Phaunos Timber Fund Limited - PTF Final Results
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Phaunos Timber Fund Limited
30 April 2018

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(the "Company")

Audited Results for the Year Ended 31 December 2017

Phaunos Timber Fund Limited, the authorised closed-ended investment scheme, today issues its audited results for the year ended 31 December 2017.

Phaunos Timber Fund Limited (the "Company" or "Phaunos") holds a portfolio of timber assets located principally in New Zealand, Brazil and Uruguay. At the 2017 Annual General Meeting on 19 June 2017 a majority of the votes submitted were against continuing the Company. Shareholders have therefore approved a change to the Company's investment policy to permit an orderly realisation of its assets. That process is currently under way. In consequence of the loss of the continuation vote, the Company's then investment manager, Stafford Capital Partners Limited (the "Investment Manager", or "Stafford"), gave notice to the Company of its wish to terminate its investment management agreement between the parties. The agreement terminated on 16 February 2018. As a consequence, the Company is now self-managed by its board of directors, supported by a number of executives and service providers within the financial, forestry management and asset sale functions.

2017 Summary

- At the AGM on 19 June 2017 a majority of shareholders voted against continuing the Company (the "Continuation Vote").
- The Board has put forward a plan to realise the assets of the Company in an orderly manner. Shareholders approved a revised investment policy at an Extraordinary General Meeting held on 17 August 2017.
- On 10 July 2017 Stafford tendered its resignation as Manager, effective 16 February 2018.
- Following the resignation of Stafford and the previous board of directors, a new board was constituted to fulfil the revised Investment Objective.
- The board has appointed senior management to support it with financial reporting, operations, investment and forestry management and assist with the orderly wind down of the Group.
- Poyry Capital were appointed as sales agents on 28 November 2017.
- 6.8% decrease in Net Asset Value ("NAV") to US$280.3 million from US$301.3 million at 31 December 2016 (net of share buybacks).
- Decrease in NAV per share from 55 cents to 51 cents.
- Timber and Investment operating expenses for the period increased**/** from US$7.32 million to US$10.79 million. This increase is primarily attributable to fees paid to Stafford on termination of the management agreement and provisions raised under the 'break-up' basis of accounting.
- The Board consider IFRS reporting measures sufficient and have not made use of Alternative Performance Measurements developed previously by the Investment Manager.

Chairman's Statement

Dear Shareholder,

This is the first set of audited consolidated financial statements ("consolidated financial statements") prepared since shareholders resolved to put the Company into managed wind down in July 2017. Since that time, the newly appointed directors of the Company have been busy preparing the Company's assets for sale and adapting the Company's operational platform following the cessation of Stafford's role as investment manager. I take the opportunity here to provide some details on the outcome of these processes.

Operational Arrangements

As investors will recall, Stafford gave notice to the Company of the termination of the investment management arrangements shortly after the Company's EGM in July 2017. That cessation took effect in February 2018. The board of directors did not seek to replace Stafford with another investment manager, principally on cost grounds but also in recognition of the difficulty in hiring a suitable replacement manager given the Company's managed wind down status. Accordingly, the Company has been self-managed by its board of directors since February 2018, supported by a newly recruited COO/CFO external consulting team and two experienced forestry managers who are supervising day to day forestry activities at the Company's wholly owned assets in Brazil and Uruguay. The board regards these operational arrangements as proportionate and sufficient to ensure that the Company's portfolio assets are suitably overseen and that the board receives timely and detailed reports on risk, operations and financial matters on a regular basis.

Preparations for Sale

It is common when owners decide to dispose of an asset portfolio for those charged with governance of those assets to undertake a number of preparatory processes, principally to ensure that interested parties receive a comprehensive and detailed investment memorandum, along with access to a data room of relevant materials, to enable those parties to carry out a proper appraisal of the investment opportunity in a timely manner. This preparatory work is now substantially complete and is supported by ongoing commercial due diligence and support from our regional forestry specialists. Initial information materials will be issued to interested parties shortly after the issuance of these consolidated financial statements. Alongside this workstream, the board has also commissioned a legal due diligence process in respect of the Company's assets located in South America, in order to identify issues (such as regulatory and legal issues relating to individual assets) which may inhibit both the ability of the Company to execute disposals (such as regulatory and legal issues relating to individual assets) and to seek to identify and ameliorate matters which may negatively impact on sales values (such as outstanding litigation, land remediation, etc). The board has now received a comprehensive legal due diligence report, which has not indicated the existence of matters which would materially impact exit values, but which has identified a number of issues which may inhibit the sales process. Principal amongst these issues are several low value litigation matters, which have either now been settled by the Company or are in the process of being so, and certain regulatory issues which are being mitigated by the partitioning of certain assets structurally, in order to limit the impact on the sales process.

Net Asset Value Performance and Range of Expected Outcomes

It is pleasing, given that the Company is executing a sales process, to note that underlying net asset value per share performance during the year under review has been satisfactory. Reported net asset value per share at 31 December 2017 is US$0.51 (31 December 2016 - US$0.55), however it should be noted that the net asset value per share at 31 December 2017 has been calculated on a 'break-up' basis, which takes into account discounts applied to asset values where assets will be sold before their commercial or biological maturity, alongside provisions for matters such as tax on repatriation of asset disposals, and certain costs for completion of the liquidation process. To assist shareholders, the board estimates that the net asset value per share calculated on a basis equivalent with that at 31 December 2016 would have been approximately US$0.57 per share*.

Shareholders will understand that the likely realisation values of portfolio assets may vary, perhaps significantly, from those values derived from third party appraisers and as set out in these consolidated financial statements, given that there are very few properly comparable transactions in the Company's markets and that, as yet, the Company has very limited visibility on the likely level of offers for the Company's assets. Accordingly, the board has to date provided a range of estimated outcomes on a quarterly basis, for the guidance of shareholders. The board most recently guided shareholders in February 2018 to a realisation range of US$0.42-US$0.52 per share. The audit and third-party valuation process conducted in support of these audited financial statements, alongside positive underlying economic performance of certain assets, has enabled the board to positively reappraise the Company's expected realisation range to US$0.45-US$0.57 per share. It is expected that this range will be revised further at the Company's next quarterly update in July 2018, by which time the Company anticipates having received evaluated indications of interest from prospective purchasers of the Company's assets.

* Determined by adding back the envisaged costs of sale, along with tax repatriation and liquidity and minority discounts applied

Underlying Portfolio Performance

This performance has been significantly influenced by the Company's minority interest in the Matariki estate in New Zealand, which represents 59% of net asset value at 31st December 2017. The Matariki estate is a world class asset, with an appraised net asset value of the entire estate exceeding US$700 million. Performance during 2017 benefited significantly from both export and domestic log prices, relatively low shipping rates and continued high ongoing demand from Chinese markets in particular. The board does not expect these dynamics to change significantly during 2018. Performance in the balance of the Company's portfolio has been satisfactory, with recent signs of improvement in eucalyptus log prices.

Limitations Impacting on the Realisation Process

I would like to draw your attention to two important limitations around the timing of the Company's disposal process. Firstly, the preparation work for the disposal of the Company's interest in the Aurora Forestal asset has been impacted by limitations on the amount of available due diligence information provided by the majority shareholder, alongside a number of matters of concern raised by the Company's Uruguayan counsel. This means that the disposal of this asset will not be subject to the issuance of an information memorandum to prospective purchasers at present. These matters have been taken into account in the company's audited net asset value. The Company has a number of options available to it in order to extract maximum value from the disposal of this asset and shareholders will be updated on progress in due course. Secondly, the disposal of the Company's interest in the Matariki estate is subject to regulatory approval in New Zealand, by virtue of the New Zealand Overseas Investment Act 2005 as amended. The relevant provisions of this act are undergoing significant change at present, principally driven by change in New Zealand's administration in October 2017.

Investment Strategy, Objective and Policy

At the Company's Annual General Meeting held on 19 June 2017, a resolution that the Company continue in business for a further five years was not approved by Shareholders. As a result of the resolution not having been passed, the Company was required within four months to put forward alternative proposals for the future of the Company. Consequently, Shareholders 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.

Valuations

At 31 December 2016, the Group accounted for its assets and liabilities on a going concern basis. In practice, this meant that the investments made by the Group in timber portfolio assets were valued by independent third parties on the following basis, using the following valuation techniques, as judged appropriate on an asset-by-asset basis.

- the Cost Approach, based on the sum of components including the land value and standing timber value;
- the Income Approach, based on discounted cash flow valuations; and
- the Sales Comparison Approach based on comparable asset sales where these are available and pertinent.

As a result of the loss of the Continuation Vote and the subsequent change to the Company's investment policy as set out on page 6, the Group no longer accounts for assets and liabilities on a going concern basis, by virtue of the provisions of IAS1. This entails valuing all assets at net realisable value, taking account of a likely sales price that can be attained in the market, along with accounting for all sales and withholding taxes and all sales costs.

As a result, the Board of Directors has implemented a revised valuation policy which seeks to estimate the ultimate gross realisation value of each portfolio asset, as adjusted for the costs of disposal, including taxes or other impositions arising from taxes levied on sales proceeds, professional fees incurred as part of the positional process and any other relevant realisation costs.

When making estimates of the gross realisation value of each portfolio asset, the Directors take into account third party valuations, the gross realisation values achieved in comparable transactions, and the advice of their professional advisors. Nevertheless, given the illiquid nature of the assets to be disposed of, and the relatively limited price discovery available at this stage of the disposal process, the board is not in a position to ascribe likely gross realisation values with precision, and has thus elected to indicate a range of values which are anticipated to be returned to shareholders once the Group's disposal program is complete, which takes into account gross realisation values of portfolio assets together with anticipated discounts to value, to account for illiquidity and minority discount, alongside the costs of winding the Company and its subsidiaries up. The board currently assesses this range of values to lie between US$0.45 and US$0.57 per share. As indicated in earlier public statements, the Directors will update the range of expected outcomes on a quarterly basis as further relevant information becomes available.

As a result of the foregoing, the total audited NAV for the Group at 31 December 2017 was US$280.3 million (31 Dec 2016: US$301.3 million).

As mentioned in the Chairman's Statement, the board estimates that the net asset value per share calculated on a basis equivalent with that at 31 December 2016 would have been approximately US$0.57 per share*.

* Determined by adding back the envisaged costs of sale, along with tax repatriation and liquidity and minority discounts applied

Cash Flow

In 2017 Phaunos' cash position improved from US$45.6 million at 31 December 2016 to US$47.4million at 31 December 2017.

Cash inflows during the year related to timber sales from Mata Mineira, Eucateca and Pradera Roja, with further dividend and distribution income received from Matariki and Aurora Forestal, alongside a capital distribution from Matariki.

After considering the Group's cash balance at 31 December 2017, along with projected cashflow needs to liquidation, the Board declared a Compulsory Ordinary Share Redemption of US$25m in early 2018. Refer to note 27.

The Board is satisfied cash balances are sufficient to fund a managed wind-down and expect significant cash inflows as the portfolio is liquidated during 2018 and 2019.

Portfolio Construction

The Board presents the following information related to the investment portfolio and operations being wound-down

Minority Positions

The Company holds minority positions in two assets, being Matariki, a forestry operation in New Zealand and Aurora Forestal, a vertically integrated forestry and processing operation in Uruguay.

Timberland

The Company holds timberland assets indirectly, through Mata Mineira and Eucateca in Brazil and Pradera Roja in Uruguay.

Fund Investments

The Company hold investments in two private equity funds, namely the GreenWood Tree Farm Fund ("GTFF") and the NTP Timber Plus+ Fund I, LP ("NTP").

GTFF has three remaining assets and liabilities, comprising:

- an outstanding loan note receivable
- a parcel of timberland known as the Lower Columbia Tree Farm, located in Portland, Oregon
- a pending legal claim payable, substantially settled post- year end

NTP has a single asset remaining, comprising a parcel of timberland on the outskirts of Houston, Texas

The Fund investments are approaching the end of their lives and the fund managers are actively seeking to liquidate their remaining holdings.

ASSET OVERVIEW - MATARIKI

• Mataraki Forestry Group ("Mataraki") is the third largest forestry company in New Zealand consisting of sixty seven forests located in five separate forest management units (FMUs) across the country, with balanced age class plantations, a stable wood production profile and an experienced management team

• Phaunos owns 23.01% of Matariki. Rayonier Inc., a timberland REIT is the majority shareholder (76.99% of the common shares outstanding)

• Rayonier New Zealand, a subsidiary of Rayonier Inc. is the asset manager of Matariki which has over 1 million hectares of FSC certified land

• The Matariki estate has a total area of 118,499ha and a net stocked area of 113,989ha. Radiata Pine is the dominant species grown, covering 85% of the total planted area with Douglas Fir covering 10% and Eucalypts and other softwoods covering the remaining area

• Timber is primarily sold domestically to sawmills or to pulp plants both domestically and to export markets in China, India and Korea

ASSET OVERVIEW - AURORA FORESTAL

Longstanding business with well-managed pine plantations in Northern Uruguay integrated with one of the only sawmills in Uruguay

• In 1974 the founder of Aurora Forestal purchased 5,000 ha of land near Rivera from the Uruguay government. The area had been identified as offering superior soil and climate conditions for growing trees. In 1976 the first planting of loblolly pine took place

• In 1993 a sawmill was built to process harvested wood from these plantations others in the area. The company's energy plant was built in 2012

• Aurora Forestal was incorporated in 2007 in the British Virgin Islands. The founder contributed the integrated plantations and sawmill to the company and Phaunos invested $21 m for a 17.3% stake in the company. It later increased its ownership to 23.57%.

• Today the company's main commercial activity is the export of sawn products processed in the company's sawmill to customers all over the world. Many of the company's most important customers have bought from the company for over 15 years

Plantation Data

• The total area of the property is c.19,351 ha, of which 56.5% is planted with Pinus species

• Farms consist of pre-merchantable (2,066 ha) and merchantable timber (9,263 ha)

• Pinus taeda dominates the Aurora Forestal plantations covering 95% of the total productive area at Aurora Forestal

• Plantations located in regions with soil well suited for pine supported by a beneficial subtropical climate

EUCATECA OVERVIEW - EUCALYPTUS

Eucalyptus farms in Mato Grosso, totalling over ten thousand hectares of which c. 70% are productive

• Phaunos bought the Eucalyptus farms in 2008 - at the same time as it acquired the Paraiso teak farms which are described separately

• There are two productive Eucalyptus plantations, Aruanda and Graciosa, and one very small non-productive farm, Pianalto.

• Aruanda and Graciosa are located in Alto Araguaia and Itiquira municipalities in Mato Grosso.

• The Eucalyptus farms have a total area of 10,921 ha, of which:

- Productive (plantable) area: 7,449 ha. Pre-merchantable planted area (437 ha), merchantable planted area (6,892 ha) and area available for planting (120 ha)

- Legal reserve area: 2,873 ha. Area restricted from planting

- Permanent preservation area: 214 ha. Also restricted from planting, for biological diversity protection purposes

- Area for other uses (such as infrastructure): 385 ha

EUCATECA OVERVIEW - TEAK

• Phaunos originally acquired four teak farms totalling 7,181 ha. Two were sold in 2015, one in 2016.

• The remaining teak farm, Paraiso, (current only teak farm) is located in Saito de Ceu, 125 km away from the city of Caceres, and 335 km away from Cuiaba, capital of Mato Grosso

• Paraiso comprises 2,468 ha of total area, of which:

- Productive (plantable) area: 1,700 ha appropriate for teak plantations, of which, 876 ha are currently planted, exclusively with Tectona grandis species (planted in 2009, all at premerchantable age)

- Tectona grandis is a tropical hardwood, particularly valued for its durability and water resistance, used for boat building, exterior construction, veneer, furniture and other projects

- Legal reserve area: 273 ha. Area restricted from planting

- Permanent preservation area: 339 ha. Also restricted from planting, for biological diversity protection purposes

- Area for other uses (such as infrastructure): 156 ha

MATA MINERIA OVERVIEW

• Mata Mineira was acquired by Phaunos in 2010 from Suzano

• Suzano acquired the asset in the late 1980s and managed the soil preparation and initial planting of Eucalyptus in the area

• Mata Mineira comprises six eucalyptus farms located in four municipalities in Minas Gerais

• The asset has a total area of 19,009 ha, of which:

- Productive (plantable) area: pre-merchantable planted area (4,877 ha), merchantable planted area (4,567 ha) and area for reform and unmanaged coppice, available for planting (207 ha)

- Legal reserve area: planting restricted (5,186 ha)

- Permanent preservation area: planting restricted - biological diversity protection purposes (1,648 ha)

- Area subject to improvements (703 ha)

- Area for other uses such as infrastructure, etc. (1,821 ha)

PRADERA ROJA OVERVIEW

• Phaunos acquired Pradera Roja in 2007, the majority of the property as a greenfield investment. Since then, Phaunos has sold off numerous tracts (including El Bragado farm in 2017)

- Most of the current forest was planted in 2009, 2010 and 2016

• Pradera Roja consists of four Eucalyptus farms (La Tapera, Tupambae, Mirador and El Tatu, located in Treinta y Tres) and one Eucalyptus and Pine farm (San Pedro, located in Cerro Largo)

• The Tupambae, Mirador and El Tatu plantations are encumbered with a long term wood supply agreement with UPM that expires by year-end 2022

• Total area of 6,870 ha, of which:

- Productive area: 3,089 ha, of which 1,701 ha consist of landonly rights where UPM owns the harvesting rights

- Non planted area: 3,781 ha devoted to non-productive pasture, range, roads and native forest

Directors' Report

The Directors present their Annual Report and the Audited Consolidated Financial Statements of Phaunos Timber Fund Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2017.

THE DIRECTORS

Details of the Directors who held office during the year are set out below. The Directors are responsible for the determination of the Company's investment policy and strategy and have overall responsibility for the Company's activities, including the review of investment activity and performance.

Richard Boléat (British), aged 54 (Chairman of the Board and Chairman of the Remuneration Committee). Richard was appointed as a Director on 31 August 2017. He is a Fellow of the Institute of Chartered Accountants in England & Wales, having trained with Coopers & Lybrand in Jersey and the United Kingdom. After qualifying in 1986, he subsequently worked in the Middle East, Africa and the UK for a number of commercial and financial services groups before returning to Jersey in 1991. He was formerly a Principal of Channel House Financial Services Group from 1996 until its acquisition by Capita Group plc ("Capita") in September 2005. Richard led Capita's financial services client practice in Jersey until September 2007, when he left to establish Governance Partners, L.P., an independent corporate governance practice. In addition to Phaunos Timber Fund Limited, he currently acts as Chairman of CVC Credit Partners European Opportunities Limited and Funding Circle SME Income Fund Limited, both of which are listed on the London Stock Exchange, and Yatra Capital Limited, listed on Euronext, along with number of other substantial collective investment and investment management entities established in Jersey, the Cayman Islands and Luxembourg. He is regulated in his personal capacity by the Jersey Financial Services Commission and is a member of AIMA.

Jonathan Bridel (British), aged 53 (Chairman of the Audit and Valuation Committee). Jonathan was appointed as a Director on 13 September 2017. Jonathan is a Guernsey resident and is currently a non-Executive Director of the Renewables Infrastructure Group Limited (FTSE 250), Sequoia Economic Infrastructure Income Fund Limited (FTSE 250), Starwood European Real Estate Finance Limited, Funding Circle SME Income Fund Limited and Alcentra European Floating Rate Income Fund Limited which are listed on the Main Market of the London Stock Exchange. Other companies for which Jonathan acts as a Director include DP Aircraft I Limited and Fair Oaks Income Fund Limited.

Jonathan was previously Managing Director of Royal Bank of Canada's investment businesses in the Channel Islands and served as a Director on other RBC companies including RBC Regent Fund Managers Limited. Prior to joining RBC, Jonathan served in a number of senior management positions in banking, specialising in credit and corporate finance and private businesses as Chief Financial Officer in London, Australia and Guernsey having previously worked at Price Waterhouse Corporate Finance in London. Jonathan was also involved in the wind-down of Aurora Russia Limited, from 2013 to 2016.

Jonathan graduated from the University of Durham with a degree of Master of Business Administration, holds qualifications from the Institute of Chartered Accountants in England and Wales (1987) where he is a Fellow, the Chartered Institute of Marketing and the Australian Institute of Company Directors. Jonathan is a Chartered Marketer and a member of the Chartered Institute of Marketing, a Chartered Director and a Fellow of the Institute of Directors and a Chartered Fellow of the Chartered Institute for Securities and Investment.

Brendan Hawthorne (British), aged 49 (Chairman of the Management and Engagement Committee). Brendan was appointed as a Director on 25 July 2017. Based in London, Brendan has more than 20 years' experience as a specialist in asset recovery. Brendan holds several directorships in offshore entities based in amongst others the BVI, the Channel Islands and the Cayman Islands. He has extensive multi-jurisdictional experience in relation to cross-border asset recovery, having previously been based in South Africa, the UK, the UAE, Australia and Singapore and has gained experience of asset recovery situations on the ground in the following jurisdictions amongst others: Afghanistan, Australia, Bahrain, Canada, China, Cyprus, Czech Republic, Djibouti, France, Germany, India, Ireland, Italy, Kuwait, Malaysia, Oman, Pakistan, Qatar, Russia, Singapore, South Africa, Spain, Switzerland, Turkey, UAE, UK and USA. Brendan earned a Bachelor of Commerce degree majoring in accounting and finance, from the University of Natal in South Africa and has a post-graduate degree in Accountancy. He is a Chartered Accountant, registered with the ICAEW in the UK and SAICA in South Africa.

Sir Henry Studholme Bt (British) retired as a Director on 31 August 2017.

Ian Burns (British) retired as a Director on 13 September 2017**.**

William Vanderfelt (British) retired as a Director on 31 August 2017.

Jane Lewis (British) retired as a Director on 31 August 2017.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The Company is a Guernsey domiciled authorised closed-ended investment scheme pursuant to section 8 of the Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended, and was registered under the Companies (Guernsey) Law 2008 on 28 September 2006 as a Limited Company with a premium listing on the London Stock Exchange. The Company holds a portfolio of timberland and timber-related investments in New Zealand, North America and South America, which are being realised, whereafter the Company will be wound down and liquidated.

A description of the principal activities of the Company and the Group during the year is given in the Performance Summary on page 2.

INVESTMENT OBJECTIVE AND INVESTMENT POLICY

The investment objective and policy of the Group, which were revised by shareholder vote on 17 August 2017 are stated on page 4.

NET ASSET VALUE

The audited NAV per Ordinary Share at 31 December 2017 was 51 US cents per Ordinary Share (2016: 55 cents).

Due to the wind-down status of the Group and the 'break-up' basis of accounting, the NAV at 31 December 2016 and 31 December 2017 is not directly comparable.

RESULTS

The results for the year are set out in the Consolidated Statement of Comprehensive Income on page 45.

DIVIDENDS

A final dividend of 1.6 cents per Ordinary Share was declared and paid during the year, in respect of the year ended 31 December 2016.

No dividend was declared for the year ended 31 December 2017; on 10 January 2018, the Company announced a compulsory share redemption of US$25 million, more details of which can be found in note 27.

For 2018, distributions will be made as assets are realised, after making allowance for wind down costs.

SHARE PRICE

As at the year-end, Phaunos' closing share price on the LSE was 43.5 cents (2016: 48 cents). This equates to a 15% (2016: 13%) discount to the NAV, driven primarily by asset valuation adjustments to net realisable value.

At 31 December 2017, the Company holds 25,685,045 (2016: 24,190,045) Ordinary Shares as Treasury Shares, all of which were cancelled subsequent to the year end.

SHARE CAPITAL

Details of the Company's issued share capital, purchase of own shares and granted warrant instrument are provided in notes 22 and 23 respectively.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2017 the Company has been notified that the following Shareholders had an interest of 5% or more in the Ordinary Shares of Phaunos Timber Fund Limited:

Ordinary Shareholder	Number of Shares 31 Dec 2017	% Total Shares in Issue
Legal & General Investment Management	72,987,654	13.38
LIM Advisors	62,162,337	11.39
Deutsche Asset Management	50,428,845	9.24
Kapan Pensioner	39,788,462	7.29
SIX SIS	33,158,657	6.08
London Pensions Fund Authority	28,975,697	5.31

FINANCING STRATEGY

The Directors ensure that the Company holds adequate working capital to ensure that it is able to meet its debts as they fall due.

DIRECTORS AND THEIR INTERESTS

The Directors' details are given on page 17. Directors' interests in Ordinary Shares at 31 December 2017 are set out below:

Director	Ordinary Shares	Percentage of issued Ordinary Shares
Richard Boléat	Nil	Nil
Jonathan Bridel	Nil	Nil
Brendan Hawthorne	Nil	Nil

2018 ANNUAL GENERAL MEETING

It is the intention of the Board to convene an AGM; details to follow in due course.

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 US$ 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.
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.

Please refer note 15 for further information related to risks faced by the Group.

GOING CONCERN

Following the outcome of the Continuation Vote the Directors have considered the impact on the basis of preparation of the Consolidated Financial Statements. The Directors are of the view that the preparation of the financial statements on a 'break-up' basis is appropriate, to reflect the wind-down status of the Company and present the Company's NAV accordingly. The financial statements should reflect the circumstances existing at the end of the reporting period and, while there is no material uncertainty towards the lack going concern assertion, the financial statements would've been prepared on a going concern basis, should it have been appropriate. Further detail is available in note 2.1 of the Consolidated Financial Statements.

It is presently anticipated that the realisation of the Group's assets will take between fourteen to twenty months from the date of this report, although there are material uncertainties inherent in the disposal process which may result in this time period being extended.

Reporting on a 'break-up basis' entails writing assets down to their net realisable 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.

AUDITORS

Ernst & Young LLP ("EY") have expressed their willingness to continue in office as the Company's Auditors. A resolution proposing their re-appointment will be submitted at the 2018 Annual General Meeting. Please refer to pages 34 to 35 of the Audit and Valuation Committee report for fees paid by the Company to EY during the year.

PORTFOLIO MANAGER AND ALTERNATIVE INVESTMENT FUND MANAGER

As at 31st December 2017, Stafford was the Company's appointed Portfolio Manager. Stafford also acted as the Company's Alternative Investment Fund Manager (the "AIFM").

Pursuant to Article 22(1) of AIFMD, an AIFM must, where appropriate for each AIF it manages, make an annual report available to the AIF investor.

The Annual Report must contain, amongst other items, the total amount of the remuneration paid by the AIFM to its staff for the financial year, split into fixed and variable remuneration, including, where relevant, any carried interest paid by the AIF, along with the aggregate remuneration awarded to senior management and members of staff whose actions have a material impact on the risk profile of the AIF.

The quantitative AIFM remuneration disclosures for 2017 are presented below. Comparative information for 2016 has been disclosed below.

2017 Remuneration	**Number of beneficiaries**	**Fixed remuneration** (US$)	**Variable remuneration** (US$)	**Total remuneration paid** (US$)
Total remuneration paid by the AIFM during the financial year	14	1,522,248	147,700	1,669,948
Remuneration paid to employees of the AIFM who have a material impact on the risk profile of the AIF				
Senior management	3	392,702	-	392,702
Other staff	2	370,772	85,433	456,204
Allocation of total remuneration of the employees of the AIFM to the AIF				
Senior management	1	196,351	75,107	271,458
Other staff	1	59,871	12,017	71,888

2016 Remuneration	**Number of beneficiaries**	**Fixed remuneration** (US$)	**Variable remuneration** (US$)	**Total remuneration paid** (US$)
Total remuneration paid by the AIFM during the financial year	12	1,343,142	121,589	1,464,731
Remuneration paid to employees of the AIFM who have a material impact on the risk profile of the AIF				
Senior management	4	606,231	54,332	660,563
Other staff	3	102,040	6,733	108,773
Allocation of total remuneration of the employees of the AIFM to the AIF				
Senior management	1	386,755	22,641	409,396
Other staff	3	248,115	37,883	285,998

By virtue of the termination of the Company's relationship with Stafford Capital Partners, the Company became self-managed for the purposes of AIFMD with effect from 17 February 2018. The relevant notifications have been made to both the Financial Conduct Authority in the UK and the Guernsey Financial Services Commission.

ADMINISTRATOR, COMPANY SECRETARY AND DEPOSITARY

Vistra Fund Services (Guernsey) Limited ("Vistra") is the appointed Administrator and Secretary of the Company; depositary services are no longer required.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and Consolidated Financial Statements in accordance with applicable Guernsey Law and generally accepted accounting principles. Guernsey Company Law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for that year. They are also responsible for ensuring that the Annual Report and Consolidated Financial Statements comply with the provisions of the Listing Rules, Disclosure and Transparency Rules of the UK Listing Authority which, with regard to corporate governance, require the Company to disclose how it has applied the principles, and complied with the provisions, of the UK Corporate Governance Code applicable to the Company.

In preparing those Consolidated Financial Statements, the Directors should:

1. select suitable accounting policies and apply them consistently;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Consolidated Financial Statements;
4. prepare the Consolidated Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;
5. confirm that there is no relevant audit information of which the Company's Auditor is unaware; and
6. confirm that they have taken all reasonable steps which they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Consolidated Financial Statements have been properly prepared in accordance with the Companies (Guernsey) Law, 2008 and International Financial Reporting Standards as adopted by the European Union ("IFRS"). They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

RESPONSIBILITY STATEMENT

The Directors confirm that to the best of their knowledge:

- the Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Annual Report includes a fair review of the development and performance of the business and position of the Company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that they face;

- the Directors confirm that the Annual Report and Consolidated Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Group's performance and strategy;
- so far as each of the Directors is aware, there is no relevant audit information of which the Company's Auditor is unaware and each Director has taken all of the reasonable steps which he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information; and
    - For the reasons stated in the Director's Report and page 21, the financial statements have not been prepared on a going concern basis

By order of the Board:

Richard Boléat	Jonathan Bridel
Director	Director

27 April 2018

Statement on Corporate Governance

CORPORATE GOVERNANCE

The Board has considered the principles and recommendations set out in the UK Corporate Governance Code (the "UK Code") issued by the Financial Reporting Council (the "FRC"). The UK Code is available in the Financial Reporting Council's website, www.frc.org.uk and the Company has made its corporate governance practices publicly available and these can be found at www.phaunostimber.com.

Throughout the year ended 31 December 2017, the Group has complied with the recommendations of the UK Code and Guernsey Financial Services Code of Corporate Governance ("GFSC Code"), except as set out below.

The UK Code includes provisions relating to:

- The role of the Chief Executive;
- Executive Directors' remuneration; and
- Nomination Committee
- Senior independent non-executive director
- Diversity policy

The Board considers these provisions are not relevant to the position of the Group as it is a self-managed timber company. The Group has therefore not reported further in respect of these provisions. The Directors are all independent and the Group does not have employees, hence no Chief Executive is required for the Group. The Board is satisfied that any relevant issues can be properly considered by the Board.

There have been no other instances of non-compliance, other than those noted above.

AIFM DIRECTIVE

The Alternative Investment Fund Managers Directive seeks to regulate alternative investment fund managers and imposes obligations on managers who manage alternative investment funds in the EU or who market shares in such funds to EU investors. The Company is now self-managed and, due to its wind-down status, is no longer marketing its shares and thus falls outside the scope of AIFMD and no longer has any AIFMD reporting obligations to the FCA.

GUERNSEY REGULATORY ENVIRONMENT

The Guernsey Financial Services Commission has issued a Finance Sector Code of Corporate Governance. The Code comprises Principles and Guidance and provides a formal expression of good corporate practice against which shareholders, boards and the Commission can better assess the governance exercised over companies in Guernsey's finance sector.

NON-MAINSTREAM POOLED INVESTMENTS

On 1 January 2014, certain changes to the FCA rules relating to restrictions on the retail distribution of unregulated collective investment schemes and close substitutes came into effect.

Due to the current portfolio realisation process, the Company believes its shares are no longer suitable for retail investors.

BOARD OF DIRECTORS

The Board consists of three independent Directors. In accordance with the UK Code, all Directors are independent of the previous Investment Manager, which resigned with effect from 16 February 2018. The Chairman, Richard Boléat , met the independence criteria of the Code upon appointment and has continued to meet this condition throughout his term of service. Being independent, none of the Directors have a service contract with the Company.

The current independent Directors, namely Brendan Hawthorne, Richard Boléat and Jonathan Bridel, were appointed on 28 July 2017, 31 August 2017 and 13 September, respectively.

Brendan Hawthorne was appointed by shareholders and confirmed at the EGM, while an executive search was undertaken to appoint Richard Boléat and Jonathan Bridel, who will be submitting themselves for re-election at the upcoming AGM, in accordance with the UK Code

An executive search firm, Trust Associates, was engaged to procure the right skills to oversee the managed wind-down of the Group. The firm has no other connection to the Company.

Independent directors are appointed on a contract basis.

The Board benefited from an extensive six-month hand-over period from the previous Manager, Stafford.

William Vanderfelt, formerly a Senior Independent Director with the Company, resigned during 2017. It was decided a replacement was not needed for this role, as it was adequately covered by the current independent Board.

Given the wind-down status of the Group, the Board has not considered a diversity policy, believing that the balance of skills, experience and knowledge of the current Board is appropriate for the wind-up of the Company.

The Board regularly reviews its structure, size and composition, including its skills, knowledge and experience. The Board prepares a description of the role and capabilities required for a particular appointment and engages with external advisers to facilitate the search. Appointments to the Board are made on merit, against objective criteria in line with its current and future requirements, reflect the international activity of the Group and with due regard for the benefits of diversity on the Board. Any new Director appointed to the Board will undergo an induction process.

Under the Articles of Incorporation, one third of the Board is subject to retirement by rotation each year, such that all Directors are required to submit themselves for re-appointment at least every three years. Directors who have served for nine years or more will be subject to annual re-appointment.

Richard Boléat and Jonathan Bridel will be submitting themselves for election at the forthcoming AGM.

Members of the Board engage regularly with major shareholders, through face-to-face meetings and presence at the annual AGM, to develop an understanding of shareholders views in the context of the managed wind-down of the Group.

The Board meets at least monthly and there is weekly contact with external finance, operations and forestry teams, the Company Secretary and the Company's Brokers, consistent with a wind-down process. The Directors are kept fully informed of investment and financial controls, and other matters that are relevant to the business of the Company that should be brought to the attention of the Directors.

The Directors also have access, where necessary in the furtherance of their duties, to independent professional advice at the expense of the Company. Such professionals have no connection to the Company other than through these business relationships.

Attendance at each committee below.

Director	Board Meetings	Audit & Valuation Committee	Management Engagement Committee	Remuneration Committee
Richard Boléat	4	1	1	2
Jonathan Bridel	4	1	1	2
Brendan Hawthorne	5	2	1	2
Sir Henry Studholme Bt	6	3	-	-
Ian Burns	7	3	-	-
William Vanderfelt	6	3	-	-
Jane Lewis	6	3	-	-

All Directors attended all required board meetings and committees during the year.

PERFORMANCE EVALUATION

The directors of the Company were all appointed during the year under review. As a result, no formal evaluation process has been undertaken during 2017. The board intends to conduct a self-assessment process during the course of 2018.

The Board continues to monitor training for Directors. The Directors consider and report regularly their training needs and their continuing professional development and training carried out. The Board receives regular feedback from investors and sector analysts. The Board continues to have a focus on risk management and controls.

The independence of each Director has been considered and each has been confirmed as being independent

The members of the Board strive to challenge each other constructively to make sure all issues are examined from different angles.

DIRECTORS' REMUNERATION

A schedule detailing director's remuneration paid during the year is listed below.

Director	Base fee	Base fee pro-rata for the year	Additional fees	Total
Richard Boléat (Chairman)	80,000	26,740	15,146	£41,886
Jonathan Bridel	65,000	19,411	18,885	£38,296
Brendan Hawthorne	55,000	23,959	-	£26,137
Sir Henry Studholme Bt	55,000	36,466	-	£36,466
Ian Burns	30,000	20,959	-	£20,959
William Vanderfelt	30,000	19,890	-	£19,890
Jane Lewis	30,000	19,890	-	£19,890

Included in the base fee above, Richard Boléat receives a fee of £5,000 per annum for serving as Chairman of the Remuneration Committee, Jonathan Bridel receives a fee of £10,000 per annum as Chairman of the Audit and Valuation Committee and Brendan Hawthorne £5,000 as Chairman of the Management Engagement Committee and Remuneration Committee.

The current Board is appointed on an independent basis. Hours incurred above an agreed maximum are paid on a time-spent basis.

The aggregate remuneration of the Directors in respect of the year ended 31 December 2017, did not exceed £350,000 (2016 - £350,000).

DELEGATION OF RESPONSIBILITIES

Vistra Fund Services provides accounting, administration and Company Secretarial Services as required.

BOARD COMMITTEES

Due to the size of the Board, the Company currently does not have a separate Nomination Committee. The roles and responsibilities of Nomination Committee are currently undertaken by the full Board.

The Board has established the following Committees and approved their Terms of Reference, copies of which can be obtained from the Administrator.

Audit and Valuation Committee

The Audit and Valuation Committee comprises all of the Directors of the Company, with Jonathan Bridel serving as Chairman. All members are independent of the external auditors and the former Investment Manager.

The purpose of the Audit and Valuation Committee is to ensure that the Group maintains high standards of integrity, financial reporting and internal controls. The Audit and Valuation Committee reviews the Interim Reports, the Annual Report and Consolidated Financial Statements of the Group, the internal controls pertinent to the preparation of accurate financial statements and the management of the Group, the Auditors' remuneration and engagement, as well as the Auditors' independence and any non-audit services provided by them.

The Audit and Valuation Committee also receives information from the Auditors as to the objectivity of their audit and their independence.

The Audit and Valuation Committee met on four occasions during the year and the Auditors attended two of the meetings. It is intended that the Committee will continue to meet on a quarterly basis.

Management Engagement Committee

The Management Engagement Committee comprises all of the Directors of the Company with Brendan Hawthorne being the Chairman.

The purpose of the Management Engagement Committee was to ensure that the terms of engagement with the Company's service providers are operating satisfactorily to ensure the safe and accurate management and administration of the Company's affairs and business, that the terms of their appointment are competitive and reasonable for the Shareholders and to make appropriate recommendations to the Board. The board does not intend to appoint a manager to replace Stafford Capital Partners, and thus the mandate of the Management Engagement Committee ceased on 17 February 2018.

Poyry Capital were appointed as selling agents for the portfolio on 28 November 2017.

The Management Engagement Committee met on one occasion in 2017.

Remuneration Committee

The Remuneration Committee comprises all of the Directors of the Company with Richard Boléat being the Chairman. The role of the Committee is to evaluate and set the levels of remuneration and benefits of the Directors. The Company has no employees.

Details of director's remuneration can be found on Page 27 to 28.

The Terms of Reference of all committees are available on request from the Company Secretary.

INTERNAL CONTROLS

The Board is ultimately responsible for establishing and maintaining the Group's system of internal financial and operating control and for maintaining and reviewing its effectiveness. The Group's risk matrix continues to be the core element of the Group's risk management process in establishing the Group's system of internal financial and reporting control. The risk matrix is reviewed regularly by the Board, which initially identifies the risks facing the Group and then collectively assesses the likelihood of each risk, the impact of those risks and the strength of the controls operating over each risk. The system of internal financial and operating control is designed to manage rather than to eliminate the risk of failure to achieve business objectives and by their nature the controls can only provide reasonable and not absolute assurance against misstatement and loss.

These controls aim to ensure that assets of the Group are safeguarded, proper accounting records are maintained and the financial information for publication is reliable. The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group.

This process has been in place for the year under review and up to the date of approval of this Annual Report and Consolidated Financial Statements and is reviewed by the Board and is in accordance with the internal controls: Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

The Board has evaluated the systems of internal controls of the Group. In particular, it has prepared a process for identifying and evaluating the significant risks affecting the Group and the policies by which these risks are managed.

The Board has delegated the day to day responsibilities for the provision of administration, registrar and corporate secretarial functions including the independent calculation of the Group's NAV and the production of the Annual Report and Consolidated Financial Statements which are independently audited.

Formal contractual agreements have been put in place between the Group and providers of these services.

Even though the Board has delegated responsibility for these functions, it retains accountability for these functions and is responsible for the systems of internal control. At each quarterly Board meeting, compliance reports are provided by the Administrator, Company Secretary and Portfolio Manager. The Board also receives confirmation from the Administrator of its accreditation under its Service Organisation Controls 1 report.

The Group's risk exposure and the effectiveness of its risk management and internal control systems are reviewed by the Audit and Valuation Committee at its quarterly meetings and annually by the Board.

The Board believes that the Group has adequate and effective systems in place to identify, mitigate and manage the risks to which it is exposed.

The Group does not have an internal audit department as most of its day-to-day operations are delegated to third parties, all of whom have their own internal control procedures. However, the creation of an internal audit department is considered regularly by the Audit and Valuation Committee under its Terms of Reference.

VIABILITY STATEMENT

Assessment of prospects

In accordance with provision C.2.2 of the UK Code, the Directors have assessed the prospects of the Group over its expected realisation timeframe.

Given the outcome of the 2017 Continuation Vote, the Board has prepared the viability statement under the assumption that the assets will be realised and the Company wound down within a period of twenty-four months from the date of this report.

Consequently, financial forecasts have been prepared for the two year period to 31 December 2019, representing a reasonable period for the realisation of the Group's illiquid assets. The first year of the annual financial forecast forms the Group's operating budget and is subject to quarterly re-forecasting. The second year has a similar level of detail and is flexed based on the actual results in year one.

The key assumptions in the financial forecasts, reflecting the overall strategy, include:

- Asset disposals, including value and timing
- The current expense burden of the Group alongside contracted timber revenues
- Continued Shareholder support notwithstanding an economic or natural event reducing the liquidity or solvency of the Group

Assessment of viability

Although the strategic plan reflects the Directors' best estimate of the future prospects of the business, they have also tested the potential impact on the Group of a number of scenarios over and above those included in the plan.

These scenarios, which are based on aspects of principal risks (pages 20 to 21), represent 'severe but plausible' circumstances that the Group could experience, individually or combined.

The Company and its wholly owned subsidiaries do not have any external debt and the scenarios tested mainly represent those which would pose serious threats to the Group's solvency and liquidity which include:

- A significant increase in operational expenditure to cover sales, legal fees and liquidation costs
- Forecasting a cashflow position with no further investment income earned over a twenty-four month period
- Delayed asset sales

In assessing the viability of the Company, the Directors have considered each of the Company's principal risks and uncertainties which are set out on pages 20 to 21.

Liquidity needs, at holding company and operating company level, have been assessed and found to be adequate, with the Group being able to fund all costs as they become due over a twenty-four month period, even in a stressed scenario.

The results of this stress testing showed that, due to the available cash and in the absence of any debt, the Group would be able to withstand the impact of these scenarios occurring over the period of the financial forecast by making adjustments to its operating plans.

Viability statement

The Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the two year period ending 31 December 2019, subject to earlier liquidation should the Company have exited its investments sooner than anticipated.

SOCIAL AND ENVIRONMENT POLICY

As a result of the realisation process being conducted by the Directors, the operational aspects of the Group's social and environmental policies have been suspended.

Phaunos does not tolerate bribery or corruption in relation to its business, anywhere or in any form and complies with anti-bribery and anti-corruption laws in the countries in which it operates. As such, this policy is consistent with legislation and, in particular, the UK Bribery Act.

By order of the Board:

Richard Boléat Jonathan Bridel

Director Director

27 April 2018

Audit and Valuation Committee Report

The Audit and Valuation Committee (the "Committee") has been in operation since the inception of the Company. Chaired by Jonathan Bridel, it operates within clearly defined terms of reference and comprises all of the Directors. It is also the formal forum through which the auditor reports to the Board of Directors and it met four times in 2017 (it meets at least three times annually).

ROLES AND RESPONSIBILITIES

The main duties of the Committee are:

- giving full consideration and recommending to the Board for approval the contents of the half year and annual Consolidated Financial Statements and reviewing the external auditor's report thereon including consideration of whether the Consolidated Financial Statements are overall fair, balanced and understandable;
- agreeing with the auditor the external audit plan including discussing with the external auditor the key risk areas within the Consolidated Financial Statements;
- considering and understanding the key risks of misstatement of the Consolidated Financial Statements and formulating an appropriate plan to review and manage these risk areas;
- reviewing the Viability and Going Concern Statements;
- reviewing the draft valuation of the Company's investments prepared and making a recommendation to the Board on valuation;
- reviewing the scope, results, cost effectiveness, independence and objectivity of the external auditor as well as reviewing the effectiveness of the external audit process and making any recommendations to the Board for improvement of the audit process;
- reviewing and recommending to the Board for approval the audit, audit-related and non-audit fees payable to the external auditor or their affiliated firms overseas and the terms of their engagement;
- reviewing the appropriateness of the Company's accounting policies;
- ensuring the standards and adequacy of the internal control systems;
- to consider any reports or information received in respect of whistleblowing; and
- reporting to the Board on how it has discharged its duties.

None of the members of the Audit Committee have any involvement in the preparation of the Consolidated Financial Statements of the Group, as this has been contracted to the Investment Manager initially and the external finance team latterly.

The Audit Committee meets the external auditor before and on substantial completion of their audit and has discussed with the auditor the scope of their annual audit work and also their audit findings.

The auditor attends the Audit Committee meetings at which the annual Consolidated Financial Statements are considered and at which they have the opportunity to meet with the Committee. The Committee has direct access to the auditor and to key senior staff of the Group and it reports its findings and recommendations to the Board which retains the ultimate responsibility for the Consolidated Financial Statements of the Company.

MEMBERSHIP

The Chair of the Committee, Jonathan Bridel, is a fellow of the Institute of Chartered Accountants in England and Wales and in addition serves as chairman of the audit committee for other listed investment companies. Previously Jonathan worked in senior positions in investment, corporate finance and commercial banking and was CFO of two private multinational businesses. The Board is satisfied that Jonathan has recent and relevant financial experience as required under the UK Corporate Governance Code. The other members of the Committee are Richard Boléat and Brendan Hawthorne. The qualifications of the Committee members are outlined in the Director's Biographies.

SIGNIFICANT ISSUES CONSIDERED

The Committee assesses whether suitable accounting policies have been adopted and whether estimates and judgements used have been appropriate. The Committee also reviews reports by the external auditors which highlight any issues with respect to the work undertaken on the audit.

The principal issues considered by the Committee in relation to the Consolidated Financial Statements were:

- The effect of the result of the Continuation Vote on the application of the going concern basis. It is the Committee's view that the Consolidated Financial Statements be prepared on a 'break-up' basis, entailing carrying all assets at their net realisable value and providing for all expected liquidation and tax charges.
- Market quotations are not available for the Group's biological assets, land and financial assets, and as such, their valuation is undertaken using the methodologies outlined on page 7. This requires a series of material judgements to be made as further explained in note 14 to the financial statements. The valuation process and methodology were discussed by the Committee prior to the year-end valuation process. The Committee met with the auditors when it reviewed and agreed the audit plan and also at the conclusion of the audit of the Consolidated Financial Statements, in particular discussing the valuation process. The Company engaged third party valuation experts to provide net realisable value appraisals.
- The Company owns assets in a number of jurisdictions around the world often with unique legal frameworks which increases the risk that the Company does not have legal title to all biological assets, investments or land and could be a potential obstacle to and delaying the wind-down process. The Committee also reviewed actions taken to control and monitor the titles held by the Group with the Manager and the external auditors.

Following a review of the presentations and reports from the Administrator and consulting where necessary with the external auditor and appraisers, the Committee is satisfied that the Consolidated Financial Statements appropriately address the critical judgements and key estimates (both in respect to the amounts reported and the disclosures). The Committee is also satisfied that the significant assumptions used for determining the value of assets have been appropriately scrutinised, challenged and are sufficiently robust.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board considers the nature and extent of the Group's risk management framework and the risk profile that is acceptable in order to achieve the Group's strategic objectives. As a result, it is considered that the Board has fulfilled its obligations under the Code.

The Committee continues to be responsible for reviewing the adequacy and effectiveness of the Group's ongoing risk management systems and processes. Its system of internal controls, along with its design and operating effectiveness, is subject to review by the Audit and Valuation Committee.

In the event of any deficiencies or breaches reported, the Board would consider the actions required to remedy and prevent significant failings or weaknesses.

Given the scale and nature of the Group's activities, the Committee has determined that a separate internal audit function is unnecessary.

FRAUD, BRIBERY AND CORRUPTION

The Committee continues to monitor the fraud, bribery and corruption policies of the Company. The Board receives a confirmation from its key service providers that there have been no instances of fraud, bribery or corruption.

The Committee considered the adequacy and security of its arrangements for its independent contractors and service providers to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee is satisfied it has the ability and resources to investigate any such matters which may arise and to follow up on any conclusion reached by such investigation.

The Committee has also reviewed the Company's whistleblowing policy and confirmed that the correct communication channels are in place.

CRIMINAL FINANCES ACT

The Board of the Company has a zero tolerance commitment to preventing persons associated with it from engaging in criminal facilitation of tax evasion. The Board has satisfied itself in relation to its key service providers that they have reasonable provisions in place to prevent the criminal facilitation of tax evasion by their own associated persons and will not work with service providers who do not demonstrate the same zero tolerance commitment to preventing persons associated with it from engaging in criminal facilitation of tax evasion.

EXTERNAL AUDITORS

The Committee has responsibility for making a recommendation on the appointment, re-appointment and removal of the external auditors. EY has been the external auditor from the date of the initial listing on the London Stock Exchange in 2006 and were reappointed Auditors of the Company at the Annual General Meeting held in 2017.

The objectivity of the external auditor is reviewed by the Committee which also reviews the terms under which the external auditor may be appointed to perform non-audit services. The Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditor, with particular regard to any non-audit work that the auditor may undertake.

In order to safeguard auditor independence and objectivity, the Committee ensures that any other advisory and/or consulting services provided by the external auditor does not conflict with their statutory audit responsibilities.

Advisory and/or consulting services generally only cover reviews of interim financial statements and tax compliance. Any non-audit services conducted by the external auditor outside of these areas which are above US$50,000 in aggregate in any period require the consent of the Audit Committee before being initiated. The external auditor may not undertake any work for the Company or the Group in respect of the following matters - preparation of the Consolidated Financial Statements, valuations used in Consolidated Financial Statements, provision of investment advice, taking management decisions or advocacy work in adversarial situations.

The Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the audit-related services, with particular regard to the level of non-audit fees. Total fees paid amounted to US$258,626 for the period ended 31 December 2017 of which US$184,020 related to audit services provided by EY Guernsey, US$67,726 related to other EY offices in respect of group audit services and US$6,881 related to non-audit services to the Company and its subsidiaries.

Notwithstanding such services the Committee considers EY to be independent of the Company and its subsidiaries and that the provision of such non-audit services is not a threat to the objectivity and independence of the conduct of the audit.

To fulfil its responsibility regarding the independence of the external auditor, the Committee considered:

- changes in audit personnel in the audit plan for the current period;
- a report from the external auditor describing their arrangements to identify, report and manage any conflicts of interest; and
- the extent of non-audit services provided by the external auditor.

To assess the effectiveness of the external audit process, the Committee reviewed:

- the external auditor's fulfilment of the agreed audit plan and variations from it;
- reports highlighting the major issues that arose during the course of the audit; and
- the effectiveness and independence of the external auditor having considered the degree of diligence and professional scepticism demonstrated by them.

The Committee is satisfied with EY's effectiveness and independence as auditor having considered the degree of diligence and professional scepticism demonstrated by them. As such, and given the Company is in wind down, the Committee has not considered it necessary during this period to conduct a tender process for the appointment of its auditor for the year ended 31 December 2018.

The Committee intends to conduct a full review of EY following the issue of these Consolidated Financial Statements as it did in 2017 to ensure that the Committee considers all aspects of the auditor's service and performance. The outcome of the review in 2017 was positive and led to no material concerns over the performance of the auditor.

Having satisfied itself that the external auditor remains independent and effective, the Audit Committee has recommended to the Board that EY be reappointed as auditor for the period ending 31 December 2018.

AUDIT COMMITTEE PERFORMANCE EVALUATION

Due to the appointment of the board in late 2017, no evaluation was held during the year; an evaluation will be held during 2018

The external auditor reported to the Committee that no material misstatements were found in the course of their work. The Committee confirms that it is satisfied that the external auditor has fulfilled its responsibilities with diligence and professional scepticism.

Jonathan Bridel

Chairman, Audit and Valuation Committee

27 April 2018

Independent Auditor's Report to the Members of Phaunos Timber Fund Limited

Opinion

We have audited the consolidated financial statements ("financial statements") of Phaunos Timber Fund Limited (the 'Company') and its subsidiaries (together the 'Group') for the year ended 31 December 2017, which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union ("IFRS"). The financial statements have been prepared on a break-up basis as as disclosed in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS; and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report below. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - basis of accounting

We draw attention to note 2 which describes the basis of accounting. Our opinion is not modified in respect of this matter.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report, other than that set out in the 'Emphasis of matter - basis of accounting' section above, in respect of the following information in the annual report, in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 20 to 21 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on pages 20 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on pages 21 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on pages 30 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Valuation of biological assets, land and financial assets at fair value through profit or loss • Existence and ownership of biological assets and land
Audit scope	• We have performed an audit of the complete financial information of two components, which represent 69% of the Group's total equity, and audit procedures on specific balances, where we considered the risk of material misstatement to be higher, for a further four components of the Group.
Materiality	• Overall materiality of $5.6 million (2016: $6.0 million) which represents 2% (2016: 2%) of total equity.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit and Valuation Committee

<table>
<tr><th>Risk</th><th>Our response to the risk</th><th>Key observations communicated to the Audit and Valuation Committee</th></tr>
<tr><td>Risk that the carrying value of biological assets and land might be misstated due to application of inappropriate methodologies or inputs to the valuations and/or inappropriate judgemental factors. ($46 million; 2016 - $70 million)
The valuation of biological assets and land requires specialist expertise and the use of significant estimates and judgements giving rise to a higher risk of misstatement.
Refer to the Audit and Valuation Committee Report (page 32); Accounting policies (page 50); and Note 14 of the Group Financial Statements (pages 64 to 69).</td>
<td>We have performed audit procedures over this risk area in two locations, Brazil (Vale and Eucateca) and Uruguay (Pradera Roja), which covers 100% of the Group's biological assets and land.
Audit procedures performed were:
We documented our understanding of the processes, policies and methodologies used by management for valuing biological assets and land, and performed walkthrough tests to confirm our understanding of the systems and controls implemented;
We agreed the values reported by the Group's independent valuation experts ("Specialists") as an input to the directors valuations;
We agreed a sample of the significant inputs used by the Specialists to value biological assets and land, to the Group's records. The most significant inputs include growth stage of plantations, land acreage and amounts of merchantable and pre-merchantable timber.
We agreed the acreage amounts recorded in the Group's records relating to biological assets and land, to relevant records of title, on a sample basis;
We physically inspected samples of merchantable and pre-merchantable timber;
We tested the arithmetical accuracy of the calculations performed by Specialists by re-performing a sample of their calculations;
We engaged our internal valuation specialist to:
use their knowledge of the market to assess and corroborate the market related judgements and valuation inputs (including timber prices, discount rates, EBITDA and cash flow forecasts and assessment of terminal value) used by the Specialists by reference to our specialist's knowledge of comparable transactions and independently compiled databases;
assist us to determine whether the methodologies used by the Specialist to value biological assets and land were in accordance with methods usually used by market participants for these types of assets;
assist us in determining whether the Specialists were appropriately qualified and independent; and
search for corroborating market observable transaction pricing in the relevant markets to support the level of discounts applied by the directors to the valuations provided by the Specialists.
We engaged our internal tax specialists to use their knowledge of the tax legislation in the respective jurisdictions to determine:
whether the estimated taxes on realisation of assets included in the recoverable amounts are reasonable; and
whether management had properly taken account of the tax effects of disposing of investments.
We assessed whether management's assumptions in respect of costs of realisation and other factors affecting the carrying amount as a result of applying the break-up basis of accounting were appropriate and properly calculated.</td>
<td>We confirmed that there were no material matters arising from our audit work on the inputs used and the judgments made by the Specialists that we wished to bring to the attention of the Audit and Valuation Committee.
We confirmed that there were no material instances of use of inappropriate policies or methodologies and that the valuation of biological assets and land was not materially misstated.</td></tr>
</table>

Risk	Our response to the risk	Key observations communicated to the Audit and Valuation Committee
Risk that the carrying value of investment in associates and other financial assets at fair value through profit or loss might be misstated due to the application of inappropriate methodologies or inputs to the valuations and/or inappropriate judgemental factors. ($185 million; 2016 - $181 million) The valuation of associates and other financial assets at fair value through profit or loss requires Specialist expertise and the use of significant estimates and judgements giving rise to a higher risk of misstatement. *Refer to the Audit and Valuation Committee Report (page 32); Accounting policies (page 50); and Note 14 of the Group Financial Statements (pages 64 to 69).*	We have performed audit procedures over this risk area relating to GTFF, Aurora and Matariki (full scope audit) which covered 100% of the land and biological assets of Aurora, Matariki and GTFF as these balances are the main driver of the fair value of these investments. These procedures were: • We documented our understanding of the processes, policies and methodologies used by management and performed walkthrough tests to confirm our understanding of the systems and controls implemented; • We instructed our component teams to perform the same procedures on valuation of biological assets and land owned by associates as described in the key audit matter above; • Matariki engaged a Specialist to value the biological assets and land owned. EY New Zealand engaged their internal valuation specialist and performed the same procedures as listed below. The results of the procedures performed by the component team were communicated to the primary audit team as part of the group audit reporting and were used to support the directors' assumption that the Group's share of Matariki's net asset value less cost of realisation approximates to the recoverable amount of the Group's investment; • The Board of Directors engaged a Specialist to value the biological assets and land, and, (as a business) certain plant and equipment owned by Aurora. The results of the procedures performed by the Primary team as set out below were used to support the directors' assumption that the Group's share of Aurora's net asset value approximates to the fair value of the Group's investment; • GTFF engaged a Specialist to value the biological assets and land owned. The Primary team performed the same audit procedures as for biological assets and land owned by the Group as described in the key audit matter above; • We engaged our internal valuation specialist to: ○ assist us in determining whether management's Specialists were appropriately qualified and independent; ○ use their knowledge of the market to assess and corroborate the directors' market related judgements and valuation inputs (including timber prices, discount rates, EBITDA and cash flow forecasts and assessment of terminal value) by reference to our specialist's knowledge of the market and independently compiled databases; ○ assist us to determine whether the methodologies used by the Specialists to value the plant and equipment were in accordance with methods usually used by market participants for these types of assets; and ○ search for corroborating market observable transaction pricing in the relevant markets to support the level of discounts applied by the directors to the valuations provided by the Specialists. • We agreed a sample of the significant inputs used by the Specialists to the Group's records. The most significant inputs included sales, operating expenses, discount rates, EBITDA, timber prices, discount rates, cash flow forecasts and assessment of terminal value which formed the basis for the forecasts used in the valuation; • We engaged our internal tax specialists to use their knowledge of the tax legislation in the respective jurisdictions to determine: ○ whether the estimated taxes on realisation of the assets included in the recoverable amounts are reasonable; and ○ whether management had properly taken account of the tax effects of disposing of investments; • We assessed whether management's assumptions in respect of costs of realisation and other factors affecting the carrying amount as a result of applying the break-up basis of accounting were appropriate and properly calculated.	We confirmed that there were no material matters arising from our audit work on the inputs used and the judgments made by the Specialists that we wished to bring to the attention of the Audit and Valuation Committee. We confirmed that there were no material instances of use of inappropriate policies or methodologies and that the valuation of associates and other financial assets at fair value through profit or loss was not materially misstated.

Risk	Our response to the risk	Key observations communicated to the Audit and Valuation Committee
Risk that the Group does not have legal title to biological assets and land. **($46 million; 2016 - $70 million)** Due to the significance of the carrying value of these assets, and the uncertainties associated with obtaining legal title in some jurisdictions, there is a risk that if the Group does not have the title and right of ownership of these assets, and hence the carrying value of investments in the financial statements could be materially overstated. *Refer to the Audit and Valuation Committee Report (page 32); Accounting policies (page 50); and Note 14 of the Group Financial Statements (pages 64 to 69).*	• We documented our understanding of the processes, policies and methodologies used by management with respect to existence and ownership of assets and performed walkthrough tests to confirm our understanding of the systems and controls implemented. • For a sample of land, including land owned by associates, we obtained copies of title documents or agreed the Group's title to government or local authority land registers to confirm the Group's ownership of land; and • For a sample of biological assets we physically inspected the assets and agreed the amounts to the Group's records.	We confirmed that, other than pending title updates awaiting local government geo-referencing approvals for certain assets with a combined carrying amount of US21 million, there were no matters identified during our audit work on existence and ownership of biological assets and land that we wished to bring to the attention of the Audit and Valuation Committee.

In the prior year, our auditor's report included a key audit matter in relation to a material uncertainty over going concern. In the current year, there is no material uncertainty with regards to going concern and as the Company is in a managed wind down, the consolidated financial statements have been prepared on a break-up basis, therefore going concern is not deemed to be a key audit matter.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our scope for the Group audit. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of controls, including controls and changes in the business environment, when assessing the level of work to be performed.

In assessing the risk of material misstatement to the financial statements of the components of the Group, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we selected entities within Guernsey, New Zealand, Brazil and Uruguay (comprising six components), which represent the principal business units and risks within the Group. The Primary audit team also engaged with internal timber valuation Specialists to assess the valuation of biological assets and land for the same components. In the current year we have also engaged with internal tax specialists to assess whether management had properly taken account of the tax effects of disposing of investments in deriving the recoverable amount of these assets.

Of the six components selected, which includes the parent company, we performed an audit of the complete financial information of two components ("full scope components") which were selected based on their size and risk characteristics.

For the remaining four components ("specific scope components"), we performed specific audit procedures on specific accounts within those components that we considered had the potential for the greatest impact on the significant accounts in the consolidated financial statements, either because of the size of the accounts or their risk profile. For those specific accounts selected, as part of our specific scope components, the extent of our audit work on those accounts was the same as that for a full scope audit.

The components selected, in addition to the parent company which is a full scope component, together with the allocated performance materiality, were as follows:

Component Name	Location	Investment type	Scope	Performance materiality $ million
Phaunos Guernsey	Guernsey	Parent	Full	1.2
Matariki	New Zealand	Associate	Full	2.9
Vale	Brazil	Wholly owned subsidiary	Specific audit procedures	1.8
Eucateca	Brazil	Wholly owned subsidiary	Specific audit procedures	1.2
Pradera Roja	Uruguay	Wholly owned subsidiary	Specific audit procedures	1.2
Aurora Forestal	Uruguay	Associate	Specific audit procedures	1.2

The reporting components where we performed audit procedures accounted for 95% (2016: 95%) of the Group's total equity, 100% (2016: 100%) of the Group's revenue and 99% (2016: 99%) of the Group's total assets. For the current year, the full scope components contributed 69% (2016: 58%) of the Group's net asset value. The specific scope components contributed 26% (2016: 37%) of the Group's net asset value and 100% (2016: 100%) of the Group's revenue.

Of the remaining components that together represent 5% of total equity, there was only one component greater than 1% of the Group's total equity on which the Primary audit team performed specific audit procedures on specific accounts within that component and that we considered had the potential for the greatest impact on the significant accounts in the consolidated financial statements, either because of the size of the accounts or their risk profile. For those specific accounts selected, the extent of our audit work on those accounts was the same as that for a full scope audit.

For the remaining components we only performed analytical procedures as there were no additional risks identified that could indicate the consolidated financial statements might be materially misstated.

Involvement with component teams

Team structure

The overall audit strategy is determined by the signatory, Chris Matthews, who is based in the Channel Islands. Since the majority of the Group's operations are based in Brazil, New Zealand and Uruguay, the audit team includes EY teams from Brazil and New Zealand, and non-EY firms (Deloitte and Grant Thornton) in Uruguay. We focused our time on the significant risks and judgemental areas for these components.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work required to be performed at each component by the Primary audit team, or by component auditors from other EY global network firms and non-EY firms operating under our instruction. For the specific scope components, where the work was performed by component auditors, the Primary audit team determined the appropriate level of involvement to enable us to be satisfied that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole. The Primary audit team, assisted by internal valuation and tax specialists, performed procedures on the valuations of land, biological assets and associates at fair value through profit or loss.

The Primary audit team has historically undertaken visits to ensure that locations which are deemed to be significant are visited by the Primary audit team on a rotational basis. The most recent visit was to Brazil during the 2015 audit cycle.

No visits were undertaken during the 2017 cycle due to the reduced risk profile of the Group assets and operations following the disposal of the higher risk assets and the significant reduction in revenues from 2015 to 2017. Also the Primary audit team perform the audit procedures on all key audit areas to address the associated risk.

However, the Primary audit team participated in key discussions, via conference calls and correspondence with all full and specific scope locations. The Primary audit team interacted regularly with the component teams, where appropriate, during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, supports our opinion on the Financial Statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

Materiality is the magnitude of omissions or misstatements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be $5.6 million (2016: $6.0 million), which is approximately 2% (2016: 2%) of total equity. We believe that total equity provides us with an appropriate basis for audit materiality as it is a key published performance measure and is a key metric used by management in assessing and reporting on overall performance.

Performance materiality

Performance materiality is the application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2016: 75%) of our planning materiality, namely $4.2 million (2016: $4.5 million). We set performance materiality at this percentage due to limited identification of audit findings in the previous period.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. With regards to the Group audit, the performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was $1.2 million to $2.9 million (2016: $1.0 million to $3.0 million). This is set out in more detail in the section above.

Reporting threshold

The reporting threshold is an amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of $0.28 million (2016: $0.30 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 35 and pages 80 to 81 other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we have nothing additional to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable [set out on page 23 -** the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on page 32-35 -** the section describing the work of the audit and valuation committee does not appropriately address matters communicated by us to the audit committee is materially inconsistent with our knowledge obtained in the audit; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 25 -** the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Christopher James Matthews, FCA

For and on behalf of Ernst & Young LLP

Guernsey, Channel Islands

27 April 2018

Notes:

1. The maintenance and integrity of the Phaunos Timber Fund Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

		31 Dec 2017	31 Dec 2016
	Notes	**US$'000**	**US$'000**
Revenue from timber operations	6	6,948	2,479
Cost of sales	7	(5,506)	(1,703)
Gross profit		**1,442**	**776**
Other operating income		52	313
Timber operating expenses	8	(2,451)	(3,312)
Timber operating loss		**(958)**	**(2,223)**
Investment income	9	7,424	7,029
Investment operating expenses	10	(8,335)	(4,007)
Operating (loss)/profit		**(1,868)**	**799**
Net gain on financial assets at fair value through profit or loss	14	14,390	8,280
Revaluation and impairment of biological assets and land	14	(11,863)	1,849
Net realised (loss)/gain on disposal of assets	11	(1,442)	7,840
Finance costs		(5)	(1)
(Loss)/profit before tax		**(789)**	**18,767**
Income tax expense	12	(3,464)	(439)
(Loss)/profit for the year		**(4,254)**	**18,328**
Other comprehensive income/(loss)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent years (net of tax):			
Exchange differences on translation of foreign operations		(90)	11,237
Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent years (net of tax):			
Revaluation/(reversal) of revaluation of land	14	(4,549)	2,303
Other comprehensive (loss)/income, net of tax		**(4,638)**	**13,540**
Total comprehensive (loss)/income, net of tax		**(8,892)**	**31,868**
Basic and diluted (loss)/earnings per Ordinary Share for the year		**Cents**	**Cents**
	13	(0.78)	3.29

The notes on pages 50 to 77 form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position

as at 31 December 2017

		31 Dec 2017	31 Dec 2016
	Notes	**US$'000**	**US$'000**
Assets			
Non-Current Assets			
Financial assets at fair value through profit or loss	14	-	180,579

Biological assets	14	-	29,298
Land	14	-	40,739
Other assets		-	172
Trade and other receivables	19	-	615
		-	**251,403**
Current Assets			
Financial assets at fair value through profit or loss	14	185,323	-
Biological assets	14	15,254	-
Land	14	30,713	-
Cash and cash equivalents	18	47,448	45,582
Trade and other receivables	19	7,261	5,812
Other assets		67	-
Inventories		8	17
		286,074	**51,411**
TOTAL ASSETS		**286,074**	**302,814**
Equity and Liabilities			
Equity			
Issued capital	22	443,866	443,866
Treasury shares	pg 47	(11,397)	(10,707)
Retained earnings	pg 47	(209,343)	(196,362)
Other components of equity	pg 47	57,197	64,520
TOTAL EQUITY		**280,323**	**301,317**
Current Liabilities			
Trade and other payables	20	1,823	1,497
Provisions	21	3,928	-
		5,751	**1,497**
TOTAL LIABILITIES		**5,751**	**1,497**
TOTAL EQUITY AND LIABILITIES		**286,074**	**302,814**
Ordinary Shares in Issue	22	545,529,832	547,024,832
		US cents	**US cents**
Net Asset Value Per Ordinary Share		51	55

The Consolidated Financial Statements on pages 45 to 77 were approved by the Board of Directors on 27 April 2018 and signed on its behalf by:

Richard Boléat — Director

Jonathan Bridel — Director

The notes on pages 50 to 77 form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

		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 2016		443,866	(3,176)	(212,780)	(65,676)	4,001	110,418	2,109	278,761
Profit for the year		-	-	18,328	-	-	-	-	18,328
Other comprehensive income		-	-	-	11,236	2,303	-	-	13,539

Total comprehensive income		**-**	**-**	**18,328**	**11,235**	**2,303**	**-**	**-**	**31,868**
Adjustment	14	-	-	(712)	-	-	-	-	(712)
Disposal of land	14	-	-	445	-	(445)	-	-	-
Buy back of Ordinary Shares	22	-	(7,531)	-	-	-	-	-	(7,531)
Warrants Issued	23	-	-	-	-	-	-	574	574
Dividends paid	24	-	-	(1,643)	-	-	-	-	(1,643)
As at 31 December 2016		**443,866**	**(10,707)**	**(196,362)**	**(54,440)**	**5,859**	**110,418**	**2,683**	**301,317**
As at 1 January 2017		**443,866**	**(10,707)**	**(196,362)**	**(54,440)**	**5,859**	**110,418**	**2,683**	**301,317**
Profit/(loss) for the year		-	-	(4,254)	-	-	-	-	(4,254)
Other comprehensive income/(loss)		-	-	-	(90)	(4,549)	-	-	(4,638)
Total comprehensive income/(loss)		**-**	**-**	**(4,254)**	**(90)**	**(4,549)**	**-**	**-**	**(8,892)**
Dividends paid	24	-	-	(8,728)	-	-	-	-	(8,728)
Buyback of Ordinary Shares	22	-	(691)	-	-	-	-	-	(691)
Buyback of warrants	23	-	-	-	-	-	-	(2,683)	(2,683)
As at 31 December 2017		**443,866**	**(11,397)**	**(209,343)**	**(54,530)**	**1,309**	**110,418**	**-**	**280,323**

The notes on pages 50 to 77 form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2017

	Note	31 Dec 2017	31 Dec 2016
		US$'000	**US$'000**
Operating activities			
Net (loss)/profit before tax		(789)	18,769
Adjustments to reconcile net (loss)/profit before tax to net cash flows	Pg 49	(628)	(19,931)
		(1,417)	(1,162)
Working capital adjustments			
Increase in trade and other receivables		(1,388)	(1,166)
Increase/(decrease) in trade and other payables		508	(1,117)
Decrease/(increase) in inventories		9	(14)
		(871)	(2,297)
Income tax paid	12	(2,548)	(239)
Net cash outflow from operating activities		(4,836)	**(3,698)**
Investing activities			
Net cash inflow from investing activities	pg 49	18,463	**36,756**
Financing activities			
Payment of dividend	24	(8,728)	(1,643)
Payment for buy back of shares		(691)	(7,531)
Payment for buy back of warrants	10,23	(2,683)	-
Net cash outflow from financing activities		(12,102)	**(9,174)**
Net increase in cash and cash equivalents		**1,525**	**23,884**
Cash and cash equivalents at beginning of year		45,582	25,617
Effect of foreign exchange rate changes on cash and cash		341	(3,919)

equivalents			
Cash and cash equivalents at end of year	18	**47,448**	**45,582**

The notes on pages 50 to 77 form an integral part of these Consolidated Financial Statements.

Explanatory Notes to the Consolidated Statement of Cash Flows

for the year ended 31 December 2017

The following details all non-cash items for operating activities and net cash inflows for investing activities as summarised in the Consolidated Statement of Cash Flows:

	Note	31 Dec 2017 US$'000	31 Dec 2016 US$'000
Adjustments to reconcile profit/(loss) before tax to net cash flows			
Depletion	7	5,028	75
Dividends and distributions received	9	(6,586)	(6,002)
Interest income	9	(838)	(1,027)
Loss on disposal of assets	14	1,442	430
Gain on disposal of investments		-	(8,273)
Net loss/(gain) on biological assets and land (including foreign exchange)	14	11,863	(1,849)
Net gain on financial assets at fair value through profit or loss (including foreign exchange)	14	(14,390)	(8,280)
Buy-back of warrants/Share-based management fee	10,23	-	574
Movement in provisions	21	2,830	-
Adjustments to land and biological assets during the year	14	-	1,595
Other adjustments		23	2,826
Adjustments for non-cash items	Pg 48	**(628)**	**(19,931)**
Investing activities			
Return of capital and disposal of assets:			
Dividends and distributions received	9	7,140	6,187
Interest income	9	838	1,027
Return of capital financial assets	14	9,647	18,088
Proceeds from disposal of land	14	1,330	5,077
Proceeds from sale of investments		-	8,273
		18,955	**38,652**
Purchase of assets and silviculture costs:			
Silviculture and other biological asset costs	14	(492)	(1,896)
		(492)	**(1,896)**
Net cash inflow from investing activities	Pg 48	**18,463**	**36,756**

Notes to the Consolidated Financial Statements

for the year ended 31 December 2017

1. CORPORATE INFORMATION

The Audited Consolidated Financial Statements of Phaunos Timber Fund Limited (the "Company" or "Phaunos") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Directors on 27 April 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 11 New Street, St Peter Port, Guernsey, GY1 2PF.

Phaunos is an authorised closed-ended, investment scheme and was managed by Stafford Capital Partners Limited (the "Manager" or "Stafford").

On 10 July 2017 Stafford submitted its resignation as Manager, with effect from the Company's EGM held on 17 August 2017, triggering a six month notice period. Poyry Capital were 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 Consolidated Financial Statements of the Group for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS") together with applicable and regulatory requirements of Companies (Guernsey) Law, 2008, and the listing rules of the London Stock Exchange Main Market. The Consolidated Financial Statements give a true and fair view of the Group's affairs and comply with the requirements of the Companies (Guernsey) Law, 2008.

The Consolidated 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 realisable 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 realisable value, provisions are made for estimated liquidation costs and all assets have been reclassified from non-current to current.

The Directors deem it appropriate to adopt a break-up basis in preparing the Consolidated Financial Statements given the fact they believe that the biological assets, land and financial assets held by the Company may be fully realised and the Company put into liquidation in the next twenty months from the date of approving the Consolidated Financial Statements in line with the Company's managed wind-down strategy. Please refer to page 3 for detail regarding the Group's revised Investment Objective and Investment Policy

Ordinary Shares are classified as equity in accordance with IAS 32 - "Financial Instruments: Presentation" as these instruments include no contractual obligation to deliver cash and the redemption mechanism is not mandatory. Any redemption of shares is the choice of the Company and not of the Shareholder. Costs directly attributable to the issue of new Ordinary Shares are shown in equity as a deduction from the proceeds.

The accounting policies applied by the Group are consistent with those used in the most recent annual financials as at 31 December 2016, with the exception of certain policies disclosed in Note 3, which have been applied as a result of the Shareholders' decision for the Company not to continue.

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

Although the Company qualifies as an investment scheme under Guernsey regulations, it does not meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements, primarily due to the fact the investments are not passive and revenue is earned from timber sales.

2.2 Basis of Consolidation

The Consolidated Financial Statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2017.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated Financial Statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities and other components of equity, while any resultant gain or loss is recognised in the Consolidated Statement of Comprehensive Income. Any investment retained is recognised at net realisable value.

2.3 Summary of significant accounting policies

(a) Fair value measurement

Following the Continuation Vote, the Group now accounts on the 'break-up' basis. As such, all assets are measured at net realisable value, provisions have been raised for expected liquidation costs and all assets have been reclassified from non-current to current assets.

Up to the 31 December 2016 reporting date, financial instruments were measured at fair value through profit or loss.

Following the adoption of 'break-up' basis of accounting, biological assets are valued at net realisable value.

Disclosures related to net realisable value are included in Note 14.

(b) Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements as it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks.

The specific recognition criteria described below must also be met before revenue is recognised.

Sale of standing timber

- the Group has transferred to the buyer the significant risks and rewards of ownership;
- the Group retains neither continuing managerial involvement in the standing timber to the degree usually associated with ownership nor effective control over the timber sold;
- the amount of harvesting revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(c) Investment Income

Dividends, distribution income, and interest income are included in the Group's investment income and are recognised when the Group's right to receive the income is established. In the case of dividends, this is generally when Shareholders approve the dividend.

(d) Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the Statement of Comprehensive Income. Stafford periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Estimated withholding and repatriation taxes related to the anticipated disposal of investments have been provided for at year end.

(e) Foreign currencies

The Group's Consolidated Financial Statements are presented in US Dollars which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency spot rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are included in operating profit before taxation in the Consolidated Statement of Comprehensive Income.

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into US Dollars at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising on translation are recognised as other comprehensive income ("OCI") in the Consolidated Statement of Comprehensive Income. OCI is eventually included in the Group's foreign currency translation reserve disclosed in the Consolidated Statement of Changes in Equity.

(f) Financial instruments

Financial assets at fair value through profit or loss

In accordance with the exception within IAS 28 *Investments in Associates and Joint Ventures*, alongside the adoption of the 'break-up' basis of accounting, the Company does not account for its investments in associates using the equity method. Instead, the Company measures its investments in associates at fair value through profit or loss. The fair value is adjusted for expected liquidation costs, realisation taxes and minority discounts to derive its net realisable value.

The Company elected to designate investments in associates and minority investments as financial assets designated at fair value through profit or loss in accordance with IAS 39. Initially, financial assets should be measured at fair value. Subsequently, financial assets should be measured at fair value, being the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Under the 'break-up' basis, these investments are valued at net realisable value.

Further disclosures relating to the subsequent measurement of financial assets at fair value through profit or loss are also provided in Note 14.

Investments are derecognised on disposal when the rights to receive cash flows and all risks and rewards have expired or are transferred to a third party through an executed agreement. Transaction costs associated with an investment are recognised immediately in the Consolidated Statement of Comprehensive Income as an expense.

Financial liabilities

Financial liabilities include trade payables which are held at amortised cost using the effective interest rate method. Financial liabilities are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortised cost using the effective interest rate method.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Associates

IAS 28 Investments in Associates outlines the accounting treatment for investments in associates. An associate is an entity over which an investor has significant influence, being the power to participate in the financial and operating policy decisions of the investee (but not control or joint control).

A holding of 20% or more of the voting power (directly or through subsidiaries) will indicate significant influence unless it can be clearly demonstrated otherwise. If the holding is less than 20%, the investor will be presumed not to have significant influence unless such influence can be clearly demonstrated. The existence of significant influence by an investor is usually evidenced in one or more of the following ways:

- representation on the board of directors or equivalent governing body of the investee;
- participation in the policy-making process;
- material transactions between the investor and the investee;
- interchange of managerial personnel; and
- provision of essential technical information.

As at 31 December 2017 Phaunos has a 24% holding in Aurora Forestal Limited and a 23% holding in Matariki Forest Group, which constitutes significance influence and hence investments in associates.

IFRS 10 establishes that an investor controls an investee if and only if the investor has all of the following elements:

- power over the investee, i.e. the investor has existing rights that give it the ability to direct the relevant activities (the activities that significantly affect the investee's returns);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

In assessing the above criteria, it has been determined that Phaunos does not have control over either entity. Accordingly, both entities are reported as associates as per IAS 28. In accordance with IAS 28, when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with IAS 39. For the purposes of IAS 28 Phaunos is classified as a venture capital entity.

(g) Biological assets

Biological assets for newly established plantations are initially recognised at cost, which includes silviculture costs for establishing the plantation. The establishment period is generally assumed to be up to three years, consistent with IAS 41: Agriculture ("IAS 41"). Biological assets for established plantations are initially recognised at cost, which is the contract value for the purchased standing timber.

Up to the 31 December 2016 reporting date, biological assets were measured at fair value through profit or loss.

Following the adoption of the 'break-up' basis of accounting, biological assets are valued at net realisable value.

Further disclosures relating to the subsequent measurement of biological assets are provided in Note 14.

(h) Land

Land held for use in production or administration is initially stated at acquisition cost in accordance with IAS 16: Property, Plant and Equipment. As no finite useful life for land can be determined, related carrying amounts are not depreciated.

Up to the 31 December 2016 reporting date, land was measured at fair value adjusted for valuation changes and impairment loss recognised after the date of the revaluation.

Following the adoption of the 'break-up' basis of accounting, biological assets are valued at net realisable value.

Any increase in value under the revaluation model are credited to OCI and accumulated in equity under the heading Land Revaluation Reserve. A decrease arising as a result of a revaluation is recognised in Operating Expense as an impairment to the extent that it exceeds any amount previously credited to the Land Revaluation Reserve.

When a revalued asset is disposed of, any revaluation surplus is transferred directly to Retained Earnings. The transfer to Retained Earnings is not made through the Consolidated Statement of Comprehensive Income (that is, there is no "recycling" through profit or loss), but the gain or loss relative to carrying value is recognised in income.

(i) Cash and short-term deposits

Cash on hand, cash held on account and short-term deposits in the Consolidated Statement of Financial Position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.

(j) Treasury Shares

Own equity instruments that are reacquired (Treasury Shares) are recognised at the cost of acquisition and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in equity.

The buy-back programme was discontinued in 2017 and all outstanding Treasury shares were cancelled post year end.

(k) Share-based payments

The Manager was previously entitled to receive a share-based payment for management services rendered in the form of an equity-based warrant instrument. The instrument entitled the Manager the right to subscribe for Ordinary Shares in the Company pursuant to the terms of the warrant instrument.

The cost of the equity-settled transaction was determined by the fair value at the date when the grant was made using an appropriate valuation model.

The share-based payment was discontinued in 2017 and all outstanding warrants were cancelled. Refer to Note 23 for further details.

(l) Dividend distributions

Dividend distributions are at the discretion of the Company. A dividend distribution to the Company's Shareholders is accounted for as a deduction from retained earnings and shown in the Consolidated Statement of Changes in Equity. Dividends which have been declared but not paid are recognised as a liability in the period in which they are authorised and declared.

2.4 New standards and amendment

New standards, amendments and interpretations to existing standards that become effective in the current accounting period and have been adopted by the Group

International Financial Reporting Standards (IFRS)	Effective for annual periods beginning on or after
Amendment to IAS 7 - Statement of Cash Flows - amendments as a result of the Disclosure initiative ("IAS 7")	1 January 2017

IAS 7 introduces additional disclosure explaining movements in liabilities arising from changes in liabilities from financing activities, including both cash and non-cash movements.

The Group does not have any liabilities from financing activities therefore the application of the amendment to IAS 7 does not impact the Consolidated Financial Statements.

New standards, amendments and interpretations to existing standards that become effective in future accounting periods and have not been adopted by the Group

International Financial Reporting Standards (IFRS)	Effective for annual periods beginning on or after
IFRS 9 - Financial Instruments ("IFRS 9")	1 January 2018
IFRS 15 - Revenue from Contracts with Customers ("IFRS 15")	1 January 2018

The Board does not anticipate that the adoption of standards or interpretations currently in issue but not yet effective will have any material impact on the Consolidated Financial Statements of the Group in future periods. The Board has only disclosed those new standards, amendments and interpretations to existing standards that become effective in future which are relevant to the Group.

IFRS 9, Financial Instruments

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognitions and Measurement" and is effective for annual reporting periods beginning on or after 1 January 2018. It specifies how an entity should classify and measure financial assets and liabilities, hedging, and a new expected credit losses model for calculating impairment of financial assets. The standard also contains the new hedge accounting rules. The Group intends to adopt the standard once it becomes mandatory.

Classification of Financial Assets and Financial Liabilities

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

Based on the Group's initial assessment, this standard is not expected to have a material impact on the classification of financial assets and financial liabilities of the Group. This is because:

a) Other financial instruments currently measured at FVTPL under IAS 39 are designated into this category because they are managed on a fair value basis in accordance with a documented investment strategy. These investments are not expected to meet the SPPI criterion (solely payments of principal and interest) and accordingly, these financial instruments will be mandatorily measured at FVTPL under IFRS 9; and

b) Financial instruments currently measured at amortised cost are: cash and cash equivalents, receivables and payables. These instruments meet the SPPI criterion and are held in a held-to-collect business model. Accordingly, they will continue to be measured at amortised cost under IFRS 9.

Impairment of Financial Assets

IFRS 9 replaced the "incurred loss" model in IAS 39 with an "expected credit loss" model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Based on the Group's initial assessment, changes to the impairment model are not expected to have a material impact on the financial assets of the Group. This is because:

a) the majority of the financial assets are measured at FVTPL and the impairment requirements do not apply to such instruments; and

b) the financial assets at amortised cost are short-term (i.e. no longer than twelve months) and/or assets considered to be of high credit quality; accordingly, the expected credit losses on such assets are expected to be small.

Hedge Accounting

The Group does not apply hedge accounting; therefore, IFRS 9 hedge accounting-related changes do not have an impact on the financial statements of the Group.

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.

The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements.

The standard is effective on or after 1 January 2018. The Directors believe that the application of IFRS 15 will not have a significant impact on the amounts reported and disclosures made, but will revise the revenue recognition policy to reflect the changes in IFRS 15 as noted below.

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

1) Identify the contract(s) with a customer;

2) Identify the performance obligations in the contract;

3) Determine the transaction price;

4) Allocate the transaction price to the performance obligations in the contract; and

5) Recognise revenue when (or as) the entity satisfies a performance obligation.

Smaller volume timber sale contracts may involve upfront payment in full, whereas contracts involving large volumes to be harvested over a period exceeding a year will often have a number of interim payments associated with the contract.

Timber sale contracts do not generally comprise work in progress and all performance conditions must be met before the contract takes effect. According to Management's assessment there is no significant impact on the Group and the Consolidated Financial Statements are not expected to be significantly.

There are certain other current standards, amendments and interpretations that are not materially relevant to the Group's operations.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's Consolidated Financial Statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgements

In the process of applying the Group's accounting policies, Management has made the following judgements, which have the most significant effect on the amounts recognised in the Consolidated Financial Statements:

Going concern

Due to the outcome of the Continuation Vote the Directors have considered the impact on the basis of preparation of the Consolidated Financial Statements. The Directors are of the view that the preparation of the Consolidated Financial Statements on a 'break-up' basis is appropriate and that the Consolidated Financial Statements should reflect the circumstances existing at the end of the reporting period.

It is anticipated that the realisation of the assets will take between fourteen to twenty months from the date of this report, although there are material uncertainties inherent in the disposal process which may result in this time period being extended.

Despite the Group's accounts being prepared on a 'break-up' basis, the Group is able to meet its obligations as they fall due within a minimum period of twelve months from the date of this report.

Assessment of fund investments as structured entities

The Company has assessed whether the funds in which it invests should be classified as structured entities. The Company has considered the voting rights and other similar rights afforded to investors in these funds, including the rights to remove the fund manager or redeem holdings.

The Company has concluded as to whether these rights are the dominant factor in controlling the funds, or whether the contractual agreement with the fund manager is the dominant factor in controlling these funds.

The Company has concluded that none of their fund investments are classed as a structured entity.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the Consolidated Financial Statements were prepared, including making allowance for the net realisable value of Group assets held. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Determining fair values and net realisable value of assets

The fair value of financial assets are based on the NAV of the underlying investment which approximates the fair value of the investments, due to the underlying funds accounting for investments on a fair value basis. Investments in unquoted companies are not actively traded, hence valuations are more uncertain than those of more widely traded securities. Changes in the fair value of financial assets are subject to the fair value of the underlying land and biological assets.

Financial assets were assessed at year end, to account for changes from fair value to net realisable value.

Land and biological assets at the reporting date are valued at net realisable value, also reflecting all costs expected to be incurred to realise the assets, along with all taxes to be paid, on the disposal proceeds and the repatriation of cash balances.

Valuation techniques applied in determining the net realisable value of financial assets, biological assets and land are subject to significant estimates and assumptions. Note 14 includes details of the valuation process and valuation techniques applied.

The December 2017 independent valuations have been utilised as the starting basis for determining the fair value of the assets, minority control and liquidity discounts and changes in foreign exchange, estimated selling costs and applicable taxes being further applied, as a result of the Consolidated Financial Statements being compiled on the 'break-up basis'.

Estimated Taxation

As a result of the decision by the Shareholders not to continue the Company the Board has commissioned tax specialists to calculate the possible direct and indirect tax impact of the realisation of the Group's assets, repatriation of funds and intercompany loan forgiveness, based on certain assumptions. For the purpose of providing estimates it was assumed that all companies are tax resident in the territory in which they are incorporated and that the underlying assets will be sold at their carrying value.

Provision for wind-down costs

Given the anticipated wind-down of the Group, a provision has been made for the costs to liquidate and deregister all wholly owned subsidiaries, along with Phaunos Timber Fund Limited itself.

The provisions have been recorded in Note 21.

4. SEGMENT INFORMATION

In accordance with IFRS 8, the Board, as a whole, has been determined as constituting "the chief operating decision maker" of the Group. The key measure of performance used by the Board in the capacity as chief operating decision maker is to assess the Group's performance and to allocate resources based on the total return of each individual investment within the portfolio.

In assessing how the Board reviews the Group's performance, it is the view of the Board that the Group is engaged in one revenue generating segment of business, being investment in timber and timber-related investments. The asset categories referred to elsewhere in the 2017 Annual Report are not indicative of segments reported by the Group and how the Board makes decisions and reviews Group performance.

The following summarises the Group's revenue from timber operations by geographic location.

	31 Dec 2017	31 Dec 2016
	US$'000	US$'000
Geographic information		
Revenue from timber operations		
South America	6,948	2,479
	6,948	**2,479**

The non-current asset and revenue information is based on the place of incorporation of the relevant portfolio investee entity.

	31 Dec 2017	31 Dec 2016
	US$'000	US$'000
Major customers		
Revenue from timber operations		
Mata Mineira	6,535	145
Eucateca	388	2,268
Pradera Roja	25	66
	6,948	**2,479**

A major customer represents revenue generated by a Portfolio investee entity that is greater than 10% of the Group's total revenue from timber operations.

5. GROUP INFORMATION

The Consolidated Financial Statements of the Group include the following subsidiaries and minority investments:

Name of entity	Purpose	Place of incorporation	% holding 31 Dec 17	% holding 31 Dec 16
Alzamendi Participacoes SA	Holding Co	Brazil	100	100

Name of entity	Purpose	Place of incorporation	% holding 31 Dec 17	% holding 31 Dec 16
Caldrey SA	Dormant	Uruguay	100	100
Cottage International Group Limited	Holding Co	British Virgin Islands	100	100
Eucateca SA	Operating	Brazil	100	100
Exclusive Technologies Limited	Holding Co	British Virgin Islands	100	100
Green China Forestry Company Limited	Holding Co	Hong Kong	100	100
GreenWood Tree Farm Fund	Operating	USA	17	17
Hamar Holding Limited	Holding Co	British Virgin Islands	100	100
Mata Mineira Investimentos Florestais LTDA	Holding Co	Brazil	100	100
Nora Timber Cyprus Limited	Holding Co	Cyprus	100	100
Nortimber BV	Holding Co	Netherlands	100	100
NTP Timber Plus+ Fund I, LP	Loan	USA	9	9
Phaunos Boston Incorporated	Dormant	USA	100	100
Phaunos Brazil Investimentos Florestais LTDA	Holding Co	Brazil	100	100
Phaunos China Limited	Holding Co	Hong Kong	100	100
Phaunos Norge AS	Holding Co	Norway	100	100
Phaunos US Incorporated	Holding Co	USA	100	100
Pradera Roja S.A.	Operating	Uruguay	100	100
Romfor Timber (Cyprus) Limited	Holding Co	Cyprus	100	100
Terrific Plan Limited	Holding Co	Hong Kong	100	100
Tura Holding Limited	Holding Co	British Virgin Islands	100	100
Vale do Jequitinhonha Silvicultura e Participacoes LTDA	Operating	Brazil	100	100
Waimarie Forests Pty Ltd	Holding Co	Australia	100	100
WoodNRG Limited	Holding Co	Cyprus	100	100

The Consolidated Financial Statements of the Group include the following Associates:

Name of entity	Purpose	Place of incorporation	% holding 31 Dec 17	% holding 31 Dec 16
Aurora Forestal Limited	Operating	Uruguay	24	24
Matariki Forest Group	Operating	New Zealand	23	23

6. REVENUE FROM TIMBER OPERATIONS

	31 Dec 2017	31 Dec 2016
	US$'000	US$'000
Income - standing timber sales	6,948	2,479
	6,948	**2,479**

7. COST OF SALES

	31 Dec 2017	31 Dec 2016
	US$'000	US$'000
Depletion	5,028	75
Cost of sales - standing timber	461	1,424
Cost of sales - other	17	204
	5,506	**1,703**

8. TIMBER OPERATING EXPENSES

	31 Dec 2017	31 Dec 2016
	US$'000	US$'000
Direct timber costs		
Property management fees	738	795
Property, repairs and maintenance	156	92
	894	**887**
Indirect timber costs		
Liquidation and deregistration costs	291	-

Professional fees	284	267
Other taxes	256	567
Accounting fees	250	233
Foreign exchange losses	163	188
Legal fees	150	147
Other timber costs	79	148
Fees paid to auditors	43	52
Transaction costs	40	823
	1,557	**2,425**
Total timber operating expenses	**2,451**	**3,312**

9. INVESTMENT INCOME

	31 Dec 2017	31 Dec 2016
	US$'000	US$'000
Distribution income	6,031	4,893
Interest income	838	1,027
Dividend income	555	1,109
	7,424	**7,029**

10. INVESTMENT OPERATING EXPENSES

	31 Dec 2017	31 Dec 2016
	US$'000	US$'000
Portfolio management fees*	3,120	838
Liquidation and deregistration costs	2,539	-
Administration fees	701	641
Professional fees	594	153
Fees paid to auditors for audit services	332	247
Directors' remuneration	307	201
Other expenses	221	836
Legal fees	211	187
Corporate advisory fees	111	79
Travel expenses	43	68
Accounting fees	33	30
Directors' expenses	30	25
Occupancy expenses	27	32
Commission expenses	23	32
Appraisal fees	22	-
Directors', Officers' and other insurance	20	28
Foreign exchange losses	1	36
Share-based management fee	-	574
	8,335	**4,007**

*In accordance with the amended Portfolio Management Agreement ("PMA"), which came into effect from 1 December 2016, the outcome of the Continuation Vote mandated an additional payment as compensation for Stafford's rights under the warrant instrument. Stafford became entitled to an increased base fee payment of 1% (2016: 0.35%) from 1 July 2014 (the Commencement Date of the PMA) to the date of the Continuation Vote, equivalent to an increase of 65 basis points (0.65%) of Phaunos' Market Capitalisation.

Included in the management fee is the penalty payment to cancel the contract over the fair value of the warrants of $1.7 million, derived from the cash payment of $4.4 million and the reversal of the warrants reserve of $2.7 million.

11. REALISED (LOSSES)/GAINS ON DISPOSAL OF ASSETS

	31 Dec 2017	31 Dec 2016
	US$'000	US$'000
Realised gain on disposal of investments	-	8,273
Realised loss on disposal of land	(1,305)	(430)
Realised loss on disposal - other	(137)	(3)
	(1,442)	**7,840**

12. INCOME TAX EXPENSE

	31 Dec 2017	31 Dec 2016
	US$'000	US$'000
Current income tax:		
Accounting (loss)/profit before income tax	**(789)**	**18,767**
Accounting profit in non-tax paying jurisdictions	15,157	20,871
Accounting loss in tax paying jurisdictions	(15,947)	(2,104)
At weighted average income tax rate of 34% (2016: 34%) for tax paying jurisdictions	**(5,422)**	**(715)**
Adjustments:		
Revaluation of biological assets and land	4,034	685
Entity taxed on revenue no profit	1,910	(367)
Non-deductible expenses	1,102	-
Repatriation taxes	1,098	-
Depletion adjustments	376	-
Other adjustments	270	836
Provisions raised	96	-
At the effective income tax rate of (21.7)% (2016: 20.9%) of the accounting profit/(loss) before income tax	**3,464**	**439**
Reported in the Consolidated Statement of Comprehensive Income:		
Income tax	3,464	439
Deferred tax	-	-
	3,464	**439**

The weighted average income tax rate is calculated by applying the local jurisdiction statutory income tax rate to the net accounting profit/(loss) for wholly owned subsidiaries in taxpaying jurisdictions. The effective income tax rate is calculated by dividing the effective income tax charge by the net accounting profit/(loss) in taxpaying jurisdictions. Taxation for subsidiaries operating in jurisdictions outside Guernsey is calculated at the rates prevailing in the respective jurisdictions.

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 (2016: £1,200). As a result, the taxation charge for the year relates solely to the Company's subsidiaries. The principal reason for the tax charge is profitability of some of the Group's subsidiaries.

13. (LOSS)/EARNINGS PER SHARE

The basic and diluted loss per Ordinary Share is based on the net loss for the year attributable to Ordinary Shareholders of US$4.3 million (2016: US$18.3 million profit) and 545,911,791 (2015: 557,162,732) Ordinary Shares, being the basic weighted average number of Ordinary Shares in issue during the year.

During the prior years (2016, 2015 and 2014) the Company issued warrants to Stafford to subscribe for an aggregate of 30 million shares in the Company as part of the Portfolio Management Agreement, as disclosed in note 22. At no point between the issue of the warrants and the date on which they lapsed had the share price of the Company been above the strike price of the warrants. As such, these warrants were anti-dilutive and have not impacted the basic earnings per share. The warrants have now lapsed as a result of the 2017 AGM and the Shareholders ordinary resolution not to continue the Company.

14. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

14.1 Valuation process

The fair value of financial assets, land and biological assets are determined as follows for each class:

i. Valuation of financial assets designated at fair value through profit or loss ("financial assets")

The Directors use their judgement in selecting an appropriate valuation technique for Level 3 financial assets. The Directors consider that the valuation methods applied are appropriate for estimating the fair value of the financial assets.

Investments in associates are measured at fair value based on the NAV of the associate, as reported by the underlying manager. Such NAVs are prepared on a fair value basis in accordance with IFRS. The NAV of each associate includes assets valued by an independent external appraiser.

These appraisals, which are reviewed by the Directors, use the methods described in ii) below. Phaunos adjusts the NAV with the fair value of land and biological assets for the associates and, in the case of Aurora Forestal, also for the sawmill and co-generation plant.

Other financial assets are measured at fair value based on each underlying company's NAV in accordance with IFRS, as reported by the underlying manager. The NAV includes assets valued by an independent external valuer at year end and reviewed by the Directors. The Directors review the main assumptions of market price, land prices, timber prices, growth rates and discount rates and utilise more updated information if applicable and, where relevant, will recommend adjustments to determine fair value. Any adjustments are subject to approval by the Board.

At 31 December 2017 the carrying value of the Group's financial assets designated at fair value through profit or loss have been adjusted to incorporate estimated direct and indirect taxes, sales commission, liquidity and minority discount and other costs anticipated on the realisation of these financial assets which is in line with the break-up basis.

A minority discount of 50% was applied to the value of the Company's holdings in Aurora Forestal at year end.

ii. Valuation of land and biological assets

Land is held at fair value through profit or loss adjusted for sales at 31 December 2017. Biological assets held by operating subsidiaries are carried at fair value less cost to sell at 31 December 2017. In line with common industry practice, the fair value is based on the value determined by independent external valuers and, where appropriate, adjusted by the Directors.

The external valuers are independent third-party firms with significant experience in the asset class and membership of a valuation industry organisation. The Group requires its valuations to meet the Uniform Standards of Professional Appraisal Practice of the Appraisal Standards Board or similar standards established by equivalent institutions.

Valuations are carried out annually as at 31 December and valuers have previously been rotated after a three-year period.

The Audit and Valuation Committee of the Board has elected to retain all current appraisers, due to the wind-down status of the Company.

The first valuation in each three-year cycle is based on a full detailed assessment of all available information including a property visit and inspection. It is Group policy that, in the first year, the valuer inspects the asset with the property manager and, in the case of timberland, the valuer is required to visit multiple tracts on the property. In the two subsequent years, the same valuer performs an update valuation which replicates the full valuation process, but without a property inspection.

Independent valuations are based on a reconciled value using a combination of up to three valuation methodologies. These include:

- the Cost Approach, based on the sum of components including the land value and standing timber value;
- the Income Approach, based on discounted cash flow valuations; and
- the Sales Comparison Approach based on comparable asset sales where these are available and pertinent.
- Furthermore, the Board, along with the previous Managers, have considered further discounts to the appraisal, on the basis of minority discounts and the net sales price that could be realised.

Under the 'break-up' basis of accounting, assets have been valued at net realisable value to reflect the expected outcome of the sales process, including liquidity and minority discounts.

As denoted above, there are several different valuation methodologies and each valuation methodology has a number of key inputs.

The cost-based approach valuation looks at an area and determines what it costs to buy the land, clear it, prepare it for planting, and maintain it until grown until a certain stage.

The income approach takes into account the productive area, current and forecast log prices, current and forecast costs, market and harvesting constraints, growth rates and standing timber volumes as derived from detailed timber inventories. While growth can be used as a measure for the change in value it is only one of a number of key inputs into one of the three methodologies often used to define value. In practice, growth increases can often be offset by changes in log prices, as well as changes to discount rates or operational costs. It is the appraiser's responsibility to derive what they see as a reasonable discount rate to apply when preparing an income-based valuation. The appraisers conduct their valuation from the perspective of a potential buyer and build a Weighted Average Cost of Capital ("WACC") using input parameters that are reflective of the broader investor market.

The sales comparison approach is typically used for mature timberland markets or regions where there is a reasonable turnover of properties each year which are comparable to owned property. The appraiser is able to compare similarities between the properties to determine value per hectare.

The key considerations in valuing timber assets include the market price of timber, land values, growth rates and discount rates. The underlying assumptions of each of the independent appraisals are that there is a competitive market for the timberland asset with willing sellers and willing buyers and that end product markets will materialise for greenfield plantation developments in emerging or frontier regions.

The assumptions concerning the key considerations mentioned above at the reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are updated by the valuers annually.

Due to the number of detailed inputs used within biological valuations the Board relies upon annual valuations.

The carrying value of the Group's biological assets and land at 31 December 2017 have then been adjusted for the estimated direct and indirect taxes, sales commission, and other costs anticipated on the realisation of these assets which is in line with the break-up basis.

14.2 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 31 December 2017 the net realisable value of the assets is based on the 31 December 2017 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 realisable value, which are all categorised as Level 3 in accordance with the fair value hierarchy in IFRS 13:

	31 Dec 2017	**31 Dec 2016**
	US$'000	**US$'000**
Associates	176,083	165,922
Other financial assets	9,240	14,658
	185,323	**180,579**
Non-financial assets		
Biological assets	15,254	29,298
Land	30,713	40,739
	45,967	**70,037**
Net realisable value at end of year	**231,290**	**250,616**

For assets that are recognised in the Consolidated 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 year. There were no transfers between Levels during the year.

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.

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

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

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
Disposals	-	-	(454)	(2,183)	(2,637)
Depletion	-	-	(5,028)	-	(5,028)
Return of capital	(9,647)		-	-	(9,647)
Other	-	-	(292)	(103)	(395)
	(9,647)	-	(5,282)	(2,286)	(16,875)
Closing fair value	176,083	9,240	15,254	30,713	231,290

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 31 December 2016	Associates US$'000	Other financial assets US$'000	Biological assets US$'000	Land US$'000	Total US$'000
Opening fair value	**152,908**	**38,191**	**23,352**	**35,421**	**249,872**
Total gains or losses for the year:					
Unrealised gain/(loss) included in profit or loss:					
Revaluation and impairments	13,270	(6,748)	1,152	697	8,371
Foreign exchange translation	1,758	-	-	-	1,758
	15,028	(6,748)	1,152	697	10,129
Unrealised gain included in other comprehensive income:					
Revaluation	-	-	-	2,303	2,303
Foreign exchange translation	-	-	6,659	4,577	11,236
	-	-	4,397	6,880	13,539
Purchases, issues, sales and other movements:					
Purchases and other costs	-	-	1,896	-	1,896
Depletion	-	-	(75)	-	(75)
Disposals	-	-	(3,248)	(1,814)	(5,062)
Return of capital	(1,303)	(16,785)	-	-	(18,088)
Reclassified on disposal of land	-	-	-	(445)	(445)
Adjustment to cost	(712)	-	(438)	-	(1,150)
	(2,015)	(16,785)	(1,865)	(2,259)	(22,924)
Closing fair value	**165,922**	**14,658**	**29,298**	**40,739**	**250,616**

14.4 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 31 December 2017 and 31 December 2016 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 31 Dec 17 US$'000	Fair Value 31 Dec 16 US$'000	Valuation Method	Valuation Source	Significant Unobservable Inputs	Range [1]	Sensitivity Rate [2]	Inter-relationship between significant unobservable inputs and fair value measurement
Associates	**176,083**	**165,922**	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% (2016: ±5%) Average production cost change of ±5% (2016: ±5%) Discount rate change of ±1% (2016: ±1%) Average land price change[4] of ±5% (2016: ±5%) Minority discount of ±10%	±8% (2016: ±7%) ±4% (2016: ±4%) ±6% (2016: ±4%) ±1% (2016: ±1%) ±1% (2016: n/a)	The net realisable 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[4]	**9,240**	**14,658**	NAV at fair value	Underlying manager based on independent appraisals	NAV at fair value	Land price change of ± 5% (2016: n/a)	<±1% (2016: ±1%)	The net realisable value, profit for the year and equity value of the Group would increase / (decrease) if the value of the under-lying land increased/(deceased)
Biological assets	**15,254**	**29,298**	Combination of the income and cost capitalisation and comparative sales approach	Independent appraisal	Timber prices per m Discount rates	Average log price change[3] of ±5% (2016: ±5%) Discount rate change of ± 1% (2016: ±1%)	±1% (2016: ±1%) <±1% (2016: ±1%)	The net realisable 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	**30,713**	**40,739**	Income and cost capitalisation approach	Independent appraisal	Land prices per hectare	Average land price change[3] of ±5% (2016: ±5%)	<±1% (2016: ±1%)	The net realisable 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

[4]RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial assets are investments in associates and other financial assets, along with direct investments in timberland through its wholly-owned subsidiaries. The Group has receivables, payables and cash and cash equivalents that arise directly from its operations.

The Group is exposed to market risk (including interest rate risk, foreign exchange risk), credit risk and liquidity risk.

The Board oversees the management of these risks. The Audit and Valuation Committee provide assurance to the Board that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with group policies for risk.

The Board regularly reviews and agrees policies for managing the risks which are summarised below:

(a) Market Risk

Market risk is the risk that the fair values of financial instruments will fluctuate because of changes in market prices. Log prices and land prices change in response to quality, supply and demand and a range of external factors e.g. markets, geographical, political etc.

A decrease in market conditions for timber and land between the date of report and the date of disposal would have an impact on the sales price achievable.

A price sensitivity to log and land prices is provided in note 14.4.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. During the year the Group held cash and cash equivalents in US Dollars, Euro, Brazilian Real, New Zealand Dollars, Uruguayan Peso, Norwegian Krone, and Chinese Renminbi, the returns on which vary with market rates.

The weighted average effective interest rate for cash and bank balances at 31 December 2017 was 1.8% (2016: 2.88%).

The impact of changes in interest rates is immaterial to the Group's net profit and NAV.

Foreign Exchange Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group has significant exposure to the New Zealand Dollar and Brazilian Real.

The Directors consider that the foreign exchange exposure to the NZD is mitigated due to a good mix of local and export sales, with log prices predominantly priced in USD.

Ceteris paribus a 10% strengthening/weakening in the NZD would increase/decrease the Group NAV by 5.9%.

Likewise, a 10% strengthening/weakening in the BRL would increase/decrease the Group's NAV by 1.5%.

Cash and cash equivalents

The Group's major foreign currency exposure in cash and cash equivalents is to the Brazilian Real ("BRL"). The equivalent of US$9.9 million (2016: US$7.4 million) in Brazilian Real was invested in short term investment accounts for working capital needs. An increase or decrease by 15% in the foreign exchange rate would result in an increase or decrease of approximately US$1.5 million. As at 31 December 2017 the closing BRL exchange rate utilised was 3.21368.

(b) Liquidity Risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. With the Company in wind-down there is liquidity risk in that the timing of an eventual sale is uncertain and the Group requires funding until that date.

The Board regularly evaluates the Group's cash position against its trade payable. In the event that the Group would suffer cash flow delays, it is sufficiently able to raise cash through the sale of harvesting rights.

At 31 December 2017 the Group had cash reserves of US$47 million and trade payables and wind-down provisions of US$5.8 million. The Group, therefore, has sufficient cash resources to minimise any liquidity risk.

(c) Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation. The Group is exposed to credit risk by holding cash and bank deposits with banks worldwide.

Credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings of at least Aa1 assigned by international credit-rating agencies or higher rated banks for longer term deposits. The Board monitors credit ratings to ensure that cash and bank deposits held by the Group are maintained with institutions that have the appropriate credit rating.

At 31 December 2017 and 31 December 2016, the Group had no loans receivable. The Group's trade and other receivables excluding prepayments due at those dates, subject to credit risk were as follows:

	Within 45 days	**45 to 180 days**	**Over 180 days**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**
31 Dec 2017	5,555	1,470	236	7,261
31 Dec 2016	615	4,111	1,700	6,426

Phaunos' normal contractual terms require customers to pay a deposit prior to commencing harvesting activities and payments for each stand are required within 30 to 45 days from the date of commencement of harvesting. Terms are considered for sale transactions and disposals but mitigated by retaining ownership until payments are received. Phaunos regards amounts receivable after 180 days as higher risk due to an increased uncertainty in factors which may affect amounts receivable e.g. foreign exchange movements.

There are receivables that are past due but not impaired. The Group has provided US$150,000 (2016: Nil) in respect of these overdue debts, which the Group believes is the maximum current expected loss.

The maximum exposure to credit risk in relation to financial assets is represented by the carrying amount of financial assets that is recognised in the Consolidated Statement of Financial Position. The Group monitors its exposure through quarterly reviews of financial and operational information to identify and monitor risk.

15. CAPITAL MANAGEMENT

The Ordinary Share buy-back program was discontinued during the year, the Warrant instruments related to the previous Manager have been cancelled and the Treasury shares held at 31 December 2017 have been cancelled post year end.

The Company is not subject to externally imposed capital requirements.

The Company's objectives for managing capital are to distribute the proceeds of asset sales to shareholders as soon as is prudently possible, after allowing for sufficient cash reserves to continue operating and liquidate the Group holding structures and Company.

The Group holds sufficient levels of cash and cash equivalents for working capital requirements. Surplus resources are invested in bank deposits of high credit quality with a low risk of adverse changes in value.

16. INVESTMENT IN ASSOCIATES

Matariki Forestry Group

At 31 December 2017, the Company had 23.01% (2016: 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 year ended 31 December 2017, 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:

	31 Dec 2017	**31 Dec 2016**
	US$'000	**US$'000**
Distributions		
Distributions received*	**15,678**	**6,196**
Summary of Consolidated Income Statement for the year ended 31 December 2017		
Gross timber revenue	376,908	277,406
Profit from continuing operations	168,580	83,701
Other comprehensive income	7,042	12,704
Total comprehensive income	175,622	96,405
Summary of Consolidated Statement of Financial Position at 31 December 2017		
ASSETS		
Non-current Assets		
Biological assets	677,766	504,768
Property, plant and equipment	97,889	95,967
Other non-current assets	49,406	42,770
Total non-current assets	**825,062**	**643,505**
Total current assets	**43,242**	**31,800**
Total Assets	**868,303**	**675,305**

LIABILITIES		
Non-current Liabilities		
Deferred tax liability	123,082	52,646
Other non-current liabilities	637	897
Total non-current liabilities	**123,719**	**53,543**
Current Liabilities		
Shareholder loans	14,720	81,517
Bank borrowings	-	-
Other current liabilities	20,254	19,821
Total current liabilities	**34,975**	**101,338**
Total Liabilities	**158,694**	**154,881**
Total Net Assets	**709,609**	**520,424**
Fair Value of Associate		
23.01% Share of Total Net Assets (2016: 23.01%)	**163,281**	**119,748**
23.01% Share of Shareholder Loans (2016: 23.01%)	**3,387**	**18,757**
	166,668	**138,505**
Selling costs and realisation taxes	**(1,393)**	**-**
Net realisable value**	**165,275**	**138,505**

*refers to dividends received and return of shareholder loan

** translated at USD/NZD 1.40499

Aurora Forestal Limited

The Company has 23.57% (2015: 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 year ended 31 December 2017, 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:

	31 Dec 2017	**31 Dec 2016**
	US$'000	**US$'000**
Dividends		
Dividends received	**555**	**1,109**
Summary of Consolidated Income Statement for the year ended 31 December 2017		
Gross timber revenue	23,685	21,906
Loss from continuing operations	(13,216)	(17,996)
Other comprehensive loss	(1,604)	(949)
Total comprehensive loss	(14,820)	(18,946)
Summary of Consolidated Statement of Financial Position at 31 December 2017		
ASSETS		
Non-current Assets		
Biological assets	46,204	47,712
Property, plant and equipment	72,852	85,865
Other non-current assets	1,859	1,827
Total non-current assets	**120,915**	**135,404**
Total current assets	**7,995**	**10,442**
Total Assets	**120,910**	**145,846**
LIABILITIES		
Total non-current liabilities	(11,866)	11,594
Total current liabilities	(16,269)	17,946
Total Liabilities	**(28,134)**	**29,540**
Total Net Assets	**100,776**	**116,306**
Fair Value of Associate		
23.57% Share of Total Net Assets (2016: 23.57%)	**23,753**	**27,413**

Selling costs, realisation taxes and minority discount	**(12,945)**	-
Net realisable value	**10,808**	**27,413**

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

17. CASH AND CASH EQUIVALENTS

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

	31 Dec 2017	31 Dec 2016
	US$'000	US$'000
Cash at bank and in hand	45,047	45,148
Short-term deposits	2,371	399
Cash held by third parties	30	35
	47,448	**45,582**

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

	31 Dec 2017	31 Dec 2016
	US$'000	US$'000
Guernsey	32,853	12,465
Brazil	9,916	7,392
United States	2,955	16,793
Uruguay	683	267
China	590	579
Norway	190	7,895
Cyprus	122	156
Netherlands	91	25
Australia	48	10
	47,448	**45,582**

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.

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.

18. TRADE AND OTHER RECEIVABLES

	31 Dec 2017	31 Dec 2016
	US$'000	US$'000
Amounts falling due within one year:		
Trade receivables	4,748	251
Amounts due from third parties on disposal of assets	1,470	3,932
Dividend receivable from associates	555	1,109
Tax receivables	286	400
Other receivables	233	120
	7,261	**5,812**
Amounts falling due after one year:		
Amount due from third parties on disposal of assets	-	615
	7,261	**6,427**

19. TRADE AND OTHER PAYABLES

	31 Dec 2017	31 Dec 2016
	US$'000	US$'000
Amounts falling due within one year:		
Other payables	875	640
Portfolio management fees payable	596	274
Taxes payable	254	439
Trade payables	56	113
Deferred revenue	42	31
	1,823	**1,497**

20. PROVISIONS

	31 Dec 2017	31 Dec 2016
	US$'000	**US$'000**
Amounts falling due within one year:		
Provision for legal litigations	2,000	-
Provision for liquidation and deregistration costs	830	-
Provision for withholding tax on repatriation of funds	1,098	-
	3,928	**-**

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 under-lying legal items.

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 under-lying asset sales.

21. ISSUED CAPITAL AND RESERVES

Authorised shares

At 31 December 2016 and 31 December 2017:	**US$**
Unlimited Ordinary Shares of no par value	-

Ordinary Shares issued and fully paid

	31 Dec 2016	Movement	31 Dec 2017
	US$'000	**US$'000**	**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**

	31 Dec 2015	Movement	31 Dec 2016
	US$'000	**US$'000**	**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	**566,099,832**	**(19,075,000)**	**547,024,832**

Treasury Shares

	31 Dec 2016	Movement	31 Dec 2017
	US$'000	**US$'000**	**US$'000**
Total Treasury Shares	10,707	691	11,397
No. of Treasury Shares	**24,190,045**	**1,495,000**	**25,685,045**

During the 2017 financial year, the Company purchased a total of 1,495,000 Ordinary Shares of no par value at a weighted average price of 46 cents per share, held in treasury at 31 December 2017 and subsequently cancelled post year end.

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.

A Member is a registered holder of a share and any person entitled on death, disability or insolvency of a member.

22. WARRANT INSTRUMENT RESERVE

The Company had, in prior year, issued warrant instruments to the Manager as part of the consideration for services to be rendered. All warrants issued were cancelled upon the Manager's resignation during the year.

	31 Dec 2017	31 Dec 2016
	'000	**'000**
Opening warrants	30,000	20,000
Warrants issued	-	10,000
Warrants repurchased	(30,000)	-
Closing warrants	**-**	**30,000**

23. 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.

A dividend of US$0.016 cents per Ordinary Share (total dividend of US$8.7 million) was paid to holders of fully paid Ordinary Shares in July 2017.

A dividend of US$0.003 cents per Ordinary Share (total dividend of US$1.6 million) was paid to holders of fully paid Ordinary Shares in 2016.

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

24. CAPITAL COMMITMENTS

The Group does not have any outstanding capital commitments at the year-end.

25. 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 year ended 31 December 2017 and 2016, as well as balances with related parties as at 31 December 2017 and 2016. 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	2017	Dividend / distribution income	6,586	555
	2016		4,893	1,109
	2017	Redemption of redeemable shares	9,647	-
	2016		1,303	-
Key management personnel of the Group:				
Directors within the Group	2017	Directors' remuneration and expenses	307	6
	2016		226	44
Phaunos Boston Inc.	2017	Compensation	160	-
	2016		239	-
Stafford Capital Partners	2017	Portfolio Management fees	1,531	596
	2016		838	274
Stafford Capital Partners	2017	Share-based management fee	4,382	-
	2016		574	-

26. EVENTS AFTER REPORTING YEAR

On 10 January 2018, the Company announced a compulsory redemption of 47,169,715 Ordinary Shares at US$0.53 per share, representing 8.647% of the Ordinary Shares in issue prior to the redemption.

All Treasury Shares held at 31 December 2017 have been cancelled post year end.

Depositary services, being no longer required, were cancelled on 17 February 2018.

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 31 December 2017 was 545,529,832 Ordinary Shares (2016: 547,024,832) and 25,685,045 Ordinary Shares (2016: 24,190,045) were held in treasury (Treasury Shares), subsequently cancelled after year end.

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 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

Registered Office

11 New Street

St Peter Port

Guernsey

GY1 2PF

Directors

Richard Boléat (appointed 31 August 2017)

Jonathan Bridel (appointed 13 September 2017)

Brendan Hawthorne (appointed 25 July 2017)

Sir Henry Studholme Bt (resigned 31 August 2017)

Auditors

Ernst & Young LLP

PO Box 9

Royal Chambers

St Julian's Avenue

Ian Burns (resigned 13 September 2017) William Vanderfelt (resigned 31 August 2017) Jane Lewis (resigned 31 August 2017)	St Peter Port Guernsey GY1 4AF
Administrator, Company Secretary Vistra Fund Services (Guernsey) Limited 11 New Street St Peter Port Guernsey GY1 2PF	**Depositary** Vistra Depositary Services (Guernsey Limited 11 New Street St Peter Port Guernsey GY1 2PF
UK Transfer Agent Link Asset Services Limited The Registry 34 Beckenham Road Beckenham Kent, England BR3 4TU	**Registrar** Link Asset Services (Guernsey) Limited Mont Crevelt House Bulwer Avenue St Sampson Guernsey GY2 4LH
Advocates to the Company (as to Guernsey Law) Ferbrache and Farrell Somers House Rue Du Pre St Peter Port Guernsey GY1 1LU	**Solicitors to the Company** (as to English Law) Herbert Smith LLP Exchange House Primrose Street London England EC2A 2HS
Corporate Broker Winterflood Investment Trusts The Atrium Building Cannon Bridge House 25 Dowgate Hill London England EC4R 2GA	**Sales Agent** Poyry Capital Portland House Bressenden Place London SW1E 5BH

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Notes to Editors

Established in 2006, Phaunos Timber Fund Limited ("PTF" or "the Company") invests in a concentrated, but diversified portfolio of timberland and timber-related investments. It was announced on 19 June 2017 that the Company's continuation resolution had not been passed. The Board is now conducting an orderly realisation of the assets of the Company.

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. www.phaunostimber.com

The Company's ticker is PTF. www.phaunostimber.com

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