Phaunos Timber Fund Limited - PTF Half Yearly Report
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20 August 2015

PHAUNOS TIMBER FUND LIMITED

UNAUDITED RESULTS FOR THE SIX MONTHS TO 30 JUNE 2015

20 August 2015

For immediate release

Phaunos Timber Fund ("**Phaunos**" or the "**Company**"), the authorised closed-ended investment scheme, managed by Stafford Capital Partners Limited (the "**Manager**" or "**Stafford**"), today issues its unaudited results for the six months ended 30 June 2015 (the "period").

Executive Summary

	6 months to 30 June 2015 (unaudited)	**12 months to 31 Dec 2014 (audited)**	**6 months to 30 June 2014 (unaudited)**
Net Asset Value ("NAV")	US$287.1 million	US$321.3 million	US$433.2 million
NAV per Ordinary Share	51 cents	57 cents	81 cents
Share price	35 cents	37 cents	42 cents
Share price discount to NAV	31.4%	35.1%	48.1%
Cash balance	US$23.0 million	US$14.9 million	US$4.9 million
(Loss)/profit for the period/year	US$(21.7) million	US$(99.9) million	US$6.9 million
(Loss)/earnings per Ordinary Share	(3.82) cents	(18.30) cents	1.28 cents

Sir Henry Studholme, Chairman of Phaunos Timber Fund, commented on the results: "This interim report reflects the steady progress that has been made by Phaunos during the first half of 2015. At the timber operating level the Company has shown a profit, investment operating costs have reduced by nearly US$1 million and cash flows have been positive. However, the results reflect foreign exchange translation losses as a result of the US dollar appreciating against the currencies of our investments. For the longer term, the announcement of a refinancing of our New Zealand investment, Matariki, by our partner, Rayonier, is good news. The task of putting Phaunos on a sound footing is a long and painstaking business but this is a firm step along the way."

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Phaunos Timber Fund Limited (Chairman)
Sir Henry Studholme

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Notes to Editors

The Company is a Guernsey-domiciled authorised closed-ended investment scheme authorized 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.

Its ordinary shares are listed on the Main Market of the London Stock Exchange. Its investment objective is to provide shareholders with attractive long term total returns, expected to be in the form of capital appreciation but with some income, through a diversified portfolio of timberland and timber-related investments.

Stafford Capital Partners Limited, a specialist international timberland manager with timberland assets under advice and management of US$2.0 billion, was appointed as Manager on 1 July 2014. (www.staffordcp.com)

The Company is currently fully invested in international timberland and timber-related investments.

The Company's ticker is PTF.

Website www.phaunostimber.com

Interim Business & Operations Review

Chairman's Statement

For the period ended 30 June 2015

The first six months of 2015 have been a period of progress for Phaunos. The overall results are severely impacted by the strengthening of the US dollar, however, at a timber operating level the Group showed a profit for the first time. This amounted to US$1.7 million for the period (30 Jun 2014: US$1.5 million loss).

The unaudited NAV at 30 June 2015 decreased by 10.7% or US$34.2 million to US$287.1 million (31 Dec 2014: audited NAV of US$321.3 million). This decrease is mainly a reflection of changes in foreign exchange rates.

The cash reserves increased to US$23.0 million (31 Dec 2014: US$14.9 million) over the period with US$7.5 million received from a one off harvesting contract at Mata Mineira in Brazil.

RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2015

We continue to focus on our three key objectives of *cost reduction*; *asset sales* and *revenue maximisation*.

Cost reduction
The timber operational costs for the half-year were US$1.0 million less than for the equivalent period in 2014. This has flowed from Stafford's extensive review of the Group's local property managers and subcontractor contracts, legal expenses and stricter controls implemented to govern operational spending.

On 19 June 2015 we closed the company's Boston office. I would like to thank the team who were employed in Boston for their very positive support especially during the challenging transition period. The Boston administration functions have been seamlessly transitioned to London at a one-off cost of US$0.35 million, which is anticipated to be offset by cost savings in the latter half of the year.

Asset sales
Potential buyers have been identified for individual properties within the Eucateca (Brazil) and Pradera Roja (Uruguay) estates. Negotiations are underway. The total proceeds of these potential asset sales are estimated at US$6 million, in line with their current overall NAV. Work continues on the disposal of other assets identified as higher risk or non-core.

Revenue maximisation
Harvesting revenue for the period exceeded the initial 2015 budget guidance. A one-off contract with Suzano to harvest timber in Mata Mineira boosted cash reserves at the half year stage. 96% of the total harvesting contract value was received by 30 June 2015. Smaller harvesting contracts at Pradera Roja and Eucateca also contributed to the increased timber revenue for the period.

BOARD OF DIRECTORS

I am delighted to confirm that Jane Lewis was elected to the Board of Directors of Phaunos on 17 June 2015. Jane replaced Martin Ricketts who retired after more than four years with Phaunos. I wish him well for the future and also want to express my appreciation for his valuable contribution.

FUTURE OUTLOOK

The positive cash flow and timber operation level profit is encouraging. It provides visible evidence of Stafford's work, which is fully supported by the Board, on the recovery for Phaunos. However, while acknowledging the significance of improved results, the Directors recognise that there is more to do to enable shareholders to assess the potential of Phaunos as a platform for growth ahead of the 2016 continuation vote.

Cash in excess of a prudent estimate of the Company's working capital needs for the next two years has been earmarked to initiate a share buyback programme. We bought back a total of 300,000 shares in July and August 2015 at a weighted average price of 34 cents per share. As these shares were bought back at a substantial discount to NAV, the effect of the buybacks was marginally to increase the NAV per share for the remaining shares. We intend to continue the share buyback programme in order to enhance shareholder returns as and when surplus cash is available. The Directors believe that at the current share price it is in the best interests of shareholders to buy back shares.

The greatest opportunity for further cost reductions lies in successful sales of the non-core assets that have high cost of management. These sales, if achieved, will result in reduced management costs in 2016. Sales of the higher risk assets remains a key focus area for Stafford and as mentioned above, Stafford is currently negotiating property sales in Brazil and Uruguay. The sale process will continue for the remainder of 2015.

The Directors and the Manager have not stopped looking for cost savings in continuing operations. At timber operating cost level vendor contracts, harvesting operations and business processes will continue to be reviewed. At investment operating level we are searching for opportunities to reduce administrative costs by reviewing and improving finance business processes whilst maintaining a sound internal control environment.

We recognise that it is important for Phaunos to demonstrate the ability to create sustainable revenue. However, the nature of large harvesting contracts means there will be unavoidable highs and lows. For instance the benefit of the one-off Suzano harvesting contract may not be repeated. The Board is conscious of the need to be prudent in its approach in forecasting harvesting revenue and is not anticipating that the second half of the year will mirror the first.

To ensure more reliable dividend income from 2016 onwards, Phaunos has worked with Rayonier to reduce or eliminate gearing within Matariki, Phaunos' investment in New Zealand. To this end we are pleased that Rayonier has agreed to provide equity, at NAV, to replace loans outstanding under Matariki's debt facility, subject to certain conditions. These are explained in the Manager's report.

The start that Phaunos has made to the current year is positive and as a Board we remain cautiously optimistic. However, much remains to be done and a great deal of hard work will be required during the second half of the year to maintain this positive momentum.

Sir Henry Studholme Bt
Chairman

19 August 2015

Manager's Interim Operational Report

For the period ended 30 June 2015

1. Introduction

The 2015 Interim Report marks the anniversary of Stafford's appointment as the Manager of Phaunos Timber Fund Limited. Throughout the second half of 2014 our work not only focused on identifying cost control measures and market options for increasing revenues but also ensuring that independent valuations were undertaken across all of the assets and that the NAV was a realistic reflection of the value of Phaunos' investments. In 2015, greater emphasis has been placed on the implementation of various cost reduction and revenue generating activities that were identified in 2014. We are pleased to say that a number of these measures have substantially improved the performance of the Group over the first half of 2015, in spite of difficult market conditions for the Chinese export log market and Brazilian charcoal and biomass markets.

Measures implemented to date include:

- A one year pulpwood supply agreement for Mata Mineira that is estimated to provide a net increase in revenues of US$7.5 million. This contract will result in the 2015 harvesting volumes being around 600,000m^3 relative to the long term average of 350,000m^3 and 2014 harvest levels of 220,000m^3;
- US$3.0 million reduction in annual running costs. This includes a substantial reduction in legal expenses and stricter controls on operational spending;
- The closure of the Phaunos Boston office and transfer of financial and administrative management to London; and
- The replacement of the underlying property managers of Eucateca and Pradera Roja.

The above cost reduction and revenue generating measures have resulted in a reforecast of the 2015 budget from a net deficit of US$7 million to a surplus of US$2 million. It is our objective to achieve higher regular net cash flow in the near future. This is the first time in Phaunos' history that a timber operational surplus has been achieved without asset sales.

Key priorities for the remainder of 2015 include working closely with Rayonier Canterbury LLC ("Rayonier"), Phaunos' partner and majority owner of Matariki, to reduce Matariki's debt. To this end we are pleased that in August 2015 Phaunos announced that Rayonier has agreed to provide equity, at NAV, for the full extent of Matariki's debt, subject to completion of customary transaction documents and approval from the New Zealand Overseas Investment Office. While this will lead to a dilution of Phaunos' shareholding, the transaction at NAV is not dilutive to value and all key rights enjoyed by Phaunos as detailed in our shareholders' agreement with Rayonier are retained. Most importantly, the transaction paves the way for more reliable dividends from Matariki going forward.

Other priorities include the sale of higher risk assets and opportunistic sales of greenfield assets that are not expected to provide net income in the medium term. Stafford is currently negotiating individual property sales for parts of the Eucateca teak and Pradera Roja assets. Interested parties are currently undertaking due diligence and, on the basis that all of the transactions are completed, total proceeds are expected to be in the order of US$6 million with prices consistent with the December 2014 net asset values.

Within this report we provide a brief update on the 30 June 2015 NAVs, movements in which are primarily attributable to movements in foreign exchange and cash (Section 2). We look in more detail at each of the key events for the first half of 2015 (Section 3), followed by an updated portfolio construction overview (Section 4). We then provide an update on Phaunos' cash flow position (Section 5) followed by an overview of our management focus for the remainder of 2015. The individual portfolio descriptions and market information in the 2014 annual report remain relevant to this interim report and Stafford will provide a more detailed market report and portfolio descriptions in the 2015 annual report.

2. Valuations

As detailed in Table 1, the total unaudited NAV for the Group at 30 June 2015 was US$287.1 million (31 Dec 2014: US$321.3 million). This represents a reduction of US$34.2 million, or 10.7% to the audited NAV at 31 December 2014. The NAVs at 30 June 2015 are based upon the 31 December 2014 NAVs with adjustments primarily attributable to changes in foreign exchange rates, with the underlying assets independently valued at the end of each calendar year.

Table 1: Movements in NAV for the period ended 30 June 2015

Assets	Opening NAV 31 Dec 2014	Movements in Investments & Equity(1)	Foreign Exchange Gains/(Losses)	Valuation Gains/(Losses)	Net income/ (expenses)	Closing NAV 30 Jun 15	% Change in Valuation	% Change in NAV	% of NAV 30 Jun 15
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000			
Core Assets									
Matariki	130,699	(92)	(17,071)	(3,439)	-	110,097	(2.6%)	(15.8%)	38.4%
Mata Mineira	49,728	-	(7,430)	-	1,745	44,043	-	(11.4%)	15.3%
Eucateca	34,281	300	(5,074)	-	(334)	29,173	-	(14.9%)	10.2%
Aurora Forestal	31,201	-	-	(92)	-	31,109	(0.3%)	(0.3%)	10.8%
Pradera Roja	23,354	(58)	(16)	-	186	23,466	-	0.5%	8.2%
Subtotal	269,263	150	(29,591)	(3,531)	1,597	237,888	(1.3%)	(11.7%)	82.9%
Non-core Assets	38,355	1,127	3	(1,244)	(471)	37,770	(3.2%)	(1.5%)	13.1%
Parent Company									
Phaunos Timber Fund(2)	13,667	(1,277)	(100)	-	(897)	11,393	-	(16.6%)	4.0%
Total Group NAV	**321,285**	**-**	**(29,688)**	**(4,775)**	**229**	**287,051**	**(1.5%)**	**(10.7%)**	**100.0%**
No. of Ordinary Shares	567,149,832					567,149,832			
NAV per Ordinary Share	0.57					0.51			

(1) Includes movements in working capital investments, return of capital, share capital and the warrant instrument reserve.
(2) Includes the financial results for Phaunos Boston and minor holding companies.

3. Key events for the first half of 2015

The following key events have occurred in the first half of 2015:

US$9 million forecast budget improvement for 2015

In December 2014 Stafford forecast a US$7 million deficit for the 2015 calendar year. Due to the one-off Mata Mineira harvesting contract and corporate and operational cost reductions Stafford is now expecting a US$2 million surplus. Further details are provided in Section 5 of this report.

Mata Mineira harvesting contract

In the first half of 2015, Mata Mineira entered into a one year contract for the supply of 529,000m^3 of eucalyptus pulpwood to Suzano Group ("Suzano"), a large Brazilian pulp and paper company. This opportunistic wood supply agreement offset the continued flat demand from Minas Gerais' charcoal market which is the traditional market demand for Mata Mineira's plantations. In 2014, Mata Mineira harvested only 220,000m^3 of a possible 350,000m^3 annual supply.

Matariki dividend(s) and debt reduction

Softwood log exports to China have been substantially impacted over the past 12 months by reduced Chinese demand and lower housing growth. Softwood log export levels for January to May 2015 are 20% below January to May 2014 export levels. This reduction in demand is also reflected in A grade log prices, which declined from highs of NZ$140 per m^3 to NZ$97 per m^3 free on board ("FOB") this half year, impacting EBITDA for the period and 2015 year end forecast. Consequently after Phaunos received US$1.3 million in the first quarter from its share of the sale of several small forestry rights, Matariki management recommended that the Matariki Board temporarily suspend dividends for the remainder of 2015 pending recapitalisation discussions and further clarity on markets

As reported in the 2014 Annual Report, the ability of Matariki to provide dividends during periods of low market demand and soft prices is impacted by the company's high bank debt levels (approximately 32% of total assets). A key objective of Stafford has been to work with Rayonier, Matariki's majority owner, to assess options that would reduce third party debt levels. Post the half year results, we were pleased to announce that agreement in principle had been reached with Rayonier for Rayonier to provide sufficient equity to repay all outstanding amounts under the existing NZ$235 million credit facility plus NZ$7 million of related fees and expenses, with Phaunos' implied share of the debt repayment based on NAV as at 30 June 2015. While this will lead to a dilution of Phaunos' shareholding, a transaction at NAV is not dilutive to value and paves the way for more reliable, significant dividends from 2016 onwards, with all key rights currently enjoyed by Phaunos to be retained.

New property managers appointed for Eucateca and Pradera Roja

As part of our cost reduction programme Phaunos has appointed new managers for the Eucateca and Pradera Roja plantation assets. Floresteca has been appointed to manage the Eucateca teak assets. A specialist teak manager who has over 24,000 ha(3) of teak under management, Floresteca's extensive experience in tending and marketing teak is a real benefit for Phaunos and their regional economies of scale have resulted in a more cost effective management arrangement.

(3) Source: http://www.globalforestry.com/floresteca-group-overview

The Eucateca eucalypt asset management has been transferred to Banco BTG Pactual S.A ("BTG Pactual"), one of Brazil's leading forest management and investment companies. Phaunos has a strong relationship with BTG Pactual through its management of the Mata Mineira asset, and BTG Pactual's extensive harvesting and marketing experience should assist in developing markets for the maturing Eucateca eucalypt estate.

Phaunos has also replaced the manager of the Pradera Roja estate with a local Uruguayan forestry consultant who has experience in both pulpwood and sawlog plantation silviculture management. The change of management is expected to provide a more cost-efficient management service for what is a relatively small eucalypt plantation asset.

Stafford estimates that the above management changes are expected to provide overall cost savings in the order of US$400,000 per annum.

Closure of the Phaunos Boston office

The first half of 2015 saw the closure of the Phaunos Boston office with accounting and administration activities transferred to London. The changes will improve efficiency in terms of costs and communication with both shareholders and the Phaunos Board.

4. Portfolio Construction

By way of background, the original portfolio review undertaken by Stafford in 2014 included a qualitative risk assessment of the productivity, market, cash flow, infrastructure, sovereign and liquidity risk for each of the Phaunos assets. The results highlighted a portfolio with a relatively high percentage of higher risk assets that included several greenfield, 'early venture capital' style investments. Based on the 30 June 2015 NAV, these higher risk assets now represent 25% of the portfolio (Figure 1).

Stafford's portfolio management objective is to rebalance the portfolio through the sale of the higher risk assets. This includes the sale or realisation of Green Resources, Green China and Eucateca. Of these, only the Eucateca (eucalypt) asset has been included as a possible core asset due to its potential to provide short-term income subject to the market development of regional biomass markets. We will also consider opportunistic sales for all, or part, of the Pradera Roja estate due to its relatively young age and the fact that it is not expected to provide sawlog harvesting income over the next 5-10 years.

As at the end of July 2015, Stafford is currently negotiating a number of individual property sales from within the Pradera Roja and Eucateca teak estates. Interested parties are undertaking due diligence and, on the basis that all off the transactions are completed, total proceeds are expected to be in the order of US$6 million with prices consistent with the December 2014 net asset values.

Figure 1: Portfolio risk based on 30 June 2015 NAV

http://www.rns-pdf.londonstockexchange.com/rns/5270W_-2015-8-19.pdf

5. Cash flow

The cash position of Phaunos as at 30 June 2015 was US$23.0 million (2014: US$14.9 million). The improved cash position resulted from increased harvesting revenues (Mata Mineira, Eucateca eucalypts) and lower costs including lower property management fees and lower than expected one-off restructuring and legal costs.

Forecasted cash inflows for 2015 have increased from US$8 million to US$16 million with US$13 million received in the first half of the year. The higher cash inflows are mostly attributable to the increased revenues from the Mata Mineira pulpwood supply agreement.

The forecast cash outflow of US$12 million is consistent with the forecast in 2014 and also consistent with the half year cash outflows of US$6 million. Note that these cash outflows incorporate US$3 million in cost savings relative to the 2014 cash outflows of US$15 million. At the start of the year we forecast one-off costs of US$3 million, including a US$1.2 million capital call, costs associated with the closure of Phaunos Boston and funds allocated for the resolution of legacy legal matters. Overall these one-off costs have been reduced to US$2 million mainly due to the successful completion of several legacy legal matters.

For the second half of 2015 we are forecasting a decrease in the net cash position back to US$17 million. This forecast does not include possible proceeds of asset sales or the use of surplus funds on share buybacks.

6. Looking ahead

Second half of 2015

The key priorities for the second half of 2015 are:

Matariki debt reduction

The reduction of Matariki's debt levels was identified as a key objective towards providing more reliable dividends to Phaunos from this mature cornerstone investment. As previously mentioned, an in principle agreement has been reached with Rayonier, Matariki's joint venture partner, for Rayonier to provide a capital infusion of NZ$242 million which will repay all outstanding amounts under its existing NZ$235 million credit facility plus NZ$7 million of related fees and expenses.

Asset sales of higher risk assets supplemented by opportunistic sales of non-yielding assets

The sale of the higher risk assets remains a priority for Stafford. The improved cash flow position of the Group has meant that we are not a forced seller of these assets and we can continue to pursue sales on an opportunistic basis going forward.

We have identified several potential buyers for individual properties within the Eucateca and Pradera Roja estate and these parties are currently undertaking due diligence on assets with a combined value of US$6 million.

In China we have identified potential local buyers of this asset although no firm offers have been received to date.

A successful rights issue by Green Resources earlier this year alleviated short term cash flow difficulties, however, any sale of our interest in part depends upon Green Resources' ability to raise new equity in the second half of 2015.

Continued implementation of cost reduction measures

The next stage of cost reduction measures depends largely on the successful sale of assets such as Green China and, to a lesser extent, opportunistic sales of Eucateca and Pradera Roja. The cost saving benefits from any sale of these assets would mostly come through in the 2016 net cash flows.

Augmentation of the Aurora Forestal sawmill

The Aurora Forestal sawmill and plantations have provided Phaunos with a consistent 3-4% dividend over the past two years based upon harvesting and processing volumes of around 140,000m^3 per year. With solid growth in the US export lumber market, and an increasing plantation supply of up to 230,000m^3, relatively minor sawmill augmentations may lead to increased yields and performance. Working alongside the majority partner, Stafford is interested in assessing the potential benefits that additional sawmill augmentations might provide. The timing of this assessment is likely to occur in late 2015 or early 2016.

Market development of Eucateca eucalypts

In August 2015, Stafford will be opening its Latin American office in Curitiba, Brazil and one of the ongoing projects for our Latin American Investment Manager is to continue to explore market opportunities for the fast maturing Eucateca eucalypt estate. While we have been successful in the first half of 2015 in re-introducing harvesting into Eucateca, the existing operation is of small scale and subject to the performance of a new start-up bioenergy operation. The identification of larger, more reliable biomass market opportunities will assist in reducing net cash outflows from this higher risk asset.

Development of the 2016-2020 Phaunos strategic plan

Stafford is in the process of a review of strategic options, which it plans to complete and submit to the Directors well ahead of the planned continuation vote and will then consult shareholders.

7. Conclusion

Stafford is pleased with the achievements of the past six months, particularly the improvement of the company's net cash flow position. At the same time we recognise that further improvements are still necessary to provide shareholders with consistent annual yields and a lower risk portfolio with growth potential.

As we move towards the June 2016 Annual General Meeting and the continuation vote we intend to meet with shareholders before the end of 2015 to understand shareholder requirements and expectations of Phaunos on a go forward basis. This information will then be taken into consideration prior to presenting a final strategic plan in spring 2016.

Stafford Capital Partners Limited

19 August 2015

Statement of Directors' Responsibilities

We confirm that to the best of our knowledge:

a) the Condensed Interim Financial Report and Consolidated Financial Statements for the period ended 30 June 2015 has been prepared in accordance with International Accounting Standard (IAS) 34 '*Interim Financial Reporting*' as adopted by the European Union*;*

b) the Interim Report includes a fair view of the information required by DTR 4.2.7R (indication of important events that have occurred during the first six months of the financial year and a description of the principal risks and uncertainties for the remaining six months of the year); *and*

c) the Interim Report includes a fair view of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

Signed on behalf of the Board by:

Sir Henry Studholme Bt
Director

Ian M Burns
Director

19 August 2015

Financial Statements

Interim Condensed Consolidated Statement of Comprehensive Income

for the period ended 30 June 2015

	Note	30 June 2015 Unaudited US$'000	30 June 2014 Unaudited US$'000
Continuing operations			
Revenue from timber operations		9,088	1,490
Cost of sales		(5,976)	(1,142)
Gross profit		**3,112**	**348**
Other operating income	3	61	646
Timber operating expenses	4	(1,515)	(2,539)
Timber operating profit/(loss)		**1,658**	**(1,545)**
Investment operating expenses	5	(1,971)	(2,953)
Non-recurring items		(345)	163
Operating loss		**(658)**	**(4,335)**
Investment Income	6	1,509	1,343
Net (losses)/gains on financial assets at fair value through profit or loss	8	(21,847)	10,373
Revaluation and impairment of assets		-	(435)
Realised loss on disposal of assets		-	(1)
(Loss)/profit before tax from continuing operations		**(20,996)**	**6,945**
Income tax expense		(660)	(81)
(Loss)/profit for the period from continuing operations		**(21,656)**	**6,864**
Other comprehensive loss/(income)			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods (net of tax)			
Exchange differences on translation of foreign operating subsidiaries' net assets		(12,578)	7,385
Other comprehensive (loss)/income, net of tax		(12,578)	7,385
Total comprehensive (loss)/income, net of tax		**(34,234)**	**14,249**
Basic and diluted (loss)/earnings per Ordinary Share for the period	7	**Cents** (3.82)	**Cents** 1.28

The notes on pages 16 to 32 form an integral part of these interim consolidated financial statements.

Interim Condensed Consolidated Statement of Financial Position
at 30 June 2015

	Note	30 June 2015 Unaudited US$'000	31 Dec 2014 Audited US$'000
Assets			
Non-Current Assets			
Financial assets designated at fair value through profit or loss	8	176,020	196,832
Biological assets	8	37,714	48,686
Land	8	52,878	58,281
Other assets		1,303	1,486
		267,915	305,285
Current Assets			
Cash and cash equivalents	10	22,993	14,920
Trade and other receivables		2,828	5,574
Inventories		-	556
		25,821	21,050
TOTAL ASSETS		293,736	326,335
Equity and Liabilities			
Equity			
Share capital		443,866	443,866
Retained earnings		(223,018)	(201,362)
Foreign currency translation reserve		(50,935)	(38,357)
Land revaluation reserve		8,078	8,078
Distributable reserves		110,418	110,418
Warrant instrument reserve	11	1,461	1,461
Treasury shares		(2,819)	(2,819)
TOTAL EQUITY		287,051	321,285
Non-Current Liabilities			
Trade and other payables		-	1,019
Provisions		928	926
		928	1,945
Current Liabilities			
Trade and other payables		5,699	3,101
Provisions		58	4
		5,757	3,105
TOTAL LIABILITIES		6,685	5,050
TOTAL EQUITY AND LIABILITIES		293,736	326,335
Ordinary Shares in Issue		567,149,832	567,149,832
		US cents	**US cents**
Net Asset Value Per Ordinary Share		51	57

The notes on pages 16 to 32 form an integral part of these interim consolidated financial statements.

Interim Condensed Consolidated Statement of Cash Flows
for the period ended 30 June 2015

	Note	30 June 2015 Unaudited US$'000	30 June 2014 Unaudited US$'000
Operating activities			
Net (loss)/profit before tax from continuing operations		(20,996)	6,945

Adjustments for non-cash items*	pg. 14	25,425	(9,995)
		4,429	(3,050)
Working capital adjustments			
Decrease/(increase) in trade and other receivables		2,773	(283)
Increase/(decrease) in trade and other payables		1,635	(1,311)
Decrease in inventories		556	-
Taxation including accruals		(698)	(67)
		4,266	(1,661)
Net cash flows from operating activities		8,695	(4,711)
Investing activities*			
Net cash flows from investing activities	pg. 14	(624)	1,137
Increase/(decrease) in cash and cash equivalents		**8,071**	**(3,574)**
Cash and cash equivalents at beginning of period		14,920	8,468
Effect of foreign exchange rate changes		2	2
Cash and cash equivalents at end of period	10	22,993	4,896

*Please refer to the Explanatory Notes to the Consolidated Statement of Cash Flows on the following page.

The notes on pages 16 to 32 form an integral part of these interim consolidated financial statements.

Explanatory Notes to the Consolidated Statement of Cash Flows

for the period ended 30 June 2015

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	30 June 2015 Unaudited US$'000	30 June 2014 Unaudited US$'000
Adjustment for Non-cash items			
Depletion		5,184	949
Depreciation and amortisation		229	259
Non-recurring items		87	-
Dividends and distributions received		(1,357)	(1,174)
Effect of foreign exchange rate changes on financial assets at fair value through profit or loss		16,585	(7,957)
Effect of foreign exchange rate changes on other non-cash financial assets and liabilities		(565)	(156)
Net loss/(gain) on financial assets designated at fair value through profit or loss (excluding foreign exchange)	8	5,262	(2,416)
Revaluation of biological assets		-	435
Other adjustments		-	65
Adjustments for non-cash items	pg. 13	25,425	(9,995)
Investing activities			
Return of capital and disposal of assets:			
Dividends and distributions received	6	1,357	1,174
Return of capital from financial assets	8	55	857
Disposal of biological assets	8	-	938
Disposals of plant and equipment		-	137
		1,412	3,106
Purchase of assets and silviculture costs:			
Purchase of financial assets	8	(1,090)	-
Silviculture and other biological asset costs	8	(877)	(1,785)
Increase in other prepaid land lease		(69)	-
Purchase of plant and equipment		-	(185)

		(2,036)	(1,970)
Realised loss on disposal of assets		-	1
Net cash flows from investing activities	pg. 13	(624)	1,137

Interim Condensed Consolidated Statement of Changes in Equity

for the period ended 30 June 2015

	Attributed to equity holders of the parent							
	Issued capital	**Retained earnings**	**Foreign currency translation reserve**	**Land revaluation reserve**	**Distributable reserves**	**Warrant Instrument Reserve**	**Treasury Shares**	**Total Equity**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
At 1 January 2014	432,101	(101,461)	(28,108)	8,864	110,418	-	(2,819)	418,995
Profit for the period	-	6,864	-	-	-	-	-	6,864
Other comprehensive income	-	-	7,385	-	-	-	-	7,385
Total comprehensive income	-	6,864	7,385	-	-	-	-	14,249
At 30 June 2014	**432,101**	**(94,597)**	**(20,723)**	**8,864**	**110,418**	**-**	**(2,819)**	**433,244**
At 1 January 2015	443,866	(201,362)	(38,357)	8,078	110,418	1,461	(2,819)	321,285
Loss for the period	-	(21,656)	-	-	-	-	-	(21,656)
Other comprehensive loss	-	-	(12,578)	-	-	-	-	(12,578)
Total comprehensive loss	-	(21,656)	(12,578)	-	-	-	-	(34,234)
At 30 June 2015	**443,866**	**(223,018)**	**(50,935)**	**8,078**	**110,418**	**1,461**	**(2,819)**	**287,051**

The notes on pages 16 to 32 form an integral part of these interim consolidated financial statements.

Notes to the Interim Condensed Consolidated Financial Statements

For the period ended 30 June 2015

1. Corporate information

The unaudited interim condensed consolidated financial statements ("interim consolidated financial statements"), of Phaunos Timber Fund Limited (the "Company" or "Phaunos") and its subsidiaries (collectively, the "Group") for the period ended 30 June 2015 were authorised for issue in accordance with a resolution of the Directors on 19 August 2015.

Phaunos is a limited company, is an authorised closed-ended, investment scheme, domiciled in Guernsey and managed by Stafford Capital Partners Limited (the "Manager" or "Stafford"). The registered office is located at 11 New Street, St Peter Port, Guernsey, GY1 2PF

The Group mainly invests in timber and timber related assets globally.

2. Basis of preparation and changes to the Group's accounting policies

2.1 Basis of Preparation

The interim consolidated financial statements of the Group for the period ended 30 June 2015 have been prepared in accordance with International Accounting Standard ("IAS") 34: *Interim Financial Reporting*.

The interim consolidated financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Company's Annual Report and Consolidated Financial Statements for the year ended 31 December 2014 ("2014 Annual Report").

There has been no change to the Company's subsidiaries during the period.

The interim consolidated financial statements are presented in US Dollars, being the currency of the primary economic environment in which the Group operates and are rounded to the nearest thousand US Dollars (US$'000) except where otherwise indicated.

The Directors have assessed that the Company is not an investment entity under IFRS 10 Consolidated Financial Statements. As a result, the presentation of the Company's consolidated financial statements have been converted to the operating company format, which reflects the gross and operating profits of the Company's wholly-owned subsidiaries. This has resulted in changes to the format for the Interim Condensed Consolidated Statement of Comprehensive Income and the Interim Condensed Consolidated Statement of Cash Flows. These changes have been applied retrospectively and have no effect on the comprehensive profit or loss of the prior period.

The interim consolidated financial statements have not been audited or reviewed by the Company's auditors.

2.2 Going Concern

Based on the cash reserves currently available at the time of approving the interim consolidated financial statements, the Directors believe that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the interim consolidated financial statements.

2.3 New standards and amendments adopted by the group

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2014, except for the adoption of new standards and interpretations effective as of 1 January 2015. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The following new standards or amendments to existing standards applicable to the Group have been issued and the nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2015, they do not have a material impact on the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group:

Annual Improvement Cycle 2010-2012

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these interim condensed consolidated financial statements. They include:

New or amended pronouncement	Nature and scope of new or amended pronouncement	Effect on the interim consolidated report
IFRS 2 Share-base payment	This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including: • A performance condition must contain a service condition • A performance target must be met while the counterparty is rendering service • A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group • A performance condition may be a market or non-market condition • If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied	The definitions are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods, and thus these amendments do not impact the Group's accounting policies.
IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - Revaluation method -	The amendments to IAS 16 and IAS 38 clarify that revaluations can be performed, as follows: - Adjust the gross carrying amount of the asset to market value; OR - Determine the market value of the carrying amount and adjust the gross carrying amount proportionately so that the resulting carrying	The Group did not record any revaluation adjustments during the current interim period and therefore the

proportionate restatement of accumulated depreciation/amortisation	amount equals the market value The amendments also clarify that accumulated depreciation/amortisation is the difference between the gross and carrying amounts of the asset. The amendments must be applied retrospectively.	amendment does not impact on the interim consolidated report.
IAS 24 Related Party Disclosures	The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.	The amendments are consistent with how the Group has identified and disclosed transactions with management entities in previous periods.

Annual Improvement Cycle 2011-2013

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these interim condensed consolidated financial statements. They include:

New or amended pronouncement	Nature and scope of new or amended pronouncement	Effect on the interim consolidated report
IFRS 13 Fair Value Measurement	The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).	The portfolio exception in IFRS 13 does not apply to the Group and therefore the amendment does not impact on the interim consolidated report.

	30 June 2015 Unaudited US$'000	30 June 2014 Unaudited US$'000
3. Other operating income		
Sundry income	100	602
Foreign exchange gains/(losses)	(39)	44
	61	646
4. Timber operating expenses		
Direct timber costs		
Depreciation and amortisation	94	68
Property management fees	715	815
Property, repairs and maintenance	57	82
	866	965
Indirect timber costs		
Accounting fees	104	142
Employee compensation and benefits	40	165
Fees paid to auditors	(1)	77
Legal fees	69	218
Management fees	-	124
Other taxes	89	164
Other timber costs	146	621
Professional fees	202	63
	649	1,574
Total timber operating expenses	1,515	2,539
5. Investment operating expenses		
Employee compensation and benefits	447	1,247
Fees paid to auditors	180	171
Portfolio management fees	359	-
Other expenses	985	1,535
	1,971	2,953
6. Investment income		
Dividend income (Matariki)	1,357	1,174
Interest income	152	169
	1,509	1,343

7. Loss per share

The basic and diluted loss per Ordinary Share is based on the net loss for the period attributable to Ordinary Shareholders of US$ 21.7 million (30 June 2014: US$ 6.9 million profit for the period) and 567,149,832 (30 June 2014: 537,149,832) Ordinary Shares, being the basic weighted average number of Ordinary Shares in issue during the period.

During the prior year the Company issued warrants to Stafford to subscribe for an aggregate of 10 million shares in the Company as part of the Portfolio Management Agreement, as disclosed in Note 11. At no point between the issue of the warrants and the period-end has the strike price of the warrants been above the share price of the Company. As such these warrants are deemed to be anti-dilutive for the period and have not impacted the basic loss per share. In the future, should the share price of the Company rise above the strike price of the warrants, these warrants will have a dilutive impact on the Company earnings per share calculation.

8. Assets and Liabilities measured at fair value

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

Management assessed that receivables, cash and cash equivalents, payables and provisions approximate their carrying amounts largely due to the short-term maturities of these instruments. These are classified in Level 1 of the fair value hierarchy.

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

	30 June 2015 Unaudited US$'000	31 Dec 2014 Audited US$'000
Financial assets		
Associates	141,206	161,900
Other financial assets	34,814	34,932
	176,020	196,832
Non-financial assets		
Biological assets	37,714	48,686
Land	52,878	58,281
	90,592	106,967
Fair Value at end of period	266,612	303,799

Inputs for the determination of the fair values of financial assets designated, including investment in associates, land and biological assets as Level 3 are derived by critical estimates explained in Note 8.4.

For assets that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the beginning of each reporting period. There were no transfers between Levels during the period. The below tables reflects the movements in assets designated as Level 3 during the course of the period.

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

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

At 30 June 2015 (Unaudited)	Associates US$'000	Other financial assets US$'000	Biological assets US$'000	Land US$'000	Total US$'000
Opening fair value	**161,900**	**34,932**	**48,686**	**58,281**	**303,799**
Total gains or losses for the period:					
Unrealised (loss)/gain included in profit or loss:					
Revaluation	(3,531)	(1,731)	-	-	(5,262)
Foreign exchange translation	(17,071)	486	-	-	(16,585)
	(20,602)	(1,245)	-	-	(21,847)
Unrealised loss included in other comprehensive income:					
Revaluation	-	-	-	-	-
Foreign exchange translation	-	-	(6,530)	(5,403)	(11,933)
	-	-	(6,530)	(5,403)	(11,933)
Impairment included in profit					

or loss:					
Revaluation	-	-	-	-	-
	-	-	-	-	-
Purchases, issues, sales and other movements:			-	-	-
Purchases and other costs	(92)	1,182	877	-	1,967
Depletion	-	-	(5,184)	-	(5,184)
Resin amortisation	-	-	(135)	-	(135)
Disposals	-	-	-	-	-
Return of capital	-	(55)	-	-	(55)
	(92)	1,127	(4,442)	-	(3,407)
Closing fair value	**141,206**	**34,814**	**37,714**	**52,878**	**266,612**

At 31 December 2014 (Audited)	**Associates US$'000**	**Other financial assets US$'000**	**Biological assets US$'000**	**Land US$'000**	**Total US$'000**
Opening fair value	**176,101**	**88,076**	**84,239**	**65,033**	**413,449**
Total gains or losses for the year:					
Unrealised loss included in profit or loss:					
Revaluation	(6,374)	(52,181)	(28,180)	-	(86,735)
Foreign exchange translation	(7,260)	-	-	-	(7,260)
	(13,634)	(52,181)	(28,180)	-	(93,995)
Unrealised loss included in other comprehensive income:					
Revaluation	-	-	-	(786)	(786)
Foreign exchange translation	-	-	(5,568)	(4,383)	(9,951)
	-	-	(5,568)	(5,169)	(10,737)
Impairment included in profit or loss:					
Revaluation	-	-	(524)	(1,583)	(2,107)
	-	-	(524)	(1,583)	(2,107)
Purchases, issues, sales and other movements:					
Purchases and other costs	-	-	3,312	-	3,312
Depletion	-	-	(3,621)	-	(3,621)
Resin amortisation	-	-	(317)	-	(317)
Disposals*	-	-	(655)	-	(655)
Return of capital	(567)	(963)	-	-	(1,530)
	(567)	(963)	(1,281)	-	(2,811)
Closing fair value	**161,900**	**34,932**	**48,686**	**58,281**	**303,799**

***Disposal of biological assets**

During the year Green China sold one of their plantations in southern China totaling US$1.2 million or RMB 5.8 million, which includes a realised gain on disposal of ~US$19,000.

8.3 Reconciliation of cost to fair value

The following is an additional reconciliation from the total cost of each asset class to the closing fair values as reported in the table above:

At 30 June 2015 (Unaudited)	**Associates US$'000**	**Other financial assets US$'000**	**Biological assets US$'000**	**Land US$'000**	**Total US$'000**
Cost:					
Opening cost	155,453	108,131	107,250	69,010	439,844
Additions to cost	(92)	1,182	877	-	1,967
Depletion	-	-	(5,184)	-	(5,184)
Resin amortisation	-	-	(135)	-	(135)
Disposals	-	-	-	-	-
Return of capital	-	(55)	-	-	(55)
Closing cost	155,361	109,258	102,808	69,010	436,437
Unrealised revaluation gain/(loss) on assets:					
Opening balance	(6,292)	(69,802)	(28,183)	8,078	(96,199)
Unrealised loss for the period	(3,531)	(1,731)	-	-	(5,262)
Closing balance	(9,823)	(71,533)	(28,183)	8,078	(101,461)
Impairment on					

revaluation:					
Opening balance	-	-	(524)	(2,256)	(2,780)
Unrealised loss for the period	-	-	-	-	-
Closing balance	-	-	(524)	(2,256)	(2,780)
Unrealised foreign exchange gain/(loss) on assets:					
Opening balance	12,739	(3,397)	(29,857)	(16,551)	(37,066)
Unrealised loss for the period	(17,071)	486	(6,530)	(5,403)	(28,518)
Closing balance	(4,332)	(2,911)	(36,387)	(21,954)	(65,584)
Closing fair value	**141,206**	**34,814**	**37,714**	**52,878**	**266,612**

At 31 December 2014 (Audited)	**Associates US$'000**	**Other financial assets US$'000**	**Biological assets US$'000**	**Land US$'000**	**Total US$'000**
Cost:					
Opening cost	156,019	109,094	108,531	69,010	442,654
Additions to cost	-	-	3,312	-	3,312
Depletion	-	-	(3,621)	-	(3,621)
Resin amortisation	-	-	(317)	-	(317)
Disposals	-	-	(655)	-	(655)
Return of capital	(567)	(963)	-	-	(1,530)
Closing cost	155,452	108,131	107,250	69,010	439,843
Unrealised revaluation gain/(loss) on assets:					
Opening balance	82	(17,621)	(3)	8,864	(8,678)
Unrealised (loss) for the year	(6,374)	(52,181)	(28,180)	(786)	(87,521)
Closing balance	(6,292)	(69,802)	(28,183)	8,078	(96,199)
Impairment on revaluation:					
Opening balance	-	-	-	(673)	(673)
Unrealised loss for the year	-	-	(524)	(1,583)	(2,107)
Closing balance	-	-	(524)	(2,256)	(2,780)
Unrealised foreign exchange gain/(loss) on assets:					
Opening balance	20,000	(3,397)	(24,289)	(12,168)	(19,854)
Unrealised loss for the year	(7,260)	-	(5,568)	(4,383)	(17,211)
Closing balance	12,740	(3,397)	(29,857)	(16,551)	(37,065)
Closing fair value	**161,900**	**34,932**	**48,686**	**58,281**	**303,799**

8.4 Valuation process

Land and biological assets held by operating subsidiaries are carried at fair value at 31 December 2014 and carried forward without change at 30 June 2015 at the value determined by independent external valuers as described below (the "annual valuation") and, where appropriate, adjusted by the Directors based on the Manager's recommendation.

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 discussed below. The key considerations in valuing timber assets include the market price of timber, land values, growth rates and discount rates.

In general, future price risk for timber products is the most material risk. Price risk tends to be lower in mature timber markets as current market prices are transparent and historical prices are available. Timber growth rates and timber quality can also impact values. These timber risks tend to be higher in greenfield plantations, or plantations growing less traditional species.

Each methodology has a number of key inputs. The "income approach" for example takes into account, the productive area, current log prices, forecast log prices, current costs, forecast costs, market constraints, 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 at 30 June it is but one of a number of key inputs into one of the three methodologies often used to define value. Indeed growth increases can often be offset by changes in log prices, let alone changes to discount rates or operational costs.

Due to the number of detailed inputs used within biological valuations many managers prefer to rely upon annual valuations rather than make adjustments for individual valuation inputs that may or may not be representative of a change in value at the end of the interim reporting period. For these reasons the Board has accepted the Manager's recommendation to rely upon the more detailed annual valuation determined at 31 December each year and therefore the revaluation amounts at 31 December 2014 have not been adjusted in the interim consolidated financial statement.

Annual valuations are undertaken by third-party firms with significant experience in the valuation of timberland and timber-related assets. The Group requires its valuers to meet certain key criteria including matters such as qualifications, experience in the asset class and membership of a valuation industry organisation. The Group also requires its valuations to meet the Uniform Standards of Professional Appraisal Practice ("USPAP") of the Valuation Institute or similar standards established by equivalent institutions. Major departures from USPAP (or similar standards) are agreed to and approved by the Audit Committee of the Board.

Valuers are rotated after a three year period. The first valuation is based on a full detailed assessment of all available information including a property visit and inspection. It is Group policy that 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 appraisal which replicates the full appraisal process, but without a property inspection. For the next three year cycle, Phaunos will look to rotate to a new valuer. While rotation is not obligatory, any variation from this policy will require approval by the Audit Committee of the Board.

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 each underlying company's Net Asset Value ("NAV") as reported by the underlying manager, which is prepared on a fair value basis. The NAV of each associate includes assets valued by an independent external appraisal and reviewed by the Manager. The Directors currently expect that the same process will be applied for all future reporting periods.

Other financial assets are measured at fair value based on each underlying company's NAV as reported by the underlying manager, and where appropriate, adjusted by the Directors as part of the Managers review to estimate fair value. The NAV includes assets valued by an independent external valuer at year end and reviewed by the Manager. The Manager reviews the main assumptions of market price, land prices, timber prices, growth rates and discount rates and utilises more updated information if applicable, and where relevant will make adjustments as approved by the Directors, to determine fair value. The Directors currently expect that the same process will be applied for all future reporting periods.

ii. Valuation of land and biological assets

Land and biological assets held by operating subsidiaries are measured at fair value determined by independent external valuers, and where appropriate, adjusted by the Directors as part of the Managers review. The external appraisals are valuations performed by an independent third-party valuer. When conducting the external appraisals the valuers adhere to the Uniform Standards of Professional Appraisal Practice (USPAP). 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.

The underlying assumption of each of the independent appraisals is 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 Manager reviews the main assumptions of market price, land values, growth rates and discount rates and utilises more updated information if applicable, and where relevant will make adjustments as approved by the Directors, to determine fair value.

8.5 Significant unobservable inputs and sensitivity analysis

IFRS 13 requires that quantitative information be provided about significant unobservable inputs used in the fair value measurement for each class of Level 3 asset and liabilities. The following data at 30 June 2015 and 31 December 2014 summarises the valuation methods and information about fair value measurements and related significant unobservable inputs (Level 3), where if changed, could significantly increase or decrease the valuation of an asset (e.g. NAV per share, timber and land prices, discount rates).

Asset	Fair Value 30 June 2015 US$'000	Fair Value 31 Dec 2014 US$'000	Valuation Method	Valuation Source	Significant Unobservable Inputs	Range	Sensitivity Rate	Inter-relationship between significant unobservable inputs and fair value measurement
Associates	**141,206**	**161,900**	NAV at fair value	Underlying	NAV based on	Average log price[3] range for pine US$ 49 - 60	10%	The estimates fair value would increase / (decrease) if the NAV of the

				manager based on independent appraisals	average log prices, discount rates and land prices	Discount rates[3] 8.25 - 8.5% Land prices per hectare US$ 1,800 - 2,800		underlying company increase or decrease due to: • estimated log prices were higher/(lower) • the risk-adjusted discount rates were lower/(higher) • estimated future overheads were lower/(higher) • land prices were higher/(lower)
Other Financial assets	**34,814**	**34,932**	NAV at fair value	Underlying manager based on independent appraisals	NAV	Average log price[2] range for pine US$ 32 - 39 Average log price[2] range for pine US$ 39 - 48 Average log price[2] range for pine US$ 19 - 24	10%	The estimates fair value would increase / (decrease) if the NAV of the underlying company increase or decrease due to: • estimated log prices were higher/(lower)
Biological assets	**37,714**	**48,686**	Combination of the income and cost capitalisation and comparative sales approach	Independent appraisal	Timber prices per m^3 Discount rates[3]	Average log price[1] range for pine US$ 143 - 174 Average log price[2] range for eucalyptus US$ 15 - 18 Average log price[2] range for teak US$ 167 - 204 9 - 13%	10% 100bps	The estimates fair value would increase / (decrease) if: • estimated log prices were higher/(lower) • the risk-adjusted discount rates were lower/(higher) • estimated future overheads were lower/(higher)
Land	**52,878**	**58,281**	Income and cost capitalisation approach	Independent appraisal	Land prices per hectare	US$ 529 - 3,099	10%	The estimates fair value would increase / (decrease) if: • land prices were higher/(lower)

1 This is the delivered price including harvesting and transport costs

2 This is the net price and excludes harvest and transport costs

3 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.

9. Investment in Associates

Matariki Forestry Group

The Company has 35% ownership and voting rights in Matariki, a forestry company which owns and/or 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 per Matariki's consolidated financial statements for the period ended 30 June 2015 and a reconciliation of the fair value of Matariki, which is included in the total value financial assets designated at fair value through profit or loss:

	30 June 2015 Unaudited US$'000	30 June 2014 Unaudited US$'000
Distributions		
Distributions received from Associate	1,357	1,174
Summary of Consolidated Income Statement for the period ended 30 June 2015		
Gross timber revenue	113,525	144,212
(Loss)/profit from continuing operations	(595)	1,512
Other comprehensive (loss)/income	(3,827)	1,374
Total comprehensive (loss)/income	(4,422)	2,887

	30 June 2015 Unaudited US$'000	31 Dec 2014 Audited US$'000
Summary of Consolidated Statement of Financial Position at 30 June 2015		
ASSETS		
Non-current Assets		
Biological assets	380,702	442,435
Property, plant and equipment	92,088	106,772
Other non-current assets	13,974	16,800
Total non-current assets	486,764	566,007
Total current assets	24,718	28,670
Total Assets	**511,482**	**594,677**

LIABILITIES

Total non-current Liabilities	173,392	195,669
Current liabilities		
Shareholder loans	65,650	79,504
Other current liabilities	23,527	25,581
Total current liabilities	89,177	105,085
Total Liabilities	**262,569**	**300,754**
Total Net Assets	**248,913**	**293,923**
Fair Value of Associate		
35% Share of Total Net Assets (2014: 35%)	87,119	102,873
35% Share of Shareholder Loans (2014: 35%)	22,978	27,826
	110,097	**130,699**

The balances in the above summaries are converted from New Zealand to US Dollars using the closing exchange rate of 1.4765 (31 Dec 2014: 1.2821) for the summary of consolidated statement of financial position. The average exchange rate of 1.3731 (30 June 2014: 1.1773) was using to convert the balances in the summary of consolidated income statement.

Aurora Forestal Limited

The Company has 23.68% (31 Dec 2014: 24.04%) 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 per Aurora Forestal's consolidated financial statements for the six months ended 30 June 2015, along with a reconciliation of the fair market value of Aurora Forestal, which is included in the total value of financial assets designated at fair value through profit or loss:

	30 June 2015 Unaudited US$'000	**30 June 2014 Unaudited US$'000**
Summary of Consolidated Income Statement for the period ended 30 June 2015		
Gross timber revenue	11,077	10,214
Loss from continuing operations	(946)	(10,335)
Other comprehensive income	224	38
Total comprehensive loss	(722)	(10,297)

	30 June 2015 Unaudited US$'000	**31 Dec 2014 Audited US$'000**
Summary of Consolidated Statement of Financial Position at 30 June 2015		
ASSETS		
Non-current Assets		
Biological assets	54,237	54,237
Property, plant and equipment	84,727	85,693
Other non-current assets	2,977	2,183
Total non-current assets	141,941	142,113
Total current assets	8,949	17,204
Total Assets	**150,890**	**159,317**
LIABILITIES		
Total non-current Liabilities	6,332	6,035
Total current liabilities	13,187	23,495
Total Liabilities	**19,519**	**29,530**
Total Net Assets	**131,371**	**129,787**
Fair Value of Associate		
23.68% Share of Total Net Assets (31 Dec 2014: 24.04%)	**31,109**	**31,201**

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

Dividends

Historically, Aurora has declared annual dividends in the second half of the financial year, therefore no dividends have been received during the current or comparative interim period.

10. Cash and Cash Equivalents

For the purpose of the interim condensed statement of cash flows, cash and cash equivalents are comprised of the following:

Total cash and cash equivalents

	30 June 2015	**31 Dec 2014**

	Unaudited US$'000	Audited US$'000
Cash at bank and in hand	22,423	14,520
Cash held by third parties	94	-
Short-term deposits	476	400
Total cash and cash equivalents	22,993	14,920

11. Warrant Instrument Reserve

On 16 September 2014, the Company issued a warrant instrument to the Manager as part of the consideration for services to be rendered by the Manager for the period of the warrant (the "Warrant Fee"). This equity-settled share-based payment entitles the Manager to the rights to subscribe for Ordinary Shares in the Company pursuant to the warrant deed issued on 16 September 2014 (the "Warrant Deed").

Based on the terms and subject to the conditions of the Deed, the issued warrants are split into and will vest in three tranches based on the subscription rights detailed in the table below. The "Subscription Rights" permit the Manager, the right to subscribe in cash at the exercise price or "Subscription Price" for one Ordinary Share per warrant at any time in the relevant "Subscription Period" as described below.

Issued warrants	No. of Ordinary Shares	Subscription Period	Subscription Price
2014 Warrants	10 million (vested 1 July 2014)	1 July 2014 to 30 June 2019 (inclusive)	50 cents
2015 Warrants	10 million (vested 1 July 2015)	1 July 2015 to 30 June 2019 (inclusive)	58 cents
2016 Warrants	10 million (vest 1 July 2016)	1 July 2016 to 30 June 2019 (inclusive)	63 cents

The carrying amount of the Warrant Fee, US$1.5 million or 15 cents per warrant, is based on the fair value of the 2014 Warrants that fully vested on 1 July 2014. No warrants were exercised during the period; therefore 10 million warrants were outstanding at the reporting date.

12. Capital Commitments

The Group does not have any outstanding contractual commitments at the end of the reporting period.

13. Contingent Liabilities

Brazilian sales tax (ICMS)
ICMS is a sales tax that the Brazilian states impose at varying rates on revenues from the sale of goods and services. In the state of Minas Gerais (as well as other states where the forestry business is well established) the common practice is to sell standing timber as a fixed asset, in which case no ICMS is due. However, a buyer of the standing timber is required to levy ICMS tax on the logs sold to the next buyer in the supply chain.

Vale do Jequitinhonha Silvicultura e Participacoes LTDA, a Brazilian company domiciled in Minas Gerais, and an operational subsidiary of Phaunos is engaged in standing timber sales. Vale does not pay ICMS upon the execution of such standing timber agreements, based on the interpretation that the standing timber is a fixed asset as provided for in Civil Code and no considered merchandise subject to ICMS. This is also the business practice in the region.

In September 2010, an appeals decision rendered by the Superior Court of Justice, ruled that the sale of standing trees is not subject to ICMS. However, in 2012 a third party established in Minas Gerais, which is engaged in the plantation of timber and sale of logs, requested tax advice of the Minas Gerais State tax authorities and contrary to prior answers of tax authorities in Minas Gerais, common business practice and the appeal decision, the tax authorities stated that sales of standing timber to a Company engaged in charcoal manufacturing are subject to the ICMS tax. In Brazil, this private ruling binds only the taxpayer that requested the ruling.

Although the Company believes the government's attempt to impose the ICMS on the sale of standing timber is unlawful and unconstitutional, the Company cannot currently determine which legal interpretation would prevail in a court dispute resulting from the tax 'advice' of the Minas Gerais State tax authorities.

The Company has obtained legal opinions on the matter and concluded for the 2014 and 2013 year-ends that, in case of any future administrative proceeding or judicial tax foreclosure, it is *possible* Vale could lose in a potential tax dispute with regards to this matter.

Given that currently there is not any administrative or judicial case against Vale related to such matter, it is uncertain to determine the possible outcome of a potential case. Also the payment of ICMS, at this point, is not probable. In view of the above Vale has not recorded a liability for the potential tax payment. In the event of a future administrative or judicial decision rules the case against Vale, the entity could be liable to the tax authorities for a *maximum* of R$46.2 million or US$14.9 million (31 December 2014: R$26.7 million or US$10 million), including penalties and interest at 30 June 2015. The Company cannot estimate the timing of such a payment, if any, and whether any or all of the potential tax payment would subsequently be refunded.

14. Related Parties

The following table provides the total amount of transactions that have been entered into with related parties during the period ended

30 June 2015 and 2014, as well as balances with related parties as at 30 June 2015 and 31 December 2014.

Related Party	Period	Nature of related party transaction	Amounts received from/(paid to) related parties Unaudited US$'000	Amounts owed by/(to) related parties Unaudited US$'000
Transactions with related parties:				
Aurora Forestal Limited	2015	Dividend income	-	1,479
	2014		-	1,438
Matariki Forestry Group	2015	Distribution income	1,357	-
	2014		1,174	-
Key management personnel of the Group:				
Directors within the Group	2015	Directors remuneration	(143)	-
	2014		(235)	(8)
Phaunos Boston Inc.	2015	Salaries, bonuses	(383)	-
	2014		(1,199)	-
Phaunos Boston Inc.	2015	401K contributions	(64)	-
	2014		(48)	-
Stafford Capital Partners	2015	Portfolio Management fees	(359)	(557)

15. Events after Reporting Period

Matariki debt reduction

On 6 August 2015 Phaunos announced that an agreement in principle has been reached with Rayonier, Phaunos' partner and majority owner of Matariki, for Rayonier to provide a capital infusion of NZ$242 million which will repay all outstanding amounts under its existing NZ$235 million credit facility plus NZ$7 million of related fees and expenses.

This investment by Rayonier is subject to the completion of customary transaction documents and approval from the New Zealand Overseas Investment Office.

While this will lead to a dilution of Phaunos' shareholding, the transaction at NAV is not dilutive to value and all key rights enjoyed by Phaunos as detailed in our shareholders' agreement with Rayonier are retained.

Except for the above event, there have not been any matter or circumstance occurring subsequent to the end of the period that has significantly affected, or may significantly affect, the operations of the group, the results of those operations, or the state of affairs of the Group.

Other Information

Investor Information

Company Information

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

The issued share capital of the Company at 30 June 2015 is 567,149,832 Ordinary Shares and 4,065,045 Ordinary Shares held in treasury (Treasury Shares).

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

ISIN	SEDOL	LSE mnemonic
GG00B1G3RS66	B1G3RS6	PTF

Shareholder Enquiries
The Company's CREST compliant registrar is, as at the date of publication of these financial statements, Capita Registrars (Guernsey) Limited, who maintains the Company's registers of shareholders. They may be contacted by telephone on +44 (0)1534 847 445.

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