm (this was necessary to proceed with the sale of the farm). The activity largely caught up with the budget timing, and unit costs are only marginally higher than budgeted YTD, tracking the original budget amount for the year.

In 2020 TRC expects to finish the soil cleaning in Araras, Cassange, São Judas Tadeu, São José da Canastra and Bocaina and with that finish the usufruct contracts of these farms.

7.2 SPROUT CONTROL

The activity was done at Paraíso Farm and the total cost is slightly over budget. The budget considered that part of the sprout control would have been done manually and part with chemical spraying. This activity is not planned to be carried out in 2020, as Paraiso will be clear felled during the year.

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. This activity was not originally budgeted for these farms due to a mistake when the budget was done.

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 provide fire prevention and allow the access for the harvesting team. The activity costs were slightly under the budget during the year.

7.5 OPERATIONAL SUPPORT

Operational support represents the costs associated with the mechanical workshops, fuel trucks, water trucks, assistance vehicles, communication in the field and field leadership during the year. It was slightly under the budget .

8 COMPLIANCE & LEGAL ISSUES

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

8.1 PARAISO, TERRA SANTA, AND BAMBU IV FARMS

Note updates on Issues 1, 2 and 3, following the main text describing each case.

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 also 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.

Update:

On February 17th, 2020, the Judge ruled in favor of the landowners, extinguishing the usufruct agreement and allowing the proprietors to reassume the farm. With this decision, FSA was forced to immediately cease its activities on the farm. The sentence also required the landowners to settle their outstanding debt with FSA totaling R\$ 378.869,14. FSA's legal advisors are preparing an appeal of the decision. FSA was in the process of performing the final harvests, and the court's decision was ambiguous in regard to the status of the standing trees yet to be harvested, and which are the property of FSA legally (and economically of FSA's stakeholders).

Loss expectation: Probable.

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 8th Lower Civil Court of Cuiabá, Mato Grosso. In May 2019 the court decided against a motion for a preliminary decision in the Landowners favor, and a hearing is set on February 2020.

Update:

The landowners had their injunction denied in the first instance and appealed to the second instance. A conciliation hearing was held on February 3, 2020, but there was no agreement reached. In addition, FSA has also filed a lawsuit against the landowners for payment of their debts with FSA. The judge has indicated he will consider the request and we are awaiting his preliminary decision.

Loss expectation: Possible

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 was set for February 2020.

Update:

The landowners obtained an preliminary injunction prohibiting the cutting of 94 hectares. We have decided to take the matter of the injunction to the Superior Court in Mato Grosso to try to reverse the decision. We notified the landowners that we intend to demarcate the area (so as to permit the necessary thinning operations on the remaining hectares) and they counter-notified FSA asking for it to be done through the process server. We intend to argue that this demarcation may cause economic losses, and that even if the plaintiff were to have a favorable decision from the court, the thinning would be in their interest. A conciliation hearing was held on February 3, 2020. There was no agreement reached.

Loss expectation: Possible.

8.2 MUTUM FARM

No updates since last report.

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 filled an opinion which does not material change the lawsuit. We are waiting for court appointment and/or final decision. No updates.

Loss expectation: Remote

8.3 TRUCKING COMPANY ALLEGATIONS

Note: update in the third 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 an settlement proposal for a substantially lower value, and FSA has suggested a lower value. There was no agreement reached.

Update:

Since there was not agreement, FSA presented its defense to the court. A period for the plaintiffs has been opened for their rebuttal, and the production of evidence. FSA remains open to conciliation, however our advisors learned that the Brazilian Federal Supreme Court (STF) is about to decide on the constitutionality of the legislation in question, in respect to payment for non-compliance. With this decision now imminent, our advisors believe it is best not to settle, as there is a likelihood the non-compliance payment onus will be substantially reduced.

Loss expectation: Possible

9 APPENDIX – PROPERTIES BREAKDOWN AND LAND ISSUES

9.1 PROPERTIES AREAS BREAKDOWN AND CHANGES IN AREA FROM 2018:

Project	Year	Area (Dec/2018)	Harvested	Area (Dec/2019)	SATT
Buriti	1994	307.91	307.91	0.00	0.00
Paiolandia	1997	297.92		297.92	297.92
Paraíso	1997	555.05		555.05	512.94
Bocaina	1998	351.53	351.53	0.00	0.00
São José da Canastra	1998	44.62	16.54	28.08	28.08
Paiolandia	1998	93.95		93.95	93.95
São Judas Tadeu	1998	26.76	26.76	0.00	0.00
Araras	1999	98.88	98.88	0.00	0.00
Bambu	1999	549.07		549.07	542.07
Bocaina	1999	108.18	108.18	0.00	0.00
Cassange	1999	88.49	88.49	0.00	0.00
Capim Branco	1999	507.87		507.87	507.87
Serra das Araras	1999	105.01		105.01	105.01
Vale Dourado	1999	48.59		48.59	48.59
Bambu	2000	513.83		513.83	476.09
Duas Lagoas	2000	1,527.51		1,527.51	1527.51
Duas Lagoas	2001	1,764.34		1,764.34	1764.34
São Miguel	2001	97.52		97.52	97.52
Barranquinho	2002	970.2		970.2	776.15
Cacimba	2002	571.08		571.08	451.98
Duas Lagoas	2002	48.41		48.41	48.41
São Miguel	2002	5.71		5.71	5.71
Santa Maria do Jauru	2002	1,085.18		1,085.18	1,085.18
Barranquinho	2003	12.95		12.95	10.36
Cacimba	2003	10.19		10.19	8.16
Santa Maria do Jauru	2003	207.87		207.87	207.87
Santa Fé	2003	2,562.71		2,562.71	2,562.71
Barranquinho	2004	1,021.00		1,021.00	1,021.00
Terra Santa	2004	1,143.17		1,143.17	1,139.90
Duas Lagoas	2005	207.67		207.67	207.67
Duas Lagoas	2006	233.88		233.88	233.88
Mutum	2007	539.18		539.18	539.18
São José	2007	301.3		301.3	301.3
Santa Maria do Jauru II	2008	99.87		99.87	99.87
		16,107.40	998.29	15,109.11	14,701.22

Sale of Buriti Imóveis S.A. Land.

On May 7th, 2019, the land on which the Buriti project was planted totaling 943.95 hectares of total land was sold for a gross sales price of BRL 8.97 million; The net sale proceeds (after broker commissions and income taxes) was approximately BRL 7.26 million at year end 2019. This land was given in guarantee for a loan facility to Buriti Imóveis S.A. agreed to in 2012. Under the terms of this agreement, the Lender (LFP PRIME SICAV-SIF S.A. - Global Forestry Growth Fund) provided at total of USD 2.275 million secured by this land in tranches over the course of 2012-2014, each having an final term of 8 years, with interest accruing.

These proceeds are being held in Brazil (and are partially hedged via a USD linked mutual fund). The total amounts due with accrued interest were approximately USD 4 million at the end of 2019. FSA has proposed with the liquidator of the lender a deal to pay a large share the proceeds for an extinguishing of the debt. These discussions are ongoing at the time of this writing.

Capim Branco Farm

FSA is the owner of the Capim Branco (CPB) farm, which is currently undergoing final harvests. The total hectares of CPB are 1,100 hectares, of which 507.87 hectares were planted with teak. Once the farm has been fully harvested (currently forecast for 2021), and has been cleaned, the property should be considered for sale. FSA is requesting estimates for the value of the land, and will reach out to brokers closer to the time when the land will be free and clear. The current accounting book value of the land (based on its historical acquisition cost from 2007) is BRL 4.8 million. We believe the property would be worth considerably more than that considering current land prices. We will report on progress on this topic over the coming quarters.