Phaunos
TIMBER

PHAUNOS TIMBER FUND LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the period ended
30 June 2016

Front cover: Loblolly Pine, Aurora Forestal, Uruguay.

Phaunos Timber Fund Limited (the "Company" or "Phaunos") invests in a portfolio of timber assets which is broadly diversified with investments in a variety of tree species, tree age classes and a range of geographic timberland markets in order to provide sustainable returns, control volatility and manage risk.

About the Manager

Stafford Capital Partners Limited (the "Manager" or "Stafford") is a leading private markets investment and advisory group, with US$4.4 billion of funds under management and advice as at 30 June 2016. The Stafford group comprises focused teams in the timberland, agriculture, infrastructure, private equity, sustainable capital and venture capital sectors. Phaunos is the only publicly listed company under Stafford's management.

For Manager enquiries, please contact info@phaunostimber.com.

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Eucalyptus, Pradera Roja, Uruguay.

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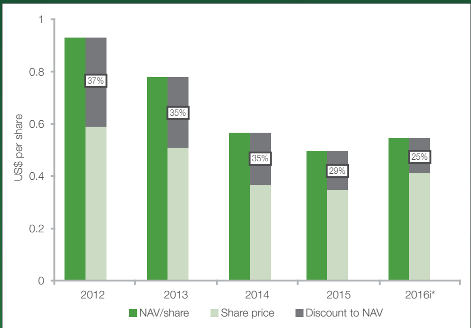
NAV and Share Price Performance



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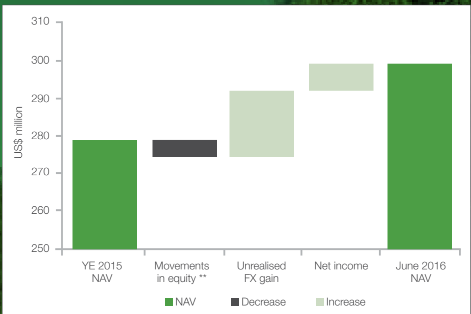
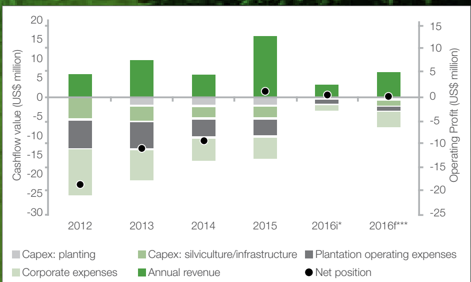


Cash Flows from operations and investments



* "i" refers to interim
** Includes share buybacks
*** "f" refers to forecast

2016 Interim Summary

- **7.4% increase in** Net Asset Value ("NAV") to US$299.4m from US$278.8m at 31 December 2015 (net of share buybacks) including a foreign exchange gain of US$17.4m and a realised gain on the sale of assets of US$8.3 million
- **10.2% increase in NAV per share** from 49 cents to 54 cents
- Share price discount to NAV **narrowed 4%** from 29% to 25%
- **8.97 million shares repurchased** through the share buyback programme at an average discount of 26% adding 1 cent to the NAV per share
- Timber and Investment operating expenses for the period decreased from US$3.9m to US$3.1m, a **decrease of 21%**
- Net **cash inflows**, including proceeds from asset sales, **increased** from US$8.1m (30 June 2015) to US$24.7m (30 June 2016)
- Cash held has **increased** from US$25.6m to **US$50.3m**

EXECUTIVE SUMMARY

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 Report") for the six months to 30 June 2016 ("period"). The Company is an authorised closed-ended, Guernsey domiciled, investment company, which has been managed by Stafford Capital Partners Limited (the "Manager" or "Stafford") since 1 July 2014, and established to provide Shareholders with attractive long term total returns through a diversified portfolio of timberland and timber-related investments.

	6 months to 30 June 2016 (unaudited)	12 months to 31 Dec 2015 (audited)	6 months to 30 June 2015 (unaudited)
Net Asset Value ("NAV")	US$299.4 million	US$278.8 million	US$287.1 million
NAV per Ordinary Share	54 cents	49 cents	51 cents
Share price	40.5 cents	35 cents	35 cents
Share price discount to NAV	25%	29%	31%
Cash balance	US$50.3 million	US$25.6 million	US$23.0 million
Profit/(loss) for the period/year	US$12.1 million	US$(10.5) million	US$(21.7) million
Earnings/(loss) per Ordinary Share	2.16 cents	(1.85) cents	(3.82) cents

Eucalyptus, Mata Mineira, Brazil.

CHAIRMAN'S STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2016

During the six months to 30 June 2016, Phaunos' unaudited NAV per share has increased by 10.2% from 49 cents to 54 cents. The Group's total NAV has also increased by US$20.6 million or 7.4% to US$299.4 million from US$278.8 million at 31 December 2015. While this includes a significant element of foreign exchange gain, it reflects the Manager's success both in cutting costs and disposing of loss making assets. It also includes a realised gain on the sale of assets of US$8.3 million and takes place against a background of continued challenging market and economic conditions.

Phaunos' mid-market share price on the LSE has responded positively during the period increasing by 17% to 40.5 cents at 30 June 2016 from 35 cents at 31 December 2015. As a consequence, the share price discount to NAV per share has continued to narrow to 25% as at 30 June 2016 from 29% at 31 December 2015 and 35% at 31 December 2014.

In June 2016, Shareholders voted in favour of the continuation of the Company until July 2017 when a further vote will be held. We believe the result of the vote recognises the great progress made by Stafford since their appointment two years ago and enables the Board and the Manager to articulate a longer-term strategic plan for the Company including setting out investment opportunities and ongoing costs of management. The plan will be released to Shareholders in late 2016. Provided the positive momentum of the Group is maintained the intention is to seek a five-year extension at the continuation vote. This will be included within the business to be considered by the Shareholders at the 2017 AGM.

RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

The reporting period has been characterised by the continued disposal of non-yielding, higher risk assets, further focus on cost control and additional cost reductions, whilst also focusing on establishing more sustainable harvesting revenues.

The Group's balance sheet remains healthy. Phaunos' estimated NAV at 30 June 2016 is US$299.4 million, up from US$278.8 million at 31 December 2015. The main driver of the increase was an unrealised foreign exchange gain on revaluation of investments of US$17.4 million (30 June 2015: US$29.7 million loss). This reversed a substantial portion of the impact of the strength of the US Dollar in 2015 against the Brazilian Real and the New Zealand Dollar. While the Company is unavoidably exposed to exchange rate fluctuation as shown in the current period, the effect of short-term volatility is expected to net off over time.

Stafford's work on rebalancing the portfolio, through the sale of higher risk assets, is reflected in the strong cash balance of the Group. Cash reserves increased during the period reaching a peak of US$50.3 million (31 December 2015: US$25.6 million). The increase is mainly attributable to US$16.8 million received, in the US, from GTFF through the sale of the Boardman Tree Farm, US$8.3 million received from the sale of GRAS as well as US$2.6 million earned from dividends and distributions.

Stafford has achieved the initial objectives they set out when they took over the Phaunos mandate and continue to exercise discipline and to remain focused on the 2016 key objectives of the Group, as set out below:

Complete the opportunistic sale of non-core assets
The overwhelming majority of Phaunos' higher risk assets have now been sold or are in the process of run off.

CHAIRMAN'S STATEMENT CONTINUED

Reduce operational and corporate costs
Half-year operation and investment expenses decreased 21% to US$3.1 million (30 June 2015: US$3.9 million).

Phaunos has delivered another period of positive cash inflows from operating activities of US$0.6 million (30 June 2015: US$8.5 million) through focused spending discipline. While marginal in this period, the Group's ability to generate free cash inflows in the absence of significant harvesting revenues is indicative of the low cost base of the Group and helps preserve the Group's important cash headroom for future investment or share buybacks.

Maximise revenues from Mata Mineira and Eucateca, against the difficult market conditions in Brazil at present
Last year we indicated that a repeat in 2016 of the one off contract, which boosted harvesting revenues at Mata Mineira in Brazil in 2015, was unlikely. As anticipated, revenues from distributions and harvesting decreased to US$1.7 million (30 June 2015: US$10.4 million).

However, costs have been reduced significantly and we continue actively to manage our portfolio to maximise the potential for sustainable harvesting revenues in future.

To move towards establishing sustainable net revenues which over the long term can be applied towards the payment of regular dividends
In March 2016 the debt recapitalisation of Matariki was completed, reducing the Group's debt as a percentage of net assets to 1.5% from 23%. The transaction will assist with the provision of regular distributions from this important high quality asset.

Deliver a strategy for the reduction of the share price discount to net asset value
We have bought back 8.97 million shares at a weighted average price of 37.8 cents per share since 31 December 2015. While recognising that progress has been made since 31 December 2014 to narrow the share price discount to NAV per share to 25% (31 December 2014: 35%), more action is required. We continue to buy back shares at a significant discount to the NAV per share on an opportunistic basis and engage with potential investors in the Company.

OUTLOOK

Phaunos now has a strong balance sheet that forms a solid foundation for the future. While the business is well positioned in the lead up to the 2017 continuation vote, the Manager remains focused on our key objectives for 2016, to maximise revenues and further reduce operational and corporate costs. Accordingly, the Group will seek to retain its strong cash position through curbing spending whilst also pursuing opportunities to generate sustainable harvesting revenues. Ultimately we want to secure long-term wood supply agreements for Mata Mineira and Eucateca, providing evidence to Shareholders that the assets of the Group can deliver to our objectives.

The Board, together with the Manager, will continue to pursue opportunities to refine Phaunos' portfolio further through the disposal of less significant immature, non-yielding assets and invest, as appropriate, in existing assets.

OUTLOOK CONTINUED

A key influence on our businesses remains the volatility of the underlying currencies of our investments. The economic outlook continues to be unpredictable and unstable with low oil prices, gyrating financial markets and slower growth in China dampening the political and economic environments, affecting businesses and their operations worldwide. Despite this volatility, the outlook for timber markets is positive.

Brazilian pulp production continues to grow and charcoal markets are showing early signs of improving, albeit from a low base. In Uruguay expectations for a third pulp mill grow stronger while Chinese demand continues to support New Zealand log exports.

CONCLUSION

We are continuing to position the Company's investments to both maximise harvesting revenue and Net Asset Value growth so as to provide investors with a well-managed, cost effective international forestry fund. The Board believes Phaunos is being re-established as an attractive alternative investment and able to be considered as part of a diversified portfolio.

On behalf of the Board, I would like to express thanks to all involved in the Company, our Shareholders, clients, business associates and service providers. However, in particular, I would like to thank the team at Stafford for their persistent hard work and their astute judgement and expertise built up over many years working with this unique asset class.

As a consequence of this hard work, the Group has made immense progress over the last two years, which is reflected in these interim accounts. This provides a solid base for the long-term strategic vision for Phaunos and its future.

As Chairman, I hugely appreciate the opportunities I have to talk to Shareholders and I value your perspectives and insights on our Company. I can be contacted through the Manager or the Administrator. With the Board and the Manager I continue to look forward to the attractive future returns and growth that we believe Phaunos is capable of delivering.

Sir Henry Studholme Bt

Chairman

22 August 2016

Radiata Pine, Matariki, New Zealand.

1. INTRODUCTION

The 2016 Interim Report marks the second anniversary of Stafford's appointment as the Manager of Phaunos Timber Fund Limited. In 2014 we set out to reduce the Company's operational costs, increase revenues, and reduce the overall portfolio risk through the sale of higher risk assets. We have now largely achieved these objectives although we are still expecting variation in revenues generated from the South American assets, particularly Mata Mineira. This was not unexpected but it does highlight the relatively small size of the Phaunos portfolio and its reliance on revenues from a few mature assets.

Highlights of the last six months include the following:

- The Net Asset Value has increased to US$299.4 million (31 December 2015: US$278.8 million), with a $17.4 million uplift attributable to favourable foreign exchange movements and US$8.3 million attributable to realised gains on the sale of assets (Figure 1);
- The Net Asset Value per share has increased from 49 cents to 54 cents (Figure 2);
- During the period under review the Company has bought back 8.97 million shares. There has been a 4% improvement to the share price discount to NAV;
- Operational and investment expenses reduced by 21% over the half year from US$3.9 million (30 June 2015) to US$3.1 million (30 June 2016);
- The net cash position has increased from US$25.6 million (31 December 2015) to US$50.3 million (30 June 2016) following the partial sale of Greenwood Tree Farm Fund LP and sale of Green Resources A.S.;
- Portfolio debt has reduced from 23% to 1.5% following the recapitalisation of Matariki contributing to an increase in distributions from this asset over the first half of this year; and
- The ongoing re-balancing of the portfolio risk profile away from higher risk, greenfield assets towards lower risk, mature assets.

At the half-year mark we are tracking in accordance with our cost reduction programme that we anticipate will reduce annual costs to approximately US$8 million. We are expecting a small budget surplus at year-end, despite reduced harvesting revenues from Mata Mineira which we anticipate will be countered by increased distributions from Matariki.

Looking ahead, in the second half of 2016 we will continue to focus on the share buyback programme and portfolio re-investment. Additionally, the Board and Stafford will develop a five-year strategic plan for the Company to be presented to Shareholders in late 2016 in advance of the 2017 continuation vote.

Figure 1: Cash flows from operations and investments

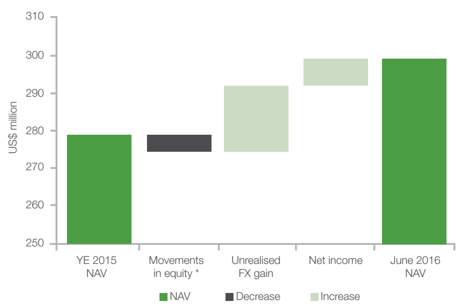
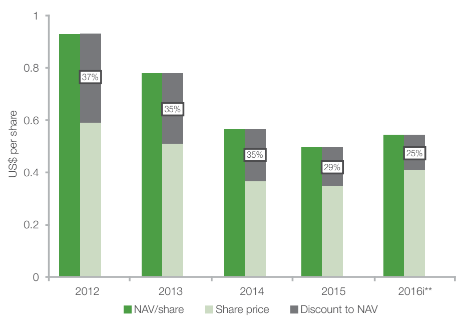


Figure 2: NAV and share price performance



* Includes share buybacks
** "i" refers to interim

2. VALUATIONS

As detailed in Table 1, the total unaudited NAV for the Group at 30 June 2016 was US$299.4 million. This represents an increase of US$20.6 million, or 7.4% to the audited NAV at 31 December 2015 of US$278.8 million. The total NAV at 30 June 2016 is based on the 31 December 2015 NAV with adjustments in wholly owned subsidiary and associates values attributable as set out below. All underlying assets are independently valued on 31 December each year.

Table 1: Movements in NAV for the period ended 30 June 2016

Assets	Opening NAV 31 Dec 2015	Movements in Investments & Equity[1]	Foreign Exchange Gains/ (Losses)	Valuation Gains/ (Losses)	Net income/ (expenses)	Closing NAV 30 Jun 2016	% of NAV 30 Jun 2016
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	
Core Assets							
Matariki	124,997	(2,015)	4,763	4,021	–	131,766	44.0%
Mata Mineira	27,971	–	6,855	–	103	34,929	11.7%
Eucateca	22,452	–	5,322	–	(627)	27,147	9.1%
Aurora Forestal	27,910	–	–	287	–	28,197	9.4%
Pradera Roja	25,237	(5,800)	(1)	–	(10)	19,426	6.5%
Subtotal	228,567	(7,815)	16,939	4,308	(534)	241,465	80.7%
Non-core Assets	40,655	(26,657)	(20)	(4,000)	8,280	18,258	6.1%
Parent Company Cash on hand and other assets	9,539	30,368	438	–	(662)	39,683[2]	13.2%
Total Group NAV	**278,761**	**(4,104)**	**17,357**	**308**	**7,084**	**299,406**	**100.0%**
No. of Ordinary Shares	566,099,832					557,134,832	
NAV per Ordinary Share	US$0.49					US$0.54	

[1] Includes movements in working capital investments, return of capital, share capital and the warrant instrument reserve.
[2] This includes funds in non-operating subsidiaries.

3. KEY EVENTS FOR THE FIRST HALF OF 2016

Disposal of underlying assets of the Greenwood Tree Farm Fund LP (“GTFF”)

The Company announced in the 2015 Annual Report that an expected US$13 million to US$15 million would be distributed to Phaunos from GTFF in 2016. In April 2016 the first payment of US$13.4 million for the partial sale of Boardman Tree Farm was received; a further payment of US$3.4 million was received in late June 2016. Agreement has been reached between the major Shareholders to liquidate the remaining assets of GTTF. It is expected that further distributions will be made to Phaunos as the remaining assets of GTFF are sold over the coming years.

Sale of Green Resources A.S. (“GRAS”)

Phaunos announced on 27 April 2016 the sale of its shareholding in GRAS. The divestment of this East African investment is in line with Stafford’s strategy of re-balancing the risk profile of Phaunos. The sale returned US$8.3 million to the Company, and ended its operational exposure to Africa.

Portfolio debt reduced from 23% to 1.5% of the Net Asset Value

Through the completion of the Matariki debt recapitalisation, the partial sale of the GTFF assets and the sale of GRAS, overall portfolio debt has reduced from 23% to 1.5% over the period. The now lower level of debt, supported by revenues from harvesting and reduced expenses, is expected to result in future increased distributions from the underlying assets.

Increase in the Net Asset Value

Phaunos’ indicative NAV over the 6 months to 30 June 2016 increased by US$20.6 million from US$278.8 million to US$299.4 million, a 7.4% increase on the 31 December 2015 NAV including US$17.4 million of unrealised foreign exchange gains driven by the appreciation of the Brazilian Real and the New Zealand Dollar.

4. PORTFOLIO CONSTRUCTION

Stafford's management objective, supported by the Board, has been to re-balance Phaunos' risk profile away from higher risk, greenfield assets towards lower risk, mature assets. This has been achieved through the targeted sale of assets considered to be of higher risk and the opportunistic sale of medium risk assets. Figures 3 and 4 illustrate the evolving portfolio risk profile between December 2015 and June 2016.

Late in 2015 Green China and portions of the Eucateca teak and Pradera Roja estate were sold. In addition to the receipt of the proceeds from the aforementioned disposals, Phaunos also received the entire purchase consideration from the disposal of its shares in GRAS (US$8.3 million) and a distribution from the part sale of GTFF (US$16.8 million).

Stafford continues to seek interested parties for the sale of immature, non-yielding assets, such as the Eucateca Teak estate and remaining Pradera Roja properties.

Discussions will also continue with the GTFF management team regarding the expected timeline of the fund liquidation. We anticipate that the process will take two to four years, as it requires the gradual conversion of harvested plantation into farmland and the sale of the remaining assets within the fund.

Figure 3: Portfolio risk based on 31 December 2015 NAV

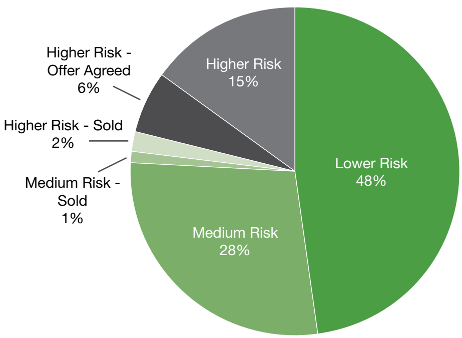
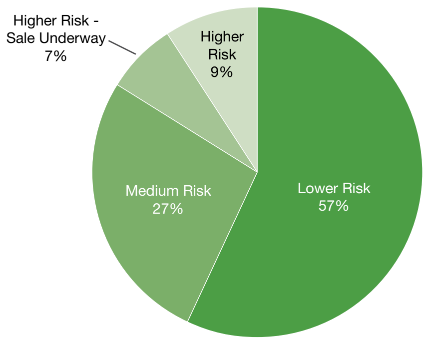


Figure 4: Portfolio risk based on 30 June 2016 NAV



5. CASH FLOW

Phaunos' total cash as at 30 June 2016 was US$50.3 million (31 December 2015: US$25.6 million). The improved cash position is primarily attributable to capital distributions from GTFF (US$16.8 million), proceeds from the sale of Phaunos' shares in GRAS (US$8.3 million) and distributions from Matariki (US$1.6 million) and Aurora (US$1 million).

Phaunos' net cash flows are close to break-even point with distribution and harvesting cash inflows of US$3.8 million and timber and investment cash outflows of US$2.8 million for the period. This is despite reduced harvesting revenue for Mata Mineira and Eucateca.

The Company's strong cash position enables us to continue to allocate funds to the share buyback programme.

As anticipated, revenues for 2016 are lower due to the Mata Mineira one-off supply contract which boosted harvesting revenues in 2015. This has been partially offset by ongoing cost reductions (Figure 5). Figure 6 details the cash flows from asset sales and share buybacks.

Figure 5: Cash flows from operations and investments

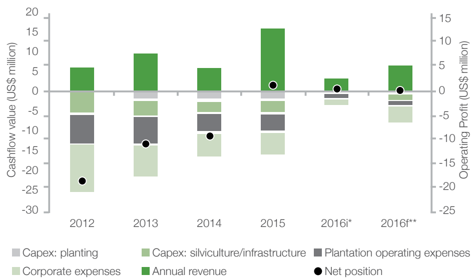
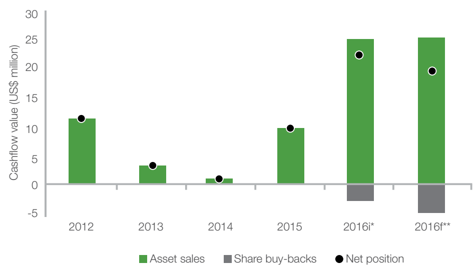


Figure 6: Cash flows from asset sales and share buybacks



* "i" refers to interim data
** "f" refers to forecasted data

6. LOOKING AHEAD & CONCLUSION

Stafford is pleased with the progress made in the past six months, in particular improved cost control, the divestment of GRAS, the partial disposal of the assets of GTFF, and the completion of Matariki's debt recapitalisation. These successes have reduced Phaunos' risk profile further and improved the Company's cash position.

As we move into the second half of 2016 questions regarding the Company's growing cash surplus, and how it should be used are being considered. A key focus will be to continue the share buyback programme. On re-investment, Stafford is assessing an opportunity to enhance returns by making a small (<US$6 million) additional investment into an existing project within the Phaunos portfolio although no firm investment commitments have been made to date.

At the June 2016 AGM Shareholders approved a one-year continuation of the Company. Stafford's priority for the remainder of 2016 is to develop a five-year strategic plan for the Company, in collaboration with the Board. This presentation will be released to Shareholders in late 2016 and, if appropriate, will be used to put forward the case for a five-year continuation of the Company's life on which Shareholders will vote in 2017.

We will continue to focus on net cash generation from the underlying portfolio and we look forward to the opportunities and challenges ahead.

Stafford Capital Partners Limited

22 August 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

We confirm that to the best of our knowledge:

a) the Unaudited Condensed Interim Financial Report and Unaudited Consolidated Financial Statements for the period ended 30 June 2016 have been prepared in accordance with International Accounting Standard (IAS) 34 *'Interim Financial Reporting'* as adopted by the European Union;

b) the Unaudited 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 Unaudited 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	Ian M. Burns
Director	Director

22 August 2016

Loblolly Pine, Aurora Forestal, Uruguay.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 30 JUNE 2016

	Note	30 June 2016 Unaudited US$'000	30 June 2015 Unaudited US$'000
Revenue from timber operations	3	96	9,088
Cost of sales	4	(34)	(5,976)
Gross profit		**62**	**3,112**
Other operating income		102	100
Timber operating expenses	5	(1,069)	(1,554)
Timber operating profit/(loss)		**(905)**	**1,658**
Investment income	6	1,963	1,509
Investment operating expenses	7	(2,061)	(2,316)
Operating profit/(loss)		**(1,003)**	**851**
Net gains/(losses) on financial assets at fair value through profit or loss	9	5,071	(21,847)
Realised gain on sale of assets		8,287	–
Profit/(loss) before tax		**12,355**	**(20,996)**
Income tax expense		(225)	(660)
Profit/(loss) for the period		**12,130**	**(21,656)**
Other comprehensive income/(loss)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods (net of tax)			
Exchange differences on translation of foreign operations		12,618	(12,578)
Other comprehensive income/(loss), net of tax		**12,618**	**(12,578)**
Total comprehensive income/(loss), net of tax		**24,748**	**(34,234)**
		Cents	**Cents**
Basic and diluted earnings/(loss) per Ordinary Share for the period	8	2.16	(3.82)

The notes on pages 21 to 43 form an integral part of these unaudited interim consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2016

	Note	30 June 2016 Unaudited US$'000	31 Dec 2015 Audited US$'000
Assets			
Non-Current Assets			
Financial assets at fair value through profit or loss	9	177,369	191,099
Biological assets	9	29,113	23,352
Land	9	40,509	35,421
Other assets		236	237
Trade and other receivables	12	1,256	1,010
		248,483	**251,119**
Current Assets			
Cash and cash equivalents	11	50,270	25,617
Trade and other receivables	12	3,514	4,436
Inventories		27	3
		53,811	**30,056**
TOTAL ASSETS		**302,294**	**281,175**
Equity and Liabilities			
Equity			
Issued capital	13	443,866	443,866
Treasury shares	13	(6,566)	(3,176)
Retained earnings		(201,363)	(212,780)
Foreign currency translation reserve		(53,059)	(65,677)
Land revaluation reserve		4,001	4,001
Distributable reserve	13	110,418	110,418
Warrant instrument reserve	14	2,109	2,109
TOTAL EQUITY		**299,406**	**278,761**
Current Liabilities			
Trade and other payables		2,888	2,414
		2,888	**2,414**
TOTAL LIABILITIES		**2,888**	**2,414**
TOTAL EQUITY AND LIABILITIES		**302,294**	**281,175**
Ordinary Shares in Issue		557,134,832	566,099,832
		US cents	**US cents**
Net Asset Value per Ordinary Share		54	49

The notes on pages 21 to 43 form an integral part of these unaudited interim consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 30 JUNE 2016

	Attributed to equity holders of the parent							
	Issued capital	Treasury Shares	Retained earnings	Foreign currency translation reserve	Land revaluation reserve	Distri-butable reserves	Warrant Instrument Reserve	Total Equity
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
As at 1 January 2015	443,866	(2,819)	(201,362)	(38,357)	8,078	110,418	1,461	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)**
As at 30 June 2015	**443,866**	**(2,819)**	**(223,018)**	**(50,935)**	**8,078**	**110,418**	**1,461**	**287,051**
As at 1 January 2016	443,866	(3,176)	(212,780)	(65,677)	4,001	110,418	2,109	278,761
Profit for the period	–	–	12,130	–	–	–	–	12,130
Other comprehensive income	–	–	–	12,618	–	–	–	12,618
Total comprehensive income	**–**	**–**	**12,130**	**12,618**	**–**	**–**	**–**	**24,748**
Adjustment (refer to note 9.3)	–	–	(713)	–	–	–	–	(713)
Buy back of ordinary shares	–	(3,390)	–	–	–	–	–	(3,390)
As at 30 June 2016	**443,866**	**(6,566)**	**(201,363)**	**(53,059)**	**4,001**	**110,418**	**2,109**	**299,406**

The notes on pages 21 to 43 form an integral part of these unaudited interim consolidated financial statements.

Charcoal kilns, Mata Mineira, Brazil.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 30 JUNE 2016

	Note	30 June 2016 Unaudited US$'000	30 June 2015 Unaudited US$'000
Operating activities			
Net profit/(loss) before tax		12,355	(20,996)
Adjustments to reconcile net (profit)/loss before tax to net cash flows	pg. 20	(12,787)	25,273
		(432)	4,277
Working capital adjustments			
Decrease in trade and other receivables		830	2,773
Increase in trade and other payables		474	1,635
(Increase)/decrease in inventories		(24)	556
		1,280	4,964
Income tax paid		(225)	(698)
Net cash flows from operating activities		**623**	**8,543**
Investing activities			
Net cash flows from investing activities	pg. 20	**27,418**	**(472)**
Financing activities			
Payment for buy back of shares		(3,390)	–
Net cash flows from financing activities		**(3,390)**	**–**
Net increase in cash and cash equivalents		**24,651**	**8,071**
Cash and cash equivalents at beginning of period		25,617	14,920
Effect of foreign exchange rate changes on cash and cash equivalents		2	2
Cash and cash equivalents at end of period	11	**50,270**	**22,993**

The notes on pages 21 to 43 form an integral part of these unaudited interim consolidated financial statements.

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 30 JUNE 2016

	Note	30 June 2016 Unaudited US$'000	30 June 2015 Unaudited US$'000
Adjustment to reconcile (profit)/loss before tax to net cash flows			
Depletion	4	–	5,184
Depreciation and amortisation		36	229
Dividends and distributions received	6	(1,450)	(1,357)
Interest income	6	(513)	(152)
Realised gain on sale of investments		(8,287)	–
Effect of foreign exchange rate changes on financial assets at fair value through profit or loss	9	(4,763)	16,585
Effect of foreign exchange rate changes on other non-cash financial assets and liabilities		2,498	(565)
Net (gain)/loss on financial assets designated at fair value through profit or loss (excluding foreign exchange)	9	(308)	5,262
Other adjustments		–	87
Adjustments for non-cash items	pg 19	**(12,787)**	**25,273**

	Note	30 June 2016 Unaudited US$'000	30 June 2015 Unaudited US$'000
Investing activities			
Return of capital and disposal of assets:			
Dividends and distributions received	6	1,450	1,357
Interest income	6	513	152
Return of capital from financial assets	9	18,088	55
Third party repayments on the disposal of assets		(154)	–
Proceeds from sale of investments		8,287	–
		28,184	**1,564**
Purchase of assets and silviculture costs:			
Purchase of financial assets	9	–	(1,090)
Silviculture and other biological asset costs	9	(764)	(877)
Increase in other prepaid land lease		–	(69)
Purchase of plant and equipment and other		(2)	–
		(766)	**(2,036)**
Net cash flows from investing activities	pg 19	**27,418**	**(472)**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2016

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 2016 were authorised for issue in accordance with a resolution of the Directors on 22 August 2016.

Phaunos Timber Fund Limited is a limited company incorporated and domiciled in Guernsey and whose shares are publicly traded on the London Stock Exchange. The registered office is located at 11 New Street, St Peter Port, Guernsey, GY1 2PF. Phaunos is an authorised closed-ended, investment scheme and is managed by Stafford Capital Partners Limited (the "Manager" or "Stafford"). The Group 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 2016 have been prepared in accordance with International Accounting Standard ("IAS") 34: Interim Financial Reporting, as adopted by the European Union together with applicable and regulatory requirements of Company (Guernsey) Law, 2008, and the listing rules of the London Stock Exchange Main Market.

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 2015 ("2015 Annual Report").

There have been no changes to the Company's subsidiaries during the period.

The interim consolidated financial statements are presented in US Dollars and are rounded to the nearest thousand US Dollars (US$'000) except where otherwise indicated.

Certain comparative information has been reclassified where appropriate to enhance comparability. The reclassifications are regarded as immaterial individually and in aggregate.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE PERIOD ENDED 30 JUNE 2016

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

2.2 Going Concern

Based on the cash reserves currently available at the time of approving the interim consolidated financial statements, the Directors are satisfied that the Company and the Group have sufficient resources to continue in operational existence for the foreseeable future, being a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis of accounting in preparing the interim consolidated financial statements.

The Directors have also considered the implications of the continuation vote on the application of the going concern basis as described below.

At the 2016 AGM of the Company a resolution was passed that the Company continue in existence until the 2017 AGM at which time the Directors propose putting a further continuation resolution to Shareholders. The Directors have considered the implications of the continuation vote on the application of the going concern basis. At the time of approving the interim consolidated financial statements, the Directors consider that it is more likely than not that the 2017 continuation vote will be passed and thus that the Company will continue. The Directors therefore consider that it is appropriate for the interim consolidated financial statements to be prepared on the going concern basis of accounting for a period of 12 months following the signing of these interim consolidated financial statements. Nevertheless, the outcome of the continuation vote remains uncertain. This represents a material uncertainty, which may cast doubt as to the likelihood of the Company continuing as a going concern notwithstanding Phaunos' current strong liquidity and solvency positions.

The interim consolidated financial statements do not include the adjustments that would result if Shareholders do not approve the continuation vote and the Company is unable to continue as a going concern.

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 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2016, they do not have a material impact on the annual consolidated financial statements of the Group or the interim consolidated financial statements of the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2016

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

New Pronouncements Issued as at 30 June 2016

The nature and impact of each new standard or amendment relating to new pronouncements issued as at 30 June 2016 is described below:

New or amended pronouncement	Nature and scope of new or amended pronouncement	Effect on the interim consolidated report
IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception - Amendments to IFRS 10, IFRS 12 and IAS 28	The amendments address three issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption in paragraph 4 of IFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are consequently measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to maintain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.	The amendments are consistent with how the Group has consolidated its financial statements. Hence, no impact to the interim condensed consolidated financial statements.
IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28	The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business that is defined in IFRS 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.	No subsidiaries have been sold or contributed to an associate or joint venture during the period. Additionally, the Group does not have any joint ventures. Moreover, no sales of assets not constituting a business have occurred in the current period. Consequently, there is no impact to the interim condensed consolidated financial statements.
IAS 1 Disclosure Initiative – Amendments to IAS 1	The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, the existing IAS 1 requirements. The amendments clarify: • The materiality requirements in IAS 1 • That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated • That entities have flexibility as to the order in which they present the notes to financial statements • That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss. Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.	All clarifications have been considered in the preparation of the interim report. No material impact to the interim report has been noted.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2016

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

Annual Improvement Cycle 2012 - 2014

These improvements are effective from 1 January 2016 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 7 Financial Instruments: Disclosures – Servicing contracts	The amendment clarifies that a servicing contract that contains a fee can constitute ongoing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement alongside the guidance for continuing involvement in IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendment.	No additional disclosures are required and hence there is no impact to the interim condensed consolidated financial statements.
IAS 34 Interim Financial Reporting	The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g. in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.	All disclosures have been appropriately included by the in the interim condensed consolidated financial statements.

3. REVENUE FROM TIMBER OPERATIONS

	30 June 2016 Unaudited US$'000	30 June 2015 Unaudited US$'000
Income – standing timber sales	96	8,924
Income – resin and other sales	–	164
	96	**9,088**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2016

4. COST OF SALES

	30 June 2016 Unaudited US$'000	30 June 2015 Unaudited US$'000
Cost of sales – standing timber	34	137
Depletion	–	5,184
Resin amortisation	–	655
	34	**5,976**

5. TIMBER OPERATING EXPENSES

	30 June 2016 Unaudited US$'000	30 June 2015 Unaudited US$'000
Direct timber costs		
Property management fees	336	715
Depreciation and amortisation	36	94
Property, repairs and maintenance	5	57
	377	**866**
Indirect timber costs		
Professional fees	235	202
Other taxes	101	89
Accounting fees	98	104
Other timber costs	79	186
Legal fees	72	69
Foreign exchange losses	64	39
Audit fees	43	(1)
	692	**688**
Total timber operating expenses	**1,069**	**1,554**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2016

6. INVESTMENT INCOME

	30 June 2016 Unaudited US$'000	30 June 2015 Unaudited US$'000
Distribution income	1,450	1,357
Interest income	513	152
	1,963	**1,509**

7. INVESTMENT OPERATING EXPENSES

	30 June 2016 Unaudited US$'000	30 June 2015 Unaudited US$'000
Other expenses	742	837
Portfolio management fees	482	359
Administration fees	211	175
Fees paid to auditors for audit services	152	180
Legal fees	138	59
Directors' remuneration	110	143
Professional fees	64	256
Corporate advisory fees	54	80
Travel expenses	45	9
Directors', Officers' and other insurance	19	49
Occupancy expenses	18	115
Accounting fees	16	22
Directors' expenses	10	32
	2,061	**2,316**

8. EARNINGS/(LOSS) PER SHARE

The basic and diluted earnings per Ordinary Share are based on the net gain for the period attributable to Ordinary Shareholders of US$12.1 million (30 June 2015: US$ 21.7 million loss for the period) and 562,760,978 (30 June 2015: 567,149,832) Ordinary Shares, being the basic weighted average number of Ordinary Shares in issue during the period.

During 2014 and 2015 the Company issued warrants to Stafford to subscribe for an aggregate of 20 million shares in the Company as part of the Portfolio Management Agreement, as disclosed in Note 14. 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 not deemed to be dilutive for the period and have not impacted the basic earnings 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2016

9. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

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

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

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 2016 Unaudited US$'000	31 Dec 2015 Audited US$'000
Financial assets at fair value through profit or loss		
Associates	159,963	152,908
Other financial assets	17,406	38,191
	177,369	**191,099**
Non-financial assets		
Biological assets	29,113	23,352
Land	40,509	35,421
	69,622	**58,773**
Fair Value at the end of the period	**246,991**	**249,872**

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 9.5.

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 end of each reporting period. There were no transfers between Levels during the period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2016

9. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (continued)

9.2 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 2016 (Unaudited)	Associates US$'000	Other financial assets US$'000	Biological assets US$'000	Land US$'000	Total US$'000
Opening fair value	**152,908**	**38,191**	**23,352**	**35,421**	**249,872**
Unrealised gain/(loss) included in profit or loss:					
Revaluation	4,308	(4,000)	–	–	308
Foreign exchange translation	4,763	–	–	–	4,763
	9,071	(4,000)	–	–	5,071
Unrealised gain/(loss) included in other comprehensive income:					
Foreign exchange translation	–	–	4,997	5,088	10,085
	–	–	4,997	5,088	10,085
Purchases, issues, sales and other movements:					
Purchases and other costs	–	–	764	–	764
Return of capital	(1,303)	(16,785)	–	–	(18,088)
Adjustment to cost	(713)	–	–	–	(713)
	(2,016)	(16,785)	764	–	(18,037)
Closing fair value	**159,963**	**17,406**	**29,113**	**40,509**	**246,991**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2016

9. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (continued)

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

At 31 December 2015 (Audited)	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**	**48,685**	**58,281**	**303,798**
Reclassifications:					
Unrealised gain/(loss) on revaluation	–	(486)	1,314	–	828
Unrealised gain on foreign exchange translation	–	486	–	–	486
Depletion	–	–	(1,314)	–	(1,314)
	–	–	–	–	–
Total gains or losses for the year:					
Unrealised gain/(loss) included in profit or loss:					
Revaluation	7,039	2,350	(2,165)	–	7,224
Foreign exchange translation	(15,940)	–	–	–	(15,940)
	(8,901)	2,350	(2,165)	–	(8,716)
Unrealised gain/(loss) included in other comprehensive income:					
Land revaluation surplus on disposal of assets	–	–	–	904	904
Revaluation	–	–	–	(4,981)	(4,981)
Foreign exchange translation	–	–	(13,301)	(11,523)	(24,824)
	–	–	(13,301)	(15,600)	(28,901)
Impairment included in profit or loss:					
Revaluation	–	–	–	(1,983)	(1,983)
	–	–	–	(1,983)	(1,983)
Purchases, issues, sales and other movements:					
Purchases and other costs	–	1,182	3,265	–	4,447
Depletion	–	–	(9,273)	–	(9,273)
Resin amortisation	–	–	(263)	–	(263)
Disposals*	–	–	(1,116)	(5,277)	(6,393)
Return of capital	–	(273)	–	–	(273)
Adjustment to cost	(91)	–	–	–	(91)
	(91)	909	(7,387)	(5,277)	(11,846)
Biological assets transferred due to equity sale:**	–	–	(2,480)	–	(2,480)
Closing fair value	**152,908**	**38,191**	**23,352**	**35,421**	**249,872**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2016

9. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (continued)

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

***Disposal of land and biological assets**

During the 2015 financial year, Eucateca sold two of the four teak estate properties for a total of US$2.7 million, which gave rise to a realised gain on disposal of US$1 million.

Pradera Roja also sold three of the nine properties of the eucalyptus estate totalling US$4.2 million, which gave rise to a realised gain on disposal of $US0.5 million.

****Transfer of biological assets due to equity sale**

Green China sold 100% of the equity shares in its wholly owned subsidiary, Green Nature Forestry Company Limited ("GNFC") for a total of US$2.9 million on 31 December 2015. The sale gave rise to a realised gain on disposal of US$0.7 million. The sale includes the transfer of timberland owned and operated by Green China (Jiangxi) Forestry Company Limited ("GCJX"), a wholly owned subsidiary of GNFC, established in Jiangxi, China.

Harvesting, Aurora Forestal, Uruguay.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2016

9. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (continued)

9.3 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 2016 (Unaudited)	Associates US$'000	Other financial assets US$'000	Biological assets US$'000	Land US$'000	Total US$'000
Cost:					
Opening cost	155,362	109,040	88,974	63,733	417,109
Additions to cost	–	–	764	–	764
Disposals*	–	(64,273)	–	–	(64,273)
Return of capital	(1,303)	(16,785)	–	–	(18,088)
Write-off of loan**	–	(5,930)	–	–	(5,930)
Adjustment to cost***	(713)	–	–	–	(713)
Closing cost	153,346	22,052	89,738	63,733	328,869
Unrealised revaluation gain/(loss):					
Opening balance	747	(67,938)	(21,445)	4,001	(84,635)
Write-off of loan**	–	5,930	–	–	5,930
Unrealised gain on disposals of assets*	–	61,362	–	–	61,362
Unrealised gain/(loss) for the period	4,308	(4,000)	–	–	308
Closing unrealised gain/(loss)	5,055	(4,646)	(21,445)	4,001	(17,035)
Impairments:					
Opening balance	–	–	–	(4,239)	(4,239)
Closing impairments	–	–	–	(4,239)	(4,239)
Unrealised foreign exchange gain/(loss) on assets:					
Opening balance	(3,201)	(2,911)	(44,177)	(28,074)	(78,363)
Unrealised gain on disposals of assets*	–	2,911	–	–	2,911
Unrealised gain for the period	4,763	–	4,997	5,088	14,848
Closing unrealised foreign exchange gain/(loss)	1,562	–	(39,180)	(22,986)	(60,604)
Closing fair value	**159,963**	**17,406**	**29,113**	**40,509**	**246,991**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2016

9. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (continued)

9.3 Reconciliation of cost to fair value (continued)

***Disposal of Green Resources**

These reversals relate to the initial balances recorded in cost, unrealised valuation loss, and unrealised foreign exchange loss, which have now been reversed due to the disposal of Green Resources.

****Masarang loan**

In 2009 a loan to Masarang was fully provided against. This loan has been written-off in 2016 with no impact to the Statement of Comprehensive Income.

*****Adjustment for Matariki October 2013 Share Redemption**

In October 2013, 861,350 preference shares were redeemed at a value of NZ$1 per share. This translated to US$0.7 million. The transaction was incorrectly recorded as distribution income in 2013 as opposed to being treated as a return of capital. Accordingly, in the current year this has been corrected by adjusting opening retained earnings and reducing the cost of the investment.

Co-generation plant, Aurora Forestal, Uruguay.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE PERIOD ENDED 30 JUNE 2016

9. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (continued)

9.3 Reconciliation of cost to fair value (continued)

At 31 December 2015 (Audited)	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	–	1,182	3,265	–	4,447
Reclassification of Depletion	–	–	(1,314)	–	(1,314)
Depletion – current year	–	–	(9,273)	–	(9,273)
Resin amortisation	–	–	(263)	–	(263)
Disposals	–	–	(1,116)	(5,277)	(6,393)
Biological assets transferred due to equity sale	–	–	(9,575)	–	(9,575)
Return of capital	–	(273)	–	–	(273)
Adjustment to cost	(91)	–	–	–	(91)
Closing cost	155,362	109,040	88,974	63,733	417,109
Unrealised revaluation gain/(loss):					
Opening balance	(6,292)	(69,802)	(28,183)	8,078	(96,199)
Reclassification of unrealised revaluation gains/(losses)	–	(486)	1,314	–	828
Biological assets transferred due to equity sale	–	–	7,589	–	7,589
Land revaluation surplus on disposal of assets	–	–	–	904	904
Unrealised gain/(loss) for the year	7,039	2,350	(2,165)	(4,981)	2,243
Closing unrealised gain/(loss)	747	(67,938)	(21,445)	4,001	(84,635)
Impairments:					
Opening balance	–	–	(524)	(2,256)	(2,780)
Biological assets transferred due to equity sale	–	–	524	–	524
Unrealised loss for the year	–	–	–	(1,983)	(1,983)
Closing impairments	–	–	–	(4,239)	(4,239)
Unrealised foreign exchange gain/(loss) on assets:					
Opening balance	12,739	(3,397)	(29,858)	(16,551)	(37,067)
Reclassification of unrealised foreign exchange gains	–	486	–	–	486
Biological assets transferred due to equity sale	–	–	(1,018)	–	(1,018)
Unrealised loss for the year	(15,940)	–	(13,301)	(11,523)	(40,764)
Closing unrealised foreign exchange loss	(3,201)	(2,911)	(44,177)	(28,074)	(78,363)
Closing fair value	**152,908**	**38,191**	**23,352**	**35,421**	**249,872**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE PERIOD ENDED 30 JUNE 2016

9. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (continued)

9.4 Valuation process

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

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

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

Investments in associates are measured at fair value based on the NAV of the associate as reported by the underlying manager. Such NAVs are prepared on a fair value basis. The NAV of each associate includes assets valued annually by an independent external appraiser. These appraisals, which are reviewed by the Manager and Directors use the methods described in ii) below. The Manager and the Directors consider whether any adjustment is required to the reported NAV to reflect the price that would be obtained from selling a unit of each investment in an ordinary transaction to a willing buyer.

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 Manager's 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 recommend adjustments to determine fair value. Any adjustments are subject to approval by the Board.

ii. Valuation of land and biological assets

Land and biological assets held by operating subsidiaries are carried at fair value at 30 June 2016. In line with common industry practice, the fair value is based on the value determined by independent external valuers and, where appropriate, adjusted by the Directors based on the Manager's recommendation.

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

Valuations are carried out annually as at 31 December and valuers are rotated after a three year period. While rotation is not obligatory, any variation from this policy will require approval by the Audit and Valuation Committee of the Board.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE PERIOD ENDED 30 JUNE 2016

9. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (continued)

9.4 Valuation process (continued)

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.

Each valuation 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 it is only one of a number of key inputs into one of the three methodologies often used to define value. Growth increases can often be offset by changes in log prices, as well as changes to discount rates or operational costs.

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

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

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.

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 2015 have not been adjusted in the interim consolidated financial statement.

9.5 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 2016 and 31 December 2015 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).

9. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (continued)

9.5 Significant unobservable inputs and sensitivity analysis (continued)

Asset	Fair Value 30 June 2016 US$'000	Fair Value 31 Dec 2015 US$'000	Valuation method	Valuation source	Significant unobservable inputs	Range[1]	Sensitivity rate[2]	Inter-relationship between significant unobservable inputs and fair value measurement
Associates	**159,963**	**152,908**	NAV at fair value	Underlying manager based on independent appraisals	NAV based on average log prices, discount rates and land prices	Average log price change[3] of ±5% (2015: ±5%) Average production cost change of ±5% (2015: ±5%) Discount rate change of ±1% (2015: ±1%) Average land price change[3] of ±5% (2015: ±5%)	±15% ±10% ±11% ±3%	The fair value would increase / (decrease) if the NAV of the underlying company increased or decreased due to: • estimated log prices being higher/(lower) • the risk-adjusted discount rates being lower/(higher) • estimated future overheads being lower/(higher) • land prices being higher/(lower)
Other Financial assets	**17,406**	**38,191**	NAV at fair value	Underlying manager based on independent appraisals	NAV at fair value	Discount rate change of ±1% (2015: ±1%)	10%	The fair value would increase / (decrease) if the NAV of the underlying company increased or decreased due to: • estimated log prices being higher/(lower)
Biological assets	**29,113**	**23,352**	Combination of the income and cost capitalisation and comparative sales approach	Independent appraisal	Timber prices per m^3 Discount rates[3]	Average log price change[3] of ±5% (2015: ±5%) Discount rate change of ±1% (2015:±1%)	±11% ±14%	The 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	**40,509**	**35,421**	Income and cost capitalisation approach	Independent appraisal	Land prices per hectare	Average land price change[3] of ±5% (2015: ±5%)	±5%	The estimates fair value would increase / (decrease) if: • land prices were higher/(lower)

[1] All discount rates shown in the table are real rates as opposed to nominal rates. All timber and land price ranges are those used by the valuer in determining the biological assets and land valuations.

[2] This is the expected maximum change, positive or negative, in NAV of any of the assets (in the respective asset class) which could be incurred as a result of a shift in the unobservable input.

[3] Log and land prices have been adjusted for growth rates, transport costs and liquidity.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2016

10. INVESTMENT IN ASSOCIATES

Matariki Forestry Group

The Company has 23.01% (31 December 2015: 35%) ownership and voting rights in Matariki, a forestry company which owns and/or leases forestry assets in New Zealand, where Matariki is incorporated. As a result of the debt recapitalisation, Phaunos' shareholding in Matariki, in percentage terms, has been reduced. However, the transaction is not dilutive to the value of the Phaunos' investment and Phaunos retains all key rights as detailed in the Shareholders' agreement with Rayonier.

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 2016, and a reconciliation of the fair value of Matariki, which is included in the total value of financial assets designated at fair value through profit or loss:

	30 June 2016 Unaudited US$'000	30 June 2015 Unaudited US$'000
Distributions		
Distributions received	**1,450**	**1,357**
Summary of Consolidated Income Statement for the period ended 30 June 2016		
Gross timber revenue	134,119	113,525
Profit/(loss) from continuing operations	20,336	(595)
Other comprehensive income/(loss)	17,236	(3,827)
Total comprehensive income/(loss)	37,572	(4,422)

	30 June 2016 Unaudited US$'000	31 Dec 2015 Audited US$'000
Summary of Consolidated Statement of Financial Position at 30 June 2016		
ASSETS		
Non-current Assets		
Biological assets	436,007	418,377
Property, plant and equipment	98,415	97,886
Other non-current assets	49,010	29,008
Total non-current assets	**583,432**	**545,271**
Total current assets	**34,150**	**17,081**
Total Assets	**617,582**	**562,352**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE PERIOD ENDED 30 JUNE 2016

10. INVESTMENT IN ASSOCIATES (continued)

Matariki Forestry Group (continued)

	30 June 2016 Unaudited US$'000	31 Dec 2015 Audited US$'000
LIABILITIES		
Total non-current Liabilities	16,670	16,046
Current liabilities		
Shareholder loans	98,634	66,310
Bank borrowings	–	160,703
Other current liabilities	28,267	28,468
Total current liabilities	**126,901**	**255,481**
Total Liabilities	**143,571**	**271,527**
Total Net Assets	**474,011**	**290,825**
Fair Value of Associate		
23.01% Share of Total Net Assets (2015: 35%)	109,070	101,789
23.01% Share of Shareholder Loans (2015: 35%)	22,696	23,208
	131,766	**124,997**

The balances in the above summaries are converted from New Zealand to US Dollars using the closing exchange rate of 1.4040 (31 December 2015: 1.4618) for the summary of consolidated statement of financial position. The average exchange rate of 1.4704 (30 June 2015: 1.3731) was used to convert the balances in the summary of consolidated income statement.

Aurora Forestal Limited

The Company has 23.57% (31 December 2015: 23.57%) ownership and voting rights in Aurora Forestal Ltd, a company incorporated in the British Virgin Islands, which has mixed aged pine plantations and a fully integrated sawmill and co-generation plant in Uruguay. The following is a summary of significant balances per Aurora Forestal's consolidated financial statements for the six months ended 30 June 2016, 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 2016 Unaudited US$'000	30 June 2015 Unaudited US$'000
Summary of Consolidated Income Statement for the period ended 30 June 2016		
Gross timber revenue	10,063	11,077
Profit/(loss) from continuing operations	1,207	(946)
Other comprehensive income	12	224
Total comprehensive income/(loss)	1,219	(722)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2016

10. INVESTMENT IN ASSOCIATES (continued)

Aurora Forestal Limited (continued)

	30 June 2016 Unaudited US$'000	31 Dec 2015 Audited US$'000
Summary of Consolidated Statement of Financial Position at 30 June 2016		
ASSETS		
Non-current Assets		
Biological assets	45,338	45,338
Property, plant and equipment	83,201	83,320
Other non-current assets	3,622	3,003
Total non-current assets	**132,161**	**131,661**
Total current assets	**7,134**	**9,012**
Total Assets	**139,295**	**140,673**
LIABILITIES		
Total non-current liabilities	10,639	9,952
Total current liabilities	9,023	12,306
Total Liabilities	**19,662**	**22,258**
Total Net Assets	**119,633**	**118,415**
Fair Value of Associate		
23.57% Share of Total Net Assets (2015: 23.57%)	**28,197**	**27,910**

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 were received during the current or comparative interim period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2016

11. CASH AND CASH EQUIVALENTS

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

	30 June 2016 Unaudited US$'000	31 Dec 2015 Audited US$'000
Cash at bank and in hand	49,303	22,946
Short-term deposits	932	399
Cash held by third parties	35	2,272
	50,270	**25,617**

12. TRADE AND OTHER RECEIVABLES

	30 June 2016 Unaudited US$'000	31 Dec 2015 Audited US$'000
Amounts falling due within one year:		
Amounts due from third parties on disposal of assets	1,466	1,558
Other receivables	1,296	31
Tax receivables	477	416
Trade receivables	202	1,428
Other prepayments	73	79
Dividend receivable from Associate	–	924
	3,514	**4,436**
Amounts falling due after one year:		
Amounts due from third parties on disposal of assets	1,256	1,010
	1,256	**1,010**
	4,770	**5,446**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2016

13. ISSUED CAPITAL AND RESERVES

Authorised shares

	US$
At 31 December 2015 and 30 June 2016:	
Unlimited Ordinary Shares of no par value	–

Ordinary Shares issued and fully paid

	31 Dec 2015 US$'000	Movement US$'000	30 June 2016 US$'000
Share Capital – Ordinary Shares	571,758	–	571,758
Less: Issue costs of Ordinary Shares	(17,474)	–	(17,474)
Less: Transfer to distributable reserve	(110,418)	–	(110,418)
Total Share Capital – Ordinary Shares	**443,866**	**–**	**443,866**
No. of Ordinary Shares	**566,099,832**	**(8,965,000)**	**557,134,832**

Treasury Shares

	31 Dec 2015 US$'000	Movement US$'000	30 June 2016 US$'000
Total Treasury Shares	**3,176**	**3,390**	**6,566**
No. of Treasury Shares	**5,115,045**	**8,965,000**	**14,080,045**

During the six months ended 30 June 2016, the Company purchased a total of 8,965,000 Ordinary Shares of no par value at a weighted average price of 37.8 cents per share which are held in treasury.

14. WARRANT INSTRUMENT RESERVE

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 "share-based management fee"). The equity-settled share-based payment entitles the Manager to the rights to subscribe for Ordinary Shares in the Company pursuant to a 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 (vested 1 July 2016)	1 July 2016 to 30 June 2019 (inclusive)	63 cents

The carrying amount of the warrant instrument reserve at 30 June 2016 is US$2.1 million or 10.55 cents per warrant. No warrants were exercised during the year; therefore 20 million warrants were outstanding at the reporting date.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2016

15. 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 2016 and 30 June 2015, as well as balances with related parties as at 30 June 2016 and 31 December 2015.

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	2016	Dividend income	–	–
	2015		–	924
Matariki Forestry Group	2016	Distribution income	1,450	–
	2015		1,357	–
	2016	Return of capital	1,303	–
	2015		–	–
Key management personnel of the Group:				
Directors within the Group	2016	Directors remuneration	(110)	–
	2015		(143)	–
Phaunos Boston Inc.	2016	Compensation	(162)	–
	2015		(383)	–
Phaunos Boston Inc.	2016	Employee benefit contributions (401K)	–	–
	2015		(64)	–
Stafford Capital Partners	2016	Portfolio Management Fees	(482)	(482)
	2015		(359)	(304)

16. EVENTS AFTER REPORTING PERIOD

Vesting of Warrant Instrument

Subsequent to 30 June 2016 the third and final tranche of Stafford's warrant vested as part of the Portfolio Management Agreement, as disclosed in Note 14. At no point between the issue of the warrants and the approval of the interim report has the strike price of the warrants been above the share price of the Company. As such, these warrants are not deemed to be dilutive for the period and have not impacted the basic earnings per share.

INVESTOR INFORMATION

COMPANY INFORMATION

Phaunos is a Guernsey domiciled authorised closed-ended investment scheme pursuant to section 8 of the Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended, and rule 6.02 of the Authorised Closed-ended Investment Scheme Rules 2008, and was incorporated in Guernsey on 28 September 2006 with an unlimited life.

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. Purchase and sale of Ordinary Shares may be settled through CREST.

The issued share capital of the Company as at 30 June 2016 was 557,134,832 Ordinary Shares (31 December 2015: 566,099,832) and 14,080,045 Ordinary Shares (31 December 2015: 5,115,045) were 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.

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

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