

The Forest Company II

Financial Statements
For the six months ended 30 June 2022

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, 5th Floor
45 Reid Street
Hamilton, HM 12
Bermuda

Guernsey Administrator & Company Secretary

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^o 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

11 New Street
St Peter Port
GY1 2PF
Guernsey

Valuers

For financial year 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

For financial period 2022
KPMG Corporate Finance Ltda.
Arquiteto Olavo Redig de Campos Street, 105,
10th floor
04711-904 - Sao Paulo /SP
Brazil

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

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'

CIF: Certificado Incentivo Florestal, government subsidy to forestry investments

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

DCF: Discounted cash flow

Deferred tax: Tax payable or recoverable in a future period

Depletion: The fair value of biological assets that have been harvested

El Guasimo: Reforestadora El Guasimo

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

FRC: Financial Reporting Council

Froncosa: Frondosa 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 Participacoes 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

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

THE FOREST COMPANY LIMITED

GLOSSARY

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

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

Nature-based solutions: Solutions that are inspired and supported by nature, which are cost-effective, simultaneously provide environmental, social and economic benefits and help build resilience. Such solutions bring more, and more diverse, nature and natural features and processes into cities, landscapes and seascapes, through locally adapted, resource-efficient and systemic interventions

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

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. 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. Currently there are no unamortised costs included in the adjusted NAV.

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 1st, 2020 onwards the Company has incorporated this adjustment in the fair value of the Company's investments and it 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 expense

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

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')

TIMO: Timberland Investment Management Organization

TOPCO: The Forest Company Limited being the holding company of the Investee Companies

UK: The United Kingdom of Great Britain and Northern Ireland

USD: United States dollar

THE FOREST COMPANY LIMITED

INVESTMENT MANAGER'S REPORT

MAIN ACHIEVEMENTS

During 1H 2022, the value of The Forest Company's assets increased by 5.9% in USD. The Investee Companies generated income of USD 13.8 million. The aggregated cash balances of The Forest Company Group of companies, at period end were USD 5.9 million.

The management implemented several actions during 1H 2022 to improve operational performance and shareholder value. These actions are further outlined in the report. Some of the main achievements are described below:

- Entered into a MOU with Dexco in Colombia for the development of 6,000ha of eucalyptus plantations. The greenfield plantations will supply, under a long-term supply agreement, Dexco's future industry expansion in Colombia
- Signed a MOU with potential buyer of 3 million carbon credits. The sale will finance the development of the Santa Ana carbon project in Colombia. The project will generate a total of 5.6 to 7.0 million carbon credits
- Following the sale of the biological assets of Aimara to Kablin in December 2021, we negotiated the further expansion of the long-term partnership with Klabin, subject to final completion, by including the Kaa pine assets and Aimara land assets in Parana
- Repaid the Green Bond in Brazil. The Bond was issued in 2019 and the proceeds were used to repay the credit line with MetLife. The final payment to the bondholders was made in Q1 2022
- Increased the value of wood sold by 68% per m3 compared to 1H 2021, mainly through increasing the price of added value products, such as charcoal
- Entered into a new supply agreement in Minas Gerais for the delivery of 389,065 m3 during 2022. Total contract value of BRL 27.2 million

THE FOREST COMPANY LIMITED

INVESTMENT MANAGER'S REPORT (CONTINUED)

RECENT UPDATES

BRAZIL MARKET UPDATE

After a steady recovery last year, the wood market was extremely heated in all regions of Brazil during 1H 2022.

The charcoal market in Minas Gerais has shown the strongest performance with charcoal prices hitting a new record in 1H 2022, driven by the high demand for Brazilian pig iron, prices of which have also hit all-time record. It is speculated that the market will remain strong in the medium term, with the conflict between Russia and Ukraine triggering a collapse of the global supply of pig iron. However, at the end of the semester there was strong downward pressure on the record prices seen in the period. Prices normally tend to increase in Q4 as a result of the rainy season starts which reduces supply.

In Paraná, the eucalyptus market maintained its good momentum, during 1H 2022, with high demand from Pulp and Paper companies leading to a strong increase in stumpage wood prices. The pine market also showed strong demand and prices maintained an upward trend.

The outlook for wood and charcoal prices is very positive. Demand remains strong in The Forest Company's markets, contributing to higher prices. There is a structural wood supply deficit given the high demand and the low availability of wood.

Several factors explain the supply shortage. First of all, adverse climate events, like the reduction in precipitation observed since 2018, reducing forest productivity. Second, in recent years pine plantations were substituted by agricultural crops, especially in the states of the Southern Region, contributing to the reduction of the forest base.

This means that intensive planting investment will be required in the short term. As a result, the large companies are looking for self-supply alternatives in order to guarantee their raw materials. Their strategy involves the acquisition of timberland assets, the establishment of new plantations, long-term offtake agreements and partnerships with TIMOs. The Forest Company is very well positioned to capture the opportunities that arise.

COLOMBIA MARKET UPDATE

The Colombian wood market is also performing well, driven by high demand from the construction sector.

Wood demand remains higher than local wood production, driving up prices and leading to higher wood imports, especially from Chile.

The Colombian construction industry is expected to grow by 14.0% in 2022, after growing by 5.5% in 2021.

The government is focused on infrastructure investments and the continuity of programs that promote the development and financing of housing such as VIS (low-income housing) and also non-VIS. Moreover, ongoing efforts to accelerate the completion of Colombia's fourth-generation road infrastructure program and push forward with plans for its fifth-generation concessions program should continue to drive the industry's growth in the quarters ahead.

THE FOREST COMPANY LIMITED

INVESTMENT MANAGER'S REPORT (CONTINUED)

ADJUSTED NET ASSET VALUE

	1H 2022	2H 2021	1H 2022 to 2H 2021%	1H 2021	1H 2022 to 1H 2021%
Adjusted NAV (USD million)	174.0	164.3	5.9%	177.5	-0.4%
Adjusted NAV per share (USD)	3.40	3.21	5.9%	3.46	-0.4%
Adjusted NAV per share adding back dividends since inception (USD)	5.05	4.86	3.9%	5.12	-1.3%

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 2022 is as follow:

	1H 2022 USD per share	1H 2022 USD million	2H 2021 USD per share	2H 2021 USD million
IFRS NAV	3.08	158.0	2.87	147.1
Adjustment for notional land lease charge	0.32	16.0	0.34	17.2
Adjusted NAV	3.40	174.0	3.21	164.3

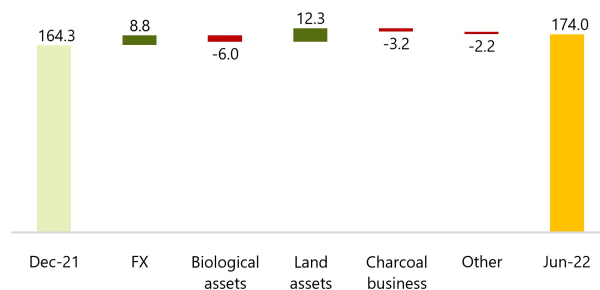
The adjusted NAV increased by 5.9% in 1H 2022, from USD 164.3 million in 2H 2021 to USD 174.0 million in 1H 2022.

At the end of June 2022, the adjusted NAV per share was USD 3.40 (2H 2021: USD 3.21). Adding back all previous dividends paid since inception, the adjusted NAV per share was USD 5.05 (2H 2021: USD 4.86).

The main impacts in 1H 2022 compared to 2H 2021 were driven by the following changes in the investee companies fair value evaluation:

- USD 8.8 million increase due to the appreciation of local currencies;
- USD 6.0 million decrease in the fair value of investees' biological assets. The main reason for the decrease was a higher discount rate and lower forecasted wood volume in KAA;
- USD 12.3 million, market driven, increase in the land value, mainly in MST and KAA;
- A decrease of USD 3.2 million in the valuation of the charcoal assets;
- A decrease of USD 2.2 million in other assets and liabilities;

ADJUSTED NAV BREAKDOWN (USD MILLION)



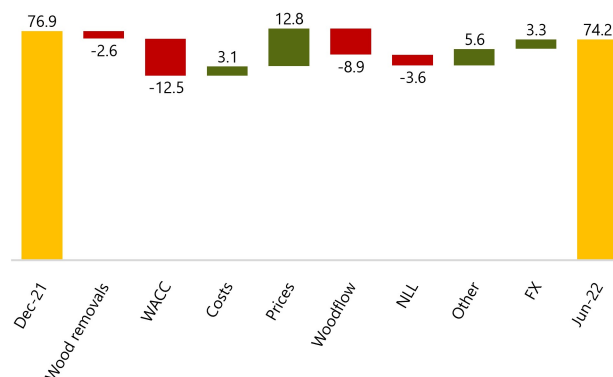
THE FOREST COMPANY LIMITED

INVESTMENT MANAGER'S REPORT (CONTINUED)

Considering the impact of FX changes, the total biological assets of the Company's investees decreased by USD 2.8 million during 1H 2022, mainly due to the significant increase in the discount rates, underlying the biological assets fair valuations, 300 bps for Brazil and 350 bps for Colombia. The main movements and drivers for the biological asset value during the period were:

- USD 2.6 million decrease as a result of wood removals during the period;
- USD 12.5 million decrease owing to an increase in the discount rate;
- USD 3.1 million increase due to lower costs assumed in the forecast;
- USD 12.8 million increase owing to a change in wood prices in all projects;
- USD 8.9 million decrease in the estimated future wood flow driven by lower forecasted volume in KAA, which was impacted by recent years' drought, and reduced volumes in MS Timberland;
- USD 3.5 million decrease arising from assumed higher NLL compared to previous valuations;
- Changes in FX rates contributed to an increase of USD 3.3 million in the biological asset value. During 1H 2022, the BRL appreciated by 7.3% against the USD, while the COP depreciated by 0.6%;
- Other factors combined accounted for an increase of USD 5.6 million.

MOVEMENTS IN BIOLOGICAL ASSETS (USD MILLION)



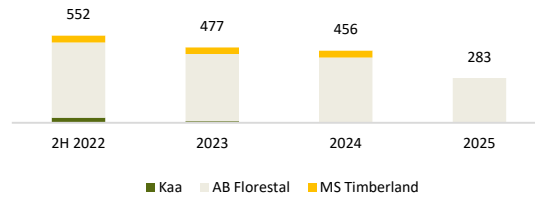
THE FOREST COMPANY LIMITED

INVESTMENT MANAGER'S REPORT (CONTINUED)

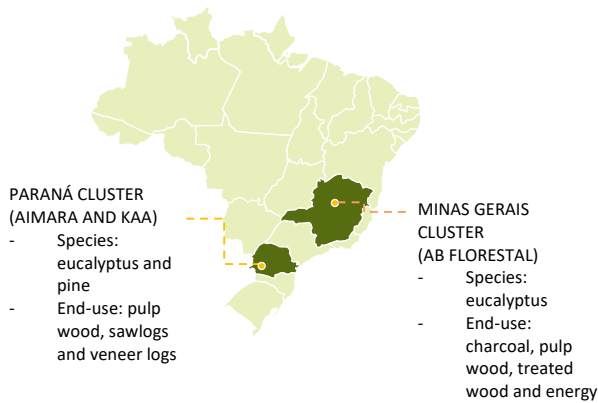
PROJECT OVERVIEW

During 1H 2022, a total of 289,793 m³ of wood (including volume carbonised through the charcoal operations) was sold by the Company's investees, in addition to a total of 80,517 MDC of charcoal. A total of 1,767,588 m³ of wood is currently contracted to be delivered by the end of 2025.

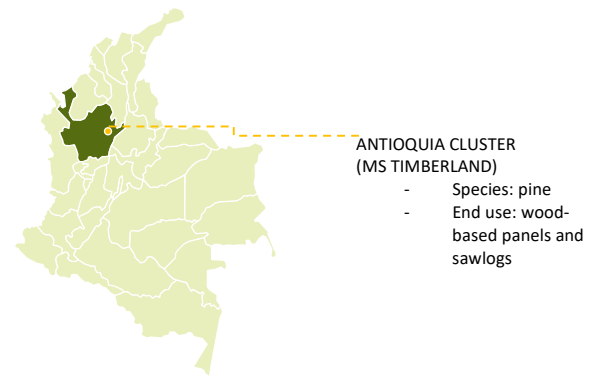
CURRENT CONTRACTED SALES ('000 M³)



BRAZILIAN PROJECT LOCATIONS



COLOMBIAN PROJECT LOCATION



THE FOREST COMPANY LIMITED

INVESTMENT MANAGER'S REPORT (CONTINUED)

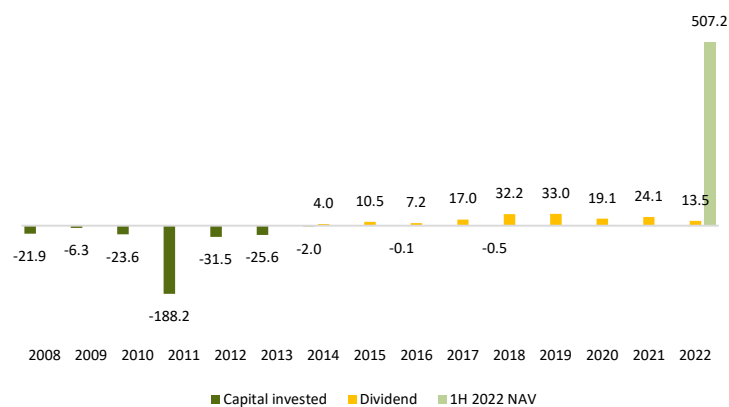
AB FLORESTAL

IRR after-tax since inception to 2022 (local currency): 7.7%

In total, AB Florestal sold 229,402 m³ of standing wood during 1H 2022, of which 38% was converted and sold as charcoal via the BioCarbono project.

During 1H 2022, a total of 80,517 mdc of charcoal was sold in Minas Gerais.

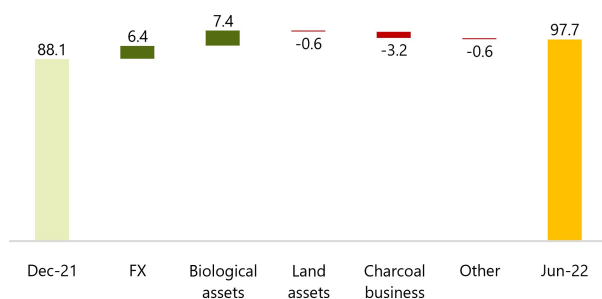
CAPITAL INVESTED, DIVIDENDS AND 1H 2022 ADJUSTED NAV (BRL MILLION)



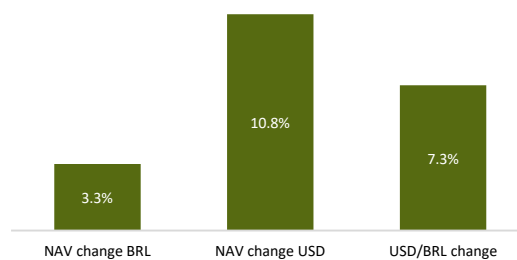
The adjusted NAV increased by 10.8% during 1H 2022 to USD 97.7 million.

The biological asset value increased by 32.6% during 1H 2022 in USD, driven by higher wood prices. Land value decreased by 1.2% in local currency.

ADJUSTED NAV BREAKDOWN (USD MILLION)



ADJUSTED NAV AND USD/BRL CHANGES (1H 2022 VS 2H 2021)



THE FOREST COMPANY LIMITED

INVESTMENT MANAGER'S REPORT (CONTINUED)

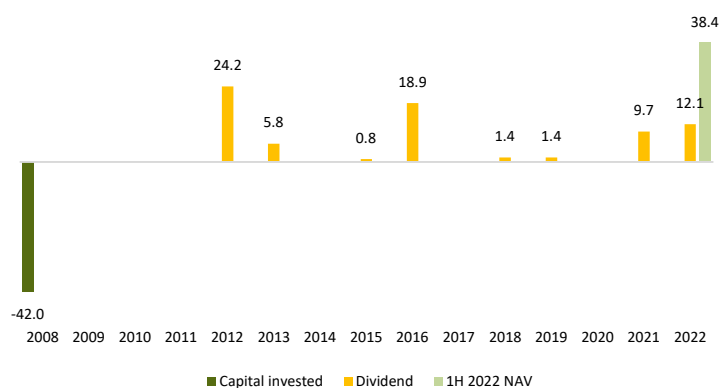
AIMARA

IRR after-tax since inception to 2022 (local currency): 12.1%

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.

At the end of 2021, The Forest Company sold all biological assets (794,798 m³) in the Aimara project, in Paraná, to Klabin, as the first step in expanding the long-term partnership.

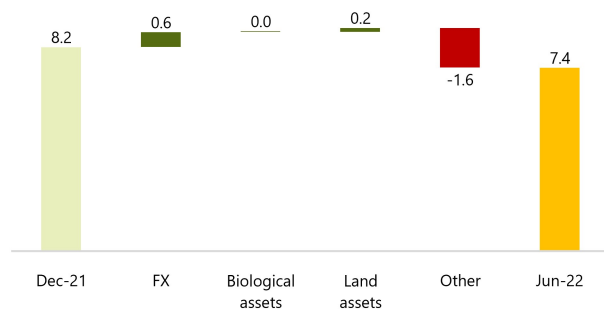
**CAPITAL INVESTED, DIVIDENDS AND 1H 2022 ADJUSTED NAV
(BRL MILLION)**



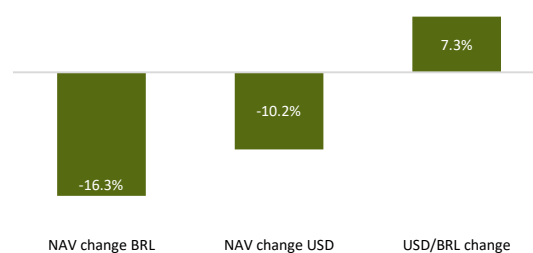
The adjusted NAV value decreased by 10.2% during 1H 2022 to USD 7.4 million, driven by dividends distributed to TopCo.

Land value increased by 5.2% in local currency.

**ADJUSTED NAV BREAKDOWN
(USD MILLION)**



**ADJUSTED NAV AND USD/BRL CHANGES
(1H 2022 VS 2H 2021)**



THE FOREST COMPANY LIMITED

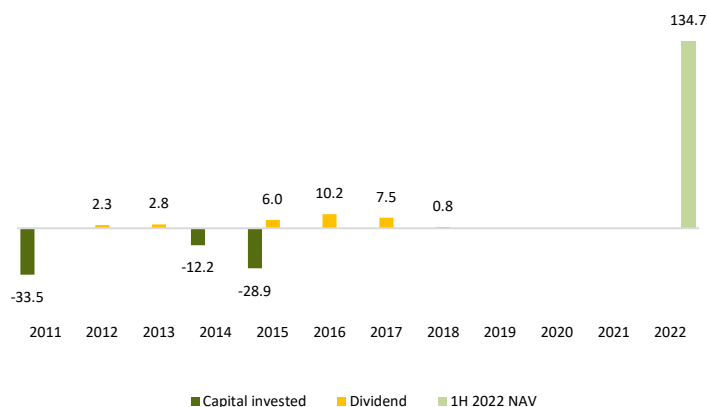
INVESTMENT MANAGER'S REPORT (CONTINUED)

KAA

IRR after-tax since inception to 2022 (local currency): 11.1%

During 1H 2022, The Company has been negotiating with Klabin to add KAA assets in the expansion of the existing joint venture between TFC and Klabin, which currently includes only Aimara assets. in order to include the future harvesting volumes in the offtake agreement with Klabin.

**CAPITAL INVESTED, DIVIDENDS AND 1H 2022 ADJUSTED NAV
(BRL MILLION)**

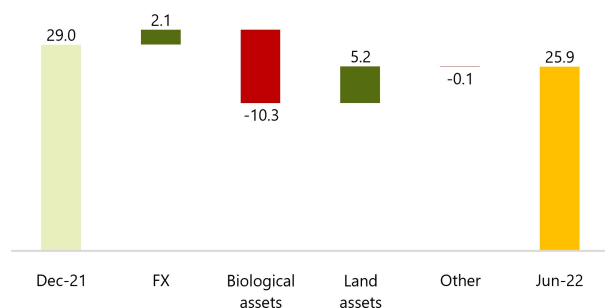


From 2019 to 1H 2022, there was no additional capital invested in this project or any dividends paid out.

The adjusted NAV value decreased by 10.6% during 1H 2022 to USD 25.9 million.

The biological asset value decreased by 49.1% in USD in 1H 2022, driven by a lower woodflow forecast and a higher discount rate. Land value increased by 39.9% in local currency.

**ADJUSTED NAV BREAKDOWN
(USD MILLION)**



**ADJUSTED NAV AND USD/BRL CHANGES
(1H 2022 VS 2H 2021)**



THE FOREST COMPANY LIMITED

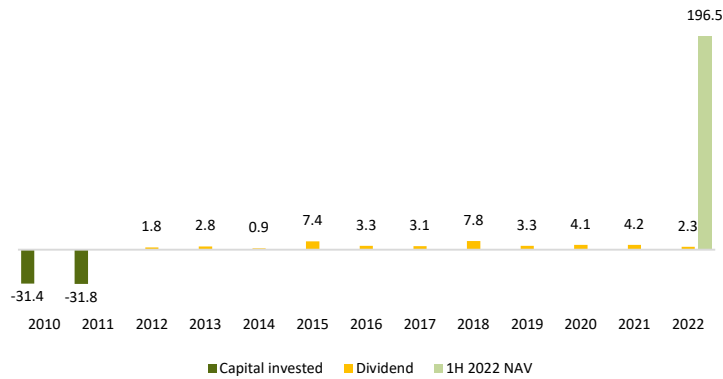
INVESTMENT MANAGER'S REPORT (CONTINUED)

MS TIMBERLAND

IRR after-tax since inception to 2022 (local currency): 13.9 %

In 1H 2022, MS Timberland entered into a MOU with Dexco for the development of 6,000 ha of eucalyptus greenfield plantations in Colombia. The plantations will be developed in a region jointly selected by Dexco and MST. MST will own and manage the plantations and sell all the wood generated to Dexco under a long-term offtake agreement. The project, once fully operational, will increase the sales of MST by about 200,000 m3 per year.

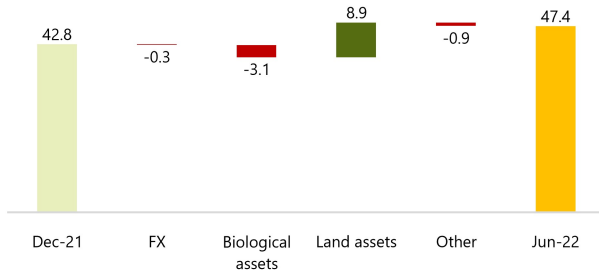
CAPITAL INVESTED, DIVIDENDS AND 1H 2022 ADJUSTED NAV (COP BILLION)



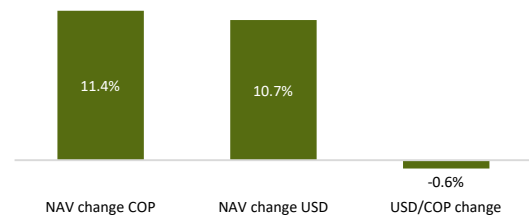
The adjusted NAV value increased by 10.7% during 1H 2022 to USD 47.4 million.

The biological asset value decreased by 11.4% in USD during 1H 2022. Land value increased by 62.9% in COP.

ADJUSTED NAV BREAKDOWN (USD MILLION)



ADJUSTED NAV AND USD/BRL CHANGES (1H 2022 VS 2H 2021)



THE FOREST COMPANY LIMITED

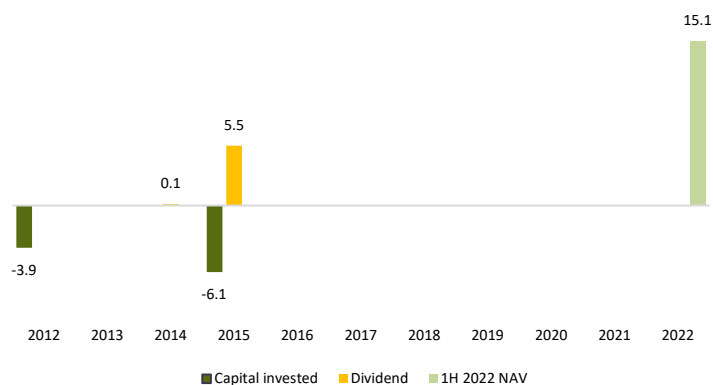
INVESTMENT MANAGER'S REPORT (CONTINUED)

SILVOTECNIA

IRR after-tax since inception to 2022 (local currency): 13.6%

During 1H 2022, Silvotecnia's sales increased by 7% to COP 10.6 billion with the EBITDA margin rising from 5.3% to 6.2% when compared with 1H 2021

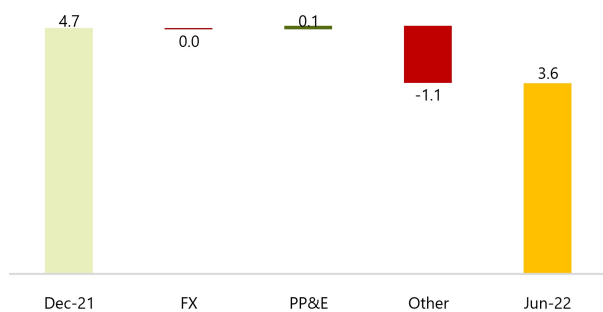
CAPITAL INVESTED, DIVIDENDS AND 1H 2022 ADJUSTED NAV (COP BILLION)



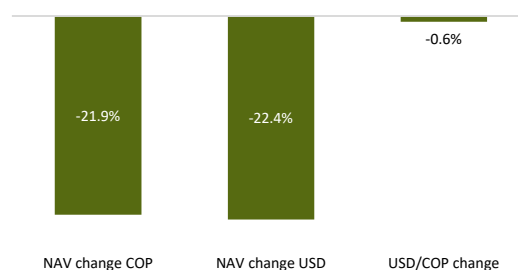
From 2016 to 2022, there was no additional capital invested and profits have been reinvested into the expansion of the business.

The adjusted NAV value decreased by 22.4% during H1 2022 to USD 3.6 million driven by higher discounts rates

ADJUSTED NAV BREAKDOWN (USD MILLION)



ADJUSTED NAV AND USD/BRL CHANGES (1H 2022 VS 2H 2021)



THE FOREST COMPANY LIMITED

INVESTMENT MANAGER'S REPORT (CONTINUED)

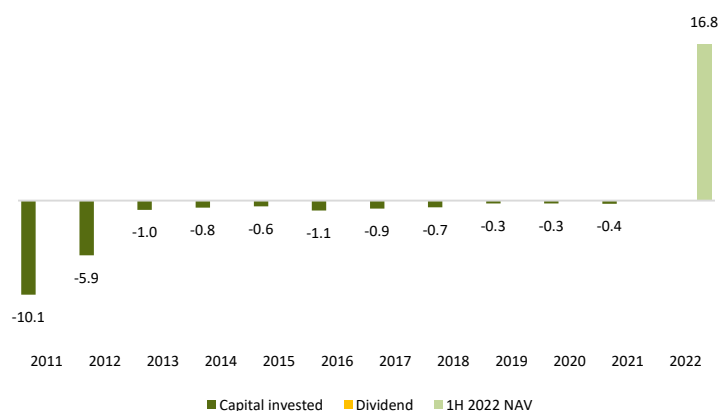
VICHADA

IRR after-tax since inception to 2022: Not applicable

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.

During 1H 2022, the Company entered into an MOU with a potential buyer of 3 million credits. The sale will finance the development of the project. The development will start in Q3 2022 with the first tree expected to be planted in Q2 2023.

CAPITAL INVESTED, DIVIDENDS AND 1H 2022 ADJUSTED NAV (COP BILLION)



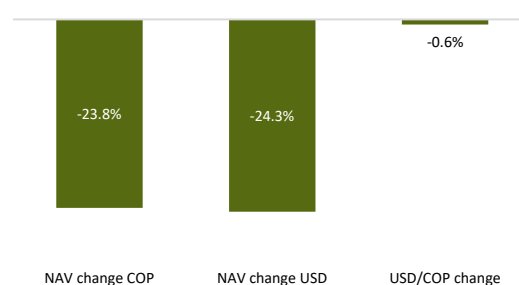
The adjusted NAV value decreased by 24.3% during H1 2022 to USD 4.1 million as a result of a reduction in land value.

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

ADJUSTED NAV BREAKDOWN (USD MILLION)



ADJUSTED NAV AND USD/BRL CHANGES (1H 2022 VS 2H 2021)



THE FOREST COMPANY LIMITED

INVESTMENT MANAGER'S REPORT (CONTINUED)

SALES PERFORMANCE

		1H 2022	1H 2021	%
Total for The Forest Company	Wood sales (m ³)	289,793	495,221	-41%
	Charcoal sales (MDC)	80,517	95,870	-16%
	Gross sales (USD) ¹	13,782,008	14,030,845	-2%
Paraná (Pine and Eucalyptus)	Wood sales (m ³)	17,732	25,612	-31%
	Gross sales (BRL)	455,416	940,475	-52%
	Gross sales (USD) ¹	87,801	175,420	-50%
Minas Gerais (Eucalyptus)	Wood sales (m ³)	229,402	419,941	-45%
	Gross sales (BRL)	13,219,413	21,477,034	-38%
	Gross sales (USD) ¹	2,602,793	4,007,224	-35%
Minas Gerais (Charcoal)	Charcoal sales (MDC)	80,517	95,870	-16%
	Gross sales (BRL)	31,732,363	27,181,571	17%
	Gross sales (USD) ¹	6,282,527	5,056,658	24%
Antioquia (Pine)	Wood sales (m ³)	42,659	49,668	-14%
	Gross sales ('000 COP)	8,140,939	7,436,235	9%
	Gross sales (USD) ¹	2,080,021	2,044,123	2%
Colombia (Forest Services)	Gross Sales (USD) ¹	2,728,866	2,747,420	-1%

¹USD figures are converted from local currency using the average FX rate for each quarter.

During 1H 2022, the value per m³ sold increased by 68% compared with same period in 2021. The revenues totalled USD 13,782,008, a decrease of 2% compared to 1H 2021. Sales volume fell by 41%, driven by lower production in Minas Gerais, as the Company had fewer mature stands during the semester.

Total charcoal delivered was 14% lower than 1H 2021, due to operational adjustments in the Company's production units. Total charcoal sales were 17% higher in BRL and 24% higher in USD, driven by higher charcoal prices, which increased by 39% when compared to 1H 2021.

Wood sales in Minas Gerais decreased by 38% in BRL and by 35% in USD owing to lower sales volume.

In Antioquia, 1H 2022 total sales in volume were 14% lower than in 1H 2021. However, wood sales in COP increased by 9%, driven by an increase of 27% in wood prices. Total sales from Forest Services in Colombia decreased by 1% in USD.

THE FOREST COMPANY LIMITED

INVESTMENT MANAGER'S REPORT (CONTINUED)

CASH FLOW

Cash flow statement (USD '000)	1H 2022	1H 2021	2021
Net cash flow received from investments	4,132	3,082	6,678
Cash paid to suppliers	-2,296	-2,387	-5,604
Capital invested	-39	-56	-100
Net cash flow from operating activities	1,797	639	974
Net cash flow from financing activities	185	-499	-998
Net increase (decrease) in cash held	1,982	140	-24
Cash at beginning of period	22	46	46
Cash at end of period	2,004	186	22

CASH FLOW FROM OPERATIONS

The cash flow from operating activities was USD 1.8 million (1H 2021: USD 0.6 million). Net cash flow received from investments increased by 34%.

CASH FLOW FROM FINANCING ACTIVITIES

The cash flow from financing activities was USD 0.2 million (1H 2021: -USD 0.5 million) mainly explained by interest paid on the MetLife term loan compensated by an intercompany loan received in January.

The total debt outstanding on the MetLife loan amounts to USD 11.6 million as of 30 June 2022.

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 for projects
Net cash flow from operating activities	2,231	-846	29	666	2,569	-21	-37	4,592
Net cash flow from investing activities	-920	-1	-25	-367	-43	-162	-	-1,519
Net cash flow from financing activities	-1,337	-474	-6	182	-413	205	37	-1,805
Net cash flow before dividends	-25	-1,321	-2	481	2,113	22	0	1,268
Dividends paid to TopCo	-446	-3,508	-	-585	-	-	-	-4,537
Non-controlling interests	-	-	-	-65	-	-	-	-65
Net change in cash held	-471	-4,829	-2	-169	2,113	22	0	-3,334
Cash at beginning of period	481	5,503	3	281	299	4	11	6,583
Effects of changes in FX	64	534	1	9	5	-11	0	602
Cash at end of period	75	1,208	1	122	2,417	15	12	3,850

CASH FLOW FROM PROJECTS PER COUNTRY

Cash flow statement (USD '000)	Brazil	Colombia	Guernsey (TopCo)
Net cash flow from operating activities	3,893	609	1,797
Net cash flow from investing activities	-989	-530	-
Net cash flow from financing activities	-2,229	424	185
Net cash flow before dividends	764	504	1,982
Dividends paid	-3,953	-585	-
Non-controlling interests	-	-65	-
Net increase (decrease) in cash held	-3,189	-146	1,982
Cash at beginning of period	6,286	297	22
Effects of changes in FX	605	-2	-
Cash equivalents at end of period¹	3,702	148	2,004

¹ As of 30 June 2022, the aggregated cash position of The Forest Company and its investees amounts to USD 5.9 million

THE FOREST COMPANY LIMITED

INVESTMENT MANAGER'S REPORT (CONTINUED)

REAL, POST-TAX WACC

WACC assumptions	1H 2022 ¹	2021
<u>Brazilian Projects</u>		
WACC real post-tax	8.4%	5.4%
Inputs		
Risk-free rate	7.2%	5.2%
Beta	0.67	0.65
Market risk premium	5.1%	4.4%
USD inflation	2.1%	2.5%
<u>Colombian Projects</u>		
WACC real post-tax	9.4%	5.9%
Inputs		
Risk-free rate	8.3%	5.2%
Beta	0.67	0.65
Market risk premium	5.1%	4.4%
USD inflation	2.1%	2.5%

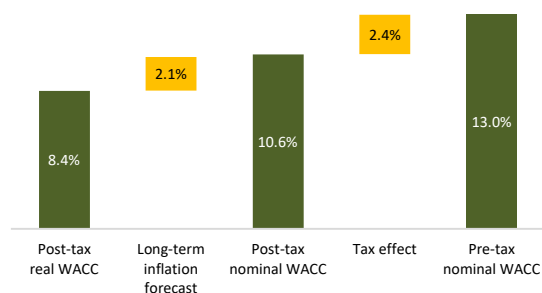
¹ Source: Risk-free rate (government bond issued in USD), Beta (independent valuer's estimate), Market risk premium (Damodaran, KPMG analysis), Inflation (The Economist)

Real WACC post-tax for Brazilian forestry assets in 1H 2022 was 8.4% vs 5.4% in 2H 2021, and for Colombian assets 9.4% in 1H 2022 compared to 5.9% in 2H 2021. The main reason for higher discount rates is an increase in the yield of local government bonds issued in USD. Higher market risk premium and lower inflation forecasts have also contributed to higher discount rates.

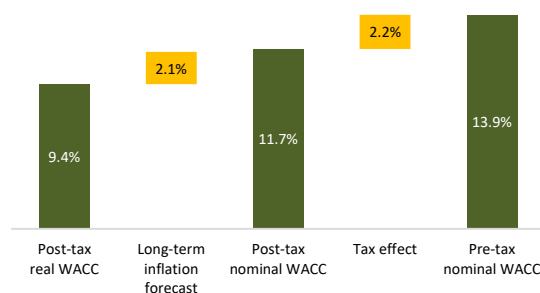
Taking into account the long-term inflation forecast and the Brazilian tax regime, the valuation of The Forest Company's forest projects in Brazil is currently based on a USD nominal pre-tax discount rate of 13.0%.

In Colombia, the valuation of our forest projects is based on a USD nominal pre-tax discount rate of 13.9%.

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



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



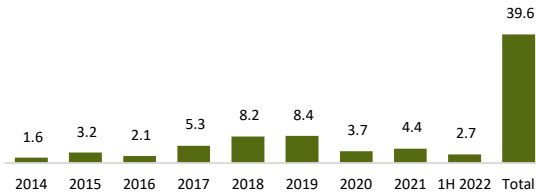
THE FOREST COMPANY LIMITED

INVESTMENT MANAGER'S REPORT (CONTINUED)

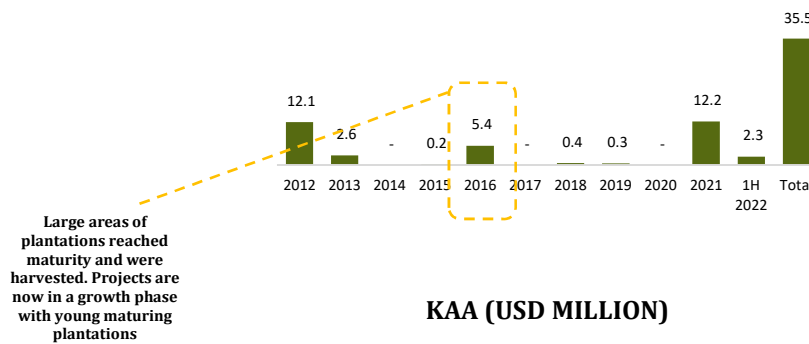
BRAZIL: DIVIDENDS PAID BY THE PROJECTS

In 1H 2022, Brazilian projects generated a dividend yield of 2.1% on accumulated invested capital, in USD.

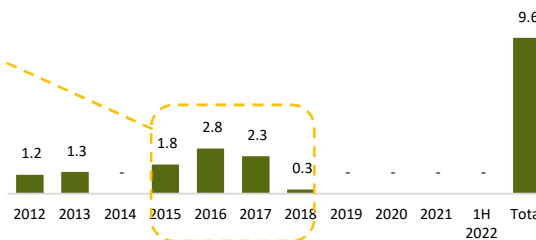
AB FLORESTAL (USD MILLION)



AIMARA (USD MILLION)



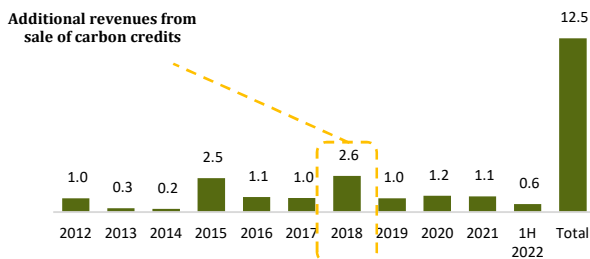
KAA (USD MILLION)



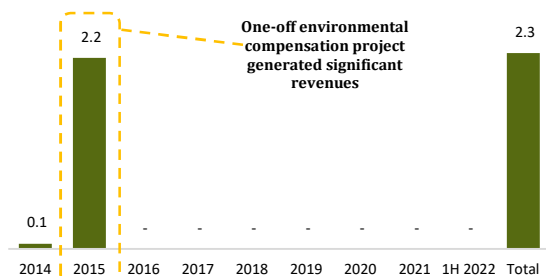
COLOMBIA: DIVIDENDS PAID BY THE PROJECTS

Colombian projects generated a dividend yield of 1.1% during 1H 2022 on accumulated invested capital, in USD.

MS TIMBERLAND (USD MILLION)



SILVOTECNIA (USD MILLION)



THE FOREST COMPANY LIMITED

INVESTMENT MANAGER'S REPORT (CONTINUED)

IMPACT

THE FOREST COMPANY'S IMPACT STRATEGY

The Forest Company invests in sustainable, high-growth forest plantations, building a portfolio that combines income yield with capital appreciation. Through our investments, we make a positive impact on the local regions in which we operate. Our impact is linked to the UN SDGs (a collection of 17 global goals designed by the UN to be a blueprint for achieving a better and more sustainable future), and measurements and monitoring are integrated into our day-to-day operations.

1H 2022 HIGHLIGHTS

In 2022, the cycle of the first targets defined by the company for the period between 2018 and 2022 ends. Despite the challenge generated by the COVID-19 pandemic, the company has already achieved its goals, apart from those related to empowering local communities, which were affected by the mobility restrictions in the period.

During 1H 2022, the Company maintained its efforts to raise awareness regarding biodiversity, impacting 587 people with training and seminars. Along with the protection of natural forests through permanent preservation areas and legal reserves, the Company was able to achieve its objectives regarding the protection of forests and diversity.

All employees received training covering themes from COVID-19 prevention to several technical courses. The company has been playing a key role for its employees throughout the pandemic, not only seeking to provide full support through raising awareness of COVID-19 but also seeking to provide the best work environment, whether remote or physical.






We will continue to work hard throughout the second half of the year to reach as many people as possible in the local communities. During 1H 2022, the company reached 89 children in Colombia through specific actions, held in schools during children's day celebrations, which focused on protecting the environment possible. During the rest of the year, further actions are planned in Brazil.

The Company has had an impact on waste management in the local communities. The majority of the outsourced employees are from the local communities and they take knowledge regarding waste management learnt at the company back to their home communities.

The Company is working towards achieving its objectives in relation to climate. Carbon sequestration figures are measured annually, with no impacts being taken into account yet in 2022.

THE FOREST COMPANY LIMITED

INVESTMENT MANAGER'S REPORT (CONTINUED)

Impact theme	Impact goal	Target 2022	Actual 2022	2022 goal achievement
	Natural forest: Increase the area of natural forest under The Forest Company's protection to 22,400 ha by 2022	Total protected area 22,400 ha	Total protected area 24,891 ha	111%
	Biodiversity: Assess biodiversity, evaluate the status of endangered species in our areas of operations and raise awareness of 2,500 stakeholders about the fragility and relevance of those species in the region by 2022	Raise awareness of 500 stakeholders	Raised awareness of 7,117 stakeholders	285%
	Employee training: 100% of employees will receive training every year by 2022	Percentage of employees receiving training Women: 100% Men: 100%	Percentage of employees that received training Women: 100% Men: 100%	100%
	Employee well-being: The well-being of our employees will be assessed and, where necessary, corrective measures must be taken by 2022	Promote employees' well-being by addressing five key dimensions: our health, our team, our job, our development and our company	All employees participated in training or a programme related to well-being	100%
	Community income: Support 1,500 people from the regions of operations to learn a skill that will help improve their income by 2022	Total people supported: 1,500	Total people supported: 1,116	78%
	Childhood and teenage education: Provide education to 5,000 children and teenagers, with a focus on environmental issues and cultural engagement, by 2022	Total children supported: 5,000	Total children supported: 4,526	91%
	Waste management: Provide education and training on waste management to 3,000 people from the rural communities by 2022	Total people supported: 3,000	Total people supported: 7,999	267%
	Waste management initiatives: Support 1,000 local people with initiatives for proper waste management and recycling by 2022	Total people supported: 1,000	Total people supported: 1,499	150%
	Carbon sequestration: Sequester 7.8 million tCO ₂ e through The Forest Company's forest plantations by 2022	7.8 million tCO ₂ e	91% ¹	91% ¹
	Avoiding forest degradation: Avoid forest degradation of 195,000 ha of natural tropical forests by supplying timber from sustainably managed forest plantations by 2022	Avoid deforestation of 195,000 ha	Avoided deforestation of 264,779 ha	136%

¹ As of 31 December 2021

THE FOREST COMPANY LIMITED

INVESTMENT MANAGER'S REPORT (CONTINUED)

MACRO PERSPECTIVE

BRAZIL

Macro indicators	2016	2017	2018	2019	2020	2021	2022F ¹
GDP growth (%)	-3.3	1.3	1.8	1.2	-3.9	4.6	2.0
USD/BRL	3.3	3.3	3.9	4.0	5.2	5.6	5.3
Inflation (%)	6.3	2.9	3.7	4.3	4.5	10.1	7.2
Interest rate (%)	13.8	7.0	6.5	4.5	2.0	9.3	13.8

¹ Source: Itaú BBA as of July 2022

MACROECONOMIC AND POLITICAL OUTLOOK

Stronger than expected economic indicators, improvements in the job market and an increase in private investments pointed to economic growth above expectations at the beginning of the year in Brazil. Expanded social payments, the creation of an aid program for truck drivers and higher gas vouchers should boost households' disposable income in 2H 2022, supporting consumption and partly offsetting the contractionary monetary policy.

The monetary tightening cycle is near its end, but there isn't any indication of rate cuts in the short term. By August, Brazil's central bank had raised interest rates by 450 bps during 2022. Its latest statement indicates that the authorities will assess whether an additional hike will be needed in its next policy meeting, and notes that, if at all, the move will be more modest. With short-term downward revisions for inflation forecasts, due especially to tax cuts, the authorities will likely stop and observe the accumulated and lagged effects of recent rate increases.

During 1H 2022, the BRL appreciated by about 6.0% against the USD.

COLOMBIA

Macro indicators	2016	2017	2018	2019	2020	2021	2022F ¹
GDP (%)	2.1	1.4	2.6	3.3	-6.8	10.7	6.3
USD/COP	3,002	2,932	3,254	3,287	3,428	4,070	4,100
Inflation (%)	5.8	4.1	3.2	3.8	1.6	5.6	9.0
Interest rate (%)	7.5	4.8	4.3	4.3	1.8	3.0	9.5

¹ Source: Itaú BBA as of July 2022

MACROECONOMIC AND POLITICAL OUTLOOK

In June 2022, Gustavo Petro, the former mayor of Bogota and an ex-rebel fighter, has become Colombia's first left-wing president. Gustavo Petro seeks a tax reform to significantly raise fiscal revenue, revise the pension system and transform the energy matrix.

The outgoing Duque's administration leaves an improved fiscal outlook, with stronger economic growth and greater oil revenues leading to a lower fiscal deficit in 2022. The expected increase in credits ratings has not yet occurred, as the rating agencies are likely to adopt a wait-and-see approach until the new president revises economic policy.

During 2022, the Colombian Central Bank increased the benchmark interest rate by 600 bps to 9.0%. With this, it is likely that the rate hike cycle will have ended and that the rate will remain at its current level for some time, high enough to moderate inflation over the policy horizon and achieve the inflation target in around 2024.

The COP depreciated by about 1.7% against the USD in 1H 2022.

THE FOREST COMPANY LIMITED

INVESTMENT MANAGER'S REPORT (CONTINUED)

OUTLOOK

During 1H 2022 The Forest Company's investees generated an operating cash flow of USD 4.5 million contributing to The Forest Company's group aggregated closing cash balance of USD 5.9 million. During the period, we experienced a high demand for our products in all our projects. This enabled us to increase our product prices and increase the value per sold m3 by 68% compared with same period last year.

Driven by the increase in product prices, the Adjusted NAV increased by 5.9% during the period. This was despite a significant increase in discount rate, by 300bps in Brazil and 350 bps in Colombia.

The team continued to work to implement our strategy to increase shareholder value. We are happy to have been able to further develop The Forest Company's strategic relationship with leading forest industry companies in Brazil and Colombia such as Klabin and Dexco. The relationships that are formalised through the JV with Klabin and the MOU and offtake agreement with Dexco provide a solid base for the future growth of The Forest Company.

Finally, we are excited about the new business area for The Forest Company. The Santa Ana carbon project in Colombia will define a new business and revenue stream for the Company for future years. The team are now working hard to launch the project and plant the first tree in Q2 2023.

Johan Larsson

CEO

Timber Capital Limited

Date: 2 September 2022

THE FOREST COMPANY LIMITED
UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION
As of 30 June 2022

	Note	Unaudited 30 Jun 2022 USD '000	Audited 31 Dec 2021 USD '000	Unaudited 30 Jun 2021 USD '000
ASSETS				
Non-current assets				
Financial assets at fair value through profit or loss	5	168,060	159,631	169,859
Total non-current assets		<u>170,993</u>	<u>159,631</u>	<u>169,859</u>
Current assets				
Cash and cash equivalents				
Restricted	9	17	17	17
Unrestricted	9	1,987	5	169
Trade and other receivables	10	228	33	-
Total current assets		<u>2,232</u>	<u>55</u>	<u>186</u>
TOTAL ASSETS		<u>170,292</u>	<u>159,686</u>	<u>170,045</u>
Non-current liabilities				
Interest-bearing borrowings	11	(11,625)	(11,625)	(11,625)
Total non-current liabilities		<u>(11,625)</u>	<u>(11,625)</u>	<u>(11,625)</u>
Current liabilities				
Trade and other payables	12	(700)	(957)	(1,966)
Total current liabilities		<u>(700)</u>	<u>(957)</u>	<u>(1,966)</u>
TOTAL LIABILITIES		<u>(12,325)</u>	<u>(12,582)</u>	<u>(13,591)</u>
Net assets		<u>157,967</u>	<u>147,104</u>	<u>156,454</u>

THE FOREST COMPANY LIMITED
UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION
As of 30 June 2022
(Continued)

	Note	Unaudited 30 Jun 2022 USD '000	Audited 31 Dec 2021 USD '000	Unaudited 30 Jun 2021 USD '000
Equity				
Share capital account	14	330,852	330,852	330,852
Share-based payment reserve		70	61	26
Accumulated loss		(172,955)	(183,809)	(174,424)
Equity attributable to holders of redeemable ordinary and Class A ordinary shares		157,967	147,104	156,454
Number of redeemable ordinary shares in issue at year end	14	26,407,391	26,407,391	26,407,391
Number of redeemable Class A ordinary shares in issue at year end	14	24,836,250 51,243,641	24,836,250 51,243,641	24,836,250 51,243,641
Net asset value per redeemable ordinary and Class A ordinary share		\$3.08	\$2.87	\$3.05

The financial statements were approved by the Board of Directors on 1 September 2022 and signed on their behalf by:

Howard Myles FCA
Director
Date: 2 September 2022

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 2022

	Note	Unaudited Jan - Jun 2022 USD '000	Audited 31 Dec 2021 USD '000	Unaudited Jan - Jun 2021 USD '000
Income				
Other income		-	68	-
Investment income	4	4,360	4,810	3,082
Gross profit		<u>4,360</u>	<u>4,878</u>	<u>3,082</u>
Unrealised loss on intercompany loan		(4)	(118)	-
Net loss on financial assets at fair value through profit or loss	5	9,305	(12,165)	(4,124)
Exchange differences on other financial assets		(177)	(84)	(29)
		<u>13,484</u>	<u>(7,489)</u>	<u>(1,071)</u>
Operating expenses				
Administrative expenses	6	(2,118)	(4,253)	(2,021)
Total operating expenses		<u>(2,118)</u>	<u>(4,253)</u>	<u>(2,021)</u>
Operating gain/(loss)		11,366	(11,742)	(3,092)
Interest expense—bank borrowings		(512)	(1,233)	(498)
Gain/(loss) before tax		<u>10,854</u>	<u>(12,975)</u>	<u>(3,590)</u>
Taxation	7	-	-	-
Gain/(loss) for the period/year		<u>10,854</u>	<u>(12,975)</u>	<u>(3,590)</u>
Holders of redeemable ordinary shares and Class A ordinary shares		<u>10,854</u>	<u>(12,975)</u>	<u>(3,590)</u>
		<u>10,854</u>	<u>(12,975)</u>	<u>(3,590)</u>

THE FOREST COMPANY LIMITED
UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2022
(Continued)

Note	Unaudited Jan - Jun 2022 USD '000	Audited 31 Dec 2021 USD '000	Unaudited Jan - Jun 2021 USD '000
Gain/(Loss) for the financial period/year	10,854	(12,975)	(3,590)
Other comprehensive gain/(loss) for the financial period/year	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive gain/(loss) for the financial period/year	<u>10,854</u>	<u>(12,975)</u>	<u>(3,590)</u>
Total comprehensive gain/(loss) attributable to:			
Holders of redeemable ordinary shares and Class A ordinary shares	<u>10,854</u>	<u>(12,975)</u>	<u>(3,590)</u>
	<u>13,787</u>	<u>(12,975)</u>	<u>(3,590)</u>
Total comprehensive gain/(loss) per share (US cents)*			
Holders of redeemable ordinary shares and Class A ordinary shares	<u>21.20</u>	<u>(25.34)</u>	<u>(7.01)</u>
Gain/(Loss) per share—basic and diluted (US cents)			
From continuing operations	<u>21.20</u>	<u>(25.34)</u>	<u>(7.01)</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 2022

	Share capital account USD '000	Share-based payment reserve USD '000	Accumulated loss USD '000	Total USD '000
As of 1 January, 2021	330,712	140	(170,834)	160,018
Shares issued	140	(140)	-	-
Share-based payments	-	61	-	61
Loss for the financial year	-	-	(12,975)	(12,975)
As of 31 December, 2021	<u>330,852</u>	<u>61</u>	<u>(183,809)</u>	<u>147,104</u>

	Share capital account USD '000	Share-based payment reserve USD '000	Accumulated loss USD '000	Total USD '000
As of 1 January 2022	330,852	61	(183,809)	147,104
Share-based payments	-	9	-	9
Profit for the financial period	-	-	10,854	10,854
As of 30 June 2022 (Unaudited)	<u>330,852</u>	<u>70</u>	<u>(172,955)</u>	<u>157,967</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 2022

	Note	Unaudited Jan - Jun 2022 USD '000	Audited 31 Dec 2021 USD '000	Unaudited Jan - Jun 2021 USD '000
Cash flows from operating activities				
Net cash flows received from investees		4,132	6,678	3,082
Cash paid to suppliers and employees		(2,296)	(5,604)	(2,387)
Capital contribution in investees		(39)	(100)	(56)
Cash flow from operating activities before financial items and taxes		<u>1,797</u>	<u>(974)</u>	<u>639</u>
Tax paid		-	-	-
Net cash from/(used in) operating activities		<u>1,797</u>	<u>(974)</u>	<u>639</u>
Cash flow from financing activities				
Interest paid and other financial expenses		736	-	-
Interest paid and other financial expenses		(551)	(998)	(499)
Net cash from/(used in) financing activities		<u>185</u>	<u>(998)</u>	<u>(499)</u>
Net decrease in cash and cash equivalents during the financial period/year		1,982	(24)	140
Cash and cash equivalents at the beginning of the financial period/year		<u>22</u>	<u>46</u>	<u>46</u>
Cash and cash equivalents at the end of the financial period/year	9	<u><u>2,004</u></u>	<u><u>22</u></u>	<u><u>186</u></u>

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

THE FOREST COMPANY LIMITED

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

1. General information

The Forest Company in brief

The Forest 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 in 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.

After seven years of being listed on The International Stock Exchange ('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 of that year.

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.

Following a shareholder vote, during 2021, where a high proportion of shareholders expressed a preference for a realisation or liquidity event for their shareholdings, the Board has 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.

The Company is subject to the UK Takeover Code (the "Code") given that its shares were, until 23 October 2019, admitted to trading on TISE.

On 22 November 2021 the Company announced publicly that The Board had resolved to take advantage of certain regulatory dispensations available from the Code by initiating a "formal sale process" (as defined in the Code), but the Board wishes to make it clear that, as set out above, a sale of the Company is only one option that will be under consideration and there can be no certainty that any offer will be forthcoming or of the terms of any such offer.

In February 2022 the investees in Paraná region in Brazil, Aimara and Kaa, obtained formal authorisation from local authorities (Administrative Council for Economic Defence) for a business combination with Klabin, Brazil's leading paper and packaging company. The companies will now proceed with the formalisation of a joint venture agreement by means of which the Company will contribute Kaa and Aimara assets to a new company to be incorporated. The company will be jointly owned by Klabin and The Forest Company and will sell 100% of the future harvesting to Klabin under a long term off-take agreement. The Forest Company's interest in Aimara and Kaa will, therefore, be reduced from the current 80% and 100% respectively to a 50% stake in this new joint venture, which is expected to be in operation for a period of 32 years. The new company can be used for further growth of The Forest Company's operations in the Paraná region supported by the off-take agreement with Klabin.

Investment manager

The Forest Company has entered into an investment management agreement with the investment manager, Timber Capital Limited. 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.

THE FOREST COMPANY LIMITED
NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(Continued)

2. Accounting policies

a) Basis of preparation

The financial statements have been prepared 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.

Changes in accounting policies

There are no changes in accounting policies for the financial period ended 30 June 2022, affecting the financial statement presentation and accounting that require disclosure in this financial statement.

Investment entity

The Company became an investment entity as defined in 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 fair value being 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.

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. It 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.

THE FOREST COMPANY LIMITED
NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(Continued)

2. Accounting policies (continued)

a) Basis of preparation (continued)

Going concern

The company requires investment returns by way of dividends and cash flows from its investees to pay its liabilities and service its debt obligation. The Board has reviewed and challenged each investee's free cash forecasts for the three-year period to 31 December 2024, 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 forecast expenditure in the forthcoming three years [and free cash flow being generated and distributed under various scenarios and assumptions.

The Company always considers the ongoing business (as it stands) as the most likely scenario with no additional investments or expansion projects factored in. Therefore, the potential uplift arising from the joint venture deal with Klabin, estimated at USD 10.2 million, has not been considered in the projections. In addition, 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 in the projections the refinancing of the MetLife loan expiring in October 2023, an outstanding debt of USD 11,625,000. The inclusion of the outstanding debt increases the risk that projections, forward-looking assessments, and estimates will deviate from budget and that adjustments to the projections will be more frequent. The Company's cash resources may be constrained at times depending on development of the business and the economic environment which has been impacted by the COVID-19 virus outbreak and the recent war between Russian and Ukraine. Current inflation and interest rate upward trends, combined with volatility of the local currencies, may result in lower cash flow generation by investees in dollar terms increasing pressure over the Company's ability to meet its obligations when they fall due. Nevertheless, current cash position of the Company had improved significantly comparing to previous periods showing a slack that can mitigate any sudden downturns in the market.

Stress testing of the base case scenario for the thirty months period to 31 December 2024 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 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 the open market by up to 30%. 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:

1. Charcoal price – Since 2020 the charcoal business has been showing good prospects with charcoal price in an upward trend, reaching new peaks in 2022. This results from multiple drivers such as the devaluation of the Brazilian Real that has positively impacted the country's export volumes, the increase in wood prices, and more recently, the Russia-Ukraine war increasing the demand for Brazil steel and pig-iron following the reduction of production in Ukraine and sanctions imposed on Russia. 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 downturn 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.

THE FOREST COMPANY LIMITED
NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(Continued)

2. Accounting policies (continued)

a) Basis of preparation (continued)

Going concern (continued)

2. 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 macro-economic scenario enhanced by the presidential elections in the year.
3. Liquidity and credit downgrade — The Company's investees have financing facilities in place and 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 will require additional funding and investees are likely to increase their leverage and offer assets as collateral to secure the additional credit facilities. It is more likely than not that under current macro-economic scenario the Company will face more strict scrutiny to access funding and contracting at a higher cost.

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 putting in place to in case of a material drop in its ongoing ability to sustain a good liquidity position.

COVID-19 social and macro-economic impact in the global economy, boosted by the on-going war Russia-Ukraine, has brought additional challenges and volatility, which makes financial forecasting work more complex and materialization of forecasts in the future more uncertain. Although the 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 likelihood of facing volatility in market prices, which can affect both revenue streams and operational costs, is now higher. In addition, contracting refinancing facilities may present new challenges and significant increase in costs. 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 will be able to navigate through this more turbulent period and that the Company will 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, a reduction in sales receipts for wood over the next 12 months, and a failure to secure a refinance facility for the MetLife loan at a reasonable cost 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.

THE FOREST COMPANY LIMITED
NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(Continued)

2. Accounting policies (continued)

b) 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.

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 Silvotecnía, the cashflows of all the other projects are generated mainly through the sales of biological assets (eucalyptus and pine) and through the sale of land. Silvotecnía 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 Silvotecnía'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.

THE FOREST COMPANY LIMITED
NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS
 FOR THE SIX MONTHS ENDED 30 JUNE 2022
 (Continued)

2. Accounting policies (continued)

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

<i>Currency</i>	Jan – Jun 2022		Jan – Jun 2021		Jan – Dec 2021	
	<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 reais (BRL)	5.1938	5.0751	5.006	5.3846	5.715	5.3929
Sterling (GBP)	0.9539	0.7873	0.4230	0.6875	0.7390	0.7100
Colombian pesos (COP)	4,149	3,916.97	3,752	3,625.6	4,122.6	3,745.7

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.

THE FOREST COMPANY LIMITED
NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(Continued)

2. Accounting policies (continued)

g) Financial instruments (continued)

Financial assets (continued)

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 cashflows 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'.

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 period ended 30 June 2022, 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.

THE FOREST COMPANY LIMITED
NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(Continued)

2. Accounting policies (continued)

g) Financial instruments (continued)

Financial assets (continued)

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.

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 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 a 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.

THE FOREST COMPANY LIMITED
NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS
 FOR THE SIX MONTHS ENDED 31 DECEMBER 2021
 (Continued)

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

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 significant assets of the investees, investment property, are independently valued using a fair valuation approach as per IFRS 13.

When assessing the fair value of the investments, the fair value of each investment's assets and liabilities are considered. The fair values of the investment property, planted land, forest assets and carbonisation assets for the investments are based on their current market valuations provided by the independent valuer engaged by the Company. The valuations were made 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

As a result of the adoption of the investment entity accounting treatment, the Company no longer recognises revenue for the year beginning 1 January 2020. The source of income for the Company for the year beginning 1 January 2020 was derived from investment income.

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

	Unaudited Jan - Jun 2022 USD '000	Audited 31 Dec 2021 USD '000	Unaudited Jan - Jun 2021 USD '000
SP Timberland Holdings Limited*	1,107	3,821	2,486
MS Timberland Holdings Limited	638	989	596
TFC do Brasil	2,615	-	-
	<u>4,360</u>	<u>4,810</u>	<u>3,082</u>

* Liquidated during the period

THE FOREST COMPANY LIMITED
NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(Continued)

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:

Description	Unaudited 30 Jun 2022 Total USD'000	Audited 31 Dec 2021 Total USD'000	Unaudited 30 Jun 2021 Total USD'000
Opening balance	159,631	173,927	173,927
Fair value movement	1,735	5,267	(2,882)
Exchange differences	7,574	(17,432)	(1,242)
Net gain/(loss) on financial assets at fair value through profit or loss	9,309	(12,165)	(4,124)
Additional capital paid in	37	100	56
Additional loan	(739)	-	-
Return of capital	-	(2,397)	-
Intercompany loan movements	(178)	166	-
MetLife loan restructuring*	-	-	-
Payment on account (MetLife interests)	-	-	-
Net deductions	(880)	(2,131)	56
Closing balance	168,060	159,631	169,859

* See Note 11 for information about the restructuring of the MetLife loan.

The financial assets breakdown per investment for the financial period ended 30 June 2022, can be analysed as follows:

Project	Country	FV as of 30 Dec 2021 USD '000	FV adjustment USD '000	Capital contribution USD '000	Other adjustment USD '000	Exchange differences USD '000	FV as of 30 Jun 2022 USD '000
AB Florestal	Brazil	77,858	9,164	-	(2,167)	5,889	90,744
Kaa	Brazil	25,641	(3,814)	-	294	1,658	23,779
Aimara	Brazil	6,534	110	-	(2,384)	520	4,780
MS Timberland	Colombia	39,530	2,034	-	-	(525)	41,039
Vichada	Colombia	5,357	(1,374)	37	-	39	4,059
Antioquia	Colombia	4,698	(1,045)	-	-	(7)	3,646
Other equity investments	Guernsey	13	-	-	-	-	13
		159,631	5,075	37	(4,257)	7,574	168,060

THE FOREST COMPANY LIMITED
NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(Continued)

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

The financial assets breakdown per investment for the financial year ended 31 December 2021, can be analysed as follows:

Project	Country	Unaudited	FV adjustment	Capital contribution	Other adjustment	Exchange differences	Audited
		FV as of 31 Dec 2020 USD '000					FV as of 31 Dec 2021 USD '000
AB Florestal	Brazil	81,407	3,525	-	(1,713)	(5,361)	77,858
Kaa	Brazil	20,951	5,318	-	1,180	(1,808)	25,641
Aimara	Brazil	7,755	969	-	(1,698)	(492)	6,534
MS Timberland	Colombia	52,813	(4,700)	-	-	(8,583)	39,530
Vichada	Colombia	5,548	738	-	100	(1,029)	5,357
Antioquia	Colombia	5,440	(583)	-	-	(159)	4,698
Other equity investments	Guernsey	13	-	-	-	-	13
		<u>173,927</u>	<u>5,267</u>	<u>-</u>	<u>(2,131)</u>	<u>(17,432)</u>	<u>159,631</u>

AB Florestal project includes all entities with operations in Minas Gerais (Brazil) region, which are the AB Florestal, BioCarbono and Ibiracú projects.

Previously, on a consolidated basis, Aimara and MS Timberland were being treated as joint ventures and The Forest Company share of profit recognised in the statement of comprehensive income.

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 %
TFC II Limited*	Guernsey	100	100
TFC do Brasil Participações Ltda	Brazil	100	100
Aimara Project			
Aimara Empreendimentos Imobiliários e Participações Ltda	Brazil	100	100
Kaa Project			
Kaa Emp. Imobiliários e Part. Ltda	Brazil	100	100
Ibiracú Project			
Ibiracú Emp. Imobiliários, Atividades Florestais e Part. Ltda	Brazil	100	100
BioCarbono Project			
Rio Verde Participações Ltda	Brazil	100	100
Biocarbono Produção e Comércio de Carvão Ltda	Brazil	100	100
Froncosa Siderurgica Ltda	Brazil	100	100

THE FOREST COMPANY LIMITED
NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(Continued)

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

Name	Place of incorporation and operation	Ownership interest %	Voting power held %
AB Florestal Project			
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
Antioquia Project			
Antioquia Wood Holdings Limited	BVI	100	100
Silvotecnia S.A.**	Colombia	58.4	81.2
Vichada Project			
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
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
MS Timberland			
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 2021 ownership interest were the same as per financial period ended 30 June 2022.

* The Company has been liquidated during the financial period ended 30 June 2022.

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

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

Investee company Ibiracı has been involved in a lawsuit as a claimant against E. S Reflorestamento. In 2009, Ibiracı engaged with E. S. Reflorestamento to perform certain silviculture services, including soil preparation and plantation of some areas. In Ibiracı'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. Ibiracı, therefore, claimed for the recovery of payments made to E. S. Reflorestamento for the silviculture services, plus interest and legal costs, totalling BRL 12.4 million (USD 2.4 million).

During 2018, the court of first instance ruled against E. S. Reflorestamento, which appealed that decision. At the beginning of 2019, the court rejected the appeal from E. S. Reflorestamento. Ibiracı has already identified an asset belonging to E.S. Reflorestamento and which can be pledged to guarantee its right to receive the above-mentioned indemnification as per the judicial decision. However, other third parties also have a pledge on that same asset with priority over Ibiracı, which will have to wait for them to release it so as to proceed with execution of the pledge. Collection of the indemnity is 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.

There were no developments in regard to the above disclosed contingent situation during the period.

6. Administrative expenses

	Unaudited Jan - Jun 2022 USD '000	Audited 31 Dec 2021 USD '000	Unaudited Jan - Jun 2021 USD '000
Investment management fees*	1,232	2,600	1,111
Legal and professional fees	235	356	268
Administration fees	209	401	228
Directors' fees and expenses	209	430	190
Marketing and investors relation expenses	11	(4)	11
Valuation fees	81	125	49
Travel expenses	16	25	-
Audit fees	31	187	97
Consultancy fees	34	73	43
Other administrative expenses	60	60	24
	2,118	4,253	2,021

*More disclosures on investment management fees in Note 8.

The remuneration due to Directors for the period following the appointment of an additional director in June 2021 was USD 200,500 (2021: USD 164,000) directors' fees and USD 8,500 (2021: 70,000) share based payment. No bonus was paid to the Directors for the year (2021: 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 to ensure that it continues to qualify for exempt company status for the purposes of Guernsey taxation.

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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 one quarter of 1.5% of the adjusted net asset value.

For the financial period ended 30 June 2022, the Company incurred investment management fees of USD 1.23 million (2021: USD 1.11 million), with an outstanding balance of USD 205,214 at the financial period (2021: USD 644,916).

Performance fee share

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 2022, the Company has not accrued any performance fees (2021: Nil).

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 2022.

	Unaudited 30 Jun 2022 USD '000	Audited 31 Dec 2021 USD '000	Unaudited 30 Jun 2021 USD '000
Restricted			
Unpaid dividends held in escrow	17	17	17
	17	17	17
Unrestricted	1,987	5	169
	<u>2,004</u>	<u>22</u>	<u>186</u>

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10. Trade and other receivables

	Unaudited 30 Jun 2022 USD '000	Audited 31 Dec 2021 USD '000	Unaudited 30 Jun 2021 USD '000
Dividends receivable	228	-	-
Prepayments	-	33	-
	<u>228</u>	<u>33</u>	<u>-</u>

11. 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. The Company recognised interest and other financing costs of USD 511,789 (2021: USD 497,930) in relation to this loan in the statement of comprehensive income.

12. Trade and other payables

	Unaudited 30 Jun 2022 USD '000	Audited 31 Dec 2021 USD '000	Unaudited 30 Jun 2021 USD '000
Trade payables	230	306	1,178
Accruals	204	343	454
Other payables	266	308	266
Intercompany payable	-	-	68
	<u>700</u>	<u>957</u>	<u>1,966</u>

Trade payables as of 30 June 2022, include an outstanding balance of USD 205,214 payable to the investment manager (2021: USD 205,214) and related to a re-charge of marketing expenses.

Accruals include Directors Q2 2022 fees payable amounting to USD Nil (2021: USD 328,000).

Other payables mainly include MetLife loan interest payable amounting to USD 249,647 (2021: USD 249,647) and corresponding to the period from latest interest charged until the year-end, i.e., from 1 April 1 to 30 June 30 2022.

13. 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 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. 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 has strict cost controls in place to maximise distributions to investors. 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.

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13. Capital management (continued)

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.

14. Share capital account

Externally imposed capital requirements

There are no external capital requirements imposed on the entity.

As of 30 June 2022, the authorised share capital of the Company was USD 20,000,002 (2021: USD 20,000,002), divided into 100,000,000 (2021: 100,000,000) redeemable ordinary shares of USD 0.10 each, 100,000,000 (2021: 100,000,000) redeemable Class A ordinary shares of USD 0.10 each and two (2021: 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 period ended 30 June 2022, the Company did not issue any new shares to the Directors (2021: 21,261).

15. Contingent assets and liabilities

As of 30 June 2022, no contingent assets and liabilities were identified for the Company.

16. Subsequent events

Since the reporting date and up to the date of signing this report, no subsequent events have occurred which would require disclosure