

# The Forest Company II

Unaudited Condensed Interim Financial Statements  
For the six months ended  
30 June 2021

Incorporated in Guernsey - Company Number: 47338

# THE FOREST COMPANY LIMITED

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# THE FOREST COMPANY LIMITED

## GENERAL INFORMATION

### Board of Directors

Rainer Häggblom (Non-executive Chairman)  
Howard Myles (Non-executive)  
Field Griffith (Non-executive)  
Jukka Reijonen (Non-executive)  
John Enlow (Non-executive) (appointed on 30 June 2021)

### Investment Manager

Timber Capital Limited  
Wessex House, 5<sup>th</sup> Floor  
45 Reid Street  
Hamilton, HM 12  
Bermuda

### Guernsey Administrator & Company Secretary (to 2 March 2021)

Belasko Administration Limited  
Hirzel House  
Smith Street  
St Peter Port  
GY1 2NG  
Guernsey

### Guernsey Administrator & Company Secretary (from 2 March 2021)

Vistra Fund Services (Guernsey) Limited  
11 New Street  
St Peter Port  
GY1 2PF  
Guernsey

### Guernsey Advocates

Mourant Ozannes  
PO Box 186  
1 Le Marchant Street  
St Peter Port  
GY1 4HP  
Guernsey

### Brazilian Solicitors

Toledo Marchetti  
Rua Fidêncio Ramos, 195, 8<sup>o</sup> andar  
Vila Olímpia  
São Paulo  
Brazil

### Secondary Trading Broker

Pareto Securities AB  
Berzelii Park 9  
PO Box 7415  
SE-103 91, Stockholm,  
Sweden

### Registered Office (from 1 February 2020 to 2 March 2021)

Hirzel House  
Smith Street  
St Peter Port  
GY1 2NG  
Guernsey

### Registered Office (from 2 March 2021)

11 New Street  
St Peter Port  
GY1 2PF  
Guernsey

### Valuers

*For financial year 2020*  
Indufor Oy  
Rautatietori 4  
11130 Riihimäki  
Finland

### *For financial year 2020 and 2021*

Silverback Ventures (for Silvotecnia equity interest))  
1007 N Orange St  
Wilmington  
DE 19801  
United States

### *For financial year 2021*

Margules Groome Consulting Limited  
Level 2, 22 Fanshawe Street  
Auckland 1010  
New Zealand

### English Solicitors

Gowling WLG  
4 More London Riverside  
London  
SE1 2AU  
United Kingdom

### Independent Auditor

BDO LLP  
55 Baker Street  
London  
W1U 7EU  
United Kingdom

### Identifiers

FATCA GIIN: SNR7BX.9999.SL.831  
Website: [www.theforestcompany.se](http://www.theforestcompany.se)

# THE FOREST COMPANY LIMITED

## GLOSSARY

**The Group:** refers to The Forest Company Limited and its investments. Refer to pp. 43-44 for the list of investments

**AB Florestal:** AB Florestal Empreendimentos Imobiliários, Atividades Florestais e Participações Ltda

**Administrator:** Vistra Fund Services (Guernsey) Limited

**AGM:** Annual General Meeting

**AIC:** Association of Investment Companies

**Aimara:** Aimara Empreendimentos Imobiliários e Participações Ltda

**Antioquia:** Antioquia Wood Holdings Limited

**Auditor:** BDO LLP

**Biocarbon:** solid material produced from biomass through carbonisation (also known as charcoal)

**BioCarbono:** BioCarbono Produção e Comércio de Carvão Ltda

**Board:** Directors of the Company

**BRL:** Brazilian real

**CDI:** Brazilian interbank interest rate

**Charcoal:** See 'biocarbon'

**Class A ordinary shares:** a redeemable ordinary share of USD 0.10 in the capital of the Company.

**COFINS:** Contribuição para o Financiamento da Seguridade Social, a social contribution tax in Brazil based on gross revenue

**Company:** The Forest Company Limited

**Company secretary:** Vistra Fund Services (Guernsey) Limited

**COP:** Colombian peso

**Corrupt practice:** the direct or indirect offering, giving, receiving or soliciting of anything of value to improperly influence the actions of another party

**CSLL:** Contribuição Social sobre o Lucro Líquido das Pessoas Jurídicas, a social contribution tax in Brazil based on net profit

**Current adjusted NAV:** the most recent adjusted net asset value preceding the date of payment

**DCF:** discounted cash flow

**Deferred tax:** tax payable or recoverable in a future period

**Depletion:** the fair value of harvested biological assets

**El Guasimo:** Reforestadora El Guasimo

**Fair value:** defined in IFRS 13 as the price that is received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and it is the value by which all investments are held

**FRC:** Financial Reporting Council

**Froncosa:** Froncosa Empreendimentos Imobiliários, Atividades Florestais e Participações Ltda

**FSC:** The Forest Stewardship Council, an independent, internationally recognised non-profit forest management certification body established in 1993 to respond to global environmental concerns, especially as they pertain to deforestation

**FSC certification:** obtained by organisations that comply with the principles and criteria set forth by the FSC through an independent annual audit carried out by accredited auditing bodies

**GBP:** pounds sterling

**Green Bond:** type of fixed-income instrument that is specifically earmarked to raise money for climate and environmental projects. These bonds are typically asset-linked and backed by the issuing entity's balance sheet.

**Hadoque:** Hadoque Propriedades Rurais e Participações Ltda

**IAS:** International Accounting Standards

**IFRS:** International Financial Reporting Standards

**IMA:** Investment Management Agreement

**IMF:** International Monetary Fund

**Investment manager:** Timber Capital Limited (TCL)

**IRR:** Internal Rate of Return

# THE FOREST COMPANY LIMITED

## GLOSSARY

**ISAs (UK):** International Standards on Auditing (UK)

**Joint venture:** a joint contractual arrangement involving two or more parties whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement

**Klabin:** Klabin S.A.

**KPI:** key performance indicator

**Law:** provisions of the Companies (Guernsey) Law, 2008 (as amended)

**LLC:** limited liability company

**LLP:** limited liability partnership

**Lucro Presumido:** presumed profit tax regime in Brazil

**Lucro Real:** actual profit tax regime in Brazil

**Management share:** non-redeemable ordinary share of USD 1.00 each in the capital of the Company

**Margules:** Margules Groome Consulting Limited, which was appointed to independently assess and report the value of all the investees' forestry assets in accordance with the IFRS.

**MDC:** volume-based unit of charcoal (approximately 200 kg)

**MetLife:** Metropolitan Life Insurance Company

**Money laundering:** the generic term used to describe the process by which the original ownership and control of the proceeds of illegal conduct are disguised to make such proceeds appear to have been derived from a legitimate source

**MSTH:** MS Timberland Holdings Ltd

**NAV:** Net Asset Value

The Company prepares two NAVs:

1. **IFRS NAV** – the value of all of the assets of the Company, less the liabilities to creditors of the Company where investments are stated at fair value determined in accordance with the valuation policy; and

2. **Adjusted NAV** – the IFRS NAV adjusted, as below, for the purposes of reporting to the shareholders.

The adjusted NAV and adjusted NAV per share are currently calculated based on the IFRS and adjusted as follows:

1. A notional land lease charge over acquired planted land is removed. Whereas these notional land lease charges are included in the determination of the fair value of forest assets under the IFRS, for the purposes of the adjusted NAV, these costs are not included in the determination of the fair value of forest assets, because they are non-cash costs.

2. To reflect the capitalisation of costs associated with the Company's share capital issuances and original organisation costs. Whereas under the IFRS these costs are deducted from equity in the first accounting period, for adjusted measures, these costs are capitalised and amortised over a five-year period.

A reconciliation of the entity's NAV per share in accordance with these financial statements and the entity's adjusted NAV per share is disclosed in the Investment Manager Report.

Prior to the adoption of the Investment Entity Accounting treatment in previous years, the Company was adjusting for the deferred tax liability. From January 1<sup>st</sup>, 2020 onwards the Company has incorporated this adjustment in the fair value of the Company's investments and is, therefore, reflected in the IFRS NAV.

**NAV per share:** net asset value per ordinary share

**New shares:** shares issued following the election of shareholders to receive the declared dividend in fully paid shares of the Company (either ordinary shares or Class A ordinary shares)

**NPV:** Net Present Value

**OCI:** other comprehensive income

**Ordinary share:** a redeemable ordinary share of USD 0.10 in the capital of the Company

**Pig iron:** crude iron first obtained from a smelting furnace

**PIS:** Programa de Integração Social, a social integration programme tax in Brazil

# THE FOREST COMPANY LIMITED

## GLOSSARY

**Prohibited investments:** investments with, or on behalf of, terrorists, terrorist organisations or narcotics traffickers, including transactions with, or on behalf of, those persons or entities that are included on any relevant lists maintained by the United Nations Security Council or its committees, pursuant to any resolution issued under Chapter VII of the United Nations Charter

**REDD+:** Reducing Emissions from Deforestation and Forest Degradation

**Silverback:** Silverback Ventures, which was appointed to independently assess and report the value of Silvotecnia, a forestry service company, in accordance with the IFRS.

**Silvotecnia:** Silvotecnia S.A.

**SPV:** special purpose vehicles that hold the Company's investment portfolio of underlying forestry assets.

**Surubim:** Surubim Empreendimentos Imobiliários, Atividades Florestais e Participações Ltda

**TCL:** Timber Capital Limited (see also 'investment manager')

**UK:** the United Kingdom of Great Britain and Northern Ireland

**USD:** United States Dollar

# THE FOREST COMPANY LIMITED

## INVESTMENT MANAGER'S REPORT

### RECENT UPDATES

#### MAIN ACHIEVEMENTS

During the first half of the year, the value of The Forest Company increased by 5.8% in local currency. However, during the period, the COP depreciated against the USD by 9% while the BRL appreciated by 4% against the USD, reducing the increase in the adjusted NAV in USD terms to 5.0%.

The management implemented several actions during 2021 to improve operational performance and shareholder value. These actions are further outlined in the report. Some of the main achievements of the first half of the year are described below:

- Increased sales in USD by 24% compared to same period in 2020;
- Generated USD 6.8 million in operating cash flow;
- Repaid USD 1.9 million of debt;
- Increased Adjusted NAV by 5.0%;
- Received first approval for subsidised financing of BRL 12.4 million for establishment of eucalyptus plantations in Minas Gerais. The Company is now in the due diligence phase carried out by the lender Banco do Nordeste;
- In 2021, MS Timberland sold 98,121 carbon credits to a gas company at around USD 4.0 per credit;
- Maintained high margins in charcoal production driven by strict cost control;
- Started to implement vaccination campaign of Brazilian employees.

#### COVID-19 UPDATES

As of the end of Q3 2021, The Forest Company had eleven people in Brazil, and forty-five in Colombia infected with COVID-19, all of whom recovered.

At the end of Q3 2021, The Forest Company had carried out a vaccination campaign in partnership with the local governments. All employees in Brazil received the first dose and 68% the second dose of vaccine, or single-shot vaccine. Vaccination has a slower pace in Colombia, where 39% of our employees have received the first dose, and 25% received the second dose, or single-shot vaccine.

In Brazil, about 70% of its population have received the first dose, and 50% the second dose. Vaccination has continued to generate benefits and hospitalisations and deaths have continued to decline. Furthermore, the beginning of the application of booster doses in the elderly population is welcome, bringing greater protection for this group.

In Colombia, COVID-19 cases and deaths remain low. Active cases in the country more than halved in September compared to August figures. The reduction in the virus's propagation rate comes amid progress in the vaccination campaign.

More than 50% of its population have received the first dose, while 33% received a second dose or single-shot vaccine. The government hopes to accelerate vaccination with the arrival of new doses from Moderna and AstraZeneca during Q4 2021. Colombia is targeting vaccination of 70% of its population by the end of 2021.

With the development of the healthcare situation, the economic reopening is now consolidated. In Bogotá, the mayor recently announced that cinemas, theatres, churches, and restaurants will be able to operate at 75% capacity. The Google mobility index is back to pre-pandemic levels.

#### BRAZIL MARKET UPDATE

Demand for charcoal in Minas Gerais remained extremely high during the first half of 2021. This was driven by the strong demand from China for raw materials used in steel production and also steel products. This boosted Brazilian exports of pig iron and steel, positively impacting the charcoal industry.

However, there is a movement orchestrated by large pig iron producers in the local market to lower charcoal prices and Chinese demand has slowed. The Company expects a price reduction in the market for the coming months, which tends to have a limited effect on the Company due to its long-term contracts. The Company foresees prices to recover during Q4 2021 as the start of the rainy season reduces the supply.

# **THE FOREST COMPANY LIMITED**

## **INVESTMENT MANAGER'S REPORT (CONTINUED)**

The expectation for the pulp and paper industry is still positive for the year, with potential for substantial increases in eucalyptus pulp prices. A high demand for smaller diameter logs has been mainly driven by the pulp and paper and pig iron industries. Pulp exports, on the other hand, look stable. The recent recovery of the Brazilian economy has also stimulated the growth in demand for eucalyptus firewood, with products from the agricultural and pig iron/steel sectors experiencing high demand in the domestic and foreign markets.

The positive outlook on pulp and paper demand is supporting new pulp mill projects and Suzano has announced a new mill in Mato Grosso do Sul, with additional capacity of 2.3 Mtpa. The new mill is scheduled to start up during the first half of 2024. Another project that is expected to start in Q1 2022 is from LD Celulose, a joint venture between Lenzing and Duratex, which will have the capacity to produce 0.5 Mtpa of dissolving pulp in the State of Minas Gerais. These projects will increase the pulp capacity in Brazil by 16% reaching a total capacity of 20.8 Mtpa.

The remarkable performance of exports of sawnwood, plywood and mouldings has driven up sawlog prices, with prices increasing by about 40% in real terms from Q2 2020 to Q2 2021. Further, demand for small roundwood and pulpwood for pulp and wood-based panels production increased by 19% in the same period.

The demand from the wood-based panel sector is likely to remain high with the sector running at 100% of its capacity driven by the fast recovery of the Brazilian economy, with civil construction featuring prominently. The outlook for wood prices across all sectors is very positive for the next year.

Overall, the Company sees a favourable outlook for wood prices, with new investments in the forest industry driving up prices.

With the Bolsonaro government indifferent to participation in the carbon credit market – and amid intense pressure from clients and investors – a voluntary market is booming in Brazil. Although Brazil still does not have regulations on how and by whom credits can be issued, some of the best-known companies in the country, such as Renner, Itaú, Natura, Vale and Nubank, among others, are already accessing the voluntary carbon market to offset their emissions. At the moment, The Forest Company is not issuing voluntary credits but there may be an opportunity in the future to monetise carbon sequestration in the Brazilian plantations in a similar way as the company currently is doing in Colombia.

It's clear that carbon credits are a potential source of revenue stream diversification. Currently, the Brazilian carbon market is dominated by REDD projects. As Brazil is the country with the largest tropical forest in the world, it is natural that such projects should become the engine of an important voluntary carbon credit market.

### **COLOMBIA MARKET UPDATE**

The wood market in Colombia shows signals of recovery after a challenging 2020 due to the lockdown. The construction sector, one of the most affected in the economy, leads the economic and social reactivation in the country and has resumed its usual wood consumption.

It is already possible to identify scarcity in the supply of wood products from domestic production, which has led to an increase in wood imports, especially from Chile. The imbalance in the timber trade balance will intensify in 2022, with local production lower than demand, which intensifies imports and increases the price of local wood-based products and, consequently, log prices.

The Forest Company sees a unique opportunity to lead the development of the Colombian forest market in the regions where the Company operates. For instance, the Company has taken an active role in developing the forest industry value chain and, during 1H 2021, we changed the established method of sale in tons to sale in cubic meters, as in developed markets. This will generate more value for our customers, who will be able to have greater confidence and predictability about the volume of wood they are buying.

The Colombian government is focusing on increasing the area of commercial plantations in Colombia. For example, The Ministry of Agriculture and Rural Development announced that it is carrying out a survey of properties with potential for the development of commercial forest plantations, which is likely to have a positive impact on the environmental sustainability of Colombia.



# THE FOREST COMPANY LIMITED

## INVESTMENT MANAGER'S REPORT (CONTINUED)

Regarding the carbon market, the tax reform proposed by the National Government included the amendment of the articles of the law on carbon tax, which proposes to tax coal and gas thermal plants, currently applied exclusively to liquid fuels. The proposal was withdrawn due to anti-government protests in opposition to the tax reform.

Nevertheless, this issue will be a sensitive one in the coming years, especially after the 2022 elections, and may generate opportunities to increase value and cash flow to The Forest Company.

### THE FOREST COMPANY NET ASSET VALUE

	1H 2021	2H 2020	2H 2020 to 1H 2021%	1H 2020	1H 2020 to 1H 2021%
Adjusted NAV (USD million)	177.5	169.1	5.0%	148.1	19.8%
Adjusted NAV per share (USD)	3.46	3.30	5.0%	2.89	19.8%
Adjusted NAV accum. dividends per share (USD)	5.12	4.96	3.3%	4.55	12.5%

The entity's adjusted NAV is published semi-annually for the purposes of reporting to the shareholders.

The movements in the Company's NAV reflect the changes in the value of the Company's investments.

The reconciliation of the Company's IFRS fair value to the adjusted NAV as of 30 June, 2021 is as follow:

	1H 2021 USD per share	1H 2021 USD million	2H 2020 USD per share	2H 2020 USD million
<b>IFRS NAV</b>	3.05	156.5	3.12	160.0
Adjustment for notional land lease charge	0.41	21.0	0.18	9.1
<b>Adjusted NAV</b>	3.46	177.5	3.30	169.1

The adjusted NAV increased by 5.0% in 1H 2021, from USD 169.1 million in 2H 2020 to USD 177.5 million in 1H 2021. When compared to the USD 148.1 million in 1H 2020, the Adjusted NAV increased by 19.8%.

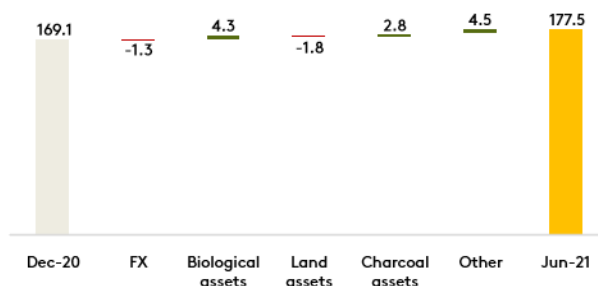
The main impacts in 1H 2021 compared to 2H 2020 were driven by the following changes in the investee companies:

- A USD 1.3 million adverse effect arising from the depreciation of the Colombian peso (COP), which was partially offset by an appreciation of the Brazilian real (BRL);
- A USD 4.3 million increase in the fair value of investees' biological assets, driven mainly by increase in estimated future harvesting volumes in the independent valuation;
- A USD 1.8 million decrease in the land value, driven mainly by a decrease in Kaa assets. In 1H 2021, a new independent land valuer was engaged to value TFC land. Their new methodology penalised Kaa land value, which was reduced by 20.5% while Aimara land increased by 39.7%;
- An increase of USD 2.8 million in the valuation of the charcoal business arising from the current market conditions.

# THE FOREST COMPANY LIMITED

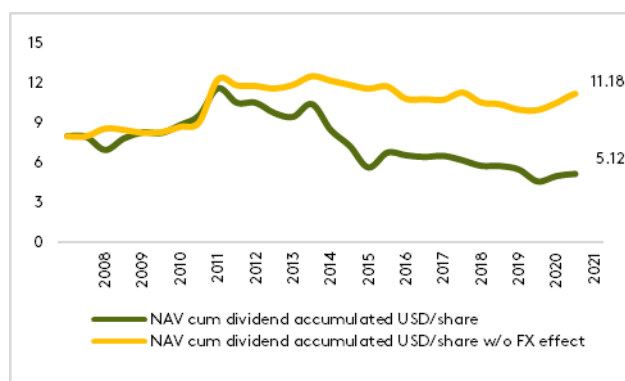
## INVESTMENT MANAGER'S REPORT (CONTINUED)

### ADJUSTED NAV BREAKDOWN (USD MILLION)



At the end of June 2021, the adjusted NAV per share was USD 3.46 (2H 2020: USD 3.30). Adding back all previous dividends paid since inception, the adjusted NAV per share was USD 5.12 (2H 2020: USD 4.96). Excluding the effects of the depreciation of local currencies over time and adding back dividends, the adjusted NAV per share would be USD 11.18 (2H 2020: USD 10.50).

### ADJUSTED NAV PER SHARE



The total biological assets of the Company's investees increased by USD 4.3 million during 1H 2021. The main movements and drivers for the biological asset value during the period were:

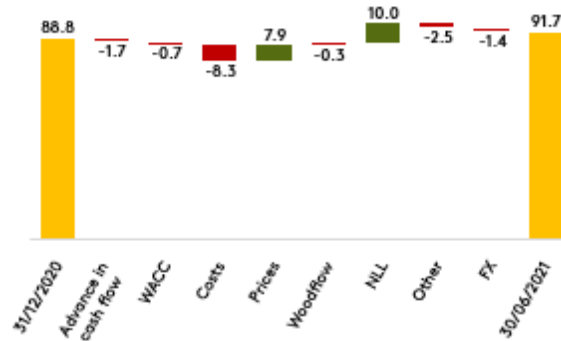
- A USD 1.7 million decrease as a result of change to the discount period;
- A USD 0.7 million decrease due to an increase in the discount rate, especially in Colombia;
- A USD 8.3 million decrease due to higher costs assumed in the forecast. This increase was observed both in AB Florestal and MS Timberland;
- A USD 7.9 million increase owing to higher wood prices;
- A USD 0.3 million decrease due to changes in the estimated future wood flow driven by multiple factors;
- A USD 10.0 million increase arising from a more conservative NLL assumption adopted by the current valuer when compared to the previous one. The Company's adjusted NAV is derived from the IFRS NAV, by adding back the NLL figure;
- Other factors accounted for a decrease of USD 2.5 million;

# THE FOREST COMPANY LIMITED

## INVESTMENT MANAGER'S REPORT (CONTINUED)

- Changes in FX rates resulted in a decrease of USD 1.4 million in the biological asset value, driven mainly by the depreciation of COP. During the first half of 2021, the BRL appreciated by 4% against the USD, while the COP depreciated by 9%.

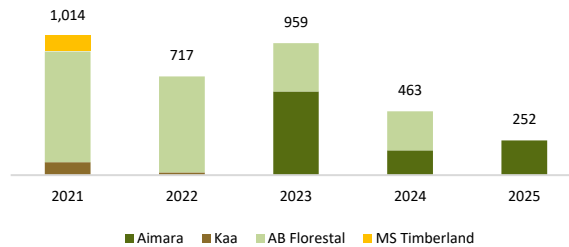
### MOVEMENTS IN BIOLOGICAL ASSETS (USD MILLION)



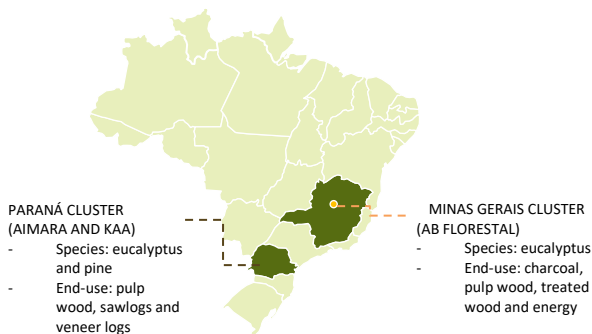
### OVERVIEW

During 1H 2021, a total of 568,552 m<sup>3</sup> of wood (including volume carbonised through the charcoal operations) was sold by the Company's investees and a total of 95,870 m<sup>3</sup> of charcoal (MDC). A total of 3,405,542 m<sup>3</sup> of wood is currently contracted to be delivered until the end of 2025.

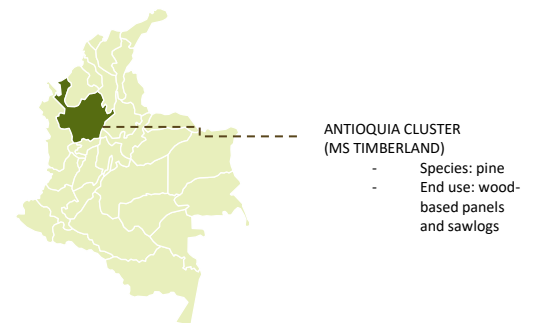
### CURRENT CONTRACTED SALES ('000 M<sup>3</sup>)



### BRAZILIAN PROJECT LOCATIONS



### COLOMBIAN PROJECT LOCATION



# THE FOREST COMPANY LIMITED

## INVESTMENT MANAGER'S REPORT (CONTINUED)

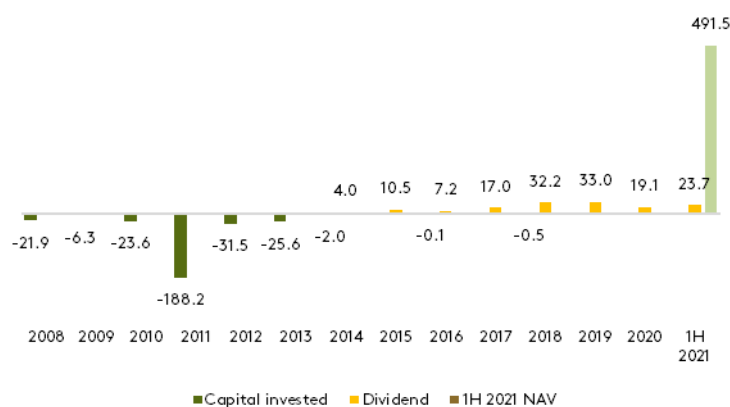
### AB FLORESTAL

**IRR after-tax since inception to 1H 2021 (local currency): 8.2%**

In total, AB Florestal sold 498,376 m<sup>3</sup> of standing wood during 1H 2021, of which 57% was converted and sold as charcoal via the BioCarbono project.

An area of 345 ha was planted during the year (1H 2020: 474 ha), totalling an investment of USD 2.0 million.

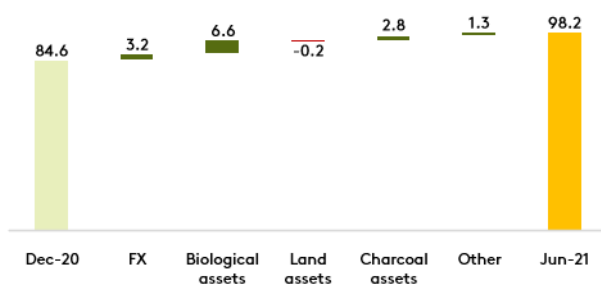
**CAPITAL INVESTED, DIVIDENDS AND 1H 2021 ADJUSTED NAV  
(BRL MILLION)**



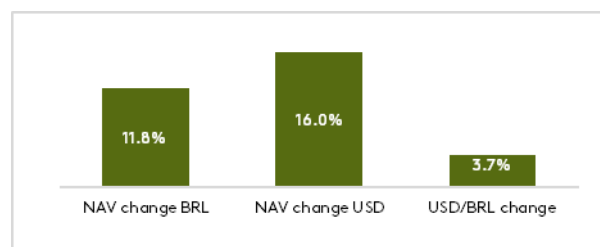
The adjusted NAV increased by 16.0% during 1H 2021 to USD 98.2 million.

The biological asset value increased by 23.2% during 1H 2021 in USD, mainly due to increased woodflow estimation. Land value remained stable in local currency.

**ADJUSTED NAV BREAKDOWN (USD MILLION)**



**ADJUSTED NAV AND USD/BRL CHANGES  
(1H 2021 VS 2H 2020)**



### AIMARA

**IRR after-tax since inception to 1H 2021 (local currency): 11.0%**

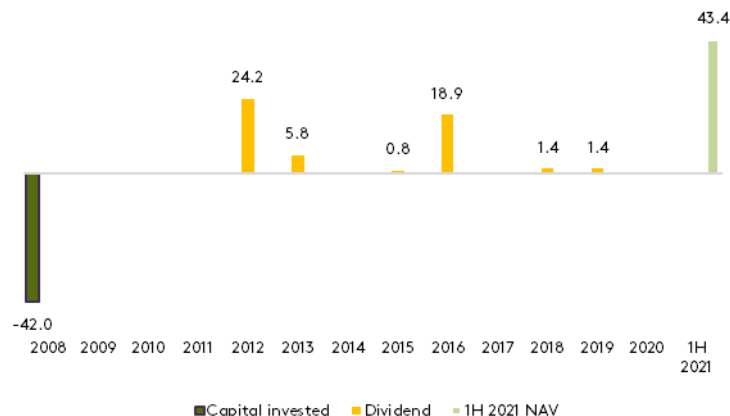
Aimara invested in a joint venture with Klabin in 2008 under the terms of which it has rights to 80% of net distributions from the joint venture. The joint venture was the Company's first greenfield project. The first rotation was harvested in 2015 and 2016. All wood produced by the joint venture is sold to Klabin as part of a long-term off-take agreement.

# THE FOREST COMPANY LIMITED

## INVESTMENT MANAGER'S REPORT (CONTINUED)

A second rotation is now maturing, with harvesting expected to begin in late 2022 or 2023.

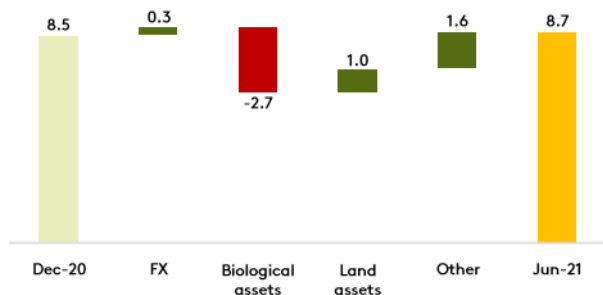
### CAPITAL INVESTED, DIVIDENDS AND 1H 2021 ADJUSTED NAV (BRL MILLION)



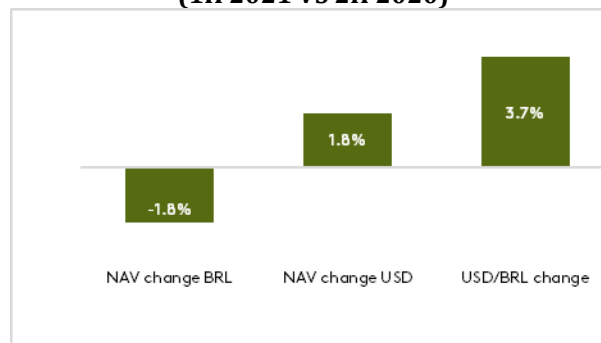
The adjusted NAV value decreased by 1.8% during 1H 2021 to USD 8.7 million.

The biological asset value decreased by 31.7% in USD during 1H 2021, mainly due to the inclusion by the new valuer of an outstanding liability which the previous valuer did not take into account in the biological asset value, but which was recognised under trade payables in Aimara's books. These liabilities refer to lease and service fee payments that will be paid at the end of next harvesting cycle. Excluding the impact of liabilities, the biological assets decreased by 8.2%. Land value increased by 39.7% in local currency mainly driven by the appreciation of agricultural land in the region.

### ADJUSTED NAV BREAKDOWN (USD MILLION)



### ADJUSTED NAV AND USD/BRL CHANGES (1H 2021 VS 2H 2020)



# THE FOREST COMPANY LIMITED

## INVESTMENT MANAGER'S REPORT (CONTINUED)

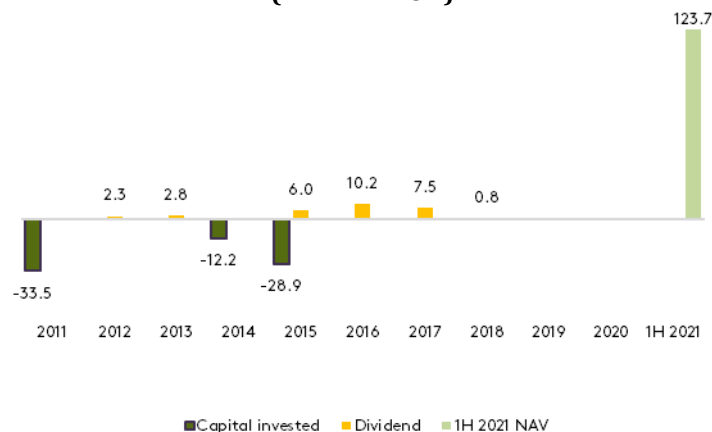
### KAA

**IRR after-tax since inception to 1H 2021 (local currency): 11.3%**

The Kaa project started in 2011. In 2014 and 2015, the project engaged in add-on acquisitions of neighbouring pine plantations.

Currently, Kaa mostly consists of young plantations. During 1H 2021, a volume of wood totalling 20,509 m<sup>3</sup> was harvested and thinned.

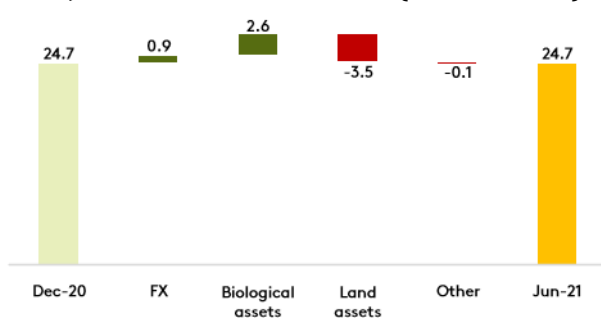
**CAPITAL INVESTED, DIVIDENDS AND 1H 2021 ADJUSTED NAV  
(BRL MILLION)**



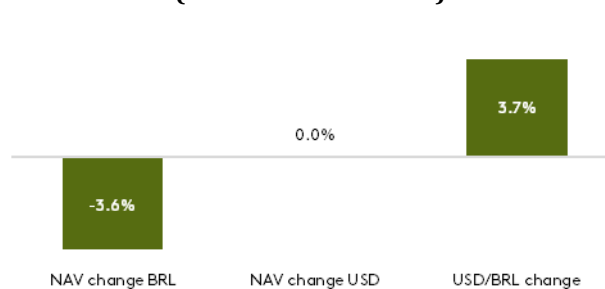
The adjusted NAV value remained stable during 1H 2021 at USD 24.7 million.

The biological asset value increased by 30.9% in USD in 1H 2021, mainly due to improved price assumptions and increase in future harvesting volumes. Land value decreased by 20.5% in the local currency reflecting a more conservative approach of the new independent valuer.

**ADJUSTED NAV BREAKDOWN (USD MILLION)**



**ADJUSTED NAV AND USD/BRL CHANGES  
(1H 2021 VS 2H 2020)**



# THE FOREST COMPANY LIMITED

## INVESTMENT MANAGER'S REPORT (CONTINUED)

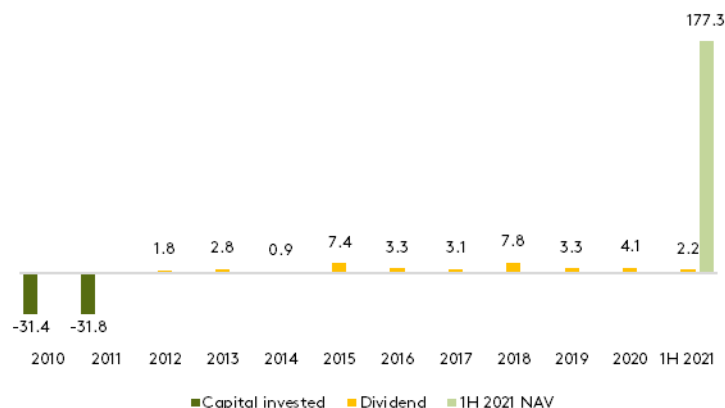
### MS TIMBERLAND

**IRR after-tax since inception to 1H 2021 (local currency): 14.0%**

The sales volume reached 49,668 m<sup>3</sup> in 1H 2021, 1% higher than in 1H 2020.

During 1H 2021, 324 ha were planted (1H 2020: 136 ha), totalling an investment of USD 0.3 million.

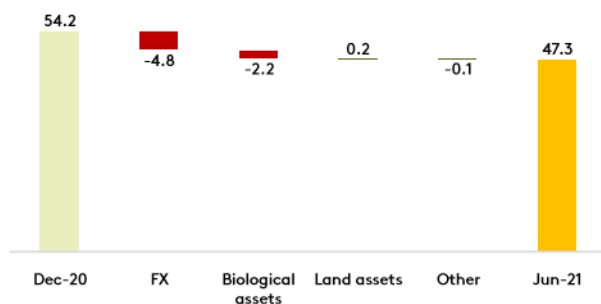
#### CAPITAL INVESTED, DIVIDENDS AND 1H 2021 ADJUSTED NAV (COP BILLION)



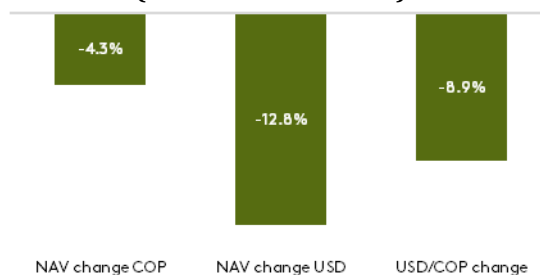
The adjusted NAV value decreased by 12.8% during 1H 2021 to USD 47.3 million.

The biological asset value decreased by 14.8% in USD during 1H 2021. The largest impacts on the value were caused by reduced future harvesting volumes and higher costs assumptions. Land value increased by 1% in COP.

#### ADJUSTED NAV BREAKDOWN (USD MILLION)



#### ADJUSTED NAV AND USD/COP CHANGES (1H 2021 VS 2H 2020)



# THE FOREST COMPANY LIMITED

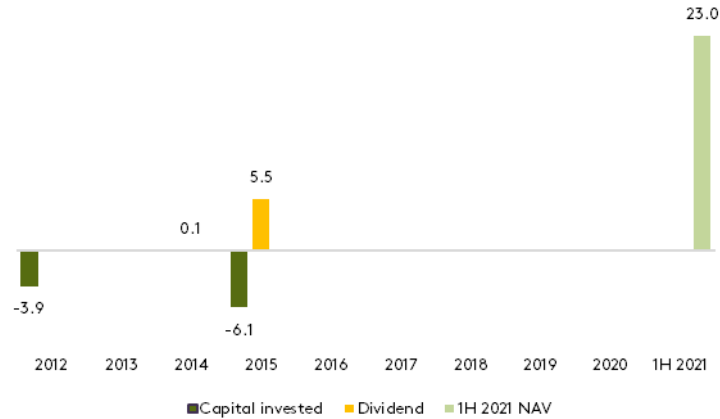
## INVESTMENT MANAGER'S REPORT (CONTINUED)

### SILVOTECNIA

**IRR after-tax since inception to 1H 2021 (local currency): 20.8%**

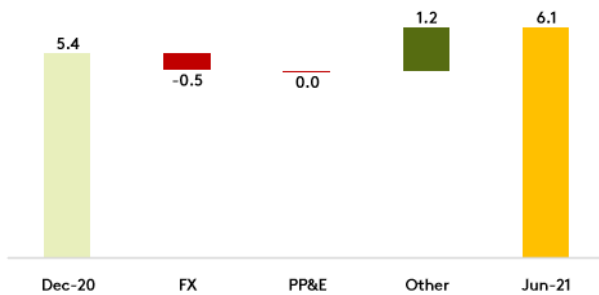
During 1H 2021, Silvotecnia showed substantial growth, with sales increasing 33% to USD 2.8 million during the period. The company continues to show a positive EBITDA margin, ending 1H 2021 with an EBITDA of USD 0.15 million, equivalent to 5% of sales (1H 2020: USD 0.14 million, 7% of sales).

#### CAPITAL INVESTED, DIVIDENDS AND 1H 2021 ADJUSTED NAV (COP BILLION)

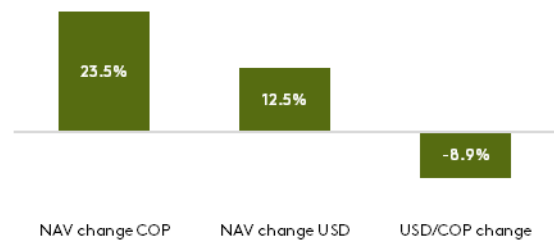


The adjusted NAV value increased by 12.5% during 1H 2021 to USD 6.1 million which is explained by the investee's enhanced performance and future outlook.

#### ADJUSTED NAV BREAKDOWN (USD MILLION)



#### ADJUSTED NAV AND USD/COP CHANGES (1H 2021 VS 2H 2020)





# THE FOREST COMPANY LIMITED

## INVESTMENT MANAGER'S REPORT (CONTINUED)

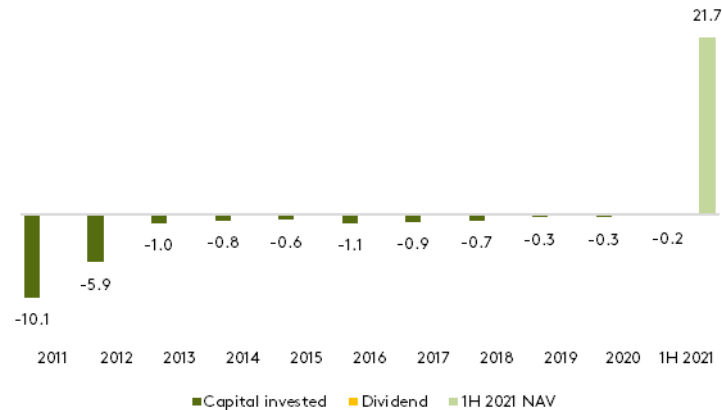
### VICHADA

**IRR after-tax since inception to 1H 2021 (local currency): -0.1%**

The Vichada project is part of a group of properties located in the Vichada department, Colombia. The properties cover an area of 13,576 ha, where The Forest Company is developing an R&D project.

Thanks to this R&D project, The Forest Company was able to biologically develop a eucalyptus clone with a growth rate that is three times faster than the region's traditional species.

**CAPITAL INVESTED, DIVIDENDS AND 1H 2021 ADJUSTED NAV  
(COP BILLION)**



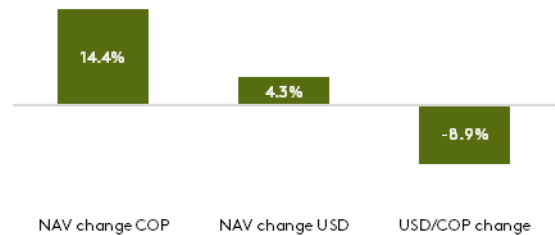
The adjusted NAV value increased by 4.3% during 1H 2021 to USD 5.8 million.

The project has not yet started commercial operations and, hence, is valued at cost.

**ADJUSTED NAV BREAKDOWN  
(USD MILLION)**



**ADJUSTED NAV AND USD/COP CHANGES  
(1H 2021 VS 2H 2020)**



# THE FOREST COMPANY LIMITED

## INVESTMENT MANAGER'S REPORT (CONTINUED)

### SALES PERFORMANCE

		1H 2021	1H 2020	%
Total for The Forest Company	Wood sales (m <sup>3</sup> )	568,552	425,878	34%
	Charcoal sales (MDC)	95,870	122,075	-21%
	Gross sales (USD)	14,832,464	11,972,119	24%
Paraná (Pine and Eucalyptus)	Wood sales (m <sup>3</sup> )	20,509	22,794	-10%
	Gross sales (BRL)	540,093	668,115	-19%
	Gross sales (USD)	99,740	124,681	-20%
Minas Gerais (Eucalyptus)	Wood sales (m <sup>3</sup> )	498,376	354,079	41%
	Gross sales (BRL)	26,179,649	16,799,171	56%
	Gross sales (USD)	4,884,524	3,314,349	47%
Minas Gerais (Charcoal)	Charcoal sales (MDC)	95,870	122,075	-21%
	Gross sales (BRL)	27,181,571	21,812,250	25%
	Gross sales (USD)	5,056,658	4,279,196	18%
Antioquia (Pine)	Wood sales (m <sup>3</sup> )	49,668	49,005	1%
	Gross sales ('000 COP)	7,436,235	8,144,629	-9%
	Gross sales (USD)	2,044,123	2,182,500	-6%
Colombia (Forest Services)	Gross Sales (USD)	2,747,420	2,071,393	33%

During the 1H 2021, The Forest Company sold 568,552 m<sup>3</sup> of wood, a strong increase of 34% compared to 1H 2020. The total revenues in USD were 24% higher than in 1H 2020, due to increasing wood sales volumes and higher charcoal prices.

The charcoal market in Minas Gerais maintained the strong performance seen at the end of 2020, with prices increasing by 59% in comparison to 1H 2020. Total charcoal sales were 25% higher in BRL and 18% higher in USD during 1H 2021 compared to 1H 2020.

Wood sales in Minas Gerais increased by 56% in BRL and 47% in USD compared to 1H 2020. In Paraná, wood sales decreased by 19% in BRL and 20% in USD, as there is less volume available for harvest due to the age class of plantations.

In Antioquia, 1H 2021 total sales in volume were stable. The decrease in wood prices is explained by the adjustment in the conversion factor from tons to cubic meters. The Forest Company had already negotiated with most of its clients to invoice per cubic metres instead of tons.

# THE FOREST COMPANY LIMITED

## INVESTMENT MANAGER'S REPORT (CONTINUED)

### CASH FLOW

Cash flow statement (USD '000)	1H 2021	1H 2020	2020
Net cash flow received from investments	3,082	2,393	4,787
Cash paid to suppliers	-2,387	-1,890	-3,850
Capital invested	-56	-15	-70
<b>Net cash flow from operating activities</b>	<b>639</b>	<b>488</b>	<b>867</b>
<b>Net cash flow from financing activities</b>	<b>-499</b>	<b>-500</b>	<b>-1,024</b>
Net increase (decrease) in cash held	140	-12	-157
Cash at beginning of period	46	203	203
<b>Cash equivalents at end of period</b>	<b>186</b>	<b>191</b>	<b>46</b>

### CASH FLOW FROM OPERATIONS

The cash flow from operating activities was USD 0.6 million (1H 2020: USD 0.5 million).

Net cash flow received from investments increased by 29%, which was offset by an increase of 26% in payment to suppliers. The increase in payment to suppliers is mainly due to some overdue payments from 2020 that were paid during 1H 2021.

### CASH FLOW FROM FINANCING ACTIVITIES

The cash flow from financing activities was -USD 0.5 million (1H 2020: -USD 0.5 million), mainly explained by interest paid on the MetLife term loan.

The total debt outstanding on the MetLife loan amounts to USD 11.6 million as of 30 June, 2021.

# THE FOREST COMPANY LIMITED

## INVESTMENT MANAGER'S REPORT (CONTINUED)

### CASH FLOW FROM PROJECTS

Cash flow statement (USD '000)	AB Florestal	Aimara	Kaa	MST	BioCarbono	Silvotecnia	Vichada	Total
Net cash flow from operating activities	5,385	64	133	1,091	183	-22	-54	6,780
Net cash flow from investing activities	-887		-22	-336	-98	-	-	-1,343
Net cash flow from financing activities	-2,195	14	-111	-80	-52	29	55	-2,340
<b>Net cash flow before dividends</b>	<b>2,303</b>	<b>78</b>	<b>-</b>	<b>675</b>	<b>33</b>	<b>7</b>	<b>1</b>	<b>3,097</b>
<b>Dividends paid to TopCo</b>	<b>-2,486</b>	<b>-</b>	<b>-</b>	<b>-596</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-3,082</b>
Non-controlling interests	-	-	-	-66	-	-	-	-66
<b>Net change in cash held</b>	<b>-183</b>	<b>78</b>	<b>-</b>	<b>13</b>	<b>33</b>	<b>7</b>	<b>1</b>	<b>-51</b>
Cash at beginning of period	977	184	-	470	224	19	6	1,880
Effects of changes in FX	70	6	-	-47	16	-5	-1	39
<b>Cash at end of period</b>	<b>864</b>	<b>268</b>	<b>-</b>	<b>436</b>	<b>273</b>	<b>21</b>	<b>6</b>	<b>1,868</b>

### CASH FLOW FROM PROJECTS PER COUNTRY

Cash flow statement (USD '000)	Brazil	Colombia	TopCo
Net cash flow from operating activities	5,765	1,105	639
Net cash flow from investing activities	-1,007	-336	-
Net cash flow from financing activities	-2,344	4	-499
<b>Net cash flow before dividends</b>	<b>2,414</b>	<b>683</b>	<b>140</b>
<b>Dividends paid</b>	<b>-2,486</b>	<b>-596</b>	<b>-</b>
Non-controlling interests	-	-66	-
<b>Net increase (decrease) in cash held</b>	<b>-72</b>	<b>21</b>	<b>140</b>
Cash at beginning of period	1,385	495	46
Effects of changes in FX	92	-53	-
<b>Cash equivalents at end of period</b>	<b>1,405</b>	<b>463</b>	<b>186</b>

# THE FOREST COMPANY LIMITED

## INVESTMENT MANAGER'S REPORT (CONTINUED)

### REAL, POST-TAX WACC

WACC assumptions	1H 2021	2H 2020
<b><u>Brazilian Projects</u></b>		
WACC real post-tax	5.5%	5.1%
<b>Inputs<sup>1</sup></b>		
Risk-free rate	4.8%	3.2%
Beta	0.65	0.70
Market risk premium	4.5%	4.5%
Inflation	2.2%	1.2%
<b><u>Colombian Projects</u></b>		
WACC real post-tax	4.9%	4.2%
<b>Inputs<sup>1</sup></b>		
Risk-free rate	4.1%	2.3%
Beta	0.65	0.70
Market risk premium	4.7%	4.5%
Inflation	2.2%	1.2%

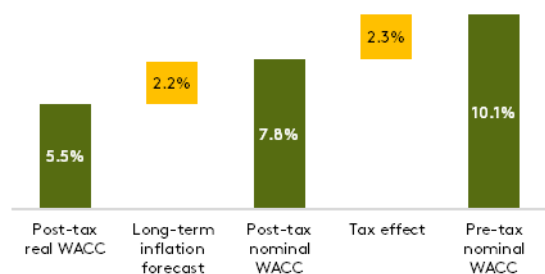
<sup>1</sup> Source: Risk-free rate (government bond issued in USD), Beta (independent valuer's estimate), Market risk premium (Damodaran), Inflation (US CPI 12M)

Real WACC post-tax for Brazilian forestry assets is 5.5% vs 5.1% in 2H 2020, and for Colombian assets 4.9% compared to 4.2% in 2H 2020.

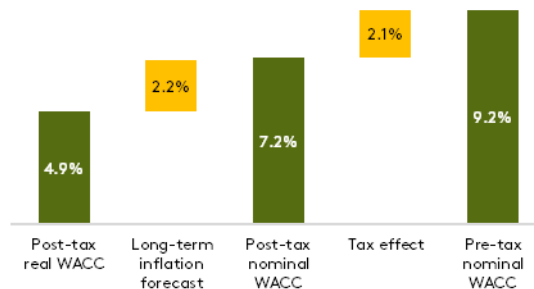
Considering the long-term inflation forecast and the Brazilian tax regime, the valuation of The Forest Company's forest projects in Brazil is currently based on a USD nominal pre-tax discount rate of 10.1%.

In Colombia, the valuation of our forest projects is based on a USD nominal pre-tax discount rate of 9.2%.

**BRAZIL: WACC REAL POST-TAX AND NOMINAL PRE-TAX**



**COLOMBIA: WACC REAL POST-TAX AND NOMINAL PRE-TAX**



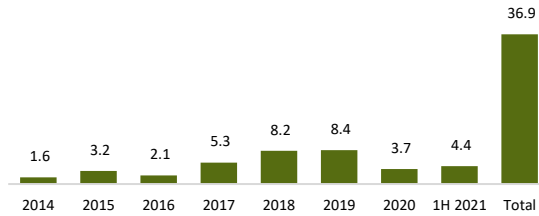
# THE FOREST COMPANY LIMITED

## INVESTMENT MANAGER'S REPORT (CONTINUED)

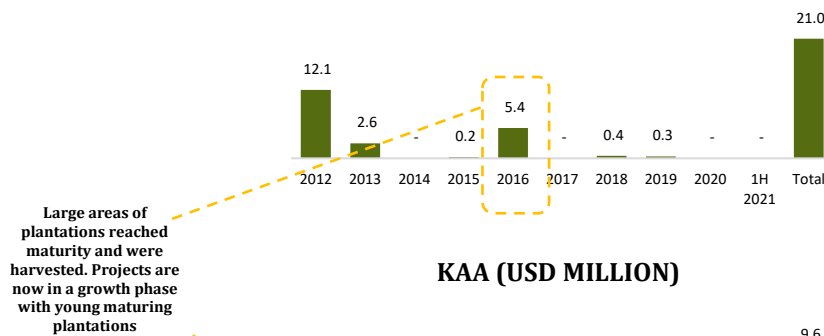
### BRAZIL: DIVIDENDS PAID BY THE PROJECTS

In 1H 2021, Brazilian projects generated a dividend yield of 1.9% on accumulated invested capital, in local currency.

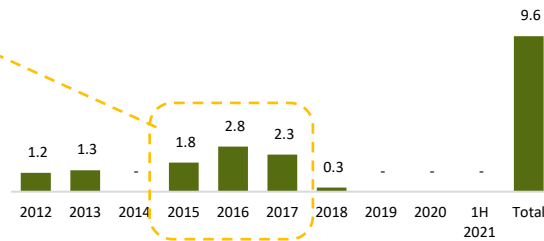
**AB FLORESTAL (USD MILLION)**



**AIMARA (USD MILLION)**



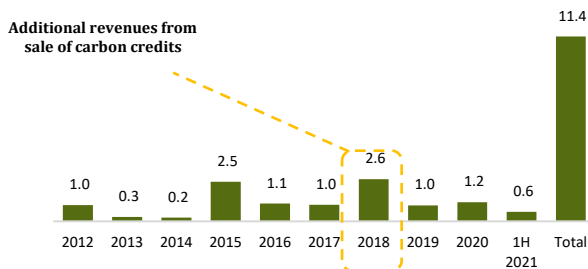
**KAA (USD MILLION)**



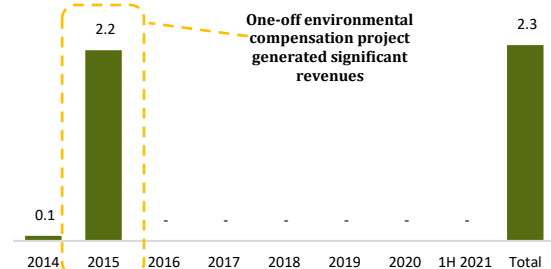
### COLOMBIA: DIVIDENDS PAID BY THE PROJECTS

Colombian projects generated a dividend yield of 1.2% during 1H 2021 on accumulated invested capital, in local currency.

**MS TIMBERLAND (USD MILLION)**



**SILVOTECNIA (USD MILLION)**



# THE FOREST COMPANY LIMITED

## INVESTMENT MANAGER'S REPORT (CONTINUED)

### MACRO PERSPECTIVE

#### BRAZIL

Macro indicators	2016	2017	2018	2019	2020	2021F <sup>1</sup>	2022F <sup>1</sup>
GDP growth (%)	-3.3	1.3	1.3	1.1	-4.1	5.0	-0.5
USD/BRL	3.3	3.3	3.9	4.0	5.2	5.5	5.5
Inflation (%)	6.2	2.9	3.7	4.3	4.5	9.3	4.3
Interest rate (%)	13.8	7.0	6.5	4.5	2.0	9.3	11.3

<sup>1</sup> Source: Itaú BBA as of October 2021

#### MACROECONOMIC AND POLITICAL OUTLOOK

In Brazil, economic activity has been recovering at a stronger pace than expected. The rising prices of raw materials, such as soybeans and iron ore, will likely benefit Brazil for at least the next two years. The strength of commodity prices contributes to accelerated growth, but is putting pressure on inflation rates.

After five years of decline or stability, the Central Bank of Brazil raised the benchmark interest rate (SELIC). The SELIC rate, which was at 2% per year, had three consecutive highs and closed 1H 2021 at 4.25%. In October, the SELIC rate increased to 7.8%. This monetary tightening is tending to continue in the face of a persistent inflationary scenario.

With the prospect of better growth, lower fiscal risk, strong exports and higher interest rates, the exchange rate ended the first half of the year at the lowest levels of the year. During 1H 2021, the BRL appreciated by about 4% against the USD.

#### COLOMBIA

Macro indicators	2016	2017	2018	2019	2020F	2021F <sup>1</sup>	2022F <sup>1</sup>
GDP (%)	2.1	1.4	2.5	3.3	-6.8	8.8	2.7
USD/COP	3,002	2,932	3,254	3,287	3,428	3,800	3,800
Inflation (%)	5.8	4.1	3.2	3.8	1.6	5.2	3.7
Interest rate (%)	7.5	4.8	4.3	4.3	1.8	3.0	4.8

<sup>1</sup> Source: Itaú BBA as of October 2021

#### MACROECONOMIC AND POLITICAL OUTLOOK

The Colombian economy is expected to rebound significantly during 2021, driven by better oil prices, a progressive recovery in domestic demand and external stimulus given the strong support for growth from greater expansion in the US.

However, since the end of April the Colombian government has been under pressure due to violent anti-government protests in opposition to the tax reform announced in 2021. The protests have created a very challenging and unpredictable political outlook ahead of next year's general election, which is likely to postpone investment decisions until there is more policy visibility.

During 1H 2021, the Colombian Central Bank kept the benchmark interest rate unchanged at the record low of 1.8%. Since then, there has already been a monetary tightening, with the rate increasing to 2.5% in October.

# **THE FOREST COMPANY LIMITED**

## **INVESTMENT MANAGER'S REPORT (CONTINUED)**

During 1H 2021, the COP depreciated by about 9% against the USD. The Colombian currency is anticipated to remain under pressure due to the effects of the current fiscal proposals, and the opposition thereto, on sovereign rating decisions.

### **CONCLUSION**

We have experienced strong demand for the products produced by our investees in all markets. This is reflected in our sales numbers that have increased by 24% in USD compared to same period in 2020. The increase in sales resulted in an increase in operating cash flow to USD 6.8 million of which we used USD 1.9 million to further repay debt. By March 2022, we expect to have brought down debt to equity to below 10%.

The improved performance is reflected in the Adjusted NAV, which increased by 5% during 1H 2021 and 23.3% since 1H 2020.

**Johan Larsson**

CEO

Timber Capital Limited

Date: 26 November 2021



**THE FOREST COMPANY LIMITED**  
**UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION**  
As of 30 June 2021

	Note	Unaudited 30 Jun 2021 USD '000	Audited 31 Dec 2020 USD '000	Unaudited 30 Jun 2020 USD '000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Financial assets at fair value through profit or loss	5	169,859	173,927	136,247
<b>Total non-current assets</b>		<u>169,859</u>	<u>173,927</u>	<u>136,247</u>
<b>Current assets</b>				
Cash and cash equivalents				
Restricted	9	17	17	17
Unrestricted	9	169	29	174
<b>Total current assets</b>		<u>186</u>	<u>46</u>	<u>191</u>
<b>TOTAL ASSETS</b>		<u>170,045</u>	<u>173,973</u>	<u>136,438</u>
<b>Non-current liabilities</b>				
Interest-bearing borrowings	10	(11,625)	(11,625)	-
<b>Total non-current liabilities</b>		<u>(11,625)</u>	<u>(11,625)</u>	<u>-</u>
<b>Current liabilities</b>				
Trade and other payables	11	(1,966)	(2,330)	(1,707)
<b>Total current liabilities</b>		<u>(1,966)</u>	<u>(2,330)</u>	<u>(1,707)</u>
<b>TOTAL LIABILITIES</b>		<u>(13,591)</u>	<u>(13,955)</u>	<u>(1,707)</u>
<b>Net assets</b>		<u>156,454</u>	<u>160,018</u>	<u>134,731</u>

**THE FOREST COMPANY LIMITED**  
**UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION**  
As of 30 June 2021  
(Continued)

	Note	Unaudited 30 Jun 2021 USD '000	Audited 31 Dec 2020 USD '000	Unaudited 30 Jun 2020 USD '000
<b>Equity</b>				
Share capital account	13	330,852	330,712	330,712
Share-based payment reserve		26	140	70
Accumulated loss		(174,424)	(170,834)	(196,051)
<b>Equity attributable to holders of redeemable ordinary and Class A ordinary shares</b>		156,454	160,018	134,731
<b>Number of redeemable ordinary shares in issue at financial period/year end</b>	13	26,407,391	26,386,130	26,367,709
<b>Number of redeemable Class A ordinary shares in issue at financial period/year end</b>	13	24,836,250 51,243,641	24,836,250 51,222,380	24,836,250 51,203,959
<b>Net asset value per redeemable ordinary and Class A ordinary share</b>		\$3.05	\$3.12	\$2.63

The financial statements were approved by the Board of Directors on 26 November 2021 and signed on their behalf by:

**Howard Myles FCA**  
Director  
Date: 26 November 2021

The accompanying notes form an integral part of these financial statements.



**THE FOREST COMPANY LIMITED**  
**UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME**  
 FOR THE SIX MONTHS ENDED 30 JUNE 2021  
 (Continued)

	Unaudited Jan - Jun 2021 USD '000	Audited 31 Dec 2020 USD '000	Unaudited Jan - Jun 2020 USD '000
<b>Loss for the financial period/year</b>	(3,590)	(22,547)	(41,685)
<b>Other comprehensive loss for the financial period/year</b>	-	-	-
<b>Total comprehensive loss for the financial period/year</b>	<u>(3,590)</u>	<u>(22,547)</u>	<u>(41,685)</u>
<b>Total comprehensive loss attributable to:</b> Holders of redeemable ordinary shares and Class A ordinary shares	<u>(3,590)</u>	<u>(22,547)</u>	<u>(41,685)</u>
	<u>(3,590)</u>	<u>(22,547)</u>	<u>(41,685)</u>
<b>Total comprehensive loss per share (US cents)*</b> Holders of redeemable ordinary shares and Class A ordinary shares	<u>(7.01)</u>	<u>(44.03)</u>	<u>(81.42)</u>
<b>Loss per share—basic and diluted (US cents)</b> From continuing operations	<u>(7.01)</u>	<u>(44.03)</u>	<u>(81.42)</u>

\* Calculated using the weighted average number of shares as the denominator.

The accompanying notes form an integral part of these financial statements.

**THE FOREST COMPANY LIMITED**  
**UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY**  
For the six months ended 30 June 2021

	Share capital account USD '000	Share-based payment reserve USD '000	Accumulated loss USD '000	Total USD '000
<b>As at 1 January, 2020</b>	330,712	70	(148,287)	182,495
Share-based payments	-	70	-	70
Loss for the financial year	-	-	(22,547)	(22,547)
<b>As at 31 December, 2020</b>	<u>330,712</u>	<u>140</u>	<u>(170,834)</u>	<u>160,018</u>

	Share capital account USD '000	Share-based payment reserve USD '000	Accumulated loss USD '000	Total USD '000
<b>As at 1 January, 2021</b>	330,712	140	(170,834)	160,018
Shares issued	140	(140)	-	-
Share-based payments	-	26	-	26
Loss for the financial period	-	-	(3,590)	(3,590)
<b>As at 30 June, 2021 (Unaudited)</b>	<u>330,852</u>	<u>26</u>	<u>(174,424)</u>	<u>156,454</u>

The accompanying notes form an integral part of these financial statements.

**THE FOREST COMPANY LIMITED**  
**UNAUDITED CONDENSED STATEMENT OF CASH FLOWS**  
For the six months ended 30 June 2021

	Unaudited Jan - Jun 2021 USD '000	Audited 31 Dec 2020 USD '000	Unaudited Jan - Jun 2020 USD '000
<b>Cash flows from operating activities</b>			
Net cash flows received from investees	3,082	4,787	2,393
Cash paid to suppliers and employees	(2,387)	(3,850)	(1,890)
Capital contribution in investees	(56)	(70)	(15)
<b>Net cash from operating activities</b>	<u>639</u>	<u>867</u>	<u>488</u>
<b>Cash flow from financing activities</b>			
Interest paid and other financial expenses	(499)	(1,024)	(500)
<b>Net cash used in financing activities</b>	<u>(499)</u>	<u>(1,024)</u>	<u>(500)</u>
Net increase/(decrease) in cash and cash equivalents during the financial period/year	140	(157)	(12)
Cash and cash equivalents at the beginning of the financial period/year	46	203	203
<b>Cash and cash equivalents at the end of the financial period/year</b>	<u>186</u>	<u>46</u>	<u>191</u>
	9		

The accompanying notes form an integral part of these financial statements.

# THE FOREST COMPANY LIMITED

## NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

### 1. General information

#### The Forest Company in brief

The Forest Company Limited (the "Company") is a closed-ended investment company that combines the objectives of long-term capital appreciation, income yield and significant social impact. The Company focuses on equity investments with forest plantations in areas with high biological growth rates, such as Brazil and Colombia.

The Company seeks to invest in forestry projects that are or will be certified by a reputable forest management certification scheme and does not acquire native forest for harvesting.

The information relating to the financial period ended 30 June, 2021, included in these accounts does not constitute full statutory accounts. The Company's auditors reported on the 2020 accounts and their report contained an unqualified opinion. The critical accounting judgements have been explained in the section below headed "Critical accounting estimates and judgements".

After seven years of being listed on TISE (formerly the Channel Islands Stock Exchange), the Company's listing was cancelled with effect from 23 October, 2019, in accordance with the decision made by shareholders at the annual general meeting held in September 2019.

With effect from 1 January, 2020, the Company has been considered as an investment entity, following the decision in November 2019 to adopt a limited life structure and changes in the Company's investment policy. Projects will be managed taking into consideration the Company's divestment phase starting at the end of 2027.

Further to the letter from the Board sent to Shareholders on 28th May 2021, together with the accompanying Form of Election, the Election Deadline has now expired. The results of the election process are as follows;

Shareholders holding 73.6 per cent. of the Company's issued share capital elected for "Realise Now", Shareholders holding 2.2 per cent. of the Company's issued shares elected for "Realise Later" and 24.2 per cent of the Company's issued shares, in respect of which no election was made, are deemed to have elected for "Realise Later".

The Board recognises the strong election in favour of "Realise Now" and, as outlined in the Board's above mentioned letter, the Board has now appointed Stifel Nicolaus Europe Limited ("Stifel"), an appropriately qualified independent financial firm with specialist expertise in the forestry sector, to assist the Company in exploring all means of achieving the highest possible value for Shareholders, as efficiently and as promptly as possible. All options in this regard remain under consideration and, without indicating any preference for or greater likelihood of this outcome, the Company is mindful that these options include a possible sale of the Company.

#### Investment manager

The Forest Company has entered into an investment management agreement with the investment manager, Timber Capital. Under this agreement, the investment manager is responsible for sourcing, evaluating, negotiating, completing and monitoring investments in compliance with the Company's investment policy and subject to the overall supervision of the Board. The investment manager will also advise the Board on proposed divestments and will be authorised to implement approved divestments.

### 2. Accounting policies

#### a) Basis of preparation

The condensed interim financial statements have been prepared in accordance with IAS 34 under the historical cost convention, except for investment in subsidiaries, which has been measured at fair value through profit or loss in conformity with IFRSs as adopted by the EU. The condensed interim financial statements do not include all the information and disclosures required in annual financial statements and should be read in conjunction with the Company's annual financial statements for the financial year ended 31 December, 2020.

#### Changes in accounting policies

There are no changes in accounting policies for the financial period ended 30 June, 2021 affecting the financial statement presentation and accounting that require disclosure in this financial statement.

# **THE FOREST COMPANY LIMITED**

## **NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**

For the six months ended 30 June 2021

### **2. Accounting policies (continued)**

#### **a) Basis of preparation (continued)**

##### **Investment entity**

The Company became an investment entity as defined in the paragraph 27 of IFRS 10, with effect from 1 January, 2020. In accordance with IFRS 10, an investment entity measures and evaluates performance of substantially all its investments on a fair value basis. Moreover, such entity shall measure its investments in subsidiaries at fair value through profit or loss, in accordance with IFRS 9 and IFRS 13 being fair value the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where an entity is an investment entity, IFRS 12 requires additional disclosure, including:

- The fact the entity is an investment entity;
- Information about significant judgements and assumptions it has made in determining that it is an investment entity, and specifically where the entity does not have one or more of the “typical characteristics” of an investment entity;
- Details of subsidiaries that have not been consolidated (name, place of business, ownership interests held);
- Details of the relationship and certain transactions between the investment entity and the subsidiary (e.g. restrictions on transfer of funds, commitments, support arrangements, contractual arrangements); and
- Information where an entity becomes, or ceases to be, an investment entity.

An entity making these disclosures is not required to provide various other disclosures required by IFRS 12. See note 5.

Following the classification of TFC as an investment entity with effect from 1 January, 2020, and in accordance with IFRS 10, the Company measures and evaluates the performance of all its investments on a fair value basis. Investments in subsidiaries are measured as financial assets at fair value through profit or loss, in accordance with IFRS 9.

In a resolution approved in November 2019, the Board confirmed that it was satisfied that TFC meets the following criteria to be classified as an investment entity:

1. It obtains funds from one or more investors for the purpose of providing them with professional investment management services;
2. It commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
3. Measures and evaluates the performance of all its investments on a fair value basis.

##### **Consolidation exemption: Investment entity**

Since the Company meets the definition of an investment entity, it has adopted the amendments to IFRS 10 – Consolidated Financial Statements and, therefore, does not consolidate its subsidiaries. Instead, those investments in subsidiaries are measured as financial assets at fair value through profit or loss in accordance with IFRS 9.

##### **Going concern**

The company requires investment returns by way of dividends and cash flows from its investees in order to pay its liabilities and service its debt obligation. The Board has reviewed and challenged each investee’s free cash forecasts for the thirty-month period to 31 December, 2023, including restricted cash, borrowings, covenants and refinancing of credit lines, and concluded on their ability to pay the Company dividends. It has also reviewed and challenged both the Company’s forecasted expenditure in the forthcoming months and free cash flow being generated and distributed under various scenarios and assumptions.



# **THE FOREST COMPANY LIMITED**

## **NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**

For the six months ended 30 June 2021

### **2. Accounting policies (continued)**

#### **a) Basis of preparation (continued)**

##### **Going concern (continued)**

In 2020, the Company and its investees were tested on their ability to manage an unexpected and unprecedented event such as the COVID-19 crisis. The continuity of operations was possible due to the measures implemented and also due to the fact forestry business was considered essential and benefited from fewer restrictions (especially in Colombia).

The Company always considers the ongoing business (as it stands) as the most likely scenario with no additional investments or expansion projects factored in. Nevertheless, the investment manager continues to pursue market opportunities to sell the non-core and less productive farms of the investees in order to increase cash balances and provide funds for add-on forestry projects.

The Company has considered the refinancing of the MetLife loan expiring in October 2023, an outstanding debt of USD 11,625,000 to be refinanced. The inclusion of the outstanding debt increases the risk that projections, forward-looking assessments and estimates will deviate from budget and adjustments to the projections will be more frequent. It is expected that the Company's cash resources will be constrained depending on the recovery period for the pandemic.

Stress testing of the base case scenario for the thirty months period to 31 December, 2023, was undertaken to establish the conditions under which the Company would be required to take mitigating measures or access funds from alternative sources to continue operating, even if at a minimum level.

The tested stress scenarios for the investees' cash flow generation included (a) a deterioration in the current exchange rates between the BRL and the COP against the USD by 15%, (b) a reduction in the selling price of charcoal by up to 50% and (c) a reduction in the volume of wood that can be sold in existing markets by up to 50%. The results of these stressed scenarios showed that the investees would have to reduce silviculture expenditure, consider the sale of land assets, amongst others, to cover funding needs if no additional financing facilities could be secured. The Company, therefore, would have to consider a reduction in its overhead costs to mitigate the impact of lower revenue arising from its investees in Brazil and Colombia.

The following have been identified as areas of concern that will continue to be monitored very closely during this pandemic:

1. Wood demand — The Company's investees have significant volumes of wood that are already contracted for delivery in 2021 and 2022 in Brazil. In Colombia, a harsher government approach to the COVID-19 crisis has triggered social unrest and a number of strikes have occurred which have impacted operations. Further strikes are likely to occur which will make it more challenging for the investees to perform at prior year's turnover levels.
2. Charcoal price – During 2020, the significant devaluation of the Brazilian Real was an important driver of the country's export volumes and had the collateral effect of pushing charcoal market prices up to an unprecedented level. This trend continued during H1 2021 although the combination of increase in the interest rates and appreciation of the Real against the dollar is now pressuring the prices down. Cash-flow forecasts were prepared on the assumption that prices will continue to be at a high level, even if subject to some adjustments or possible downturns, which are difficult to predict. Stress scenarios consider the impact of a more severe downturns in charcoal price. Given the sensitivity of the projections to the charcoal market, close monitoring is required and diversification strategies are being pursued to mitigate the risk of a potential severe adverse impact arising from client or end-market concentration.
3. Client default events — Although the Company's investees have a significant portion of their sales paid in advance, credit risk is still relevant in the charcoal business and in the Colombian operations where many clients have slowed down operations and extended payment terms. Settlement agreements were put in place to address the accumulating overdue debt and investees' receivables continue to be monitored closely. At this time, no default events have been identified that raise concerns over the recoverability of the outstanding receivables, but this may change in the current and uncertain pandemic scenario.

**THE FOREST COMPANY LIMITED**  
**NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**  
For the six months ended 30 June 2021

**2. Accounting policies (continued)**

**a) Basis of preparation (continued)**

**Going concern (continued)**

4. Liquidity and credit downgrade — The Company's investees have financing facilities in place which have been renegotiated, also taking advantage of certain government COVID-19 measures, to alleviate interest and capital obligations, as well as to better adjust them to working capital needs. The materialisation of any of the stressed scenarios may require additional funding and investees are likely to increase their leverage and offer assets as collateral to secure the additional credit facilities.

The Company's liquidity position is tighter than in previous years, which has resulted from the combined effect of the depreciation of local currencies impacting the dividends paid by the investees and the need to keep higher cash resources in the projects to handle the on-going operations, unexpected events, and the recovery from the crisis. The investees' performance and investments fair value development are under close control.

A more robust and diversified client base, with longer contracts for wood and charcoal supply, together with significant unencumbered assets, that can either be sold or used to secure further finance, are an important part of the mitigation strategy that the Company is exploring in case of a material drop in its ongoing ability to sustain a good liquidity position.

COVID-19 is not yet completely under control, despite the vaccination programme, as new variants of the virus are spreading rapidly and pressuring governments and authorities to keep certain restrictions in place. The impact over longer periods is not yet known and recovery progress is different from country to country and business to business. Based on recent performance of the investees and while our portfolio companies are in sectors deemed to be essential and, therefore, not as heavily impacted by the crisis as many others, we understand that the broader macroeconomic impact may affect demand for our products or increase volatility of market prices. Nevertheless, we do not see a significant risk of a long-term decrease in the land and biological asset values of the investees. Therefore, the Board is confident that both the Company and its investees are able to manage the potential impact of COVID-19 on the business and that the Company will also have adequate resources to continue as a going concern for a period of at least 12 months from the date of signing these financial statements. The Company, therefore, continues to adopt the going concern basis for preparation of these financial statements.

The Board has also considered the various stress testing scenarios described above and notes that adverse effects, such as a drop in charcoal price and reduction in sales receipts for wood over the next 12 months, could result in a cash deficit and/or breaches of covenants against existing borrowing facilities.

These conditions and events indicate that a material uncertainty exists that may cast significant doubt upon the Company's ability to continue as a going concern, and, therefore, the Company may be unable to realise its assets and discharge its liabilities in the ordinary course of business. These financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

**Investment income**

Investment income is accounted for on an accrual basis.

The Company receives dividend distributions from its investees, which are accounted for as investment income in the statement of comprehensive income.

Overseas dividends are included gross of any withholding tax.

# THE FOREST COMPANY LIMITED

## NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

### 2. Accounting policies (continued)

#### c) Financial assets at fair value through profit or loss

The Company's business is investing in financial assets with a view to gaining from their total return in the form of income and capital growth. The portfolio of financial assets is managed, and its performance evaluated on a fair value basis, in accordance with a documented investment strategy. Information is provided internally on that basis to the Company's Board of Directors.

The Forest Company's investments are all focused in the forestry sector and its related activities. Except for BioCarbono and Silvotecnia, the cash flows of all the other projects are generated mainly through the sales of biological assets (eucalyptus and pine) and through the sale of land. Silvotecnia is a Colombian forestry and agricultural consulting company and BioCarbono produces charcoal.

Accordingly, upon initial recognition, the investments are classified by the Company as "held at fair value through profit or loss". The initial fair value is taken to be their acquisition cost excluding expenses incidental to purchase. In accordance with the accounting standards adopted by the Company, the investment at fair value through profit or loss is stated at fair value as at the reporting date. Fair value is defined as the price that would be received on the sale of an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

The Company uses multiple techniques to determine the fair value of its investments, maximising the use of relevant observable inputs. Each component of the projects' net assets is valued to determine the fair value of the projects. The balance sheet of the projects is comprised of biological assets, land assets and other net assets. The fair value of the projects results from the sum of the fair value of all the components.

The Company engages independent valuers to evaluate the fair value of the forest assets (land and biological assets), representing more than 90% of the projects' net assets, charcoal kilns and Silvotecnia's enterprise value.

#### Critical accounting estimates and judgements on valuation of financial assets

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods. More details have been disclosed in Note 3(b).

#### d) Expenses

All expenses are accounted for on an accrual basis and include fees and other expenses paid to the administrators, the investment manager and the Directors.

#### e) Functional and presentation currency

The primary activity of the Company is to invest in a portfolio of forestry projects in Brazil and Colombia. The performance of the Company is measured and reported to the investors in USD. The Board considers the USD as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in USD, which is also the Company's functional currency.

#### f) Foreign currency translation

Transactions in foreign currencies are translated into USD at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into USD at the foreign exchange rate ruling at the reporting date. Foreign currency exchange differences arising on translation of realised gains and losses on the disposal or settlement of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into USD at the foreign currency exchange rates ruling at the date that the values were determined. Foreign currency exchange differences relating to monetary items are recognised in the statement of comprehensive income.

**THE FOREST COMPANY LIMITED**  
**NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**  
For the six months ended 30 June 2021

**2. Accounting policies (continued)**

**f) Foreign currency translation (continued)**

The exchange rates used in these financial statements relative to the USD are as follow:

	Jan - Jun 2021		Jan - Jun 2020		Jan - Dec 2020	
<i>Currency</i>	<i>Closing rate</i>	<i>Average rate</i>	<i>Closing rate</i>	<i>Average rate</i>	<i>Closing rate</i>	<i>Average rate</i>
Brazilian reals (BRL)	5.006	5.3846	5.466	5.429	5,1937	5.2301
Sterling (GBP)	0.7230	0.6875	0.805	0.7941	0.7327	0.7346
Colombian pesos (COP)	3,752	3,625.6	3,749	3,748	3,419.0	3,718.8

Financial assets and financial liabilities are recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

**g) Financial instruments**

**Financial assets**

*Fair value measurement and hierarchy*

The Company has met the criteria within IFRS 10 to qualify as an investment entity. The Company has not prepared financial statements on a consolidated basis; rather, it accounts for its investment in the subsidiaries, as required under IFRS 10, at fair value through profit or loss in accordance with IFRS 9.

*i. Classification*

As noted above, the Company's investments in the equity of the underlying subsidiary companies are classified as financial assets rather than being consolidated, as the Company has met the IFRS 10 investment entity criteria. The investments are designated as financial assets at fair value through profit or loss on initial recognition as this is the way in which the Company manages and evaluates the performance of these assets. The Company has invested its funds into each underlying subsidiary with the principal objective of benefiting from gains arising from the subsidiary's activities.

*ii. Recognition/derecognition*

Purchases and sales of Investments were initially recognised on the trade date, the date on which the Company commits to purchase or sell the investment. Since the Company meets the IFRS 10 investment entity criteria, the Company was qualified as an investment entity and where changes in the investment value are recognised in the statement of comprehensive income as 'net loss on financial assets at fair value through profit or loss'.

*iii. Measurement*

All investments are classified as held at fair value through profit or loss, because they are held in a portfolio of assets managed on a fair value basis and no contractual cash flows are applicable as the Company is an investment entity. Investment transactions are accounted for on a trade date basis. Assets are derecognised at the trade date of the disposal. Proceeds are measured at fair value, which are regarded as the proceeds of sale less any transaction costs. The fair value of the financial instruments in the statement of financial position is based on their quoted bid price at the statement of financial position date, without deduction of the estimated future selling costs. Unquoted investments are valued by the Directors using primary valuation techniques such as earnings multiples, recent transactions and net assets.

Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the statement of comprehensive income as 'net loss on financial assets at fair value through profit or loss'.

**THE FOREST COMPANY LIMITED**  
**NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**  
For the six months ended 30 June 2021

**2. Accounting policies (continued)**

**g) Financial instruments (continued)**

**Financial assets (continued)**

*Fair value estimation*

The value of the Company's investments is based on the net asset value (NAV) of the subsidiaries. NAV is a reasonable approximation of the fair value as the significant assets of the investee are independently valued using fair valuation techniques.

*Financial assets at amortised cost*

Financial assets arise principally from assets when the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and they are subsequently carried at amortised cost using the effective interest rate method, less provisions for impairment.

Trade receivables are measured upon initial recognition at the transaction price. Trade receivables and other receivables are subsequently measured at amortised cost using the effective interest rate method. For the financial period ended 30 June, 2021, there were no trade and other receivables.

The entity does not purchase or originate financial assets with a significant financing component or financial assets with significant credit impairment at recognition. Any changes in the loss allowance are recognised against the relevant income category in the statement of comprehensive income.

*Cash and cash equivalents*

Cash and cash equivalents are carried at cost. They comprise cash in hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

*Derecognition of financial assets*

A financial asset (in whole or in part) is derecognised when the entity has substantially transferred all the risks and rewards of ownership, when it no longer has control over the asset or a portion of the asset or when the contractual right to receive cash flow from the asset has expired.

**Financial liabilities**

*Financial liabilities at amortised cost*

Trade payables and other short-term monetary liabilities are initially recognised at fair value.

Financial liabilities at amortised cost are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the amortisation process. Amortised cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method.

*Derecognition of financial liabilities*

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

**h) Taxation**

The entity has filed for and received tax-exempted status from the tax authorities in Guernsey under the provisions of the Income Tax (Exempt Bodies) (Guernsey) Ordinances, 1989, and is charged an annual exemption fee of GBP 1,200.

# **THE FOREST COMPANY LIMITED**

## **NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**

For the six months ended 30 June 2021

### **2. Accounting policies (continued)**

#### **i) Provisions**

Provisions are recognised when the entity has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and the size of the transfer can be reasonably estimated.

#### **j) Segment reporting**

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity).

The Company's investments which have been classified at fair value through profit or loss are based in different geographical regions. More details have been disclosed in Note 5.

### **3. Critical accounting estimates and judgements made in applying the entity's accounting policies**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future financial periods.

#### **a) Classification of entity**

The Board considered that the entity meets the definition of an investment entity under IFRS 10 as a result of the implementation of the new investment policy, including limited life. In accordance with IFRS 10, an investment entity is required to apply the exception to consolidation and instead account for its investment in a subsidiary at fair value through profit or loss. With effect from 1 January, 2020, the Company classifies its investments in subsidiaries as financial assets at fair value through profit or loss.

#### **b) Valuation of investment**

In accordance with the accounting standards adopted by the Company, the investment at fair value through profit or loss is stated at fair value as at the reporting date. Fair value is defined as the price that would be received on the sale of an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

The Company uses multiple techniques to determine the total fair value of its investments, maximising the use of relevant observable inputs. Each component of the projects' net assets is valued to determine the total fair value of the projects. The balance sheet of the projects is composed of biological assets, land assets, working capital and net debt. The fair value of the projects results from the sum of the fair value of all the components.

As there is not an active market for the investments, the Directors have assessed fair value using the adjusted net asset value per investment. NAV is a reasonable approximation of the fair value as the most significant assets of the investees, are independently valued using a fair valuation approach as per IFRS 13.

When assessing the fair value of the investments, the fair value of the investment's assets and liabilities is considered. The fair values of the investment property, land, biological assets and carbonisation assets of the investees derive from the valuation reports prepared by the independent valuer engaged by the Company. The independent valuer has for, the mid-year valuations of biological assets, considered two bases:

- a) derived values based on a perpetuity cash flow model discounted at an average of WACC and discount rates derived from market evidence; and
- b) the Company's existing valuation policy (current rotation only with increased discount rate for plantations less than one year old) where cash-flows were discounted at the WACC

The difference in value arising from these two bases amounts to approximately 6% of the Company's net asset value, the higher value arising from basis (b).

**THE FOREST COMPANY LIMITED**  
**NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**  
For the six months ended 30 June 2021

**3. Critical accounting estimates and judgements made in applying the entity's accounting policies (continued)**

**b) Valuation of investment (continued)**

The Board has decided to follow the latter approach and thus to recognise fair value adjustments to the biological assets based on the Company's existing valuation policy basis in the interests of consistency with prior periods and with the approach adopted by previous independent valuers.

Valuations were based on the assumption that the owner sells the assets in the open market without a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement that could affect the value of the assets. The valuations are also based on certain estimates of the investees concerning discount rates, rotations/production cycles, growth rates, prices, forecast wood flow, the market and its capacity to absorb the wood flow, costs and future eligibility for the current tax regimes and rates of the Company, and they are sensitive to changes in these assumptions. When preparing their valuations, the valuers are required to consider other recent transactions in the market to ensure that these assumptions are reasonable and that potential purchasers of the Company's investments would make comparable assumptions.

**4. Investment income**

Investment income consists of dividends received for the financial period/year as follows:

	<b>Unaudited Jan - Jun 2021 USD '000</b>	<b>Audited 31 Dec 2020 USD '000</b>	<b>Unaudited Jan - Jun 2020 USD '000</b>
SP Timberland Holdings Limited	2,486	3,691	1,984
MS Timberland Holdings Limited	596	1,096	409
	<u>3,082</u>	<u>4,787</u>	<u>2,393</u>

**5. Financial assets at fair value through profit or loss**

The movement in financial assets held at fair value through profit or loss can be analysed as follows:

<b>Description</b>	<b>Unaudited 30 Jun 2021 Total USD'000</b>	<b>Audited 31 Dec 2020 Total USD'000</b>	<b>Unaudited 30 Jun 2020 Total USD'000</b>
Opening balance	<u>173,927</u>	<u>183,507</u>	<u>177,428</u>
Fair value adjustment	(2,882)	10,608	(270)
Exchange differences	(1,242)	(32,131)	(41,424)
Net loss on financial assets at fair value through profit or loss	<u>(4,124)</u>	<u>(21,523)</u>	<u>(41,694)</u>
Additional capital paid in	56	70	15
MetLife loan restructuring*	-	11,625	-
Payment on account (MetLife interests)	-	248	498
Net deductions	<u>56</u>	<u>11,943</u>	<u>513</u>
<b>Closing balance</b>	<u><b>169,859</b></u>	<u><b>173,927</b></u>	<u><b>136,247</b></u>

\* See Note 10 for information about the restructuring of the MetLife loan.

**THE FOREST COMPANY LIMITED**  
**NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**  
For the six months ended 30 June 2021

**5. Financial assets at fair value through profit or loss (continued)**

The financial assets breakdown per investment for the financial period ended 30 June, 2021, can be analysed as follows:

Project	Country	Audited	FV	Other	Exchange	Unaudited
		FV as of 31 Dec 2020 USD '000	adjustment USD '000	adjustment USD '000	differences USD '000	FV as of 30 Jun 2021 USD '000
AB Florestal*	Brazil	56,604	(3,350)	(118)	1,825	54,961
Kaa	Brazil	20,951	1,411	(2,117)	746	20,991
Aimara	Brazil	7,755	(774)	1,152	226	8,359
Ibiracu	Brazil	19,137	1,898	(1,514)	718	20,239
BioCarbono	Brazil	5,666	3,488	-	507	9,661
MS Timberland	Colombia	52,813	(4,082)	(320)	(4,682)	43,729
Vichada	Colombia	5,548	682	56	(502)	5,784
Antioquia	Colombia	5,440	762	-	(80)	6,122
Other equity investments	Guernsey	13	-	-	-	13
		173,927	35	(2,861)	(1,242)	169,859

The financial assets breakdown per investment for the financial period ended 31 December 2020 can be analysed as follows:

Project	Country	Unaudited	FV	Other	Exchange	Audited
		FV as of 31 Dec 2019 USD '000	adjustment USD '000	adjustment USD '000	differences USD '000	FV as of 31 Dec 2020 USD '000
AB Florestal*	Brazil	82,334	7,107	11,873	(19,907)	81,407
Kaa	Brazil	26,349	1,377	-	(6,775)	20,951
Aimara	Brazil	10,193	25	-	(2,463)	7,755
MS Timberland	Colombia	54,930	202	-	(2,319)	52,813
Vichada	Colombia	5,785	(78)	70	(229)	5,548
Antioquia	Colombia	3,903	1,975	-	(438)	5,440
Other equity investments	Guernsey	13	-	-	-	13
		183,507	10,608	11,943	(32,131)	173,927

\*In 2019, the investment included the effect of the MetLife loan which was in SP Timberland LLC for USD 11,625,000 and which was transferred as a long-term loan to the Company as at 31 December, 2020. See Note 11 for information about the restructuring of the MetLife loan. The project includes all entities with operations in Minas Gerais (Brazil) region which are, AB Florestal, BioCarbono and Ibiracu projects.



**THE FOREST COMPANY LIMITED**  
**NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**  
For the six months ended 30 June 2021

**5. Financial assets at fair value through profit or loss (continued)**

The following projects/investments are those which have been classified at fair value through profit or loss:

Name	Place of incorporation and operation	Ownership interest %	Voting power held %
<b>TFC II Limited</b>	Guernsey	100	100
<b>TFC do Brasil Participações Ltda</b>	Brazil	100	100
<b>Aimara Project</b>			
Aimara Empreendimentos Imobiliários e Participações Ltda#	Brazil	100	100
<b>Kaa Project</b>			
Kaa Emp. Imobiliários e Part. Ltda#	Brazil	100	100
<b>Ibiracu Project</b>			
Ibiraçú Emp. Imobiliários, Atividades Florestais e Part. Ltda#	Brazil	100	100
<b>BioCarbono Project</b>			
Rio Verde Participações Ltda	Brazil	100	100
Biocarbono Produção e Comércio de Carvão Ltda#	Brazil	100	100
Froncosa Siderurgica Ltda#	Brazil	100	100
<b>AB Florestal Project</b>			
SP Timberland Holdings	BVI		
SP Timberland Holdings LLC	Delaware	100	100
SP Timberland LLC	Delaware	100	100
Froncosa Empreendimentos Imobiliários, Atividades, Florestais e Participações Ltda#	Brazil	100	100
Surubim Emp. Imobiliários, Atividades Florestais e Part. Ltda#	Brazil	100	100
AB Florestal Participações Ltda#	Brazil	100	100
Hadoque Propriedades Rurais e Participações Ltda#	Brazil	100	100
Piava Florestal Participações Ltda#	Brazil	100	100
<b>Antioquia Project</b>			
Antioquia Wood Holdings Limited	BVI	100	100
Silvotecnia S.A.**	Colombia	58.4	81.2
<b>Vichada Project</b>			
Timberland Holdings Limited	BVI	100	100
La Esperanza Timberland Holdings Limited	BVI	100	100
Potosi Timberland Holdings Limited	BVI	100	100
La Diana Timberland Holdings Limited	BVI	100	100
Las Ventas Timberland Holdings Limited	BVI	100	100
Santa Ana Florestal Limited	BVI	100	100
Canaguay Wood Holdings Limited	BVI	100	100
La Esperanza Wood Holdings Limited	BVI	100	100

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**5. Financial assets at fair value through profit or loss (continued)**

Name	Place of incorporation and operation	Ownership interest %	Voting power held %
<b>Vichada Project (continued)</b>			
La Libertad Wood Holdings Limited	BVI	100	100
La Paz Wood Holdings Limited	BVI	100	100
Paraiso Wood Holdings Limited	BVI	100	100
El Amparo Wood Holdings Limited	BVI	100	100
El Gavan Wood Holdings Limited	BVI	100	100
El Morichal Wood Holdings Limited	BVI	100	100
<b>MS Timberland</b>			
MS Timberland Holdings Limited	BVI	90	90
MS Timberland Holdings (Colombian Company Branch)	Colombia	90	90
Reforestadora el Guasimo SA	Colombia	90	90

\*\* Voting rights of 81.2% with nominal ownership of 58.4%

The comparatives 2020 ownership interest were the same as per financial period ended 30 June, 2021.

There are no restrictions on transfer of funds between the company and subsidiaries. There are no other commitments, support arrangements, contractual arrangements between the company and subsidiaries.

Ibiraçu investee has been involved in a lawsuit as a claimant against E. S. Reforestamento. In 2009, Ibiraçu engaged with E. S. Reforestamento to perform certain silviculture services, including soil preparation and plantation of some areas. In Ibiraçu's view, these services were not rendered to a satisfactory standard, causing the company to incur significant losses as the rate of survival of the newly planted trees was very low. The company had to engage another service supplier to replant the area. Ibiraçu, therefore, claimed for the recovery of payments made to E. S. Reforestamento for the silviculture services, plus interest and legal costs, totalling BRL 12.4 million (USD 2.5 million).

During 2018, the court of first instance ruled against E. S. Reforestamento, which appealed that decision. At the beginning of 2019, the court rejected the appeal from E. S. Reforestamento. Ibiraçu has already identified an asset belonging to E.S. Reforestamento which can be pledged to guarantee its right to receive the above-mentioned compensation per the judicial decision. However, other third parties also have a pledge on that same asset with priority over Ibiraçu, which will have to wait for them to release it so as to proceed with execution of the pledge. Collection of the indemnity is still not certain in time or value as of the date of release of this report and, therefore, no impact of this lawsuit was taken into consideration for the Company's assessment of this investee's fair valuation.

**6. Administrative expenses**

	Unaudited Jan - Jun 2021 USD '000	Audited 31 Dec 2020 USD '000	Unaudited Jan - Jun 2020 USD '000
Investment management fees*	1,111	2,570	1,557
Legal and professional fees	268	386	135
Administration fees	228	492	210
Directors' fees and expenses	190	399	165
Marketing and investors relation expenses	11	439	-
Valuation fees	49	128	52
Travel expenses	-	112	69
Audit and tax advisor fees	97	80	50
Consultancy fees	43	72	119
Other administrative expenses	24	100	27
	<b>2,021</b>	<b>4,778</b>	<b>2,384</b>

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**6. Administrative expenses (continued)**

\*More disclosures on investment management fees in Note 8.

Overall, administrative expenses decreased by 15% in comparison to same period in 2020, driven by a significant decrease in the investment management fee (in line with the reduction in the adjusted net asset value). A reduction in travel and consultancy expenses also contributed to this variation.

The remuneration payable to Directors for the financial period was USD 164,000 (2020: USD 146,750). An amount of USD 26,250 has been accrued as share-based payment to the Directors for the financial period (2020: nil).

Other administrative expenses include bank charges, regulatory fees and insurance costs.

**7. Taxation**

The Company is exempt from Guernsey taxation under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989, and an annual exemption fee of GBP 1,200 is charged by the States of Guernsey in respect of this exemption.

It is the intention of the Directors to conduct the affairs of the Company so as to ensure that it continues to qualify for exempt company status for the purposes of Guernsey taxation.

**8. Investment management fee and performance fee**

**Investment management fee**

Pursuant to the entity's revised investment management agreement, which was amended on 19 November, 2019, the investment manager is paid an annual management fee, payable quarterly in advance, equal to (i) one quarter of 1.5% of the adjusted net asset value or (ii) one quarter of 1.0% of the capital raised since inception, whichever is lower for the relevant quarter. Prior to the amendment of the agreement, the manager was paid an annual management fee, payable quarterly in advance, equal to (i) one quarter of 1.5% of the adjusted net asset value.

For the financial period ended 30 June, 2021, the Company incurred investment management fees of USD 1.11 million (2020: USD 1.55 million), with an outstanding balance of USD 0.6 million at the end of the financial period (2020: USD 0.6 million).

**Performance fee**

Under the terms of the amended investment manager's agreement, dated 19 November, 2019, 90% of distributable amounts in excess of the hurdle amount (if any) shall be paid to the investment manager until the cumulative amounts paid and payable to the investment manager up to and including the relevant date equal 10% of the sum of (i) all distributable amounts allocated for distribution to shareholders up to the relevant date and (ii) cumulative payments made to the manager. Once the 10% level is reached, the manager performance fee share reduces to 10% of the distributable amounts in excess of the hurdle amount. The hurdle rate is zero from 31 December, 2018, until the trigger date — the date on which the adjusted NAV per share first equals or exceeds USD 10.50 per share. Once this is met, the hurdle shall then be an annual compounding amount of 8% per annum.

For the financial period ended 30 June, 2021, the Company has not accrued any performance fees (2020: Nil).

# THE FOREST COMPANY LIMITED

## NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

### 9. Cash and cash equivalents

Cash and cash equivalents comprise cash held by the entity and short-term bank deposits available on demand. The carrying amounts of these assets approximate to their fair value. The table below provides a breakdown of cash and cash equivalents that are considered to be restricted and unrestricted as of 30 June, 2021.

	Unaudited 30 Jun 2021 USD '000	Audited 31 Dec 2020 USD '000	Unaudited 30 Jun 2020 USD '000
Restricted			
Amounts held in escrow	17	17	17
	17	17	17
Unrestricted	169	29	174
	<u>186</u>	<u>46</u>	<u>191</u>

### 10. Interest-bearing borrowings

In 2020, the MetLife loan in SP Timberland LLC was restructured and the borrower obligations were transferred to the Company amounting to USD 11,625,000 with a fixed interest rate of 8.59% and maturity on 1 October, 2023. As at 30 June, 2021, the closing balance of the interest-bearing borrowings remain at USD 11,625,000. The Company recognised interest of USD 497,930 (31 Dec 2020: USD 1,001,316) in the statement of comprehensive income for the financial period ended 30 June, 2021.

### 11. Trade and other payables

	Unaudited 30 Jun 2021 USD '000	Audited 31 Dec 2020 USD '000	Unaudited 30 Jun 2020 USD '000
Trade payables	1,178	1,602	1,510
Accruals	454	392	112
Intercompany payable	68	68	68
Other payables	266	268	17
	<u>1,966</u>	<u>2,330</u>	<u>1,707</u>

Trade payables as at 30 June, 2021, include an outstanding balance of USD 0.6 million payable to the investment manager (2020: USD 0.6 million).

Accruals include Directors fees payable amounting to USD 328,000 (31 Dec, 2020: USD 164,000) referring to the quarterly fees outstanding for the period from Q3 2020 to Q2 2021.

Other payables mainly included MetLife loan interest payable amounting to USD 249,647 (31 Dec, 2020: USD 251,011).

### 12. Capital management

The entity manages its capital to ensure that it is able to continue as a going concern while maximising the return to shareholders through investment in the equity of its subsidiaries. The capital structure of the entity consists of equity attributable to the equity holders of the Company, which comprises issued share capital and accumulated profit or loss, as disclosed in the statement of financial position. The entity seeks to maintain a suitably diversified portfolio of investments in order to manage the entity's economic exposure to any counterparty, single project or separate legal entity.

# THE FOREST COMPANY LIMITED

## NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

### 12. Capital management (continued)

The Company currently meets its day-to-day operating capital requirements through the receipt of dividend income. The Company's policy is to maintain an appropriate cash balance to meet future cash demands and it has strict cost controls in place to maximise distributions to investors. The investment objective of the entity is to seek long-term capital appreciation, and, pursuant to its dividend policy, the Company aims to pay an aggregate annual dividend of 3–5% of the adjusted NAV at the previous year end. However, the decision made by the Board of the Company regarding the dividend to be paid will be made with a view to optimising long-term total returns to shareholders and will take into account forecasts of the future results of the investee companies.

With effect from 1 January, 2020, the Company has been considered as an investment entity, following the decision in November 2019 to adopt a limited life structure and changes in the Company's investment policy. Those investments in subsidiaries are measured as financial assets at fair value through profit or loss in accordance with IFRS 9. Projects will be managed taking into consideration the Company's divestment phase starting at the end of 2027.

### 13. Share capital account

#### Externally imposed capital requirements

There are no external capital requirements imposed on the entity.

As at 30 June, 2021, the authorised share capital of the Company was USD 20,000,002 (2020: USD 20,000,002), divided into 100,000,000 (2020: 100,000,000) redeemable ordinary shares of USD 0.10 each, 100,000,000 (2020: 100,000,000) redeemable Class A ordinary shares of USD 0.10 each and two (2020: two) non-redeemable management shares of USD 1.00 each. Redemption is at the sole discretion of the Directors.

The management shares do not carry any rights to dividends and, in a winding up, rank only for a return of the amount of paid capital on such shares after a return of capital on all other shares in the Company.

The holders of ordinary shares and Class A ordinary shares, which are both classified as equity, shall have the following rights:

*i) Dividends*

Holders of ordinary shares and Class A ordinary shares are entitled on a *pari passu* basis to receive, and participate in, any dividends or other distributions resolved for any accounting period or other income or right to participate therein.

*ii) Winding up*

In a winding up, the holders of ordinary shares and Class A ordinary shares shall be entitled, on a *pari passu* basis, to the surplus assets remaining after payment of (i) all the creditors of the Company and (ii) the holders of management shares, in accordance with the Company's Articles of Association.

*iii) Voting*

The holders of ordinary shares and Class A ordinary shares shall have the right to receive notice of and to attend and vote at general meetings of the Company. At these meetings, each holder of an ordinary share or Class A ordinary share who is present in person, by proxy or by a duly authorised representative (if a corporation) shall, upon a show of hands, have one vote. Upon a poll, each such holder present in person, by proxy or by a duly authorised representative (if a corporation) shall have one vote for each ordinary share or Class A ordinary share (as the case may be) held by him.

The Class A ordinary shares rank *pari passu* in all respects (particularly in relation to redemption, entitlement to dividends and the return of capital upon a winding up of the Company) with ordinary shares and are subject to the same rights, obligations and entitlements, but neither class is listed or traded on any share exchange.

During the financial period ended 30 June, 2021, the Company issued 21,261 new shares to the Directors (2020: nil).

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**14. Contingent assets and liabilities**

As of 30 June, 2021, no contingent assets and liabilities were identified for the Company.

**15. Subsequent events**

Since the reporting date and up to the date of signing this report, no subsequent events requiring disclosure have occurred.