



PHAUNOS TIMBER FUND LIMITED

CONDENSED INTERIM FINANCIAL REPORT AND CONSOLIDATED
FINANCIAL STATEMENTS for the six months ended 30 June 2013 (Unaudited)

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GLOSSARY OF TERMS

Portfolio investments

Aurora Forestal	Aurora Forestal Limited
Caldrey	Caldrey SA
Eucateca	Eucateca SA
Forest Enterprises	Forest Enterprises d.o.o.
Green China	Green China Forestry Company Ltd
Green Resources	Green Resources AS
GTFF	GreenWood Tree Farm Fund LP
Masarang	Masarang Foundation
Mata Mineira	Mata Mineira Investimentos Florestais Ltd
Matariki	Matariki Forestry Group
NTP	NTP Timber Plus+ Fund I, LP
Pradera Roja	Pradera Roja SA

Currencies

US\$	US Dollar
€	Euro
£	British Pound Sterling
NZ\$	New Zealand Dollar
NOK	Norwegian Krone
R\$	Brazilian Real
RMB	Chinese Renminbi

Other

MBF	Thousand Board Feet
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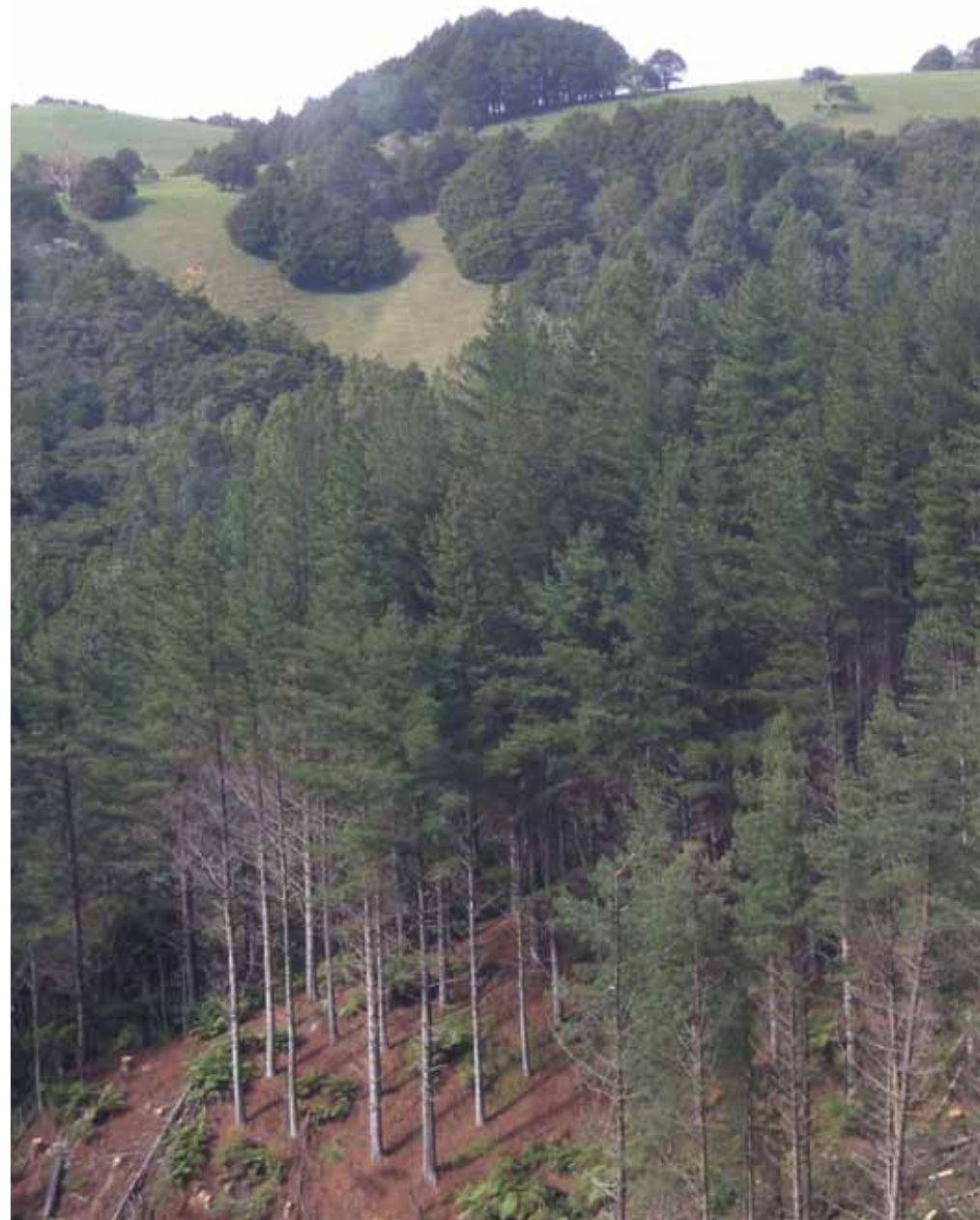
The Board of Phaunos Timber Fund Limited (“Phaunos” or the “Company”) is pleased to present its Condensed Interim Financial Report and Consolidated Financial Statements (“interim financial report”) for the six months to 30 June 2013 (the “period”). The Company is an authorised closed-ended, Guernsey domiciled, investment scheme with an unlimited life, managed by FourWinds Capital Management (the “Investment Manager”) and established to invest in timber and timber related assets on a global basis.

KEY HIGHLIGHTS AND FINANCIAL RESULTS

	30 June 2013 (unaudited)	31 Dec 2012 (audited)	30 June 2012 (unaudited)
Net operating profit/(loss) excluding foreign exchange gains/(losses) and discontinued operations	US\$(2.6) million	US\$(50.7) million	US\$(14.5) million
Unrealised and realised foreign exchange gains/(losses)	US\$(27.7) million	US\$0.3 million	US\$(8.5) million
Discontinued operations	–	US\$(6.8) million	US\$(2.9) million
Comprehensive loss for the period/year	US\$(30.3) million	US\$(57.2) million	US\$(25.9) million
Loss per Ordinary Share	(3.60) cents	(8.04) cents	(2.97) cents
Net Asset Value (“NAV”)	US\$458.1 million	US\$488.4 million	US\$519.5 million
NAV per Ordinary Share	US\$0.85	US\$0.91	US\$0.97

- The net operating loss (before unrealised currency conversion losses) amounted to US\$2.6 million for the period (2012: loss of US\$14.5 million*).
- Net unrealised gains totaling US\$3.7 million as a result of the revaluation of land and biological assets of wholly-owned subsidiaries: primarily gains due to timber growth in Mata Mineira, Eucateca and Pradera Roja.
- Net unrealised gains of US\$1.0 million (excluding foreign exchange) as a result of the revaluation of financial assets are mainly attributable to Aurora Forestal (US\$2.0 million gain), GTFF (US\$0.8 million loss) and Green Resources (US\$0.2 million loss).
- Net unrealised foreign exchange conversion losses, amounting to US\$27.7 million, were due to the US Dollar strengthening against our major operating currencies (Brazilian Real, Norwegian Krone and New Zealand Dollar) during the first half of 2013.
- Land sales continued on Pradera Roja with the US\$1.1 million sale of Tupambae II representing a 28 per cent implied premium to NAV.
- The cost of sales and timber operating costs for the period (US\$3.1 million) declined compared to 2012 (US\$4.0 million*). Fund-level expenses of US\$5.2 million (2012: US\$5.0 million) include the Investment Manager’s fee of US\$3.4 million (2012: US\$3.9 million).
- Gross timber sales revenues for the period (US\$5.4 million) were up by 50 per cent compared to the first half of 2012 (US\$3.6 million). This was mainly due to increased revenue from Mata Mineira.
- Forest Enterprises d.o.o. was divested in May 2013 at a transaction price of \$1.6 million.
- The US housing recovery has increased the demand for timber, primarily softwood, positively impacting GTFF and Aurora Forestal. Matariki’s markets have rebounded, with strong demand for softwood from China. New Zealand has now replaced Russia as the largest supplier of softwood logs into China.

* Excluding discontinued operations



MOVEMENT IN NET ASSET VALUE

The total unaudited NAV of the Company at 30 June 2013 was US\$458.1 million (31 December 2012: audited NAV of US\$488.4 million). This equates to a NAV per Ordinary Share of US\$0.85 (31 December 2012: audited NAV per Ordinary Share of US\$0.91). The main drivers in the movement in the Company's NAV for the six months ended 30 June 2013 and comparative periods were as follows¹:

Category	6 months ended 30 June 2013 (unaudited)	12 months ended 31 Dec 2012 (audited)	6 months ended 30 June 2012 (unaudited)
	US\$ million	US\$ million	US\$ million
Opening NAV	488.4	558.8	558.8
Movement in NAV:			
Revaluation of financial assets (excluding foreign currency movements, unrealised)	1.0	(35.1)	(9.2)
Revaluation of land and biological assets (wholly-owned subsidiaries, unrealised)	3.7	(12.0)	0.5
Realised gain on disposal of assets	(0.4)	2.6	–
Revenue from timber operations	5.4	9.4	3.6
Depletion	(4.1)	(4.3)	(1.8)
Cost of sales and timber costs	(3.1)	(12.4)	(6.4)
Other operating income	0.2	6.2	2.8
Investment operating costs	(5.2)	(10.5)	(5.0)
Impairments and other items	(0.1)	(1.2)	(1.9)
Net operating profit/(loss) excluding foreign exchange gains/(losses)*	(2.6)	(57.3)	(17.4)
Unrealised and realised foreign exchange (see summary below)	(27.7)	0.3	(8.5)
Dividends paid	–	(13.4)	(13.4)
Total Movement in NAV	(30.3)	(70.4)	(39.3)
Closing NAV	458.1	488.4	519.5
* Includes net profit/(loss) from discontinued operations	–	(6.8)	(2.9)
Summary of foreign exchange:			
Gain/(loss) in Net loss on financial assets designated at fair value through profit or loss (unrealised)	(16.6)	14.4	3.2
Loss on translation of foreign operations (unrealised)	(11.1)	(14.0)	(11.4)
Realised losses	–	(0.1)	(0.3)
Total foreign exchange	(27.7)	0.3	(8.5)

¹Please refer to Appendix A: Financial Results at 30 June 2013 for a comprehensive analysis of the movement in NAV for the current period relevant to each investment and operating subsidiary.

REVIEW AND FUTURE OUTLOOK

World timber markets have partly recovered, particularly in the softwood sector due to a rebound in the US housing market. The inter-connected nature of timber markets means that any US recovery has effects elsewhere in the world. US housing starts have rebounded from historic lows, but remain approximately one-third below long term averages. Therefore, the recovery in softwood markets as judged against historic norms appears to have further upside, with some bulls forecasting the potential for a strong up cycle in North American softwood if US housing returns to historic highs. However, it is not yet clear when recovery to even average housing starts will occur. June's monthly housing data showed some signs of the US housing recovery slowing. Mortgage interest rates have also inched up, which could dampen the speed of the upturn. This backdrop would indicate a bumpy recovery in softwood markets, with further upside likely, but with the timing and speed still uncertain.

Phaunos' largest investment, Matariki, is based in New Zealand and much of its output is exported to China. Overall log imports into China were up by 12% in the first six months of 2013, compared to the same period in 2012. Softwood log imports were up by 16% with New Zealand increasing its shipments by 36%. New Zealand has replaced Russia as the largest supplier of softwood logs to China. Strong demand for softwood logs in China and softwood lumber in the US has pushed log prices in New Zealand to their highest levels since 2011. At the reporting date the Matariki valuation is based on a share transaction in 2013 and adjusted for foreign currency exchange differences. There was no independent revaluation carried out at 30 June 2013.

Phaunos has over 28% of its assets in Brazil, in its Eucateca and Mata Mineira properties. The expected recovery in hardwood markets in Brazil for pulp, charcoal, and energy wood has yet to occur. With the recent weakening of the Brazilian Real, the export prices for Brazil's pulp and pig iron are likely to be more competitive, which should strengthen demand for eucalyptus used to make pulp and/or charcoal (which in turn is used in the smelting process to make pig iron). The World Cup and Olympic Games respectively scheduled for Brazil in the summers of 2014 and 2016 should also help to increase GDP in Brazil. Soybean production continues to increase in Brazil, with a need for energy wood (such as eucalyptus) to burn to dry the soybeans. Over time, we expect these factors will result in eucalyptus timber prices gradually reverting upward to historic trend pricing from current soft levels.

Phaunos has approximately 20% of its assets in Green Resources located in East Africa where timber prices continue to be strong. We anticipate this trend will continue as East Africa pursues electrification, thus driving its demand for utility poles. U.S. President Barack Obama recently unveiled the Power Africa initiative worth US\$7 billion. This is part of the US Government's plan to double the electricity access across 6 countries; namely, Kenya, Liberia, Tanzania, Ghana, Nigeria, and Ethiopia. This programme should provide increasing demand for utility poles from our Green Resources investment. Green Resources was valued on a discounted cash flow basis at 31 December 2012. The only adjustments at 30 June 2013 relate to the rights offering in February 2013 and foreign currency exchange differences.

The Investment Manager is working to increase efficiency across the portfolio. In light of changing markets conditions worldwide, the portfolio continues to be repositioned to strengthen cash flow. The Forest Enterprises wood pellet operation was sold on 27 May 2013. Timberland sales continue on the Pradera Roja property in Uruguay, with the latest sale of 303 hectares for US\$1.1 million, representing a 28 per cent premium to its implied valuation. Pradera Roja was an investment in bare land that was subsequently planted with the intention of selling as established plantations. The disposal programme in China is on-going.

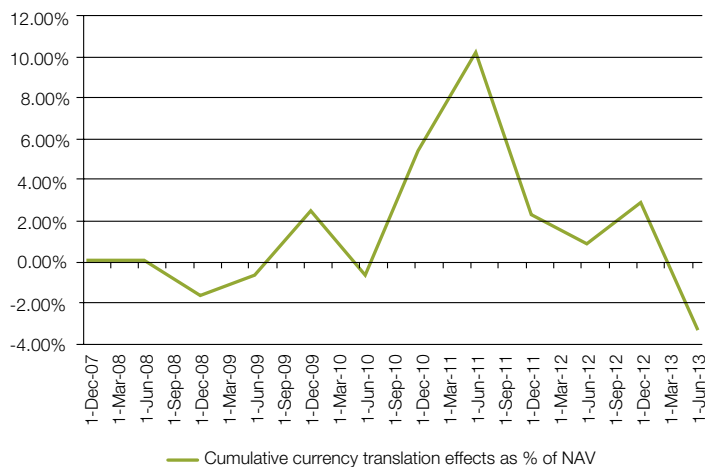
The Company's Ordinary Shares continue to trade at a substantial discount to the NAV per Ordinary Share. The Board of Directors is focused on exploring practical solutions to reduce the discount and attract new investors. It announced that it would put a resolution to shareholders at the General Meeting in 2016 on whether to continue the Company in its current form or whether to consider other means of realising value for shareholders.

The Board supports the use of share buy backs when it is an appropriate use of the Company's surplus funds. As in 2012, there are no surplus funds available for this purpose. It is not the Board's current intention to use borrowings to finance share buy-backs. The Board may, however, consider using part of the proceeds from the sale of assets to buy back shares at a discount, if this money is not required to fund on-going operations.

FOREIGN CURRENCY TRANSLATION EFFECTS

As the majority of the Company's assets are held in currencies other than the US Dollar, a significant factor in the change in the NAV is unrealised currency gains and losses on translation of the Group's investments and non-US Dollar denominated subsidiaries. The Company does not currency hedge due to the unpredictable nature of exchange rate movements, the costs and complexities of hedging and an analysis that over time exchange rate movements tend to balance out. The cumulative impact to Phaunos' NAV, from inception to 30 June 2013, was a cumulative unrealised loss of US\$13.8 million or (3.0%) of the total NAV at that date as shown in the following table:

Reporting Date	Cumulative currency translation effects ³	Net Asset Value	% of NAV
	US\$ million	US\$ million	
30 June 2013	(13.8)	458.1	(3.0%)
31 December 2012	13.9	488.4	2.9%
30 June 2012	4.7	519.5	0.9%
31 December 2011	12.8	558.8	2.3%
30 June 2011	63.6	621.6	10.2%
31 December 2010	33.5	594.9	5.6%
30 June 2010	(3.9)	560.5	(0.7%)
31 December 2009	14.3	575.0	2.5%
30 June 2009	(3.3)	491.1	(0.7%)
31 December 2008	(8.5)	495.0	(1.7%)
30 June 2008	0.3	479.2	0.17%
31 December 2007	0.1	478.6	0.0%



² Cumulative realised currency losses of US\$3.0 million have been excluded from the analysis above.

³ The "currency translation effects" are comprised of:

- a) "Foreign exchange translation differences" for wholly-owned subsidiaries. This is reported as "Exchange differences on translation of subsidiaries' net assets" in the Consolidated Statement of Comprehensive Income.
- b) "Unrealised foreign exchange movement on financial assets" for financial assets jointly owned with other investors. This is reported within "Net gain on financial assets designated at fair value through profit or loss" in the Consolidated Statement of Comprehensive Income.

The Investment Manager, FourWinds Capital Management, provides the following update on activity in the portfolio during the six months ended 30 June 2013.

Timber Markets

Total imports of hardwood and softwood logs into China were up by 12% in the first five months of 2013, compared to the same period in 2012.⁴ Softwood log imports were up by 16%, with New Zealand increasing its shipments by 36%. New Zealand has replaced Russia as the leading supplier of softwood logs to China and has accounted for over one third of the market for imported softwood logs in 2013.⁵

Strong demand for softwood logs in China and softwood lumber in the US has pushed log prices in New Zealand to their highest levels since early in 2011.⁶ Lumber shipments to the US were 4% higher in the first quarter of 2013, compared to the same period in 2012.⁷ The US market accounted for 8% of NZ softwood lumber exports in the first quarter of 2013.

For the first half of 2013, US housing starts are 26% higher than for the same period in 2012 (on a seasonally adjusted annual basis).⁹ The accompanying increase in lumber production in the US, Canada, New Zealand and other countries has increased the supply of chips (a by-product of producing lumber). The increase in chip supply and generally lower demand for pulp and paper have put downward pressure on pulpwood prices in many parts of the world.⁹

2013 PORTFOLIO HIGHLIGHTS¹⁰

Matariki: Rebounding Markets. Strong fundamentals. Strategic restructuring to improve performance.

The Company continues to hold a 35% minority position in Matariki, a New Zealand joint venture with over 179,000 total hectares¹¹, of which 127,000 productive hectares are in mixed aged pine plantations. The value of the Company's investment in Matariki was down by 6.6%, or US\$8.0 million, at US\$113.2 million at 30 June 2013, which was solely due to the effect of foreign currency movements.

- Operational cash flow in Matariki improved during the period in large part due to a pick-up in the pricing of A grade export logs sold to China and an upswing in domestic New Zealand log prices resulting from the rebuilding of Christchurch following the earthquake damage of February 2011.
- Management has taken steps to internalise operations, integrate log trading and explore additional methods to enhance overall investment performance.

⁴ International Wood Markets Group, China Bulletin, various issues.

⁵ International Wood Markets Group, China Bulletin, various issues.

⁶ NZX Agrifax.

⁷ NZ Ministry of Primary Industries.

⁸ US Census Bureau.

⁹ Source: Wood Resources International.

¹⁰ See the Financial Results table in Appendix A on pages 41-42 for details on the movements in value of each investment.

¹¹ Total hectares shown for each investment includes areas in commercial timber production (i.e. plantation and other commercial forests), plus non-commercial timberland. The non-commercial component varies by investment but is primarily native forest that is permanently protected for conservation purposes. In addition, this category contains water bodies, roads, mill sites, or other property that is not used for commercial timber production.

2013 PORTFOLIO HIGHLIGHTS CONTINUED

Mata Mineira: Brazilian Real weakened. Cash flow improving. Dividend distributions.

The Company's wholly owned Mata Mineira investment is in the State of Minas Gerais, Brazil, with over 19,000 total hectares of which 9,969 productive hectares consist of mixed aged eucalyptus plantations. The US Dollar value of Mata Mineira was down by 6.8%, or US\$5.8 million, at US\$79.2 million at 30 June 2013 reflecting a 8.4% depreciation in the Brazilian Real and an unrealised currency loss of US\$6.7 million. The property was independently valued at the half year by Poyry Silviconsult. Unrealised gains on revaluation amounted to US\$1.9 million on biological assets and US\$0.2 million on land.

- For the first half of 2013, gross timber sales revenues were R\$10.7 million (US\$5.2 million), versus R\$3.6 million (US\$2.0 million) for the first half of 2012.
- Total dividend distributions of US\$1.5 million were paid from Mata Mineira to the Company during the period.

Green Resources: Successful planting season. Utility pole production ahead of budget. ISO 9001 certification.

Phaunos owns a 26.62% minority holding in Green Resources, established in Norway, with operations in Uganda, Tanzania and Mozambique. Green Resources consists of 26,000 hectares of plantations and two industrial operation, in Tanzania (Sao Hill) and Uganda; with the right to plant more than 200,000 additional hectares. Expressed in US Dollars, the value of the Company's investment in Green Resources was down by 7.6%, or US\$7.3 million, at US\$89.7 million at 30 June 2013. This reflects unrealised foreign currency losses of US\$8.6 million, which is partially offset by additional equity resulting from a rights issue in March 2013 of US\$1.4 million, where Phaunos took up 93% of its allocation.

- Green Resources planted a total of 3,817 hectares of eucalyptus and pine in Uganda, Mozambique and Tanzania during the 2012-13 planting season.
- Electricity pole sales are significantly ahead of budget due to increased demand from Tanesco, Tanzania's electricity utility. Industrial revenues are also well ahead of 2012.
- Green Resources' pole and charcoal operations in Uganda were certified under International Organization for Standardization (ISO) 9001. This was Green Resources first ISO certification.

Eucateca: Brazilian Real weakened. Fertilizer program completed. Timber nearing harvest age.

The Company's wholly owned Eucateca investment in Brazil comprises over 17,000 total hectares of which 7,490 productive hectares are eucalyptus plantations and an additional 2,105 hectares are teak plantations. In US Dollar terms, the value of the Company's investment in Eucateca was down by 3.3%, or US\$1.8 million, at US\$52.5 million at 30 June 2013. In local currency the value of the property increased with appraisal gains of US\$0.2 million from the revaluation of timber, plus additional working capital of US\$3.5 million during the period. Depreciation in the Brazilian Real resulted in an unrealised currency loss of US\$4.5 million.

- Eucateca is currently discussing wood supply agreements with several local potential buyers, including two soybean processing plants and a future biomass cogeneration plant.
- A one off application of fertilization of 6,100 hectares of eucalyptus was completed during the period. The benefit of this fertilizer is being seen in increased timber growth rates.

Aurora Forestal: Better US housing markets. Labour costs reduced due to weakening of Uruguayan peso.

The Company continues to own a significant minority position in Aurora Forestal, consisting of over 19,000 hectares of which 11,000 productive hectares consist of mixed aged pine plantations and a fully integrated sawmill and co-generation plant. The value of the Company's investment in Aurora Forestal was up by 5.5%, or US\$2.0 million, at US\$38.5 million at 30 June 2013. The change in NAV was due to increases in standing timber volumes.

- Lumber sales orders have strengthened. For the period to 30 June 2013, annual exports and local sales were 13% higher than sales for the previous year. Prices have also increased over 9% compared to the same period last year.
- Labour costs, which account for approximately 60% of the industrial cost, have reversed their upward trend in US dollar terms. Wages, which are denominated in Uruguayan Pesos, have decreased due to the recent devaluation of the Peso. However, sales are denominated in US dollars.

Pradera Roja: Sale completed on Tupambae II property at 28% premium to NAV.

Pradera Roja is the Company's wholly owned subsidiary in southeast Uruguay, totalling over 9,500 hectares of which 4,202 productive hectares are eucalyptus plantations. The value of the Company's investment in Pradera Roja was up by 5.4%, or US\$1.4 million, at US\$27.1 million at 30 June 2013.

- In July 2013 the Company sold its Tupambae II property located in the Cerro Largo district in eastern Uruguay. The property was purchased in 2008 and consists of 303 hectares of eucalyptus plantations. The sale price was US\$1.1 million paid in cash at closing. The sale price of Tupambae II represents a 28 per cent premium to its implied valuation. The Pradera Roja investment was valued at US\$25.7 million at year end 2012.

Greenwood Tree Farm ("GTFF"): Markets continue to improve. Capital projects complete.

The Company continues to own a significant minority position in GreenWood Tree Farm, which consists of over 13,000 total hectares of which 11,375 productive hectares are mixed age poplar plantations, and a fully integrated sawmill in the Pacific Northwest US. The value of the Company's investment in GTFF was up by 0.15%, or US\$53,000, at US\$34.8 million at 30 June 2013.

- The US housing market continued to improve, with annual housing starts 26% higher than for the same period a year earlier. Lumber sales realizations improved during the period, with prices improving by as much as \$50/MBF on higher lumber grades and \$20/MBF on lower grades.
- In May, GTFF began supplying hybrid poplar logs to Columbia Forest Products ("CFP") newly completed veneer mill built alongside GTFF's sawmill in Boardman, Oregon. CFP is North America's largest manufacturer of decorative hardwood plywood and hardwood veneer.
- Three new kilns were completed, which will increase GTFF's lumber drying capacity. The sawmill's log merchandiser system was also upgraded during the period. This system will improve lumber recovery at the sawmill and reduce costs.

Green China: Non-strategic assets sold. Excess Cash Repatriated to Phaunos.

The Company owns 100% of Green China, consisting of over 4,800 total hectares of mixed aged pine and firs (after the post year-end sale transaction) in Jiangxi, China. The US Dollar value of the Company's investment in Green China was down by 10.0%, or US\$1.4 million, at US\$13.0 million at 30 June 2013. The change in value was the result of the repatriation of funds to the Company of US\$0.75 million and net operating losses of US\$0.7 million.

- To date, Green China has planted 340 hectares of slash pine seedlings in 2013. Resin tapping activities are on-going and timber harvesting activities wait necessary permitting.

2013 PORTFOLIO HIGHLIGHTS CONTINUED

- The Northern Properties lie in an area that has been put under quarantine by the Chinese authorities to control for Pine Wilt Nematode (PWN). The PWN affects Masson pine, and can affect other types of pines, although slash pine, which comprises most of the Company's plantation area, is very resistant. The company has 50 plantation hectares of Masson pine, representing about 1% of Green China's total hectares. The Company has been felling its Masson pine to limit the further spread of PWN. The quarantine places restrictions on the sale of wood outside the impacted area. Although the specific effect of the quarantine on wood markets for slash pine is not presently known, it is thought that the impact will be short term as the transportation rules and sanitation methods become more fully developed. We continue to actively monitor this situation.

NTP: Nearing its scheduled termination date and returning both capital and interest

The Company continues to own a minority position in NTP; a fund that purchased forest lands close to urban areas with a strategy to re-sell them for residential or recreational uses. During the period, principal of US\$0.8 million was returned, and US\$0.1 million was received in interest income. The value of the Company's investment in NTP was down by 28.1%, or US\$0.9 million, to US\$2.3 million at 30 June 2013 reflecting the return of capital. NTP is in final liquidation, consistent with its original plan.

Forest Enterprises: Sale of operation closed

The Company closed on the sale of its wood pellet mill in Serbia on 27 May 2013. The transaction price was US\$1.6 million.

INTERIM AND LONG TERM STRATEGY

Phaunos continues to work to improve operational efficiencies across the portfolio by concentrating its operating footprint. The Company will continue to consider selling assets selectively when good returns can be realised and/or cost savings or efficiencies can be captured. The Company is fully invested and no new investments other than investments to develop existing properties are envisaged. The Company believes that the benefits of long-term investing in a globally diversified timberland portfolio, with good exposure to both mature and growing markets will be realised as the portfolio matures. The Directors and the Investment Manager fully expect that the current improving (but uneven) marketplace conditions will eventually spread across the portfolio, thus realising value for long term investors. We believe global investing requires sufficient diversification to help mitigate market and currency fluctuations, with such markets tending to mean revert over time.

MINORITY HOLDING OWNERSHIPS

The Company owns minority holdings in the following investments: 35% in Matariki and 26.62% in Green Resources. It is not possible to disclose the Company's minority holdings in Aurora Forestal, GreenWood Tree Farm and NTP, due to confidentiality obligations imposed on the Company contained in agreements relating to those companies.

FOREIGN EXCHANGE

The Company's reporting currency is the US Dollar. The non-US Dollar currencies in which our largest investments are held are the New Zealand Dollar, the Brazilian Real, and the Norwegian Krone. When the US Dollar strengthens against these currencies, the NAV of the portfolio moves downward as we translate the values of the assets back into the stronger US Dollar. During the period unrealised foreign exchange losses reduced the Company's NAV by US\$27.7 million; realised foreign exchange gains were US\$11,000. Please refer to the foreign currency translation effects on the Company's NAV since inception on page 5.

CASH FLOW

The total cash held at 30 June 2013 was US\$10.6 million. The Company's current forecast is for its total cash balance to remain at current levels in the second half of 2013. Cash flow in 2014 should break even for operations and increase with the sale of non-strategic assets. The forecast is for the operations of the Company to be cash generative for 2015 and beyond due to significant additional harvesting, with disposals of non-strategic assets helping to augment cash flow. The key assumptions to the forecast are:

- Current timber markets will hold reasonably steady, resulting in improved distributions from Matariki.
- Mata Mineira continues to produce timber harvest revenues.
- Additional disposals are anticipated to occur during the second half of 2013 and 2014.

The Investment Manager believes that the current assumptions are reasonable given the structural shortage of softwood in China and the recent strength in the New Zealand timber markets. This is in addition to the fact that the majority of Mata Mineira's 2013 harvest volumes are under contract. Furthermore, in China there is a signed Purchase and Sale Agreement for the two Southern Jiangxi properties. The Company also continues to explore possibilities for short and medium term borrowings, opportunities to accelerate timber harvests and other cash generating alternatives.

ENVIRONMENTAL STEWARDSHIP

The Company is committed to the highest environmental standards and systematically pursue certification under FSC guidelines. Five properties: Aurora Forestal, Matariki, GTFF, Green Resources and Mata Mineira are 100% certified, representing 77% of the portfolio based on NAV. We continue to focus on certifying plantations with standing timber and are rolling out a program with the younger plantations as they mature.

EFFECT OF IFRS ON REPORTED RESULTS

It is important to note that, consistent with International Financial Reporting Standards ("IFRS"), wholly-owned operating company expenses (that is, costs associated with work on the plantations) are included in the Interim Condensed Consolidated Statement of Comprehensive Income, in addition to the Company level expenses. This can be misleading when one tries to compute the total expense ratio of the Company, since those expenses are, in fact, not Company level expenses and should not be included in an analysis of Company level expenses. The expenses have been split into two sections in Note 4 of the Interim Condensed Consolidated Financial Statements in order to provide investors with a more transparent view of actual costs associated with managing the Company, as well as costs associated with operating the wholly-owned investment projects. The Company level expenses are US\$5.2 million, or 1.12% of assets under management.

SHARE CAPITAL

At 30 June 2013, the Company had 537,149,832 issued Ordinary Shares and a further 4,065,045 Ordinary Shares were held in treasury.

DIVIDENDS

No dividend was declared or paid in respect of the year ended 31 December 2012. It is not expected that a dividend will be payable in respect of the current accounting year.

PERFORMANCE FEES

A performance fee becomes payable to the Investment Manager at the end of the first performance period when the audited NAV per Ordinary Share of the Company at 31 December, as adjusted for share premiums on Ordinary Share issues and discounts on Ordinary Share buybacks, and dividends paid or accrued, exceeds US\$1.08. The adjusted NAV per Ordinary Share for the purpose of calculating the performance fee accrual at 30 June 2013 was US\$0.8419. This is below the first performance hurdle and consequently no performance fee is accrued. Please refer to Note 23 in the 2012 Annual Report for the terms and conditions relating to the calculation of the performance fee.

PRINCIPAL RISKS AND UNCERTAINTIES

The Board monitors the risks the Company faces and the actions taken to mitigate those risks. The Group's financial risk management objectives and policies, including a description of the physical, economic, political and legal risks associated with investment in timber are set out in Note 22 of the 2012 Annual Report¹². The Board believes that a high quality portfolio diversified in geography, species, age class and market exposure with strong local management is the most effective and appropriate policy to minimise the risks faced in the current economic climate.

The Company operates in a number of countries, some of which are considered emerging market economies. The Board regularly monitors the political and economic risks of investing in or operating in these countries as well as the risk that trade or other barriers may prevent the sale of timber into our preferred export markets. These risks are minimised by the broad global diversification of the assets as well as the wide range of markets into which product is sold. The Directors' view is that the profile of the key risks impacting the Group will not significantly change over the next six months, with lower cash levels being the present principal risk, although cash is forecast to improve (see previous Cash Flow paragraph).

GOING CONCERN

The Directors confirm the use of the going concern basis in the preparation of the interim financial report. In this regard there are no new events or circumstances that occurred since the 2012 Annual Report.

RELATED PARTIES

There were no significant related party transactions during the period nor any material change to related party transactions described in the 2012 Annual Report. Please refer to Note 13 on page 36 for details.

VOTING RIGHTS FOR PORTFOLIO INVESTMENTS

The Investment Manager carefully considers the exercise of voting rights in relation to the Company's portfolio and votes, or refrains from voting, based on a case by case examination, using its best commercial and financial judgment, of the best long-term interests of the Company and its shareholders.

Typically the Investment Manager will, when making voting decisions, examine the strategic focus and operating performance of the relevant portfolio company, its corporate governance and remuneration framework and its communications and reporting structures. Please note that Phaunos does not hold any investments in publicly traded companies.

¹²The 2012 Annual Report is available on the Company's website: <http://www.phaunostimber.com>

To the best of the knowledge of the Directors:

The Interim Financial Report for the six months ended 30 June 2013 gives a true and fair view of the assets, liabilities, financial position and loss of the Company and has been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting as adopted by the European Union*.

The Interim Management Report includes a fair review of the information required by:

- (a) DTR 4.2.7 of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
- (b) DTR 4.2.8 of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Company during that period; and any changes in the related party transactions described in the last annual report that could do so.

Signed on behalf of the Board by:

Ian M Burns
Director

Sir Henry Studholme Bt
Director

27 August 2013



INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2013

	Note	30 June 2013 Unaudited US\$'000	30 June 2012 Unaudited US\$'000
Income			
Net loss on financial assets designated at fair value through profit or loss	7,8	(15,597)	(5,960)
Revaluation of biological assets	5,8	3,560	(1,032)
Realised loss on disposal of subsidiary	10	(422)	–
Impairment from assets held for sale	10	–	(1,188)
Revenue from timber operations	3	5,405	3,565
Other operating income	3	207	2,840
		(6,847)	(1,775)
Expenses			
Depletion of timber		(4,095)	(1,765)
Cost of sales from timber operations	4(a)	(20)	(1,726)
		(4,115)	(3,491)
Timber operating expenses	4(a)	(3,070)	(4,672)
Investment operating expenses	4(b)	(5,235)	(5,043)
		(12,420)	(13,206)
Impairment and other items	4(c)	48	(118)
Operating loss before foreign exchange		(19,219)	(15,099)
Foreign exchange profit/(loss)		11	(326)
Operating loss before taxation		(19,208)	(15,425)
Taxation on ordinary activities		(104)	(550)
Loss for the period from continuing operations		(19,312)	(15,975)
Other comprehensive (loss)/income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of subsidiaries' net assets		(11,113)	(11,381)
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>			
Revaluation of land	6,8	159	1,485
		(10,954)	(9,896)
Total comprehensive loss for the period		(30,266)	(25,871)
Deficit per Ordinary Share for the period – Basic and Diluted (in US cents per share)		Cents (3.60)	Cents (2.97)

(Based on weighted average number of Ordinary Shares 537,149,832 (2012: 537,149,832))

In arriving at the operating results for the period, all amounts above relate to continuing operations, except for discontinued operations for 2012 representing a loss of (0.17) US cents per Ordinary Share.

The notes on pages 21 to 37 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2013

	Note	30 June 2013 Unaudited US\$'000	31 Dec 2012 Audited US\$'000
Non-Current Assets			
Financial assets designated at fair value through profit or loss	7,8	278,559	292,703
Biological assets	5,8	98,437	102,759
Land	6,8	66,851	71,322
Other assets	9	2,397	3,608
		446,244	470,392
Current Assets			
Cash and cash equivalents		10,605	15,135
Receivables		4,997	7,684
Inventories and work in progress		10	10
Deferred Tax		903	729
Assets classified as held for sale	10	2,742	2,529
		19,257	26,087
TOTAL ASSETS		465,501	496,479
Non-Current Liabilities			
Payables and provisions		781	1,129
		781	1,129
Current Liabilities			
Payables and provisions		6,354	6,483
Liabilities classified as held for sale	10	225	460
		6,579	6,943
TOTAL LIABILITIES		7,360	8,072

	Note	30 June 2013 Unaudited US\$'000	31 Dec 2012 Audited US\$'000
Equity			
Share capital		432,101	432,101
Revenue deficit		(65,337)	(46,025)
Foreign currency translation reserve		(22,342)	(11,229)
Land revaluation reserve		6,120	5,961
Distributable reserves		110,418	110,418
Purchase of own shares (Treasury Shares)		(2,819)	(2,819)
TOTAL EQUITY		458,141	488,407
TOTAL EQUITY AND LIABILITIES		465,501	496,479
Ordinary Shares in Issue		537,149,832	537,149,832
Net Asset Value per Ordinary Share		US\$ 0.85	US\$ 0.91

The notes on pages 21 to 37 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2013

	Note	30 June 2013 Unaudited US\$'000	30 June 2012 Unaudited US\$'000
Operating activities			
Net loss from continuing operations		(19,312)	(15,975)
Depletion		4,095	1,765
Depreciation and amortisation		279	178
Movement in receivables excluding accrued income		2,695	929
Impairment of assets held for sale		–	1,188
Effect of foreign exchange rate changes		16,583	(980)
Taxation including accrual		(117)	307
Net (gain)/loss on financial assets designated at fair value through profit or loss	7,8	(986)	9,204
Silviculture and other biological asset costs	5,8	(4,404)	(2,992)
Revaluation of biological assets	5,8	(3,560)	1,032
Movement in payables		(477)	(312)
Movement in inventories		–	(134)
Other valuation adjustment		–	(160)
Net cash outflow from operating activities		(5,204)	(5,950)
Investing activities			
Purchase of financial assets	7,8	(2,262)	(3,229)
Return of capital from financial assets	7,8	809	–
Purchase of plant and equipment		(6)	(13)
Disposals of plant and equipment		540	1,002
Disposal of subsidiary (Forest Enterprises)	10	1,574	–
Loans repaid by investees		–	2,456
Net cash inflow/(outflow) from investing activities		655	(216)
Decrease in cash and cash equivalents			
		(4,549)	(5,734)
Cash and cash equivalents at beginning of period		15,135	28,332
Effect of foreign exchange rate changes		19	(65)
Cash and cash equivalents at end of period		10,605	22,533

The notes on pages 21 to 37 form an integral part of these interim condensed consolidated financial statements.

Two year old Eucalyptus, Pradera Roja, Uruguay.



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2013

Attributed to equity holders of the parent									
	Share capital	Retained earnings/ (Revenue Deficit)	Foreign currency translation reserve	Land revaluation reserve	Distributable reserves	Purchase of own shares (Treasury Shares)	Total Equity		
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
As at 1 January 2013	432,101	(46,025)	(11,229)	5,961	110,418	(2,819)	488,407		
Loss for the period	-	(19,312)	-	-	-	-	(19,312)		
Other comprehensive (loss)/income	-	-	(11,113)	159	-	-	(10,954)		
Total comprehensive (loss)/income for the period	-	(19,312)	(11,113)	159	-	-	(30,266)		
At 30 June 2013 (unaudited)	432,101	(65,337)	(22,342)	6,120	110,418	(2,819)	458,141		

The notes on pages 21 to 37 form an integral part of these interim condensed consolidated financial statements.

for the six months ended 30 June 2012

Attributed to equity holders of the parent									
	Share capital	Retained earnings	Foreign currency translation reserve	Land revaluation reserve	Distributable reserves	Purchase of own shares (Treasury Shares)	Total Equity		
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
As at 1 January 2012	432,101	10,327	2,765	5,986	110,418	(2,819)	558,778		
Loss for the period	-	(15,975)	-	-	-	-	(15,975)		
Other comprehensive (loss)/income	-	-	(11,381)	1,485	-	-	(9,896)		
Total comprehensive income/(loss) for the period	-	(15,975)	(11,381)	1,485	-	-	(25,871)		
Dividends (Note 1)	-	(13,429)	-	-	-	-	(13,429)		
At 30 June 2012 (unaudited)	432,101	(19,077)	(8,616)	7,471	110,418	(2,819)	519,478		

The notes on pages 21 to 37 form an integral part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

1. ACCOUNTING POLICIES

(a) Basis of Preparation

The unaudited interim condensed consolidated financial statements ("interim consolidated financial statements") for the six months ended 30 June 2013, of Phaunos Timber Fund Limited (the "Company" or "Phaunos") 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 2012 ("2012 Annual Report"), which were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and applicable Guernsey law.

The interim consolidated financial statements are presented in US Dollars, being the currency of the primary economic environment in which the Company and entities controlled by the Company (its subsidiaries as listed in Note 11 of the 2012 Annual Report ("subsidiaries")) (the "Group") operate. The interim consolidated financial statements are rounded to the nearest thousand US Dollars (US\$'000) except where otherwise indicated.

The interim consolidated financial statements have not been audited or reviewed by the auditors in accordance with the Auditing Practices Board guidance on Review of Interim Financial Information Performed by the Independent Auditor of the Entity.

(b) New and amended standards and interpretations

The same accounting policies, presentation and methods of computation are followed in the interim condensed consolidated financial statements as were followed in the preparation of the 2012 Annual Report, except for the adoption of new standards and interpretations effective as of 1 January 2013 as listed below:

- **IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1**

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g. foreign exchange differences on translation of subsidiaries' net assets) are now presented separately from items that will never be reclassified (e.g. land revaluation reserve). The amendment affected presentation only and had no impact on the Group's financial position or performance.

- **IAS 34 Interim Financial Reporting**

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual consolidated financial statements for that reportable segment. While there has not been a material change to the Group's total assets and total liabilities, the operating segment information has been disclosed this period as it is deemed useful information for readers of the Company's interim financial report (refer to Note 2).

1. ACCOUNTING POLICIES CONTINUED

- **IFRS 13 Fair Value Measurement**

IFRS 13 establishes a single source of guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 also requires specific disclosures to provide additional transparency regarding:

- The extent to which fair value is used to measure assets and liabilities.
- The valuation techniques, inputs and assumptions used in measuring fair value.
- The effect of Level 3 fair value measurements on profit or loss (or other comprehensive income)

As a result, the interim consolidated financial statements have been updated to include disclosures relating to fair values and sensitivity analysis information for land, biological assets and financial assets, which were also included in the 2012 Annual Report (see Note 8: Assets & Liabilities Measured at Fair Value).

- **IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements**

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it 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. To meet the definition of control in IFRS 10, all three criteria must be met, including:

- (a) an investor has power over an investee;
- (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and
- (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

The Board has assessed these criteria for each investment and is satisfied that IFRS 10 had no material impact on the consolidation of investments held by the Group.

- **IFRS 10 Consolidated Financial Statements exemption: Investment Entities**

IFRS 10 provides an exemption from consolidation of subsidiaries for entities that meet the definition of an 'investment entity'. If such an exemption applies, the entity would measure their investments at fair value through profit or loss in accordance with IFRS 9: Financial Instruments or IAS 39: Financial Instruments: Recognition and Measurement.

The Company has begun to assess the implications of the amendment to IFRS 10 in respect of the Investment Entity definition and will conclude this assessment in 2013. It is anticipated that the result of this assessment will have a significant impact on the reporting of the Company's consolidated financial statements and notes. It is not anticipated that the Company will early adopt IFRS 10; therefore the impact will apply in relation to the financial results for the first period beginning 1 January 2014.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS** CONTINUED
for the six months ended 30 June 2013

2. SEGMENT INFORMATION

The following table analyses the Group's key operating segments by total income, profit, assets and liabilities. The financial results from this segment are equivalent to the consolidated financial statements of the Group as a whole. The segments have been identified in accordance with the qualitative threshold tests in IFRS 8.

At 30 June 2013	Matariki US\$'000	Green Resources US\$'000	Aurora Forestal US\$'000	GTFF US\$'000	Mata Mineira US\$'000	Eucateca US\$'000	Green China US\$'000	Central costs and all other segments US\$'000	Total consolidated US\$'000
Income									
Net gain/(loss) on financial assets	(8,000)	(8,793)	2,030	(764)	–	–	–	(70)	(15,597)
Revaluation gain/(loss) on biological assets	–	–	–	–	1,893	236	(70)	1,501	3,560
Realised loss on disposal of subsidiary	–	–	–	–	–	–	–	(422)	(422)
Revenue from timber operations	–	–	–	–	5,222	–	183	–	5,405
Other operating income	–	–	–	–	18	45	6	138	207
Total Income	(8,000)	(8,793)	2,030	(764)	7,133	281	119	1,147	(6,847)
Net Profit/(Loss) on continuing operations	(8,000)	(8,793)	2,030	(764)	2,139	(601)	(837)	(4,486)	(19,312)
Total Assets	113,227	89,740	38,485	34,857	79,651	56,663	15,074	37,804	465,501
Total Liabilities	–	–	–	–	(429)	(3,971)	(2,111)	(849)	(7,360)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS** CONTINUED
for the six months ended 30 June 2013

2. SEGMENT INFORMATION CONTINUED

At 30 June 2012	Matariki US\$'000	Green Resources US\$'000	Aurora Forestal US\$'000	GTFF US\$'000	Mata Mineira US\$'000	Eucateca US\$'000	Green China US\$'000	Forest Enterprises US\$'000	Central costs and all other segments US\$'000	Total consolidated US\$'000
Income										
Net gain/(loss) on financial assets	1,103	(5,472)	315	838	–	–	–	–	(2,744)	(5,960)
Revaluation gain/(loss) on biological assets	–	–	–	–	(3,274)	2,404	5	–	(167)	(1,032)
Impairment of assets classified as held for sale	–	–	–	–	–	–	–	(1,188)	–	(1,188)
Revenue from timber operations	–	–	–	–	1,961	–	487	1,234	(117)	3,565
Other operating income	1,907	–	–	–	15	158	185	26	549	2,840
Total Income	3,010	(5,472)	315	838	(1,298)	2,562	677	72	(2,479)	(1,775)
Net Profit/(Loss) on continuing operations	3,010	(5,472)	315	838	(6,801)	857	2,527	(2,003)	(9,246)	(15,975)
Total Assets	141,665	90,484	33,650	38,572	86,557	66,204	21,365	5,551	61,328	545,376
Total Liabilities	–	–	–	–	(623)	(5,611)	(4,693)	(766)	(14,205)	(25,898)

Central costs and all other segments includes the Company's investment operating expenses US\$5.2 million (2012: US\$5.0 million) and inter-segment revenues of US\$1.5 million (2012: US\$ Nil).

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS** CONTINUED
for the six months ended 30 June 2013

3. INCOME

	30 June 2013 Unaudited US\$'000	30 June 2012 Unaudited US\$'000
Income from sales and services	5,405	3,565
Investment income	173	2,558
Sundry income	34	282
	5,612	6,405

4. EXPENSES

	30 June 2013 Unaudited US\$'000	30 June 2012 Unaudited US\$'000
a) Cost of sales & timber operating costs		
Cost of sales	20	1,726
Direct timber costs	222	324
Other timber costs	2,848	4,348
	3,090	6,398
b) Investment operating expenses		
Investment Manager's fees	3,433	3,915
Other investment operating expenses	1,802	1,128
	5,235	5,043
	8,325	11,441

Consistent with IFRS, operating expenses associated with wholly-owned subsidiaries are included in Note 3, along with expenses associated with holding Company activities. Holding Company expenses total US\$5.2 million, or 1.12% of assets under management.

	30 June 2013 Unaudited US\$'000	30 June 2012 Unaudited US\$'000
c) Impairments and other items		
Future replant cost adjustment	–	3,262
Revaluation adjustment on land	–	(3,102)
Other impairments	48	(278)
	48	(118)

5. BIOLOGICAL ASSETS

	30 June 2013 Unaudited US\$'000	31 Dec 2012 Audited US\$'000
Cost:		
Opening cost	109,419	106,655
Costs incurred during the period/year:		
Silviculture costs	2,843	4,967
Treatment costs	1,483	242
Plantations acquired	–	19
Other costs	78	16
Depletion of timber	(4,095)	(4,348)
Resin amortisation	(135)	(311)
Disposals	–	(2,513)
Change in estimate of timber cost	–	4,692
	174	2,764
Closing cost	109,593	109,419
Revaluation of plantations:		
Opening balance	6,863	18,824
Revaluation for the period/year	3,560	(11,961)
	10,423	6,863
Reclass as held for sale (see Note 10)	(1,210)	–
Exchange differences	(20,369)	(13,523)
Closing carrying value	98,437	102,759

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS** CONTINUED
for the six months ended 30 June 2013

6. LAND

	30 June 2013	31 Dec 2012
	Unaudited	Audited
	US\$'000	US\$'000
Cost		
Opening cost	69,893	78,903
Opening cost adjustment improvements	–	(204)
Additions	–	90
Disposals	(278)	(4,204)
Change in estimate of land cost	–	(4,692)
Closing cost	69,615	69,893
Revaluation of land		
Opening	5,961	5,986
Revaluation for the period/year	159	(25)
Closing	6,120	5,961
Reclass as held for sale (see Note 10)	(585)	(278)
Exchange differences	(8,299)	(4,254)
Closing carrying value	66,851	71,322

7. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2013	31 Dec 2012
	Unaudited	Audited
	US\$'000	US\$'000
Opening portfolio cost	263,849	265,981
Net additions at cost:	2,262	3,229
Return of capital:	(809)	(5,361)
Closing portfolio cost	265,302	263,849
Unrealised appreciation on valuation brought forward	3,680	38,771
Unrealised appreciation/(depreciation) on valuation for the period/year	986	(35,091)
Unrealised foreign exchange movement brought forward	25,174	10,769
Unrealised foreign exchange movement for the period/year	(16,583)	14,405
Unrealised appreciation and foreign exchange movement on valuation carried forward	13,257	28,854
Closing valuation	278,559	292,703

8. ASSETS & LIABILITIES MEASURED AT FAIR VALUE

Fair Value Hierarchy

Financial assets designated at fair value through profit or loss (“financial assets”), 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).

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS** CONTINUED
for the six months ended 30 June 2013

8. ASSETS & LIABILITIES MEASURED AT FAIR VALUE CONTINUED

The Group held the following assets categorised as Level 3 in accordance with the fair value hierarchy in IFRS 13:

	30 June 2013
	Unaudited
	US\$'000
Financial assets	278,559
Biological assets	98,437
Land	66,851
Fair Value at end of period	443,847

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). During the period, there were no transfers into or out of Level 3 fair value measurements.

At 30 June 2013	Financial assets	Biological assets	Land	Total
	US\$'000	US\$'000	US\$'000	US\$'000
Opening fair value	292,703	102,759	71,322	466,784
Total gains or losses for the period:				
Unrealised appreciation/(depreciation)				
Included in profit or loss	(15,597)	3,560	–	(12,037)
Included in other comprehensive income	–	–	159	159
Unrealised foreign exchange difference				
Included in other comprehensive income	–	(6,846)	(4,045)	(10,891)
Purchases, issues, sales and settlements:				
Purchases and other costs	2,262	4,404	–	6,666
Depletion and resin amortisation	–	(4,230)	–	(4,230)
Disposals	–	–	(278)	(278)
Return of capital	(809)	–	–	(809)
Reclassification to asset held for sale	–	(1,210)	(307)	(1,517)
Closing fair value	278,559	98,437	66,851	443,847

8. ASSETS & LIABILITIES MEASURED AT FAIR VALUE CONTINUED

Significant unobservable inputs (Level 3)

IFRS 13 requires 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 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, prices, discount rates).

Land and biological asset valuations

Land and biological assets held by the Company's wholly-owned operating subsidiaries and Aurora Forestal are carried at fair value at 31 December and 30 June. The value of both land and biological assets at 31 December is determined by independent external appraisers using the valuation methods noted below. The value at 30 June is determined by the Investment Manager who projects the 31 December data to 30 June for changes in volume (harvesting and growth), not price. The movement in the fair value is included in the Consolidated Statement of Comprehensive Income.

Assets at 30 June 2013	Fair Value	Valuation method	Valuation source at 30 June 2013	Significant Unobservable inputs
Financial assets				
Matariki	113,227	Share price from sale transaction April 2013	N/A	Share price
Green Resources	89,740	Income method: Discounted cash flow @ 31 Dec 2012 adjusted for rights offering in Feb 2013	Investment Manager DCF reviewed by independent consulting firm	Discount rate
Aurora Forestal	38,485	Adjusted NAV at Fair Value	Independent appraisal @ 31 Dec 2012 Updated @ 30 June 2013	Timber prices
GreenWood Tree Farm	34,857	NAV at Fair Value	Underlying Manager of GTFF @ 30 June 2013	NAV
NTP	2,250	NAV at Fair Value	Underlying Manager of NTP @ 30 June 2013	NAV
	278,559			

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS** CONTINUED
for the six months ended 30 June 2013

8. ASSETS & LIABILITIES MEASURED AT FAIR VALUE CONTINUED

Land and biological asset valuations continued

Assets at 30 June 2013	Fair Value	Valuation method	Valuation source at 30 June 2013	Significant Unobservable inputs
Biological assets				
Mata Mineira	53,788	Income Capitalisation	Independent External Appraisal @ 30 June 2013	Timber prices and operating costs
Eucateca	29,153	Cost and Income Capitalisation	Independent appraisal @ 31 Dec 2012 Updated @ 30 June 2013	Timber prices and operating costs
Pradera Roja	6,683	Cost and Income Capitalisation	Independent appraisal @ 31 Dec 2012 Updated @ 30 June 2013	Timber prices and operating costs
Green China	8,813	Income capitalisation	Independent appraisal @ 31 Dec 2012 Updated @ 30 June 2013	Timber prices and operating costs
	98,437			
Land				
Mata Mineira	23,211	Income Capitalisation	Independent External Appraisal @ 30 June 2013	Land and timber prices
Eucateca	24,743	Cost and Income Capitalisation	Independent appraisal @ 31 Dec 2012 Updated @ 30 June 2013	Land and timber prices
Pradera Roja	18,897	Cost and Income Capitalisation	Independent appraisal @ 31 Dec 2012 Updated @ 30 June 2013	Land and timber prices
	66,851			

8. ASSETS & LIABILITIES MEASURED AT FAIR VALUE CONTINUED

Sensitivity analysis

The Group's financial assets, biological assets and land are carried at fair value at 30 June 2013. The following table details the sensitivity of each asset's reported fair value to a 5% increase or decrease in the significant unobservable input related to each asset as described in the table above.

The biological asset value is most sensitive to changes in timber prices and growth rates. Since the discount rate used in the valuation is in part a measure of volatility, volatile timber prices and growth rates will also increase discount rates and put negative pressure on valuations. Please refer to Note 2(b) in the 2012 Annual Report for the discount rates that apply to these operating subsidiaries. This is except for Mata Mineira which used a discount rate of 9.5% (31 December 2012: 10.0%) in the independent external appraisal at 30 June 2013.

If the value of financial assets, biological assets and land were to increase or decrease by 5%, with all other variables held constant, the NAV would have increased or decreased by the US Dollar amounts and percentages shown in the table below:

Asset	Asset Value US\$'000	Weighted Average %	Increase/ (Decrease) in NAV US\$'000	Increase/ (Decrease) in NAV %
Financial assets at fair value through profit or loss				
Matariki	113,227	40.65%	5,661	1.24%
Green Resources	89,740	32.22%	4,487	0.98%
Aurora Forestal	38,485	13.82%	1,924	0.42%
GreenWood Tree Farm	34,857	12.51%	1,743	0.38%
NTP	2,250	0.80%	113	0.02%
	278,559	100.00%	13,928	3.04%
Biological assets				
Mata Mineira	53,788	54.64%	2,689	0.59%
Eucateca	29,153	29.62%	1,458	0.32%
Pradera Roja	6,683	6.79%	334	0.07%
Green China	8,813	8.95%	441	0.10%
	98,437	100.00%	4,922	1.08%
Land				
Mata Mineira	23,211	34.72%	1,161	0.25%
Eucateca	24,743	37.01%	1,237	0.27%
Pradera Roja	18,897	28.27%	945	0.21%
	66,851	100.00%	3,343	0.73%

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED
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9. OTHER ASSETS

	30 June 2013 Unaudited US\$'000	31 Dec 2012 Audited US\$'000
Prepaid land lease	1,656	2,588
Plant and equipment	741	1,020
Closing cost	2,397	3,608

10. ASSETS/LIABILITIES CLASSIFIED AS HELD FOR SALE

The value of assets classified as held for sale ("AHFS") US\$2.7 million (31 December 2012: US\$2.5 million) relates to land and timber held by Pradera Roja plus timber and prepaid land leases held by Green China, which were sold in July 2013. Liabilities classified as held for sale ("LHFS") US\$0.2 million (31 December 2012: US\$0.5 million) relates to the value of the future replant provision associated with the sale of Green China's timber and prepaid land leases.

Pradera Roja (2013: AHFS US\$1.1 million)

In July 2013 the Company sold its Tupambae II property located in the Cerro Largo district in eastern Uruguay. The property was purchased in 2008 and consists of 303 hectares of eucalyptus plantation. The sale price was US\$1.1 million paid in cash at closing. The sale price of Tupambae II represents a 28 per cent premium to its implied valuation. The Pradera Roja investment was valued at US\$25.7 million at year end 2012.

Green China (2013: AHFS US\$1.6 million; LHFS US\$0.2 million)

Properties in two of the remaining three counties of the non-strategic southern Jiangxi holding were placed under contract for sale in July 2013. The third and final southern county property continues to be marketed. After these sales are complete, Green China will own over 4,100 hectares in the more northerly counties of Jiangxi.

Forest Enterprises (2012: AHFS US\$2.0 million; LHFS US\$0.5 million)

The net recoverable value of the Company's wholly-owned subsidiary Forest Enterprises was recorded as held for sale at 31 December 2012. The wood pellet mill operation in Serbia was sold in May 2013. The transaction price was €1.2 million (US\$1.6 million).

Caldrey (2012: AHFS US\$0.5 million)

At 31 December 2012 Caldrey's equipment was recorded as an asset held for sale and was subsequently sold for US\$540,000 in March 2013.

11. DIVIDENDS

No dividend was declared or paid in respect of the year ended 31 December 2012. The dividend for the year ended 31 December 2011 was declared and paid in July 2012.

	30 June 2013 Unaudited US\$'000	31 Dec 2012 Audited US\$'000
Dividend for the period/year:		
US\$ Nil per Ordinary Share (2012: US\$0.025)	-	13,429

12. CAPITAL COMMITMENTS

At the period end, the Group has outstanding non-contractual commitments of up to US\$1.18 million (31 December 2012: US\$2.0 million) in relation to outstanding working capital commitments for GTFF.

13. RELATED PARTIES

During the period the Company incurred various costs with the Investment Manager, which are summarised in the table below:

- Management fees which are prepaid on a quarterly basis and trued-up against the management fee expense half yearly.
- Legal services provided by the Investment Manager, which the Board considered more appropriately be provided by the Investment Manager than external lawyers (but which falls outside the scope of its investment manager services under the Investment Management Agreement.
- Accounting services in respect of financial reporting and consolidation work for the Company. This also falls outside the scope of services under the Investment Management Agreement.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS** CONTINUED
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13. RELATED PARTIES CONTINUED

	30 June 2013 US\$'000	30 June 2012 US\$'000
Investment Manager's fees		
Management fee expense for the period	3,433	3,915
Prepaid management fees at end of period*	–	2,287
Management fees due to the Company in respect of the current period	676	573
Management fees due to the Company in respect of the prior period**	1,463	–
Legal services		
Costs incurred for the period	9	12
Costs payable end of period	5	12
Accounting services		
Costs incurred for the period	43	46
Costs payable end of period	6	–

* Q3 2013 management fees prepaid in early July 2013 instead of late June 2013 similar to the prior period.

** Includes US\$1.5 million due by the Investment Manager to the Company for management fees paid in respect of the 2012 year. The amount was reimbursed to the Company in July 2013.

Performance fees

The Company did not accrue a performance fee for the period ended 30 June 2013 (2012: US\$ Nil) as the unaudited adjusted NAV per Ordinary Share at that date did not exceed the hurdle rate of US\$1.08. The adjusted NAV per Ordinary Share for the purpose of calculating the performance fee accrual at 30 June 2013 was US\$0.8419 (2012: US\$0.9815).

Please refer to Note 23 in the 2012 Annual Report for the terms and conditions relating to the calculation of management fees and performance fees.

SCHEDULE OF INVESTMENTS

Name of investment	Nature of investment	Fair Value US\$'000	30 June 2013 Unaudited	31 Dec 2012 Audited
			Total Net Assets %	Total Net Assets %
Matariki Forestry Group	Timber operation	113,227	24.71	25.16
Green Resources AS	Timber operation	89,740	19.59	16.77
Aurora Forestal Limited	Timber operation	38,485	8.40	5.97
Greenwood Tree Farm Fund LP	Timber operation	34,857	7.61	6.57
NTP Timber Plus+ Fund I, LP	Higher-and-better-use conversion	2,250	0.49	2.00
Masarang Foundation Asset Linked Euro Note 09/2012	Loan	–	–	–
Total financial assets designated at fair value through profit or loss		278,559	60.80	56.47
Other non-current assets		167,685	36.60	37.80
Other net current assets		1,292	0.29	0.66
Cash and cash equivalents		10,605	2.31	5.07
Total NAV		458,141	100.00	100.00

SHAREHOLDER INFORMATION

The Ordinary Shares are traded on the Main Market of the London Stock Exchange and on the Channel Islands 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 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 interim consolidated financial statements, Capita Registrars (Guernsey) Limited, who maintains the Company's registers of shareholders. They may be contacted by telephone on +44 (0)1534 847445.

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APPENDIX A: FINANCIAL RESULTS AT 30 JUNE 2013

The following table presents a summary of the movement in the unaudited NAV during the period:

	Phaunos Timber Fund ¹³ US\$'000	Minority-owned investments					Operating Subsidiaries					Consolidated Total US\$'000
		Matariki US\$'000	Green Resources US\$'000	Aurora Forestal US\$'000	GTFF US\$'000	NTP US\$'000	Mata Mineira US\$'000	Eucateca US\$'000	Pradera Roja US\$'000	Green China US\$'000	Other Operating Subsidiaries ¹⁴ US\$'000	
Opening NAV at 31 Dec 2012 (audited)	13,936	121,227	97,088	36,455	34,803	3,129	84,981	54,277	25,715	14,405	2,391	488,407
Capital inflow/outflow												
Investment in portfolio	(6,165)	–	1,445	–	818	–	50	3,550	75	–	227	–
Return of funds from portfolio	2,109	–	–	–	–	(809)	–	–	–	(750)	(550)	–
Inter-company dividends received/(paid)	1,473	–	–	–	–	–	(1,473)	–	–	–	–	–
	(2,583)	–	1,445	–	818	(809)	(1,423)	3,550	75	(750)	(323)	–
Unrealised gains/(losses)												
Revaluation of financial assets –valuation	–	–	(210)	2,030	(764)	(70)	–	–	–	–	–	986
Revaluation of financial assets – foreign exchange	–	(8,000)	(8,583)	–	–	–	–	–	–	–	–	(16,583)
Foreign Exchange translation differences	(110)	–	–	–	–	–	(6,669)	(4,534)	–	145	55	(11,113)
Revaluation of biological assets	–	–	–	–	–	–	1,893	236	1,501	(70)	–	3,560
Revaluation of land	–	–	–	–	–	–	194	–	(35)	–	–	159
Impairments and other items	–	–	–	–	–	–	–	48	–	–	–	48
	(110)	(8,000)	(8,793)	2,030	(764)	(70)	(4,582)	(4,250)	1,466	75	55	(22,943)
Realised gains/(losses)												
Realised gain on disposal of subsidiary	–	–	–	–	–	–	–	–	–	–	(422)	(422)
Revenue from timber operations	–	–	–	–	–	–	5,222	–	–	183	–	5,405
Other operating income	125	–	–	–	–	–	18	45	13	6	–	207
Operating expenses	(5,348)	–	–	–	–	–	(545)	(1,180)	(153)	(1,010)	(89)	(8,325)
Depletion ¹⁵	–	–	–	–	–	–	(4,095)	–	–	–	–	(4,095)
Realised Foreign Exchange	(14)	–	–	–	–	–	–	–	(19)	54	(10)	11
Taxation	–	–	–	–	–	–	(354)	250	–	–	–	(104)
	(5,237)	–	–	–	–	–	246	(885)	(159)	(767)	(521)	(7,323)
Closing NAV at 30 June 2013 (unaudited)	6,006	113,227	89,740	38,485	34,857	2,250	79,222	52,692	27,097	12,963	1,602	458,141
% of NAV at 30 June 2013 (unaudited)	1.31	24.71	19.59	8.40	7.61	0.49	17.29	11.50	5.91	2.83	0.36	100.00

¹³ Includes the financial results for Romfor Timber and BaltFor Timber for the period.

¹⁴ Includes the financial results for Forest Enterprises and Caldrey.

¹⁵ Depletion represents the cost value of timber harvested, thereby it is removed from the book cost of biological assets.

Chinese Fir, Green China, Northern Jiangxi, China.



