



Important announcement to all clients in teak investment on plantations of RGI SA

RGI SA has struggled its way thru 2018 with a hopeless setback on the price market, fiscal and financial changes in the country and on top of it all with a climate situation who has complicated the maintenance and growth of the trees. We have seen the indications of these affecting elements building up over the last years but even though the indications were noted and prepared for we could not foresee that the affects would be as prominent as it became toward our operations.

- As reported separately in this newsletter, the market of teak has dropped drastically due to the high production of teak, the pressure on the exchange market and the overall economic instability. There is a pessimistic pessimism to a possibility of positive recovery in at least 5 to 10 years future, not even to the level of a Status Quo of today's prices and demand. The attached letter was estimated in July 2018 and when September came it was already a worse scenario than predicted.
- Freight cost went up by 30% due to the piling up of full containers not able to be shipped and causing a lack of containers
- Costa Rica has changed on many aspects of its tax policy and the tax exemption of standing trees for export has been redrawn, for RGI this means a 13% sales tax over all the trees that are being sold. Additionally, the overall tax increases have resulted in higher operational costs, maintenance cost, harvesting and sales cost etc.
- Climate situation has been in moments extreme, not only here but for Costa Rica the summer became very short this year and the winter has been very wet. The maintenance has been complicated and expensive.
- Typical result of the buyer's market are also the conditional changes such as; More costs in responsibility of the seller (extraction, loading, road repair and even to the transport-price increases)

Harvest and Thinning.

RGI SA started up with preparation for some harvest in El Parque last summer but could not continue due to the situation of the weather and that the harbors was full of containers with teak and therefore unable to receive in time the quantity of containers. The harbors in India was already filled up with the containers from the year before, the production was way larger than the demand and the sawmills suffering from the demonetization could not afford to increase their reserve stock.

Compared to the prices we were offered last year, this year it dropped to approximately the half. For the first time in our history we have not been visited by buyers pleading wood of the upcoming summer harvest period of 2019, we had to seek out all known and unknown teak buyers in order to receive any offers at all. In this search we found out that 10-15 buyers, buyers of many years in the teak market, had closed their operation during this year in due to the economic situation. The offers for 2019, from the 3 most serious buyers can be seen attached.



Economic situation.

We, RGI SA has been forced to sell out farms and properties, due to the delayed- and lack- of income in this period, all to be able to maintain the liquidity and to manage all the costs and continue with the maintenance of the trees. It is far from a comfortable situation for anyone of us, investors as well as for the management of RGI SA. RGI SA was forced to stop the scheduled harvest of El Parque as well as the scheduled thinning of Carrizal, Combate and Gallito. As soon as it is possible to continue, we will do so but;

The already shocking results of $\pm 60\%$ loss of the investment will become worse for those remaining harvests, even if the market would be able to recover some demand, the foreseen price index does not leave us much of a hope in the reducing of further losses. Sadly, knowing that the foreseen situation will go beyond the rotation period of our youngest plantation it does not justify any prolonging of time schedule, on the contrary, the longer we wait the higher will be the losses

Future.

RGI SA will continue working on our projects, but we have set some criteria on the future when it comes to the economic results and to what will have to be the minimum results of wood sales. We cannot accept any results that will cause us to end up with debts on maintenance and public fees. With our limited income of 10% on the wood sales that are reserved to cover all the operational cost, office cost, maintenance cost and salaries, we have very a limited timeframe on getting the sales done.

The reserves that we are now spending on operational costs was meant to be the capital of the company all till the end of the projects.

This summer, January till April will be the first deadline for the sales, then after April we will again consider the situation regarding the possibility to continue with the operation till the next summer in 2020

This has been the most difficult Newsletter to prepare and wright ever since we started in 1996, 22 years

May you all enjoy the Christmas Holidays and the New Year celebration with your family and friends, we cross our fingers for a better year in 2019

Best regards,

***BA Jakobsen
CEO RGI SA***