Phaunos Timber Fund Limited

Unaudited Interim Condensed Consolidated Financial Statements

For the period ended 30 June 2018

Phaunos Timber Fund Limited (the "Company" or "Phaunos") holds a portfolio of timber assets located principally in New Zealand, Brazil and Uruguay. Following the loss of the Continuation Vote at the 2017 Annual General Meeting on 19 June 2017, the Company's investment policy was amended to permit an orderly realisation of its assets. The Company is now self-managed by its board of directors, supported by a team of executives and service providers within the financial, forestry management and asset sale functions.

Contents

Chairman's Statement

Dear Shareholder,

Since I last wrote to you in a financial statements context on 30 April 2018, it has been an eventful period for the Company.

Asset Sales Process

The Company has continued to execute its shareholder mandated asset sales process (the "Asset Realisation Process") and has received a range of high quality non-binding offers from institutional parties keen to acquire our assets. Those offers and the formal evaluation of the progress made at our New Zealand interests that I alluded to in my 30 April 2018 statement, enabled us to lift our estimate of the realisable value range per share from US$0.45-US$0.57 at 30 April to US$0.54-US$0.60 presently (the "Updated Asset Realisation Range"). All of the background to the current Updated Asset Realisation Range is set out in our response circular published on 14 August 2018. The Asset Realisation Process has now moved into a new phase where those bidders are preparing to commence, and in some cases have already commenced, onsite due diligence, with a view to binding offers during Q4 of 2018. We look forward to moving that process forward with the support of Pöyry Capital, our sales process advisors.

Offers for the Company

Concurrently, the Company has received both a firm all-cash offer at US$0.49 per Phaunos share from Stafford Capital Partners ("Stafford"), and just yesterday an indication that Catchmark Timber Trust Inc, a US timber REIT, is considering making an offer in shares at US$0.57 per Phaunos share. Both of these approaches are unsolicited. Nevertheless, we are pleased that both of these parties have taken an interest in our assets and will be continuing a dialogue with them as the UK Takeover Code timetable, which was triggered by the firm offer from Stafford, moves along. Shareholders will be well aware that the board's view of the Stafford offer is that it significantly undervalues the Company, consistent with our Updated Asset Realisation Range assessment. The board has announced it intends to engage with Catchmark and will evaluate its proposal in due course.

Litigation – New Zealand

We announced on 28 August 2018 that a subsidiary of Rayonier Inc, the majority owner of our New Zealand interests, had issued proceedings in the Auckland High Court alleging a breach by Phaunos of confidentiality, notice and consultation obligations in the shareholders agreement between the parties in relation to their respective interests in the Matariki Forestry Group. To repeat the message delivered in our announcement of 28 August, the board does not regard Rayonier's claims as having merit. Accordingly, it will endeavour to have a Court deal with these claims urgently, including by taking a pre-emptive step such as a strike out application if necessary and will continue to progress the Asset Realisation Process.

Chairman's Statement (continued)

Next Steps

Your board's overriding objective is to achieve a balance between delivering maximum value and making timely returns of capital to Shareholders, consistent with the mandate given to it by shareholders in 2017, and we are focussed on that. Our mind is not closed to any outcome which delivers that, but for now, we continue to believe that completion of Asset Realisation Process represents the best means of achieving that objective, for the reasons that we have articulated publicly. The board is fortunate to have the support of an excellent team of advisors whose industriousness, diligence and experience have enabled clarity of debate and comfort in the guidance that we have delivered to you. I have personally enjoyed many direct interactions with shareholders keen to understand the impact of recent developments on the value of the Company and look forward to continuing those dialogues as matters move forward. We will report further to you on all of the matters set out above consistent with the Company's legal and regulatory obligations.

Yours sincerely,

Richard Boléat
Chairman of Phaunos Timber Fund Limited

Investment Strategy, Objective and Policy

Further to the loss of the Continuation Vote at the 2017 AGM, shareholders subsequently approved a revised investment objective and policy of the Company at an Extraordinary General Meeting held on 17 August 2017. The revised policy states as follows:

Investment Objective

The Company will be managed with the intention of realising all remaining assets in the Portfolio, in a prudent manner consistent with the principles of good investment management with a view to returning capital to the Shareholders in an orderly manner.

Investment Policy

The managed wind-down will be effected with a view to the Company realising all of its investments in a manner that achieves a balance between maximising the value from the Company's investments and making timely returns of capital to Shareholders. The Company may sell its investments either to co-investors in the relevant asset or to third parties, but in all cases with the objective of achieving the best available price in a reasonable time scale.

The Company will cease to make any new investments or to undertake capital expenditure except where necessary in the reasonable opinion of the Board in order to protect or enhance the value of any existing investments or to facilitate orderly disposals.

Any cash received by the Company as part of the realisation process prior to its distribution to Shareholders will be held by the Company as cash on deposit and/or as cash equivalents.

The Company will not undertake new borrowing other than for short-term working capital purposes.

Directors’ Report

Update on the Asset Realisation Process

Matariki

The Board is pleased to confirm that selected bidders for the Company’s interest in the Matariki asset have now been sent process letters for phase 2 of the process and provided with access to a comprehensive virtual data room including information on the forest assets and operations, legal documentation, financial statements and other related financial information.

Pöyry will be coordinating the due diligence process as well as site visits, with binding offers due on or around early November 2018.

As announced on 28 August 2018, the Board intends to defend itself vigorously against the claims brought by Rayonier, which it continues to believe are without merit.

An update on timing of the Matariki disposal will be provided in due course. In the meantime, the potential purchasers of Matariki remain actively engaged with Phaunos and its advisers.

Latin American Assets

Selected bidders for the Latin American Assets (excluding the Company’s interest in Aurora Forestal) have now been provided with access to a virtual data room containing comprehensive information on the assets.

This next stage of the sale process will include site visits, inventory checks and meetings with local forest management and operators.

Following the receipt of binding bids, the Board expects completion for the sale of the Latin American Assets (18% of the Portfolio Value), assuming a process of 60-120 days, between Q4 2018 and Q1 2019.

Aurora Forestal (“AF”)

The Board reminds Shareholders that following delivery of the Voluntary Exit notice, the Company entered into discussions with AF’s majority shareholder to negotiate a possible disposal of its equity interest in AF.

Whilst the Board cannot comment on the outcome of its discussions with AF’s majority shareholder at this stage, it notes that negotiations are progressing well and various options are being explored to effect an exit.

GreenWood Tree Farm (“GTFF”)

As mentioned in the Response Circular, the disposal of the Company’s interest in GTFF (4% of the Portfolio Value) is subject to a separate liquidation procedure.

Similarly to Phaunos, GTFF is currently in the process of realising its portfolio. Expressions of interest and / or non-binding bids have been received for all assets in the portfolio.

Directors' Report (continued)

NTP Timber Plus ("NTP")
The Company's interest in NTP was realised on 27 June 2018, above its reported NAV as at 31 December 2017.

Phaunos Ongoing Costs
The board would like to take the opportunity to provide further background related to estimated Phaunos's running costs going forward.

In general, timber sales in the wholly-owned South America businesses are expected to cover their operational costs until sale. Investment operating costs, mostly incurred at the parent level in Guernsey, are expected to run at $2.1m to $2.4m on an annualised basis going forward and are expected to tail off as the Asset Realisation Process runs to conclusion. The expected expense burden referenced above includes all directors fees, staff costs, listing fees, administrator fees, audit fees, insurance, travel and all other regular expected expenditure.

These ongoing costs, alongside expected returns from Matariki, were taken into account when determining the expected Asset Realisation Range published in the response circular published on 14 August 2018.

Principal Risks and Uncertainties
The Directors have carried out a robust assessment of the principal risks facing the Company, with a focus principally on the risks associated with the realisation of the asset portfolio.

In addition, the Directors review quarterly cash flow forecasts and NAV estimates to assess the liquidity and solvency of the Group. These reviews also include quarterly updates on current and potential litigation and tax uncertainties.

The purpose of the following principal risks table is primarily to summarise those matters that may materially influence the asset disposal process and the values which may be achieved through that process.

Risk	Mitigation
Valuation uncertainty Valuations determined by the board represent their current best estimate of the likely range of gross realisation proceeds from asset disposals. Given that the timber assets held by the Group are illiquid, that there are few comparable historic transactions and that the universe of possible buyers of those assets is limited to a small group of market participants and differentiated asset to asset, the Board's estimates of gross realisation proceeds are inherently uncertain. Valuation subjectivity is amplified in the current wind-down scenario.	The Board receives annual independent valuations for all material timber assets to guide valuation assumptions. The board also seeks counsel from its professional advisors and monitors the market in timber assets worldwide in order to inform its ongoing estimation process.
Foreign exchange risk The Company's functional currency is US$. Investments are primarily held in New Zealand Dollar (NZ$) and Brazilian Real (BRL). Fluctuation in foreign exchange rates between these currencies impacts the NAV of the Company.	Export orientated timberland investments provide an internal hedge, insofar as depreciation in currency supports increased export volumes. Currency hedging may be utilised where the board determines that it is in the interest of the Company to do so, recognising that more volatile currency pairs, such as USD/BRL, tend to attract significant hedging costs and also require cash collateralisation. The Company has not conducted any currency hedging activities during the year under review and does not presently anticipate doing so.

Directors' Report (continued)

Principal Risks and Uncertainties (continued)

Risk	Mitigation
Political, Tax and Regulatory Risk Changes in the political, regulatory and tax status of each subsidiary or changes in legislation in investment or home markets could impact on the ability of the Company to realise its assets at their full value on a timely basis. In particular, the disposal of the Company's New Zealand assets are impacted by the need for a potential buyer of those assets to comply with the requirements of the New Zealand Overseas Investment Office ("OIO") as discussed elsewhere in this report. There is risk of post-sale tax assessments in Brazil, whereby buyers and sellers can be held jointly liable for certain taxes, even post-sale.	The board reviews the appropriateness of the Company's legal structure, including the nature of the holding and intermediary companies to minimise potential tax on the Group. The board, assisted by its legal representatives, takes a proactive approach to understanding changes in the political, regulatory and taxation environments within the jurisdictions it operates in to ensure potential risks are understood and minimised. Sale can be structured with onerous guarantees on the buyer, in order to avoid the potential tax.
Market risk There exists a risk of a significant market disruption or geo-political event between the time of this report and the eventual sale of assets.	The Board has set an ambitious timetable and is determined to remain on schedule to minimise the risk of a major geopolitical event affecting the sales process.
Sale execution risk The sale of a diverse portfolio across multiple jurisdictions and geographies presents a complex sales transaction with many variables.	The Board has contracted a wide array of parties, with various, complementary skillsets. Legal and tax advice is sought in all operating jurisdictions.
Timber infestations In the lead-up to sale, an infestation would prove burdensome.	All contractors previously operating on the various properties have been retained and Chief Forestry Officers employed to oversee forestry operations.
Warranties on sale The jurisdictions in which some of the properties are located have slow-moving administrative and legal regimes, creating the possibility of guarantees, warranties and escrow accounts.	The Company is marketing the investments as widely as possible and working to resolve any issues that may preclude a clean exit.
Rayonier litigation The outcome of litigation is inherently unpredictable, notwithstanding the strength of one's legal position. A risk exists that Rayonier could be successful in their claim against the Company.	Phaunos believes Rayonier's claim to be without merit and New Zealand legal counsel has been instructed to vigorously defend the Company's rights.
Timing Further to the Rayonier legal dispute referenced above, and the Stafford take-over, the risk is the envisaged time-table gets extended beyond what was originally envisaged.	Phaunos is exploring avenues to progress the legal dispute with Rayonier promptly and is progressing the Asset Realisation Process concurrently.

Statement of Directors' Responsibilities

The Directors are responsible for preparing this Unaudited Interim Condensed Consolidated Financial Statements in accordance with applicable law and regulations.

The Directors confirm that to the best of their knowledge:

- The Unaudited Interim Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU; and

- The Unaudited Interim Condensed Consolidated Financial Statements include a fair review of the information required by:

  - DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the Unaudited Interim Condensed Consolidated Financial Statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  - DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the financial year and that have materially affected the financial position and performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Signed on behalf of the Board by:

Richard Boléat Chairman	Jonathan Bridel Director

7 September 2018

Interim Condensed Consolidated Statement of Comprehensive Income
for the period ended 30 June 2018

	Notes	30 June 2018 Unaudited US$'000	30 June 2017 Unaudited US$'000
Revenue from timber operations	4	1,023	576
Cost of sales	5	(497)	(282)
Gross profit		**526**	**294**
Other operating income		101	31
Timber operating expenses	6	(1,101)	(1,328)
Timber operating loss		**(474)**	**(1,003)**
Investment income	7	241	6,451
Investment operating expenses	8	(2,535)	(3,115)
Operating (loss)/profit		**(2,768)**	**2,333**
Net gain/(loss) on financial assets at fair value through profit or loss		12,401	(933)
Revaluation and impairment of biological assets and land		25	-
Net realised loss on disposal of assets		-	(4)
Profit before tax		**9,658**	**1,396**
Income tax expense	9	(584)	(2,113)
Profit/(loss) for the period		**9,074**	**(717)**
Other comprehensive income loss			
Other comprehensive loss to be reclassified to profit or loss in subsequent years (net of tax):			
Exchange differences on translation of foreign operations		(5,781)	(514)
Other comprehensive loss not to be reclassified to profit or loss in subsequent years (net of tax):			
Reversal of revaluation of land		(1,310)	(1,194)
Other comprehensive loss, net of tax		**(7,091)**	**(1,708)**
Total comprehensive income/(loss), net of tax		**1,983**	**(2,425)**
		Cents	**Cents**
Basic and diluted earnings/(loss) per Ordinary Share for the period	10	1.80	(0.13)

The notes on pages 14 to 30 form an integral part of these Unaudited Interim Condensed Consolidated Financial Statements.

Interim Condensed Consolidated Statement of Financial Position
as at 30 June 2018

	Notes	30 June 2018 Unaudited US$'000	31 Dec 2017 Audited US$'000
Assets			
Current Assets			
Financial assets at fair value through profit or loss	11	193,355	185,323
Biological assets	11	13,896	15,254
Land	11	26,830	30,713
Cash and cash equivalents	13	22,322	47,448
Trade and other receivables	14	5,084	7,261
Other assets		33	67
Inventories		-	8
		261,520	**286,074**
TOTAL ASSETS		**261,520**	**286,074**
Equity and Liabilities			
Equity			
Issued capital	17	407,468	443,866
Treasury shares	17	-	(11,398)
Retained earnings		(200,270)	(209,344)
Other components of equity		50,107	57,198
TOTAL EQUITY		**257,305**	**280,322**
Current Liabilities			
Trade and other payables	15	1,082	1,823
Provisions	16	3,133	3,929
		4,215	**5,752**
TOTAL LIABILITIES		**4,215**	**5,752**
TOTAL EQUITY AND LIABILITIES		**261,520**	**286,074**
Ordinary Shares in Issue	17	498,360,117	545,529,832
		US cents	**US cents**
Net Asset Value Per Ordinary Share		52	51

The Unaudited Interim Condensed Consolidated Financial Statements on pages 9 to 13 were approved by the Board of Directors on 7 September 2018 and signed on its behalf by:

Richard Boléat
Director

Jonathan Bridel
Director

The notes on pages 14 to 30 form an integral part of these Unaudited Interim Condensed Consolidated Financial Statements

Interim Condensed Consolidated Statement of Changes in Equity
for the period ended 30 June 2018

	Note	Attributed to equity holders of the parent							
	Note	Issued capital	Treasury Shares	Retained earnings	Foreign currency translation reserve	Land revaluation reserve	Other reserves	Warrant Instrument reserve	Total Equity
		US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
As at 1 January 2017		443,866	(10,707)	(196,362)	(54,440)	5,859	110,418	2,683	301,317
Loss for the period		-	-	(717)	-	-	-	-	(717)
Other comprehensive income		-	-	-	(514)	-	-	-	(514)
Total comprehensive income/(loss)		**-**	**-**	**(717)**	**(514)**	**-**	**-**	**-**	**(1,231)**
Buy back of Ordinary Shares	17	-	(691)	-	-	-	-	-	(691)
Movement in Land Reserve		-	-	-	-	(1,194)	-	-	(1,194)
Buyback of warrants		-	-	-	-	-	-	(2,683)	(2,683)
Dividends paid	18	-	-	(8,728)	-	-	-	-	(8,728)
As at 30 June 2017		**443,866**	**(11,398)**	**(205,807)**	**(54,954)**	**4,665**	**110,418**	**-**	**286,790**
Loss for the period		-	-	(3,537)	-	-	-	-	(3,537)
Other comprehensive income		-	-	-	424	(3,355)	-	-	(2,931)
Total comprehensive income/(loss)		**-**	**-**	**(3,537)**	**424**	**(3,355)**	**-**	**-**	**(6,468)**
As at 30 December 2017		**443,866**	**(11,398)**	**(209,344)**	**(54,530)**	**1,310**	**110,418**	**-**	**280,322**
Profit for the period		-	-	9,074	-	-	-	-	9,074
Other comprehensive income/(loss)		-	-	-	(5,781)	(1,310)	-	-	(7,091)
Total comprehensive income/(loss)		**-**	**-**	**9,074**	**(5,781)**	**(1,310)**	**-**	**-**	**1,983**
Cancellation of treasury shares	17	(11,398)	11,398	-	-	-	-	-	-
Share Redemption	17	(25,000)	-	-	-	-	-	-	(25,000)
As at 30 June 2018		**407,468**	**-**	**(200,270)**	**(60,311)**	**-**	**110,418**	**-**	**257,305**

The notes on pages 14 to 30 form an integral part of these Unaudited Interim Condensed Consolidated Financial Statements.

Interim Condensed Consolidated Statement of Cash Flows
for the period ended 30 June 2018

	Note	30 June 2018 Unaudited US$'000	30 June 2017 Unaudited US$'000
Operating activities			
Net profit before tax		9,658	1,396
Adjustments to reconcile net profit before tax to net cash flows	Pg. 13	(14,795)	(3,577)
		(5,137)	(2,181)
Working capital adjustments			
Decrease in trade and other receivables		2,177	3,368
Decrease in trade and other payables		(690)	(139)
Decrease in inventories		8	6
		1,495	3,235
Income tax paid	9	(635)	(2,113)
Net cash outflow from operating activities		**(4,277)**	**(1,059)**
Investing activities			
Net cash inflow from investing activities	Pg. 13	**4,151**	**7,416**
Financing activities			
Payment of dividend	18	-	(2,683)
Payment for buy back of shares		-	(691)
Payment for redemption of ordinary shares		(25,000)	-
Net cash outflow from financing activities		**(25,000)**	**(3,374)**
Net (decrease)/increase in cash and cash equivalents		**(25,126)**	**2,983**
Cash and cash equivalents at beginning of period		47,448	45,582
Effect of foreign exchange rate changes on cash and cash equivalents		-	(1,476)
Cash and cash equivalents at end of period	13	**22,322**	**47,089**

The notes on pages 14 to 30 form an integral part of these Unaudited Interim Condensed Consolidated Financial Statements.

Explanatory Notes to the Consolidated Statement of Cash Flows
for the period ended 30 June 2018

	Note	30 June 2018 Unaudited US$'000	30 June 2017 Unaudited US$'000
Adjustments to reconcile profit before tax to net cash flows			
Depletion		497	265
Dividends and distributions received	7	-	(6,031)
Interest income	7	(241)	(420)
Effect of foreign exchange rate changes on associates and financial assets at fair value through profit or loss		(5,781)	(6,446)
Effect if foreign exchange rate changes on other non-cash financial assets and liabilities		-	1,635
Net gain on financial assets designated at fair value through profit or loss (excluding foreign exchange)		(12,401)	5,893
Loss on revaluation of biological assets		1,320	1,127
Loss on revaluation of land		2,573	359
Movements in provisions		(796)	-
Movements in other assets		34	41
Total	Pg. 12	**(14,795)**	**(3,577)**

	Note	30 June 2018 Unaudited US$'000	30 June 2017 Unaudited US$'000
Net cash inflow from investing activities			
Return of capital and disposal of assets:			
Dividends and distributions received	7	-	6,031
Interest income	7	241	420
Return of capital from other financial assets		3,389	1,547
Proceeds from disposal of plant and equipment		-	(20)
Proceeds from realisation of other financial assets		980	-
		4,610	**7,978**
Purchase of assets and silviculture costs:			
Silviculture and other biological asset costs		(459)	(561)
Purchase of other assets		-	(1)
		(459)	**(562)**
Total	Pg. 12	**4,151**	**7,416**

Notes to the Interim Condensed Consolidated Financial Statements
for the period ended 30 June 2018

1. CORPORATE INFORMATION

The Unaudited Interim Condensed Consolidated Financial Statements ("the Interim Financial Statements") of Phaunos Timber Fund Limited (the "Company" or "Phaunos") and its subsidiaries (collectively, the "Group") for the period ended 30 June 2018 were authorised for issue in accordance with a resolution of the Directors on 7 September 2018.

Phaunos Timber Fund Limited is a limited company incorporated and domiciled in Guernsey and whose shares are publicly traded on the London Stock Exchange. The registered office is located at Ground Floor, Dorey Court, Admiral Park, St Peter Port, Guernsey GY1 2HT.

Phaunos is an authorised closed-ended, investment scheme.

On 10 July 2017 Stafford Capital Partners Limited submitted its resignation as Manager, with effect from the Company's EGM held on 17 August 2017, triggering a six month notice period. Pöyry Capital was appointed as sales agents in November 2017 and the Group became self-managed on 17 February 2018.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The Interim Financial Statements for the six months ended 30 June 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The Interim Financial Statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2017.

The Interim Financial Statements have been prepared under a 'break-up' basis and amended to reflect the fact that the going concern assumption is not appropriate. This involves writing assets down to their net asset value based on conditions existing at the end of the reporting period and providing for contractual commitments which may have become onerous as a consequence of the decision to wind-down the entity.

Under the 'break-up' basis, all assets are measured at net asset value, provisions are made for estimated liquidation costs and all assets have been classified as current.

The Directors deem it appropriate to adopt a break-up basis in preparing the Interim Financial Statements given the timing for completion of the disposal of its assets and full liquidation of the fund structure as indicated in its Response Circular and in Phaunos's announcement published on 6 September 2018. Please refer to page 4 of this document for detail regarding the Group's revised Investment Objective and Investment Policy.

The Interim Financial Statements are presented in US Dollars and all values are rounded to the nearest thousand US Dollars (US$'000), except where otherwise indicated.

The Interim Financial Statements have not been audited or reviewed by the Company's auditors.

2. ACCOUNTING POLICIES (CONTINUED)

2.2 New standards, interpretations and amendments adopted

The accounting policies adopted in the preparation of Interim Financial Statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* that require restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the Interim Financial Statements of the Company.

IFRS 9, Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018 and adjusting the comparative information for the period beginning 1 January 2017. However there are no financial impact on the application of IFRS 9 therefore, the comparative information for 2018 has not changed.

Classification and measurement
IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

By adopting IFRS 9, there is no material impact on the classification and measurement of financial assets of the Group because the Group continues to classify its investment in financial assets at fair value through profit or loss under IFRS 9 and continues to classify its trade receivables and payables at amortised cost under IFRS 9.

Impairment
The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The only assets subject to the ECL model are trade and other receivables and the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The adoption of the ECL model has not given rise to a material change in impairment.

Hedge accounting
The Group does not use hedge accounting.

2. ACCOUNTING POLICIES (CONTINUED)

IFRS 15 Revenue from Contracts with Customers

The new IFRS 15 standard requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five step methodology that is required to be applied to all contracts with customers. In addition, guidance on interest and dividend income has been moved from IAS 18 to IFRS 9 without significant changes to the requirements.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The application of IFRS 15 did not have a material impact on the revenue from timber sales reported, but the revenue recognition policy has been revised to reflect the changes in IFRS 15.

When measuring and recognising revenue, the entity will apply the following five-step model in relation to harvesting contracts:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Sale of standing timber

The Group has concluded that revenue from sale of standing timber should be recognised at the point in time when control of the asset is transferred to the customer, generally when all risk and rewards relating to the standing timber have been transferred to the buyer. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

Standing timber sale contracts do not generally comprise work in progress and all performance conditions must be met before the contract takes effect.

Transition disclosures

The application of IFRS 9 and 15 did not change the measurement and presentation of the current financial instruments and revenue from timber sales therefore there was no impact on the Interim Financial Statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The estimates and judgements made by the Board of Directors are consistent with those made in the Annual Consolidated Financial Statements for the year ended 31 December 2017.

4. REVENUE FROM TIMBER OPERATIONS

	30 June 2018 Unaudited US$'000	30 June 2017 Unaudited US$'000
Income - standing timber sales	1,023	576
	1,023	**576**

5. COST OF SALES

	30 June 2018 Unaudited US$'000	30 June 2017 Unaudited US$'000
Depletion	497	282
	497	**282**

6. TIMBER OPERATING EXPENSES

	30 June 2018 Unaudited US$'000	30 June 2017 Unaudited US$'000
Direct timber costs		
Property management fees	348	356
Property, repairs and maintenance	62	80
	410	**436**
Indirect timber costs		
Liquidation and deregistration costs	168	130
Professional fees	142	116
Other timber costs	131	188
Accounting fees	109	119
Other taxes	100	35
Foreign exchange losses	22	163
Legal fees	19	98
Fees paid to auditors	-	43
	691	**892**
Total timber operating expenses	**1,101**	**1,328**

7. INVESTMENT INCOME

	30 June 2018 Unaudited US$'000	30 June 2017 Unaudited US$'000
Distribution income *	-	6,031
Interest income	241	420
	241	**6,451**

***** US$ 3.4 million was received by way of shareholder loan repayment in respect of Q1 2018. Q2 2018 Dividend is disclosed in note 21.

8. INVESTMENT OPERATING EXPENSES

	30 June 2018 Unaudited US$'000	30 June 2017 Unaudited US$'000
Asset realisation expenses	578	-
Professional fees	428	57
Portfolio management fees	410	1,911
Fees paid to auditors for audit services	288	179
Directors' remuneration - Company	266	101
Take-over related costs	211	-
Administration fees	84	390
Legal fees	75	55
Directors', Officers' and other insurance	40	8
Directors' remuneration - Subsidiaries	34	15
Commission expenses	28	-
Travel expenses	27	37
Appraisal fees	22	22
Accounting fees	22	15
Corporate advisory fees	10	41
Directors' expenses	6	10
Other expenses	6	84
Liquidation and deregistration costs	-	190
	2,535	**3,115**

9. INCOME TAX EXPENSE

	30 June 2018 Unaudited US$'000	30 June 2017 Unaudited US$'000
US corporate income taxes	401	1,883
South America corporate income taxes	183	223
Other income taxes	-	7
	584	2,113

Under the 'break-up' basis of accounting, all potential repatriation taxes have been raised, along with taxes from continuing operations.

The Group has been granted exemption from Guernsey Income Tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989, and is charged an annual fee of £1,200 (2017: £1,200). As a result, the taxation charge for the period relates solely to the Company's subsidiaries. The principal reason for the tax charge is profitability of some of the Group's subsidiaries.

10. EARNINGS/(LOSS) PER SHARE

The basic and diluted loss per Ordinary Share is based on the net profit for the period attributable to Ordinary Shareholders of US$ 9 million (30 June 2017: US$ 0.7 million loss) and 500,705,572 (30 June 2017: 546,074,252) Ordinary Shares, being the basic weighted average number of Ordinary Shares in issue during the period.

11 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

11.1 Valuation methodology process

The same valuation methodology and process was deployed in June 2018 and December 2017. Please refer to the 2017 Annual Report for further detail of the valuation and methodology process.

11.2 Fair Value Hierarchy

Financial assets designated at fair value through profit or loss (including investments in associates), biological assets and land recorded at fair value are analysed by using a fair value hierarchy that reflects the significance of inputs. The fair value hierarchy has the following levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for assets or liabilities that are not based on observable market data (that is, unobservable inputs).

As at 30 June 2018 the net carrying value of the assets is based on the 30 June 2018 NAV adjusted for liquidity and minority discounts, sales commission expense, estimated sales tax and other costs to sell the assets.

The Group held the following assets at net asset value, which are all categorised as Level 3 in accordance with the fair value hierarchy in IFRS 13:

	30 June 2018 Unaudited US$'000	**31 Dec 2017 Audited US$'000**
Associates	185,681	176,083
Other financial assets	7,674	9,240
	194,355	**185,323**
Non-financial assets		
Biological assets	13,896	15,254
Land	26,830	30,713
	40,726	**45,967**
	234,081	**231,290**

11 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

For assets that are recognised in the Interim Financial Statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Levels during the period.

Other financial assets and liabilities

For all other financial assets and liabilities, including trade and other receivables; cash and cash equivalents; and trade and other payables, the carrying value is an approximation of fair value due to its short-term nature.

11.3 Reconciliation of recurring fair value measurements categorised within Level 3 of the fair value hierarchy

The below tables reflect the movements in assets designated as Level 3 during the course of the year.

The following is a reconciliation of the beginning and ending balances for recurring fair value measurements of assets and liabilities that utilise significant unobservable inputs (Level 3) at the reporting date and the prior year-end.

As at 30 June 2018	Associates US$'000	Other financial assets US$'000	Biological assets US$'000	Land US$'000	Total US$'000
Opening fair value	**176,083**	**9,240**	**15,254**	**30,713**	**231,290**
Total gains or losses for the period:					
Unrealised gain/(loss) included in profit or loss:					
Revaluation and impairments	20,195	(586)	170	(136)	19,643
Foreign exchange translation	(7,208)	-	(1,490)	(2,437)	(11,135)
	12,987	(586)	(1,320)	(2,573)	8,508
Unrealised gain included in other comprehensive income:					
Revaluation	-	-	-	(1,310)	(1,310)
	-	-	-	(1,310)	(1,310)
Purchases, issues, sales and other movements:					
Purchases and other costs	-	-	459	-	459
Disposals	-	(980)	-	-	(980)
Depletion	-	-	(497)	-	(497)
Return of capital	(3,389)	-	-	-	(3,389)
	(3,389)	(980)	(38)	-	(4,407)
Closing fair value	**185,681**	**7,674**	**13,896**	**26,830**	**234,081**

11 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

11.3 Reconciliation of recurring fair value measurements categorised within Level 3 of the fair value hierarchy (continued)

As at 31 December 2017	Associates US$'000	Other financial assets US$'000	Biological assets US$'000	Land US$'000	Total US$'000
Opening fair value	**165,922**	**14,658**	**29,298**	**40,738**	**250,616**
Total gains or losses for the year:					
Unrealised gain/(loss) included in profit or loss:					
Revaluation and impairments	16,345	(5,418)	(8,600)	(2,927)	(600)
Foreign exchange translation	3,463	-	(162)	(174)	3,127
	19,808	(5,418)	(8,762)	(3,101)	2,527
Unrealised gain included in other comprehensive income:					
Revaluation	-	-	-	(4,549)	(4,549)
Foreign exchange translation	-	-	-	(90)	(90)
	-	-	-	(4,639)	(4,639)
Purchases, issues, sales and other movements:					
Purchases and other costs	-	-	492	-	492
Depletion	-	-	(5,028)	-	(5,028)
Disposals	-	-	(454)	(2,183)	(2,637)
Return of capital	(9,647)	-	-	-	(9,647)
Other	-	-	(292)	(102)	(394)
	(9,647)	-	(5,282)	(2,285)	(17,214)
Closing fair value	**176,083**	**9,240**	**15,254**	**30,713**	**231,290**

All investments, apart from Matariki and Pradera Roja, are held at 31 December 2017 valuations, adjusted for foreign exchange movements.

Matariki and Pradera Roja have been revalued based on more recent valuations.

11.4 Transfers during the period

There have been no transfers between levels during the period ended 30 June 2018 and the year ended 31 December 2017. Any transfers between the levels will be accounted for on the last day of each financial period. Due to the nature of the investment, it is always expected to be classified under Level 3.

11.5 Significant unobservable inputs and sensitivity analysis

IFRS 13 requires that quantitative information be provided about significant unobservable inputs used in the fair value measurement for each class of Level 3 asset and liabilities. The following data as at 30 June 2018 and 31 December 2017 summarises the valuation methods and information about fair value measurements and related significant unobservable inputs (Level 3) where, if changed, could significantly increase or decrease the valuation of an asset (e.g. NAV per share, timber and land prices, discount rates).

Asset	Fair Value 30 Jun 18 US$'000	Fair Value 31 Dec 17 US$'000	Valuation Method	Valuation Source	Significant Unobservable Inputs	Range [1]	Sensitivity Rate [2]	Inter-relationship between significant unobservable inputs and fair value measurement
Associates	**185,681**	**176,083**	NAV at fair value, adjusted for minority discounts	Underlying manager based on independent appraisals	NAV based on average log prices, discount rates, land prices and minority discount	Average log price change[3] of ±5% (2017: ±5%) Average production cost change of ±5% (2017: ±5%) Discount rate change of ±1% (2017: ±1%) Average land price change[4] of ±5% (2017: ±5%) Minority discount of ±10%	±9% ±5% ±7% ±1% ±1%	The net asset value, profit for the year and equity value of the Group would increase / (decrease) if the NAV of the associate increased or decreased due to: • estimated log prices being higher/(lower) • the risk-adjusted discount rates being lower/(higher) • estimated future overheads being lower/(higher) • land prices being higher/(lower) • minority discount being higher/(lower)
Other Financial assets	**7,674**	**9,240**	NAV at fair value	Underlying manager based on independent appraisals	NAV at fair value	Land price change of ± 5% (2017: ± 5%)	<±1%	The net asset value, profit for the year and equity value of the Group would increase / (decrease) if the value of the under-lying land price increased/(deceased)
Biological assets	**13,896**	**15,254**	Combination of the income and cost capitalisation and comparative sales approach	Independent appraisal and management assessment	Timber prices per m Discount rates	Average log price change[3] of ±5% (2017: ±5%) Discount rate change of ± 1% (2017: ±1%)	±1% <±1%	The net asset value, profit for the year and equity value of the Group would increase / (decrease) if: • estimated log prices were higher/(lower) • the risk-adjusted discount rates were lower/(higher) • estimated future overheads being lower/(higher)
Land	**26,830**	**30,713**	Income and cost capitalisation approach	Independent appraisal and management assessment	Land prices per hectare	Average land price change[3] of ±5% (2017: ±5%)	<±1%	The net asset value, profit for the year and equity value of the Group would increase / (decrease) if land prices were higher/(lower)

[1] All discount rates shown in the table are real rates as opposed to nominal rates. All timber and land price ranges are those used by the valuer in determining the biological assets and land valuations
[2] This is the expected maximum change, positive or negative, in NAV of any of the Group which could be incurred as a result of a shift in the unobservable input
[3] Log and land prices have been adjusted for growth rates, transport costs and liquidity

12. INVESTMENT IN ASSOCIATES

Matariki Forestry Group

At 30 June 2018, the Company had 23.01% (31 December 2017: 23.01%) ownership and voting rights in Matariki, a forestry company which owns and leases forestry assets in New Zealand, where the company is incorporated.

The following is a summary of distributions received by the Company from Matariki, significant balances obtained from Matariki's Consolidated Financial Statements for the period ended 30 June 2018, and a reconciliation of the fair value of Matariki, which is included in the total value of financial assets designated at fair value through profit or loss:

	30 June 2018 Unaudited US$'000	30 June 2017 Unaudited US$'000
Distributions		
Distributions received*	**3,389**	**7,578**
Summary of Consolidated Income Statement for the period ended 30 June 2018		
Gross timber revenue	204,031	170,687
Profit from continuing operations	98,072	34,339
Other comprehensive income	(3,543)	2,651
Total comprehensive income	94,528	36,990

Summary of Consolidated Statement of Financial Position at 30 June 2018	**30 June 2018 Unaudited US$'000**	**31 Dec 2017 Audited US$'000**
ASSETS		
Non-current Assets		
Biological assets	743,911	677,766
Property, plant and equipment	93,491	97,889
Other non-current assets	46,046	49,406
Total non-current assets	**883,448**	**825,061**
Total current assets	**67,292**	**43,242**
Total Assets	**950,740**	**868,303**
LIABILITIES		
Non-current Liabilities		
Deferred tax liability	152,818	123,082
Other non-current liabilities	1,218	637
Total non-current liabilities	**154,036**	**123,719**
Current Liabilities		
Shareholder loans	-	14,720
Other current liabilities	31,849	20,254
Total current liabilities	**31,849**	**34,974**
Total Liabilities	**185,885**	**158,694**
Total Net Assets	**764,855**	**709,609**

12. INVESTMENT IN ASSOCIATES (CONTINUED)

Fair Value of Associate		
23.01% Share of Total Net Assets (2017: 23.01%)	**175,993**	**163,281**
23.01% Share of Shareholder Loans (2017: 23.01%)	**-**	**3,387**
	175,993	**166,668**
Selling costs	**(1,580)**	**(1,393)**
Net asset value**	**174,413**	**165,275**

*refers to dividends received and return of shareholder loan
** translated at USD/NZD 1.47623 (2017:1.40499)

Aurora Forestal Limited

The Company holds 23.57% (31 December 2017: 23.57%) ownership and voting rights in Aurora Forestal Ltd, a company incorporated in the British Virgin Islands, which has mixed aged pine plantations and a fully integrated sawmill and co-generation plant in Uruguay. The following is a summary of dividends received by the Company from Aurora Forestal and significant balances obtained from Aurora Forestal's Consolidated Financial Statements for the period ended 30 June 2018, and a reconciliation of the fair market value of Aurora Forestal, which is included in the total value of financial assets designated at fair value through profit or loss:

	30 June 2018 Unaudited US$'000	**31 Dec 2017 Audited US$'000**
Summary of Consolidated Income Statement for the period ended 30 June 2018		
Gross timber revenue	14,719	11,149
Loss from continuing operations	(6,560)	(3,577)
Other comprehensive loss	(962)	(937)
Total comprehensive loss	(7,522)	(4,514)

Summary of Consolidated Statement of Financial Position at 30 June 2018	**30 June 2018 Unaudited US$'000**	**31 Dec 2017 Audited US$'000**
ASSETS		
Non-current Assets		
Biological assets	46,204	46,204
Property, plant and equipment	72,999	72,852
Other non-current assets	1,707	1,859
Total non-current assets	**120,910**	**120,915**
Total current assets	**9,391**	**7,995**
Total Assets	**130,301**	**128,910**

12. INVESTMENT IN ASSOCIATES (CONTINUED)

Total non-current liabilities	9,387	11,865
Total current liabilities	15,985	16,269
Total Liabilities	**25,372**	**28,134**
Total Net Assets	**104,929**	**100,776**
Fair Value of Associate		
23.57% Share of Total Net Assets (2017: 23.57%)	**24,732**	**23,753**
Selling costs and minority discount	**(13,464)**	**(12,945)**
Net asset value	**11,268**	**10,808**

The functional currency of Aurora Forestal Limited is US Dollars and no foreign exchange conversions are therefore required.

13. CASH AND CASH EQUIVALENTS

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents comprise of the following:

	30 June 2018 Unaudited US$'000	**31 Dec 2017 Audited US$'000**
Cash at bank and in hand	19,904	45,047
Short-term deposits	2,388	2,371
Cash held by third parties	30	30
	22,322	**47,448**

The following table provides a breakdown of the Cash and Cash Equivalents held in each jurisdiction:

	30 June 2018 Unaudited US$'000	**31 Dec 2017 Audited US$'000**
Guernsey	9,623	32,853
Brazil	9,615	9,916
United States	2,104	2,955
Uruguay	560	683
Norway	370	190
Australia	45	48
China	5	590
Cyprus	-	122
Netherlands	-	91
	22,322	**47,448**

The intention of the Board is to distribute cash to Shareholders in a timely and orderly manner. It is recognised that certain jurisdictions have legal and regulatory protocols that must be adhered to and completed before the cash can be remitted to Guernsey.

13. CASH AND CASH EQUIVALENTS (CONTINUED)

Whilst the process is underway to repatriate cash in a timely manner, the administrative nature of the repatriation processes takes time which is not always within the control of the Board. It should further be noted that funds will be retained in the local jurisdictions to cover operational expenses and the anticipated deregistration cost.

14. TRADE AND OTHER RECEIVABLES

	30 June 2018 Unaudited US$'000	31 Dec 2017 Audited US$'000
Amounts falling due within one year:		
Trade receivables	3,216	4,728
Amounts due from third parties on disposal of assets	654	1,470
Dividend receivable from associates	555	555
Tax receivables	541	286
Other receivables	118	222
	5,084	**7,261**

15. TRADE AND OTHER PAYABLES

	30 June 2018 Unaudited US$'000	31 Dec 2017 Audited US$'000
Amounts falling due within one year:		
Other payables	466	875
Portfolio management fees payable	-	596
Trade payables	385	56
Taxes payable	203	254
Deferred revenue	28	42
	1,082	**1,823**

16. PROVISIONS

	30 June 2018 Unaudited US$'000	31 Dec 2017 Audited US$'000
Amounts falling due within one year:		
Provision for legal litigations	1,845	2,000
Provision for withholding tax on repatriation of funds	659	1,098
Provision for liquidation and deregistration costs	629	831
	3,133	**3,929**

A provision has been raised for litigation expenses, to cover expected settlement costs and legal fees. There is significant uncertainty pertaining to the total provision raised and timing of any payments, due to the uncertain nature of underlying legal items.

16. PROVISIONS (CONTINUED)

Further provisions have been raised for expected liquidation costs, along with expected withholding tax on repatriation of cash balances. Timing of any liquidation costs and taxes payable are likewise uncertain, as these are dependent on the timing of the underlying asset sales.

17. ISSUED CAPITAL AND RESERVES

Authorised shares

At 31 December 2017 and 30 June 2018:	**US$**
Unlimited Ordinary Shares of no par value	-

Ordinary Shares issued and fully paid

	31 Dec 2017 US$'000	**Movement US$'000**	**30 June 2018 US$'000**
Share Capital – Ordinary Shares	571,758	(36,398)	535,360
Less: Issue costs of Ordinary Shares	(17,474)	-	(17,474)
Less: Transfer to other reserves	(110,418)	-	(110,418)
Total Share Capital – Ordinary Shares	**443,866**	**(36,398)**	**407,468**
No. of Ordinary Shares	**545,529,832**	**(47,169,715)**	**498,360,117**

	31 Dec 2016 US$'000	**Movement US$'000**	**31 Dec 2017 US$'000**
Share Capital – Ordinary Shares	571,758	-	571,758
Less: Issue costs of Ordinary Shares	(17,474)	-	(17,474)
Less: Transfer to other reserves	(110,418)	-	(110,418)
Total Share Capital – Ordinary Shares	**443,866**	**-**	**443,866**
No. of Ordinary Shares	**547,024,832**	**(1,495,000)**	**545,529,832**

Treasury Shares

	31 Dec 2017 US$'000	**Movement US$'000**	**30 June 2018 US$'000**
Total Treasury Shares	**11,398**	**(11,398)**	**-**
No. of Treasury Shares	**25,685,045**	**(25,685,045)**	**-**

The Authorised Share Capital of the Company is an unlimited number of Ordinary Shares of no par value and 1,556,490,000 C Shares of no par value.

On 9 January 2018, 47,169,715 Ordinary Shares were redeemed at a price of US$0.53 per share.

18. DISTRIBUTIONS MADE AND PROPOSED

The Company is committed to returning all sales proceeds from asset sales and distributions received during the year, after allowing for cash reserves to wind-down the Group.

No dividend was paid or declared for the current reporting period.

A dividend of US$0.016 cents per Ordinary Share (total dividend of US$1.6 million) was paid to holders of fully paid Ordinary Shares in 2017.

Future distributions are planned in a timely manner, to follow asset sales during the year.

19. RELATED PARTY DISCLOSURES

The following table provides the total amount of transactions that Phaunos Timber Fund Limited has entered into with related parties and key management personnel during the period ended 30 June 2018 and 2017, as well as balances with related parties as at 30 June 2018 and 31 December 2017. There were no sales or purchase transactions entered into between related parties during the current or prior financial years.

Related Party	Year	Nature of related party transaction	Amounts received from/(paid to) related parties US$'000	Amounts owed by/(to) related parties US$'000
Transactions with related parties:				
Associates	2018	Dividend / distribution income	-	555
	2017		6,031	-
	2018	Return of capital	3,389	-
	2017		1,547	-
Key management personnel of the Group:				
Directors within the Group	2018	Directors' remuneration and expenses	(272)	-
	2017		(111)	(47)
Phaunos Boston Inc.	2018	Compensation	(89)	-
	2017		(77)	-
Stafford Capital Partners	2018	Portfolio Management fees	(410)	-
	2017		(1,911)	(79)

20. CONTINGENCIES

Rayonier Dispute

On 27 August 2018, Phaunos was made aware that Rayonier Canterbury LLC, Phaunos's joint venture partner in Matariki, had launched proceedings in the Auckland High Court, alleging a breach of confidentiality, notice and consultation obligations under the terms of the Matariki Shareholders' Agreement.

Rayonier further served Phaunos with an Acquisition Notice under the terms of the Shareholders' Agreement in response to the alleged breach, asserting that it is entitled to acquire Phaunos' interest in Matariki for the sum of NZD 225m, a discount to the reported fair value.

20. CONTINGENCIES (CONTINUED)

Phaunos believes the claim to be without merit, the Acquisition Notice served to be invalid and it intends to vigorously defend itself against the claim. As Phaunos believes the success of Rayonier's claim to be improbable, no liability has been raised in relation to this legal action.

As the litigation process is very much in its early stage, it is difficult to quantify a potential outcome should the claim succeed. Due to the litigation with Rayonier in respect of Matariki as detailed in the note below, alongside the hostile take-over bid from Stafford, Phaunos has resolved to provide due diligence cost cover to bidders in the Asset Realisation Process. The quantum of cost cover is yet to be determined, but will fall within the limits mandated by the take-over Code. Please refer to the announcement from Phaunos published on 28 August 2018 for further details.

21. RECONCILIATION BETWEEN NAV STATED IN 14 AUGUST 2018 RESPONSE CIRCULAR AND THESE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

An updated unaudited pro forma statement of net assets per Phaunos share on both a going concern and break-up basis was included in Appendix II to our response circular published on 14 August 2018. In that document, the pro forma break-up net asset value of Phaunos was US$0.51 per share, whereas our break-up net asset value as at 30 June 2018 shown in these Interim Consolidated Financial Statements is US$0.52.

The pro forma break-up NAV reported in the response circular of 14 August 2018 was US$0.8 million lower than the break-up NAV reported in these Interim Consolidated Financial Statements. The key differences between the two figures relate to: (a) the movement in the foreign exchange rates of the New Zealand dollar and the Brazilian real against the US dollar between 1 August 2018 and 30 June 2018, (b) net trading income and expenditure for the six months to 30 June 2018 (overall value-neutral), and (c) a decrease in provisions from 31 December 2017 to 30 June 2018 as stated in note 16 to these Interim Consolidated Financial Statements.

For further background on the underlying appraisal reports used in computing the NAV in these Interim Consolidated Financial Statements, please refer to the table below.

Appraisal reports underpinning net assets computation

Asset	Appraisal Value (local currency)	Valuation Date	Valuation Type
Matariki (23.01% Stake)	NZD 283.8m	31 March 2018	Appraisal report (Indufor)
Aurora Forestal (23.57% Stake)	US$ 28.1m	31 December 2017	Phaunos 2017 Annual Report
Mata Mineira	BRL 64.5m	31 December 2017	Appraisal report (Consufor)
Eucateca - Eucalyptus (Quedas Claras)	BRL 19.1m	31 December 2017	Desktop land-based valuation
Eucateca - Teak (Paraiso)	BRL 16.4m	31 December 2017	Desktop land-based valuation
Pradera Roja	US$ 18.0m	30 June 2018	Appraisal report (Legacy)
GreenWood Tree Farm Fund ("GTFF")	US$ 9.2m	31 December 2017	Phaunos 2017 Annual Report

22. RECONCILIATION BETWEEN NAV STATED IN 14 AUGUST 2018 RESPONSE CIRCULAR AND THESE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The table above sets out the appraisal value, being the market value of the biological and land assets, of each of the assets that comprise Phaunos's portfolio. For the avoidance doubt, appraisal values exclude any assets and liabilities other than biological and land assets.

For Aurora Forestal, the appraisal value represents the value of the biological and land assets as well as the fair value of the sawmill and cogeneration plant owned by Aurora Forestal.

23. EVENTS AFTER REPORTING PERIOD

Takeover Offers for Phaunos

On 3 July 2018, Stafford Capital Partners Limited announced a firm cash offer for the entire issued and to be issued share capital of the Company at US$0.49 per Phaunos share (the "Offer").

On 31 July 2018, Stafford Capital Partners Limited issued an offer document pursuant to its Offer on the same terms as its announcement made on 3 July 2018.

On 14 August 2018, the Company published a circular rejecting Stafford's Offer. The Board further recommended that Shareholders take no action in relation to Stafford's Offer. In the Response Circular, the Board published an Updated Asset Realisation Range of US$0.54 - 0.60 per Phaunos share. The updated Asset Realisation Range is primarily based on the outcome of indicative bids received for all assets which are subject to a sale process under the Asset Realisation Process. Further information on the Board's position regarding Stafford's Offer as well as details on the Updated Asset Realisation Range can be found in the Response Circular available on Phaunos's website. Additional details on the Asset Realisation Process can also be found in the announcements made by Phaunos on 21 August 2018, 5 September 2018 and 6 September 2018. Please refer to the Response Circular for further detail related to envisaged costs related to the take-over defense.

On 6 September, CatchMark Timber Trust, Inc. ("CatchMark") announced it had made an approach to the board of Phaunos regarding a possible all-stock offer by CatchMark for the entire issued and to be issued share capital of Phaunos, representing a value of US$0.57 per Phaunos share. The Company subsequently announced that it intended to engage with CatchMark to understand fully its proposal. Shareholders should note that, as at the date of this document, there can be no certainty that any firm offer for the Company will be made nor as to the terms on which any firm offer might be made.

Change of Secretary

On 30 July 2018, JTC Fund Solutions (Guernsey) Limited was appointed to provide company secretarial, compliance and administration services effective 1 August 2018 in replacement for Vistra Fund Services (Guernsey) Limited.

Dividend Income

During the second quarter of 2018, one of the Group's associates, Matiriki Forests Limited, declared a dividend in the amount of US$3.1 million. This dividend was received after the reporting date.

Investor Information

COMPANY INFORMATION

PTF is a Guernsey-domiciled authorised closed-ended investment scheme, authorised by the Guernsey Financial Services Commission under section 8 of The Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended) and the Authorised Closed-ended Investment Schemes Rules 2008 made thereunder. The Company's Ordinary Shares are traded on the Main Market of the London Stock Exchange.

The Ordinary Shares are admitted to the Official List and are traded on the Main Market of the London Stock Exchange. The Ordinary Shares may be dealt in directly through a stockbroker or professional adviser acting on an investor’s behalf. The buying and selling of Ordinary Shares may be settled through CREST.

The issued share capital of the Company at 30 June 2018 was 498,360,117 Ordinary Shares (2017: 545,529,832) and no Ordinary Shares (2017: 25,685,045) were held in treasury (Treasury Shares).

The ISIN, SEDOL and the LSE mnemonic of the Ordinary Shares are:

ISIN	SEDOL	LSE mnemonic
GG00BFX4LT97	BFX4LT9	PTF

SHAREHOLDER ENQUIRIES

The Company’s CREST compliant registrar is, as at the date of publication of these Unaudited Interim Condensed Consolidated Financial Statements, Link Asset Services (Guernsey) Limited, who maintains the Company’s registers of Shareholders. They may be contacted by telephone on +44 (0)1534 847 445.

For information about investing in the Company contact: info@phaunostimber.com

Directors and Service Providers

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GY1 2HT

Auditors
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PO Box 9
Royal Chambers
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St Peter Port
Guernsey
GY1 4AF

Directors
Richard Boléat (appointed 31 August 2017)
Jonathan Bridel (appointed 13 September 2017)
Brendan Hawthorne (appointed 25 July 2017)

Registrar
Link Asset Services (Guernsey) Limited
Mont Crevelt House
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Guernsey
GY2 4LH

Administrator, Company Secretary
From 1 August 2018:
JTC Fund Solutions (Guernsey) Limited
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GY1 2HT

Previously:
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