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PHAUNOS TIMBER FUND LIMITED

AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

19 April 2012 *For immediate release*

Phaunos Timber Fund Limited ("**Phaunos**" or the "**Company**"), the Authorised Closed-ended investment scheme managed by FourWinds Capital Management ("FWCM") established to invest in timberland and timber related assets on a global basis, today issues its audited results for the year ended 31 December 2011.

Highlights

	Year to 31 Dec 2011	**Year to 31 Dec 2010**
Net Asset Value ("NAV")	US$558.8 million	US$594.9 million
NAV per Ordinary Share	US$1.04	US$1.11
Dividends paid	US$10.7 million	-
(Loss)/Profit for the year	US$(9.6) million	US$20.7 million
(Loss)/Earnings per Ordinary Share	(1.78) cents	3.98 cents

- Revenue from timber operations and other investment income increased 70% to US$18.8 million due to increased timber sales by Mata Mineira and Green China and pellet mill sales by Forest Enterprises.
- Land and Timber values increased by US$22.0 million, largely attributable to Mata Mineira and Eucateca.
- The Board declared a 25% increase in the dividend to US$0.025 per Ordinary Share (2010: US$0.02), subject to shareholder approval.
- Net Asset Value ("NAV") decreased by US$36.1 million, or US$0.067 per Ordinary Share, largely due to the payment of the first dividend, unrealised losses in the revaluation of the Company's financial assets and unrealised net foreign currency translation losses as the US Dollar strengthened against foreign currencies towards the end of 2011.
- Phaunos' portfolio has achieved 56% certification by the Forest Stewardship Council ("FSC").
- The Company remains well positioned to benefit from the continued expansion of fast growing emerging economies:
    - 86% of Phaunos' portfolio is located in Brazil, Uruguay, East Africa, China and New Zealand.
    - The Company's largest investments are positioned to sell into the fast growing markets of South America, China, India and East Africa.
- In order to address the continued discount to NAV, and consistent with shareholder wishes, the Board continues to evaluate opportunities to realise the highest value from the portfolio through forestry operations and opportunistic disposal of assets.

Post year-end highlights

- Aurora Forestal's biomass co-generation plant came on line during Q1 2012 and is generating power and selling electricity into the power grid in Uruguay.

- GTFF announced that it is eligible to receive financial incentives totalling US$17 million from the US Department of Agriculture in order to establish hybrid poplar plantations in the US Pacific Northwest to support bio energy production.

Kimberly Tara, Chief Executive Officer of FourWinds Capital Management, commented on the results: "Wood prices in most parts of the world have continued their steady climb throughout 2011. Much of the demand has come from fast growing emerging economies, including Brazil, Uruguay, East Africa, China and New Zealand, which collectively represents 87% of Phaunos' portfolio highlighting the merits of our globally diversified strategy. Despite reporting a net loss of US$9.5 million for the financial year, attributable to unfavourable net foreign currency movements which reversed the positive impact incurred in the previous year, the underlying portfolio remains robust and is well positioned to capitalise on the continuing recovery anticipated across global timber markets. The portfolio is fully invested and has begun to generate cash in some assets and others will do so as the timber matures. Management focus continues to identify greater operating efficiencies and we believe the Company is well-positioned to meet its performance objectives."

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Notes to Editors

Phaunos is a Guernsey-domiciled closed-ended investment company authorised by the GFSC. Its ordinary shares are listed and traded on the Main Market of the London Stock Exchange. The Company's investment objective is to provide shareholders with attractive long term total returns, expected to be in the form of capital appreciation but with some income, through a diversified portfolio of timberland and timber-related investments.

The Company's investments are managed by FourWinds Capital Management.

The Company's portfolio consists of timberland and timber-related investments across 6 continents. As at 31 December 2011, the Company's estimated unaudited NAV was US$558.8 million (being US$1.04 per ordinary share).

The Company intends to seek investments that meet or exceed the guidelines set out in the Sustainable Forestry Initiative and, wherever possible and practicable, to certify the lands under the Forest Stewardship Council guidelines.

The Company's ticker is PTF.

Information on Phaunos Timber Fund Limited

Phaunos Timber Fund Limited (the "Company" or "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 Company has one class of shares in issue: US Dollar denominated ordinary shares ("Ordinary Shares"). The Ordinary Shares are admitted to the Official List of the UK Listing Authority ("Official List"), to trading on the Main Market of the London Stock Exchange plc ("LSE") and to listing and trading on the Channel Islands Stock Exchange ("CISX").

GLOSSARY OF TERMS

Portfolio investments

Aurora Forestal	Aurora Forestal Limited
BaltFor Timber	BaltFor Timber OU
Caldrey	Caldrey SA
Eucateca	Eucateca SA
Forest Enterprises	Forest Enterprises doo
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
Romfor Timber	SC Romfor Timber SRL

Currencies

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

Chairman's Statement

I would like to update our shareholders on Phaunos' progress during 2011. The portfolio continues to improve and move towards realising its full investment and cash flow potential.

Net Asset Value Performance

The NAV per Ordinary Share (after payment of the 2010 year-end dividend of US$0.02 per Ordinary Share during 2011) is US$1.04 at 31 December 2011, compared to US$1.11 at 31 December 2010 and US$1.16 at 30 June 2011 (unaudited). The decrease in NAV is largely attributable to the payment of the dividend totalling US$10.7 million, unrealised losses in the Company's financial assets US$8.0 million and net foreign exchange losses of US$20.9 million as the US Dollar strengthened against foreign currencies towards the end of 2011. The financial results table in the Financial Results section shows the performance of each investment relative to the NAV. The majority of these losses are unrealised.

Phaunos does not hedge its currency exposure and this exposes the Company to foreign exchange volatility. Phaunos holds assets in a number of global currencies and understands that its investors have different currency considerations. Research has indicated that a basket of globally diversified currencies will "self-hedge" over time. Therefore, the Directors do not believe at this time that it is appropriate to commit shareholders' funds to hedge the Company's currency exposure.

Share Price Discount

Despite the high quality of the assets in the portfolio, the Company's shares continue to trade at a discount of 33.65% (2010: 21.18%) to the NAV per Ordinary Share at 31 December 2011. Consistent with the wishes of the majority of shareholders, the Company's investment manager, FourWinds Capital Management (the "Investment Manager"), and the Board of Directors are working to realise the highest value from the portfolio through forestry operations and opportunistic disposition of assets. We will continue to evaluate every opportunity to generate distributions without jeopardising the Company's requirements for adequate cash to support operations.

Timberland is a long term asset. The Investment Manager and the Board of Directors continue to believe that solid operating performance paired with NAV growth over time will attract new investors and lead to a reduction in the discount. However, the Board continues to examine other methods to positively impact Phaunos' discount.

Revision of performance fee calculation

A performance fee accrual was included in the Interim Financial Report as of 30 June 2011 to reflect the NAV at that date. However, the performance fee is calculated on the basis of the NAV at each year end (see Note 25) and no performance fee has been paid nor is payable in respect of the year to 31 December 2011.

Discussions with the Investment Manager over how to further align the performance fee calculations with the interests of shareholders are on-going.

Sustainable dividend policy

The Company paid its first dividend of US$0.02 per Ordinary Share in July 2011 (being a final dividend in respect of the year ended 31 December 2010). Subject to shareholder approval at the forthcoming annual general meeting of the Company, the Board proposes to declare the payment in 2012 of a final dividend in respect of the year ended 31 December 2011 of US$0.025 per Ordinary Share. This represents an increase of 25% over last year's dividend and a yield of over 4% based on the market price of an Ordinary Share at the date of publication of this Annual Report.

Phaunos has invested in a mixed aged portfolio. Mature timber is harvested to generate cash flow. The immature standing timber continues to grow and add volume, available for harvest in future years which is reflected in the valuations in combination with pricing changes in each individual market.

Cash flow management

The Company's goal is to create an even-aged forest portfolio, which generates sustainable, consistent and predictable cash flow. However, from 2015 the harvestable area in the portfolio is expected to increase due to the maturation of green field plantations. The

Investment Manager is exploring ways to smooth the cash flows, including:

- Modest amounts of debt, repayable from scheduled future sales of timber;
- Sale of non-strategic or geographically remote assets; and
- Sale of younger assets, some of which were originally planted with the intention of selling to other timber investment managers or industrial buyers.

The Company expects to pursue one or more of these options during 2012. Only once excess cash beyond internal needs has been generated will the Board be in a position to make decisions on when and how to return capital to shareholders.

Phaunos sells into some of the fastest growing markets in the world

The portfolio is well positioned to continue to generate cash flow, especially as the world economies move to recovery. In 2011, Matariki and NTP made cash distributions to the Company totalling US$6.9 million, which is included in Investment Income in Note 4(b). During the first quarter of 2012, the Company received an additional US$1.9 million in distributions from its portfolio projects. Pradera Roja and Eucateca, which were originally greenfield projects, are now well established plantations. Eucateca's eucalyptus, which is grown on a seven year rotation, is roughly in mid-rotation and we anticipate sales of timber by 2015. Potential buyers from several local industries have indicated interest in buying Eucateca's eucalyptus. Pradera Roja is currently in the process of assessing the market for some small areas of mature eucalyptus. Forest Enterprises is able to sell all of its pellets into its targeted European markets. The Company continues to seek the disposal of this investment asset as part of a policy to dispose of non-core assets and focus on timber production. Forest Enterprises is receiving interest from potential buyers despite the difficult situation in European capital markets.

Many emerging economies continue to grow. Demand for wood products is correlated with both strong Gross Domestic Product ("GDP") growth and population growth, and Phaunos' portfolio is heavily weighted toward growth markets. Our largest investments are positioned to sell into fast growing markets in South America, China, India, and East Africa. 86%(1) of the portfolio is located in Brazil, Uruguay, East Africa, China, and New Zealand.

(1) Based on the percentage of NAV for related investments as shown in the Portfolio Summary table below.

The US housing market continues to challenge to those operations supplying North American markets, specifically NTP, GTFF and Aurora Forestal. These companies have developed, and continue to develop, additional markets and alternative products. Nevertheless, despite sluggish new household formations the US remains the largest log consumer in the world, using more than Brazil and China combined(2).

(2) Source: UN Food and Agriculture Organisation ("UN FAO")

Our investment mandate was to build a globally diversified portfolio for investors, and this we have accomplished. Our investments are split between 100% ownership of estates and joint ventures (see the Portfolio Summary table in the Report of the Investment Manager). Joint ownership provides greater diversification in the portfolio, access to attractive markets and more mature assets, as well as risk mitigation.

Phaunos manages to the highest environmental standards

The Company believes that Forest Stewardship Council ("FSC") currently represents the highest environmental standards for a multi-national portfolio. Wherever possible and practicable, Phaunos manages sustainable plantation forestry to FSC standards. Currently 56% of the portfolio is FSC certified. Matariki is now 100% certified. Mata Mineira is expected to become 100% certified in 2012. Green Resources, our East African investment, is currently 76% FSC certified. FSC certification requires companies to have a positive impact on the communities in which they operate, for instance, through funding clinics or civic projects. The Company meets or exceeds FSC guidelines for the ethical treatment of workers for the approximately 6,000 workers in its portfolio companies.

As its younger plantations mature and near harvest, the Company will pursue FSC certification on them, and the overall percentage of FSC certification in the portfolio can be expected to increase. However, it is important to understand that the Company manages to the same high standard whether or not the plantation is currently certified.

Phaunos' operating strategy aims to deliver shareholder value into the future

Phaunos is positioned to provide sustainable cash flow and NAV growth, based on its broadly diversified presence in global timber markets. The Board of Directors recognizes that the discount of the Ordinary Share price on the LSE to the NAV is one of our most important challenges, and continues to examine ways to close the gap. The Investment Manager remains focused on intensively managing the portfolio, selling assets opportunistically, and positioning the portfolio to realise its highest value.

Keith Oates
Chairman

12 April 2012

Directorate Changes

Press release issued 12 April 2012

The Board of Phaunos announces that its Chairman, Mr Keith Oates, who will reach the age of 70 in July 2012, has retired from the Board as of 12 April 2012, which is the date of the last Board meeting before his birthday. Sir Henry Studholme Bt, currently non-executive Director of Phaunos and Chairman of the Audit Committee, has been appointed as his successor.

Mr Oates said: "During my chairmanship, Phaunos has moved to full investment with a diversified portfolio in species and geography serving the fastest growing markets in the world and is poised to reap the rewards for shareholders. A progressive dividend is in place.

When the Phaunos Board was strengthened at the beginning of 2011 this was very much with succession in mind. I have every confidence that Sir Henry will lead the Company well with the support of the other excellent Board members recruited, to face the challenges and achieve the objectives for shareholders."

Sir Henry Studholme Bt said "Keith has ably chaired Phaunos over its first five years. His calm wisdom derived from long commercial experience and his strong sense of what is right and unswerving drive to make this happen with tact and patience have been an inspiration. His hard work on the shareholders' behalf in creating the exceptional international timber portfolio of Phaunos has been exemplary. He will be very much missed but he has left a firm foundation on which to build."

Kimberly Tara, CEO of FourWinds Capital Management, said, "We would like to thank Keith for his extraordinary leadership and dedication to the development and oversight of Phaunos. It has been a pleasure and a privilege to have had the opportunity to work with him. We are also very pleased with the appointment of Sir Henry as his successor. Sir Henry brings considerable experience and timber expertise to the Company as well as continuity."

Financial Results
At 31 December 2011

At 31 December 2011, the Company held a total of twelve investments in timber and timber-related investments globally (investments collectively known as the "Portfolio"). Four investments represent minority positions, two are loans and the remaining six are investments where Phaunos is the majority or sole investor.

Minority owned investments and joint ventures are classified as financial assets at fair value through profit or loss ("financial assets"). Majority owned investments ("operating subsidiaries") are consolidated on a line by line basis.

The effect of the different accounting treatments for financial assets and operating subsidiaries on the consolidated financial statements can be summarised as follows:

	Financial Assets	Operating Subsidiaries
Consolidated Statement of Comprehensive Income		
Effect of revaluations of 'growing timber'	Included in 'operating profit/(loss) before taxation' as 'net gain/(loss) on financial assets designated at fair value through profit or loss'. Included in 'earnings per share'.	Included in 'operating profit/(loss) before taxation' as 'revaluation of biological assets'. Included in 'earnings per share'.
Effect of revaluations of land	Included in 'operating profit/(loss) before taxation' as 'net gain/(loss) on financial assets designated at fair value through profit or loss'. Included in 'earnings per share'.	Included in 'other comprehensive income' as 'revaluation of land'. Not included in 'earnings per share'. Revaluation below cost included in 'operating profit/(loss) before taxation' and 'earnings per share'.
Foreign exchange differences on translation to US dollars	Included in 'operating profit/(loss) before taxation' as part of 'net gains on financial assets designated at fair value through profit or loss'. Included in 'earnings per share'.	Included in 'other comprehensive income' as 'exchange differences on translation of operating subsidiaries'. Not included in 'earnings per share'.
Consolidated Statement of Financial Position		
Classification	Investment shown as 'financial assets designated at fair value through profit or loss'.	Assets and liabilities consolidated on a line by line basis.
Assets held for sale	Investment shown as 'asset held for sale'.	All assets and liabilities of the subsidiary are 'assets held for sale' and 'liabilities held for sale'.
Schedule of Investments		
Classification	Included at fair value.	Operating subsidiary value not reported separately.

These differences in accounting treatments lead to a lack of comparability between the two classes of investments. For this reason, the Directors are of the opinion that a clearer view of the investments is provided by the financial results table which shows the valuation of each investment together with an analysis of the NAV movement for the year.

The total NAV of the Company at 31 December 2011 was US$558.8 million (2010: US$594.9 million). This equates to a NAV of US$1.04 per Ordinary Share (2010: US$1.11 per Ordinary Share).

The NAV of the Company decreased by US$36.1 million or US$0.067 per Ordinary Share, due to the following:

Category	US$ million
Revaluation of biological assets and land (wholly-owned subsidiaries)	22.0
Revaluation of financial assets (excluding foreign currency movements)	(8.0)
Foreign exchange	(20.9)
Net operating expenses (including taxation)	(18.5)

Dividends paid	(10.7)
Total NAV movement	**(36.1)**

- Net unrealised gains of US$22.0 million for the revaluation of biological assets and land for wholly owned subsidiaries largely attributable to Mata Mineira and Eucateca.
- Net unrealised losses of US$8.0 million (excluding foreign exchange) for the revaluation of financial assets, including the impact of a decline in the New Zealand carbon credit market and losses on Matariki's financial instruments. This was offset by distributions of US$6.3 million received by the Company from Matariki during the year. Aurora also reports a minor loss as Aurora's distributions were larger than the increase in the fair value of Aurora's land and timber. These losses are expected to reverse in time as timber continues to grow, pricing improves and general economic conditions encourage the rebound of carbon credit market prices.
- Net foreign exchange losses of US$20.9 million which includes total unrealised losses of US$20.7 million due to a strengthening of the US Dollar against most currencies towards the year end, particularly the Brazilian Real and Norwegian Krone.
- Net operating expenses including taxation of US$18.5 million. Revenue from timber operations and other investment income increased by US$7.7 million to US$18.8 million due to increased timber sales by Mata Mineira and Green China and pellet mill sales by Forest Enterprises.
- Fund-level expenses US$11.1 million includes the Investment Manager's base fee of US$8.5 million. Direct cost of sales and other timber costs incurred by the operating subsidiaries totalled US$20.4 million.
- Dividends paid of US$10.7 million, being the Company's first dividend paid during 2011 as a final dividend in respect of the year ended 31 December 2010.

Financial Results

at 31 December 2011

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

Company	NAV Ordinary	Acquisitions/	Unrealised Gain/(Loss)				Foreign Exchange	Realised	Movement in	NAV Ordinary	% of NAV
	Shares 31 Dec 2010 US$'000	(Return of funds) US$'000	Land US$'000	Biological Assets US$'000	Financial Assets US$'000	Foreign Exchange US$'000	Translation Differences US$'000	Foreign Exchange US$'000	retained earnings US$'000	Shares 31 Dec 2011 US$'000	31 Dec 2011
Phaunos (3)	48,536	(9,972)	-	-	-	-	5	(157)	(14,405)	**24,007**	**4.30**
Matariki (4)	147,142	-	-	-	(7,014)	434	-	-	-	140,562	25.16
Green Resources	96,058	-	-	-	-	(2,332)	-	-	-	93,726	16.77
GreenWood Tree Farm	35,843	1,727	-	-	(836)	-	-	-	-	36,734	6.57
Aurora Forestal	33,830	-	-	-	(495)	-	-	-	-	33,335	5.97
Total Minority-owned investments										**304,357**	**54.47**
NTP	10,807	-	-	-	357	-	-	-	-	11,164	2.00
Masarang (5)	-	-	-	-	-	-	-	-	-	**-**	**-**
Total Loans and Deposits										**11,164**	**2.00**
Mata Mineira	96,435	1,200	-	14,961	-	-	(12,214)	-	(1,085)	99,297	17.77
Eucateca	65,526	3,839	1,282	6,435	-	-	(7,592)	-	(4,880)	64,610	11.56
Pradera Roja	31,050	1,090	1,730	(1,410)	-	-	-	(14)	(271)	32,175	5.76
Green China	19,929	-	-	(964)	-	-	777	(13)	(5,040)	14,689	2.63
Other operating subsidiaries (6)	9,767	2,116	-	-	-	-	185	20	(3,609)	8,479	1.51
Total Operating Subsidiaries										**219,250**	**39.23**
NAV of Ordinary Shares	**594,923**	**-**	**3,012**	**19,022**	**(7,988)**	**(1,898)**	**(18,839)**	**(164)**	**(29,290)**	**558,778**	**100.00**
							Total Foreign Exchange Losses	**(20,901)**			

(3) Includes the financial results for Romfor Timber and BaltFor Timber for the period. The majority of Romfor Timber's capital was returned to Phaunos during the period and it is intended to liquidate the subsidiary during Q3 2012. The liquidation and return of capital for BaltFor Timber was completed in Q3 2011.

(4) The Company received distributions totaling US$6.3 million from Matariki during the year. This is included in Phaunos' movement in retained earnings.

(5) The Board has reviewed the loan to Masarang and concluded it prudent to continue assessing the fair value at nil, given the uncertainty surrounding the ability of Masarang to repay. As a result, the investment in Masarang is valued at nil at 31 December 2011 and 31 December 2010.

(6) Includes the financial results for Caldrey and Forest Enterprises, which is classified as an Asset Held for Sale.

Foreign currency translation effects

Given the global diversification of the Portfolio, unrealised(7) currency gains and losses on translation of the Group's investments and non-US Dollar denominated subsidiaries has impacted on the Company's NAV since its inception. The cumulative impact to Phaunos' NAV, from inception to 31 December 2011, was a cumulative gain of US$12.8 million or 2.29% of the total NAV at that date as shown in the table below.

Reporting Date	Cumulative currency translation effects (8)	Net Asset Value	% of NAV
	US$'000	US$'000	
31 December 2011	12,790	555,705	2.29%
30 June 2011	63,579	621,591	10.23%
31 December 2010	33,527	594,923	5.64%
30 June 2010	(3,924)	560,473	(0.70%)
31 December 2009	14,262	575,038	2.48%
30 June 2009	(3,301)	491,100	(0.67%)
31 December 2008	(8,467)	494,995	(1.71)
30 June 2008	359	479,233	0.07%
31 December 2007	93	478,600	0.02%

(7) Cumulative realised currency losses US$3.3 million have been excluded from the analysis above.

(8) 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.

Investment Objective and Policy

The Company's investment objective is to provide shareholders with attractive long term total returns, predominantly expected to be in the form of capital appreciation but with some income, through a diversified portfolio of timberland and timber-related investments.

Diversification and Asset Allocation

The Company's portfolio is, and will continue to be, diversified through investment in a broad range of investment strategies and vehicles including, but not limited to, investment in a variety of tree species, tree age classes and a diversified range of geographic timberland markets in order to provide sustainable returns, control volatility and manage risk.

In order to maintain flexibility, there are no predetermined geographic limits on investments made by the Company. The investment focus of the Company includes both investments in well established markets and investments in less developed timberland markets or countries where the Investment Manager believes the benefits of the timberland investments outweigh any country risk. The Company will invest in at least four different regions of the world. No single country (or region of the US) will represent more than 40% of the gross assets of the Company and no continent more than 60% of its gross assets.

The Investment Manager seeks to accomplish this investment objective by (i) seeking exposure to timberland and timber-related investments on a global basis; (ii) seeking to control risk through portfolio diversification, investment vehicle selection and implementation of risk control strategies and (iii) seeking portfolio diversification by tree species, age classes and geographic timberland markets.

Generally, the Company will not invest in securities carrying unlimited liability and no single investment or investment in the securities of one company may, at the time of acquisition, exceed 30% of the gross assets of the Company. For these purposes, where the Company invests in a portfolio of assets, each underlying individual asset shall be treated as a single investment and where the Company invests by means of a holding company, joint venture or similar investment or investment vehicle, each underlying property or similar asset shall be treated as a single investment.

Where the above restriction is breached subsequent to the acquisition of an investment as a result of an event outside of the control of the Investment Manager or the Board, no further relevant assets may be acquired by the Company until it can comply with the restriction.

It is the intention of the Company to seek investments that meet or exceed the guidelines set out in the Sustainable Forestry Initiative and, wherever possible and practicable, to certify the lands under the FSC guidelines.

Hedging

In order to hedge against interest rate risks or currency risk, the Company may, where appropriate, also enter into forward interest rate agreements, spot or forward currency agreements, interest rates and bond futures contracts and interest rate swaps and, in addition, purchase and enter into put or call options on interest rates or currency rates and put or call options on futures of interest rates or currency rates.

Although the intention is to remain substantially invested, the Investment Manager may exercise its discretion to hold cash or cash equivalent instruments (including but not limited to bank deposits, bonds or government issued treasury securities) for the purpose of protecting the capital value of the Company's cash assets.

Gearing

The Company's Articles of Incorporation permit maximum borrowings of up to 25% of the Company's NAV. The Directors do not intend to borrow, save for short term liquidity and working capital requirements, to facilitate the Company's over-commitment policy and to fund share buybacks. However, if the Directors deem it prudent, the Company may borrow for longer term purposes.

The Company may also use timber-related instruments such as financial futures, options, warrants and swaps, the return on which is linked to timber-related indices or other timber-related instruments or vehicles. Such timber-related instruments may be used either for cash management purposes or as part of the Company's investment structures.

Since not all of the Company's investments are income generating the Company may also retain a proportion of the Company's assets in cash or near-cash investments for working capital purposes.

General

The Company will comply with certain investment restrictions for so long as they remain requirements of the UK Listing Authority ("UKLA") as set out in more detail below.

The Directors do not currently intend to propose any material changes to the Company's investment policy, save in the case of exceptional or unforeseen circumstances. As required by the Listing Rules of the UKLA, any material change to the investment policy of the Company will only be made with the approval of shareholders.

Investment Restrictions

The Company will comply with the following investment restrictions for so long as they remain requirements of the UKLA:

1. The Company and any of its subsidiaries will not conduct a trading activity which is significant in the context of its group as a whole. This does not prevent the businesses forming part of the Portfolio from conducting trading activities themselves;

2. Not more than 10% in aggregate of the value of the total assets of the Company at the time of its admission to the Official List and to trading on the LSE may be invested in other listed closed-ended investment funds, except that this restriction shall not apply to investments in closed-ended investment funds which themselves have published investment policies to invest no more than 15% of their total assets in other listed closed-ended investment funds;

3. The Company will notify to a regulatory information service, within five business days of the end of each quarter, a list of all investments in other listed closed-ended investment funds, as at the last business day of that quarter, which themselves do not have stated investment policies to invest no more than 15% of their total assets in other listed closed-ended investment funds; and

4. To ensure a spread of investment risk the Company will avoid:

   a) cross financing between the businesses forming part of its Portfolio including, for example, through the provision of undertakings or security for borrowings by such businesses for the benefit of another; and

   b) the operation of common treasury functions as between the Company and investee companies.

In the event of any breach of investment restrictions applicable to the Company, shareholders will be informed of the actions to be taken by the Investment Manager by an announcement issued through a regulatory information service.

Report of the Investment Manager

The Investment Manager, FourWinds Capital Management, reports on Phaunos' achievements, activities and developments during the year ended 31 December 2011.

2011 Portfolio Highlights (9)

(9) See the Financial Results table above for details on the movements in value of each investment.

Matariki: The Company continues to hold a significant minority position in Matariki. Matariki had a mixed year, exceeding prior year revenues, due to strong demand in China; however sales in volume and price terms to China were both lower during the second half of 2011. Matariki experienced higher operating costs, losses on the value of its carbon credits due to the decline in the New Zealand carbon market and losses on financial instruments used for internal cash management. As a result, the value of the Company's investment in Matariki was down 4.47% at 31 December 2011, which is offset by income distributions received by Phaunos from Matariki of US$6.3 million. Harvesting operations are on-going on the properties and, since 31 December 2011, Phaunos has received additional distributions from Matariki of US$1.9 million. Matariki has completed its FSC certification and is now 100% certified. In addition, Matariki acquired 6,279 gross hectares of timberland at the Selwyn Plantation during 2011. This acquisition helps to even the distribution of harvestable age class volumes across the entire Matariki estate and increases the total gross hectares of Matariki to over 189,000 hectares.

Mata Mineira: The Company owns 100% of Mata Mineira. The value of Mata Mineira was up 1.70% at 31 December 2011, including the effect of foreign currency movements, which were negative US$12.2 million. The value of the biological assets on Mata Mineira increased US$16.6 million, while land values showed a decline of US$1.5 million. We continue to harvest mature timber and sell production into the pig iron smelting and silicon production industries. Additional contracts with buyers in diversified industries are on-going. Cash flow from operations was used for capital improvements on the property during 2011, as expected. We expect Mata Mineira to be 100% FSC certified in the second quarter of 2012.

Green Resources: The Company continues to hold a significant minority investment in Green Resources, which consists of mixed age, mixed species plantations with a sawmill and two utility pole plants in East Africa. The value of the Company's investment in Green Resources was down 2.43% at 31 December 2011, due to the effect of foreign currency on revaluation of the investment. During 2011, Green Resources generated cash which was reinvested in the project.

Green Resources consists of both cash-generating operations and significant greenfield opportunities. During 2011, Green Resources planted a record 6,443 hectares, bringing the total area of its plantations to 21,438. The new utility pole plant in Uganda was cash flow positive in its first full year of operation. The new sawmill and kilns at Sao Hill Industries, its industrial operation in Tanzania, are almost complete and are expected to be fully operational in the second quarter of 2012. All of Green Resources' Ugandan operations are FSC certified, as is the Niassa plantation in Mozambique. In fact, Niassa is the first plantation in Mozambique to earn FSC certification, an important accomplishment. Aggressive planting, capital expenditures, and industrial upgrades continued to present funding challenges. However, there is considerable and growing interest among investors and Green Resources' management is working closely with them to secure financing for additional growth. Phaunos was granted a second seat on the Green Resources board of directors during 2011.

Eucateca: The Company owns 100% of Eucateca, originally a greenfield project in Mato Grosso, Brazil, and now consisting of well-established plantations of both teak and eucalyptus. The US dollar value of the Company's investment in Eucateca was down 6.85% at 31 December 2011, due primarily to the effect of foreign currency movements and despite increases in both land and biological asset values. The value of Eucateca increased in local currency terms.

Harvesting operations on the eucalyptus are expected to commence in 2015, and Eucateca has already attracted the attention of potential buyers from the Brazilian pulp and fuel wood users. During 2011, Eucateca completed its transition to new onsite management, which continues to focus on cost control and improved silvicultural practices. Eucateca's plantations have reached their maintenance regime and costs are within the benchmark estimates for the region. The new railroad terminal being built adjacent to its largest property is nearing completion, which broadens the appeal of the wood supply to buyers and should help to reduce shipping costs. Additionally, Eucateca entered into an agreement in 2011 for compensation for construction of power easements (i.e. the right to install power lines) through one of its plantations, as infrastructure in the region continues to develop. The transaction was completed in Q1 2012. Eucateca plans to seek FSC certification before harvesting begins.

Net reserves against amounts due to the Company from AP Servicos, Eucateca's former onsite manager, have been increased by US$1.5 million at 31 December 2011, which includes the reinstatement of reserves against its loan to AP Servicos due to repayments received. The Company anticipates no additional reserves relating to AP Servicos going forward. The Company will continue to pursue the recovery of value through appropriate recourse.

GTFF: The Company owns a significant minority position in GTFF, which consists of mixed age poplar plantations in the Pacific Northwest US. The value of the Company's investment in GTFF was down 2.23% at 31 December 2011. During 2011 GTFF generated cash which was reinvested to improve the ultimate returns of the project. GTFF originally targeted its product to the US housing market and, in light of that market's weakness, has identified other opportunities. Because of poplar's hypoallergenic property, certain markets including pencil stock, are providing improved profit margins. Cost reduction programs include improved pruning methodology, reduced power and irrigation costs, and improved insect and weed control. In fact, costs of power and irrigation, weed and pest control came in under budget for the year. Very significant reductions to rotation time are anticipated by implementing pole planting (as opposed to planting seedlings), which reduces the time to revenue recognition, increasing project returns. Certain assets are being considered for disposal to reduce costs and concentrate the operational footprint. In addition, GTFF is eligible to receive financial incentives estimated to total US$17 million from the US Department of Agriculture in order to establish approximately 778 acres per year of hybrid poplar plantations as a feed stock for cellulosic ethanol and bio-based chemical production. A bio-refinery is planned for construction on properties adjacent to GTFF operations. Payments are anticipated to begin in 2012.

Aurora Forestal: The Company owns a significant minority investment in Aurora Forestal, which consists of mixed age pine plantations (100% FSC certified), and a sawmill in northern Uruguay. The US Dollar value of the Company's investment in Aurora Forestal was down 1.46% at 31 December 2011 as the company's 2011 dividends exceeded the increase in fair value of Aurora's land and timber. During 2011 Aurora Forestal generated cash which was reinvested to improve the ultimate returns of the project.

During the four years of our partnership with Aurora Forestal, it has achieved the following successes: First, annual sales and annual volume have increased approximately 50% over the period. Second, land prices have risen significantly in the region. Third, the sawmill upgrade has been completed. Finally, its sales markets have been expanded into Asia and Europe. During Q1 2012 the 5.0 megawatt biomass co-generation plant came on line and is generating electricity, which it is selling into the Uruguayan power grid. The plant runs on waste wood from the mill. Almost all of its capacity is already sold, therefore enhancing Aurora Forestal's cash flow generated from a diversified source. Phaunos anticipates the receipt of both 2011 and 2012 dividends from Aurora Forestal during Q2 and Q4 2012.

Pradera Roja: The Company owns 100% of Pradera Roja, originally a greenfield project in Southern Uruguay, and now well-established eucalyptus plantations. The US Dollar value of the Company's investment in Pradera Roja was up 0.11% at 31 December 2011. The value of its biological assets went down because pricing of both sawlogs and pulp declined in its markets.

The plantations continue to be healthy and grow well. In many stands, the tree canopy is almost closed, which will decrease weed competition and increase growth. Cattle grazing has begun on the plantations, which reduces weeds and fire risk, and improves community relations. Limited harvesting is anticipated in 2012, and those stands will be replanted after harvesting.

Green China: The Company owns 100% of Green China, which consists of mixed age pine and fir plantations. The US Dollar value of the Company's investment in Green China was down 26.29% at 31 December 2011, including the effect of foreign currency movements. The loss at year end is primarily attributable to the higher discount rate applied to the project by the appraiser, which in turn was due to the increased perceived risk in the Chinese timberland market in the wake of the Sino Forest allegations, despite the fact that Green China's business model is fundamentally different from Sino Forests'. This resulted in unrealised losses to the NAV, considered the result of short-term turmoil, which should reverse when global markets regain confidence in the Chinese markets. Additionally, the Company revised downward its estimate of certain harvestable volumes on the properties.

Cost levels relative to the scale of the operations continue to be high, despite significant savings achieved in 2011. Harvesting and resin-tapping operations are on-going on the properties, and Green China was able to take advantage of very favourable resin prices during 2011. Green China was able to obtain a harvesting quota for mature timber harvesting, as well as for commercial thinning. During 2011 Green China generated cash which was reinvested to improve the ultimate returns of the project and to fund operations. The Investment Manager continues to work with in-country service providers to restructure and reduce costs. Importantly, all documentation required for the legal operation and ownership of the timber was obtained for the project.

As disclosed in the Interim Financial Report as at 30 June 2011, Green China does not use any third party entities outside of the control of the Phaunos group to sell its products. All revenue contracts held by the Green China operating subsidiary are transparent to Phaunos, and this provides a complete audit trail for all transactions. All Forestry Resource Certificates (forestry ownership documents) are held centrally in the property manager's Beijing office with electronic copies at the offices of the Investment Manager in Boston.

NTP: NTP continues to buy timberland close to urban areas, These are divided into smaller properties and marketed for residential and recreational use. In 2011 the market has been challenging for the sale of second home properties. However, the loans continue to accrue and distribute interest.

The following are summaries of the Portfolio at 31 December 2011:

Portfolio Summary

Company	Description	Geography	% of Ownership	% of NAV 31 Dec 2011
1. Matariki	Mixed age pine plantations, six estates, currently with over 189,000 hectares	New Zealand	Minority holding	25.16
2. Mata Mineira	Mature and mixed age eucalyptus plantations in Minas Gerais, Brazil, currently with over 19,000 hectares	East Central Brazil	100.00	17.77
3. Green Resources	Mixed age, mixed species plantations, currently with over 21,000 productive hectares and rights to plant more than 200,000 hectares	East Africa	Minority holding	16.77
4. Eucateca	Greenfield teak and eucalyptus plantations in Mato Grasso, Brazil, currently with 17,210 hectares	West Central Brazil	100.00	11.56
5. GreenWood Tree Farm	Four mixed age poplar plantations, currently with over 14,000 hectares and a new sawmill	NW USA	Minority holding	6.57
6. Aurora Forestal	Joint venture in a sawmill and mixed age pine plantations, currently with 19,500 hectares	Northern Uruguay	Minority holding	5.97
7. Pradera Roja	Greenfield plantation project for fast growing eucalyptus, currently with 12,000 hectares	Southern Uruguay	100.00	5.76
8. Green China	Mixed age pine and fir plantations, currently with 6,500 hectares	China	100.00	2.63
9. NTP	Loans on timber properties	SE USA	Minority holding	2.00
10. Forest Enterprises	Plant producing wood pellets	Serbia	100.00	1.19
11. Caldrey	Timber harvesting company	Southern Uruguay	100.00	0.33
12. Masarang (10)	Loan: commercial forestry project with social and environmental goals	Indonesia	100.00	-
13. Other (11)	Cash reserves held for committed projects and working capital	Europe	100.00	4.29
		Total Portfolio Value		**100.00%**

(10) The Board has reviewed the loan to Masarang and concluded it appropriate to keep the provision against the full value, given the uncertainty surrounding the ability of Masarang to repay.
(11) Includes cash reserves held at the Company level and by Romfor Timber.

Impact of Markets on Valuations

The Phaunos group owns 100% of almost 55,000 hectares, and owns approximately half a million additional hectares via its minority holdings. Within the wholly-owned and co-investment interests of Phaunos, almost 6,000 people are employed, often on a part-time or consulting basis. The Company continues to concentrate on generating increased cash flow from operations, which is appropriate at this stage of the portfolio maturation. Cost cutting and maximising efficiency are primary objectives for the Portfolio, and are on-going. The Investment Manager is in the process of implementing a Forestry Management Information System ("FMIS") across the Portfolio in 2012 in order to standardise reporting and better manage the Portfolio. The FMIS is a suite of functions that allows Phaunos to report, store, manipulate, and grow the Portfolio's forest data (e.g. age, species, silvicultural history, volume, etc). It is also a useful mapping tool for logistical planning and feasibility studies when conducting what-if scenarios.

One of the Company's strengths is its diversification. However, this diversification makes it more difficult to understand how markets impact the value of the assets. For instance:

Uruguay: Phaunos' Northern Uruguay asset, Aurora Forestal, is comprised of pine, which formerly targeted the US housing market. The depressed US market depresses the value appraisers assign to the wood on Aurora Forestal going forward, and therefore exerts downward pressure on the appraised value of the standing wood. However, the completion of the co-generation plant has enhanced Aurora Forestal's value.

In Southern Uruguay, Pradera Roja grows eucalyptus. Currently we are planning to direct Pradera Roja's wood toward the sawtimber market which is a developing (not well developed) market. Both sawtimber and pulp prices are down significantly in the region and appraisers tend to be very conservative when valuing plantations early in their rotations. Both of these factors exert a downward pressure on the project's valuation. However, the market outlook for Southern Uruguay is still very positive and the result was a moderate increase in land values in 2011. This, coupled with the biological growth on the farms, exerted upward pressure on the valuation. The Investment Manager constantly evaluates its alternatives regarding optimal end markets, taking these factors into consideration. A further positive sign for the market has been the recent spike in greenfield projects; greenfield projects indicate that investors have confidence in the future of the market. The lack of mature plantations in the region further works to enhance Pradera Roja's value as it matures.

Brazil: The Company holds two assets in Brazil, Eucateca in the west, and Mata Mineira in the east. Mata Mineira in Minas Gerais has experienced a slight downturn in prices very recently, mainly due to reduced pig iron exports to China. The sale of eucalyptus to make charcoal for use in the pig iron industry is an important market for Mata Mineira. However, the strong biological growth of this short rotation eucalyptus, plus the creation of new plantations, resulted in an increase in timber value despite lower pricing. Eastern Brazil is a fairly mature timber market with moderate expansion predicted over the next decade and land values are expected to increase as well.

In western Brazil, at Eucateca which is also growing short rotation eucalyptus, the wood is heading to local Brazilian end users, primarily in the agricultural or pulp industries. Eucateca showed a surge in both timber and land valuations at the 2011 appraisal. Increased timber prices and reports of new markets and end uses bode well for increased prices in the future. As the western Brazil markets become further developed, more appetite is evidenced for land capable of growing teak and eucalyptus which should result in increasing land prices.

New Zealand: The Company's largest investment is Matariki in New Zealand. The New Zealand market has surged in the last two years due to the growth of the Chinese economy. In the second half of 2011, growth in China slowed and operational costs increased, so prices moderated somewhat but were still up significantly year over year. The market for radiata pine is expected to flatten out over the future with smaller but steadier increases. Available land for growing timber is limited in New Zealand, and this coupled with continued demand for timber has kept land prices strong.

China: The economy of China may be slowing, but it is still among the strongest growth markets in the world. The timber markets remain vibrant in China, and all indications are that this will continue. However, the business environment in China can be difficult to navigate, and the Green China valuation has suffered from the stigma of the recent Sino Forest and China Forestry Holdings scandals. The perceived risk is now greater in China and has resulted in appraisers applying higher discount rates to valuations. On the positive side, the documentation and certification of Green China's assets should support the value of the Green China plantations as investors increasingly require higher standards of documentation when investing in China.

East Africa: Fundamentals in East Africa, where the Company invests in Green Resources, have encouraged some market watchers to call it "the next Uruguay" in timberland investing. Significant industrial investments, especially in the pulp and paper industry, are forecast for the region. Currently the entire product produced in our East African plantations is sold into local markets. Local GDP growth is some of the highest in the world as forecast by the IMF. However, East Africa's proximity to India and even China make those markets eventual targets. Prices continue to rise and in some markets, for instance Uganda, prices are at very high levels.

Foreign Exchange

The Company is US Dollar-denominated. The currencies in which our largest investments are held are the New Zealand Dollar, the Brazilian Real, and the Norwegian Krone. The Brazilian Real and the Norwegian Krone both weakened against the US Dollar towards year-end. Foreign exchange movements reduced the NAV by US$20.9 million at 31 December 2011 or US$0.038 cents per Ordinary Share. The Investment Manager believes that a portfolio broadly diversified in a range of currencies will be self-hedging over the long run, but volatility from period to period is to be expected. Timberland investing is a long-term investment, so it can be expected that the movements in foreign exchange will eventually be self-cancelling. Under these circumstances the Investment Manager believes that any benefits of hedging the Portfolio are outweighed by the costs and consequently the Company does not hedge.

Cash Flow

The cash held at 31 December 2011 was US$28.3 million. Of that amount US$10.9 million was held within operating subsidiaries. During 2011, the cash generated from the Portfolio's operations was US$18.5 million. The amount of cash generated by operations is steadily increasing and is expected to continue to do so as the Portfolio matures and is managed toward even-aged and sustainable harvesting. At the same time the Investment Manager aims to maintain sufficient liquidity in the Company to meet its liabilities in order to fund operations, including the use of short term borrowings if appropriate.

Environmental Stewardship

The Company is committed to the highest environmental standards and the portfolio is 56% FSC certified. The Investment Manager's goal is 100% FSC certification where possible. When certification is not practicable, the Investment Manager intends to manage to the same standard of stewardship and responsibility.

Effect of IFRS on Reported Results

It is important to note that, consistent with IFRS guidelines, wholly-owned operating company expenses (that is, costs associated with work on the plantations) are included in the Consolidated Statement of Comprehensive Income, in addition to the Company level expenses. These need to be adjusted for when computing the total expense ratio of the Company. As these expenses represent the internal management costs of the subsidiary companies they should not be included in any analysis of Company level expenses. Total expenses have been split into three sections in Note 5 of the 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 for the year to 31 December 2011 were US$11.1 million or 1.97% of the NAV at 31 December 2011.

Risk Mitigation

The diversification in the Portfolio provides some risk mitigation: multiple markets, multiple currencies, and geographically dispersed properties. However, that broad diversification also presents challenges since each project provides exposure to different market and regulatory risk. Financial, operational, legal, title and expropriation risks can be present in some markets. Phaunos is uniquely structured as a timber investment entity without a fixed life to participate advantageously across a variety of business models, and this is necessary to accomplish global exposure.

For instance, co-investment is a long-standing method of mitigating risk in the timber investment management industry and Phaunos has invested alongside other institutional investors in projects like Matariki. This provides greater diversification than a single investment of the same dollar value could provide. In the Matariki example, Phaunos' operating risk is also diversified across six plantations on the two islands of New Zealand. Our original investment of approximately US$117.5 million could have bought only a fraction of the land mass if invested individually, which would mean decreased operating diversification and increased risk concentration. Additionally, through this investment, Phaunos will benefit from cost efficiencies across a broader land base, as the same management structure is spreading costs across a larger company.

In addition to geographic diversification and co-investing, the Company sometimes chooses to work with an integrated management company, where management is a significant shareholder. The Company believes this mitigates the operational risk of losing local management.

We believe that the "unlimited life" structure of Phaunos is superior to investing via limited or fixed term funds when working in developing timberland markets, because the start-up and investment periods of these funds are usually significant and it is not economically optimal to sell portfolio assets so shortly after they have been assembled. Shorter term structures, such as ten-year funds, can force liquidation just when the value curve is climbing. In Phaunos, our unlimited life allows us to manage the Portfolio to its highest value for investors.

Diversification of the Investment Portfolio

Phaunos is diversified by geography, species, age class (merchantable versus pre-merchantable timber), and by type of market. Geographic diversification makes the Portfolio less vulnerable to various types of physical risk: fire, insects or disease, and provides access to different markets. Species diversification provides exposure to different kinds of markets, e.g. pulp, saw wood, etc. Age class diversification allows for sustainable harvesting to produce distributions going forward (always considering the relative value between harvesting today versus next year). Market diversification positions the Portfolio to prosper across different economic regions. In addition, we continue to believe that a global basket of currencies has an inherent self-balancing mechanism over the long term and therefore our general policy is not to hedge currency exposure.

Summary

Phaunos' plantations continue to add volume, and harvesting is on-going for Matariki, Mata Mineira, Green Resources, GTFF, Aurora Forestal, and Green China. Most markets are broadly recovering, and in some cases, thriving. Our management focus continues to be to identify greater operating efficiencies. The Portfolio is fully invested and has begun to generate cash in some assets and others will do so as the timber matures. We believe the Company is well-positioned to meet its performance objectives.

FourWinds Capital Management

12 April 2012

Directors

Details of the Directors who held office during the year are set out below. The Directors are responsible for the determination of the Company's investment policy and strategy and have overall responsibility for the Company's activities, including the review of investment activity and performance. All the Directors are non-executive and, save for Liane Luke and Kimberly Tara, are independent of the Investment Manager.

Keith Oates (British), aged 69. Keith was Executive Deputy Chairman of Marks & Spencer plc from 1994-1999, having joined as Finance Director in 1984 and being appointed joint Managing Director in 1991. He was the founder and then Chairman of Marks & Spencer Financial Services for 15 years. In addition to Marks & Spencer, he has held executive positions with the Reed Paper group, IBM, Black and Decker and TBG. A Governor of the BBC from 1988 to 1993, he has also been a non-executive director of B.T. plc, MCI, the Financial Services Authority, the G.B. and English Sports Councils, John Laing plc and Chairman of Quest. He was a non-executive director and Chairman of the Audit Committee of Diageo plc, whose brands include Smirnoff, Johnny Walker, Guinness, Gordons, Captain Morgan and Baileys, for nearly 10 years until 2004. He was also a special adviser to Coutts Bank in Monaco from 2002-2005.

He has been a Member of Council (Governor) of Wycombe Abbey School since 1995. He was appointed a non-executive director of the English National Committee of the Forestry Commission in 2007. He graduated with a B.Sc (Econ) from the London School of Economics, a business diploma at UMIST and an M.Sc from Bristol University. In 1998, he was awarded an honorary Doctorate of Science (D.Sc.) from UMIST and an honorary Doctorate of Laws (LLD) from Bristol. He is resident in the United Kingdom and Monaco.

Liane Luke (American), aged 61. Liane is Managing Director and Head of Timber Investments at the Investment Manager. Liane founded Phaunos, along with Kimberly Tara. With more than 20 years' experience in real asset investing and managing investments for institutional clients, she has spent the last 14 years working exclusively in timberland investing. She assembled the Investment Manager's timber investment and management team, focusing on including forestry and international business management skills. Previously, she had been a principal in a major US-based Timber Investment Management Organisation, and began her timberland investment career at Hancock Timber Resource Group, where she worked with three other senior members of the Investment Manager's Timber team. Her qualifications include a BA magna cum laude from the University of New Hampshire and an MBA in finance from the Yale University School of Management.

Kimberly Tara (American), aged 42. Kimberly has spent the last 19 years negotiating, executing and managing investments and projects, with a focus on cross-border transactions. She has executed deals in Europe, the US, Latin America, and Asia. She began her career in Mergers & Acquisitions at Morgan Stanley. In 1995 she joined Value Partners, a McKinsey spin-off in Italy. In 1999, she began working as an alternative investment consultant, providing financial and advisory services for clients in Europe and the US. She also worked as Chief Financial Officer for a US-based biotech company. Since 2005 as Chief Executive Officer of the Investment Manager, Kimberly has successfully raised and managed more than US$1billion in commodities and natural resources. She graduated magna cum laude from Brown University with a degree in Business Economics and received her MBA from INSEAD in France. She is resident in France.

Sir Henry Studholme Bt (British), aged 54. Sir Henry Studholme was appointed as a Director on 5 January 2011. He is an Engineering graduate of Cambridge University, a Chartered Accountant (FCA), a Chartered Tax Adviser (CTA) and accredited Commercial Mediator (CEDR). He has extensive experience as an owner manager of timber and forest estate. He has worked in an advisory role to the GB Forestry Commission for over a decade and for the last five years has been a GB Commissioner. He chairs the Forestry Commission Audit Committee. He also has strong commercial experience including Group Financial Controller of S.R. Gent plc and a Director and Chairman of the Audit Committee of Integer Ltd from 1993 to 2002, where he was Chairman from 2002 to 2007. Sir Henry was Chairman of the United Kingdom South West of England Regional Development Agency from 2009 to 2012. He is resident in the United Kingdom.

Martin Ricketts (British), aged 67. Martin Ricketts was appointed as a Director on 5 January 2011. He is a Cambridge graduate and holds an MBA from INSEAD. He was the Managing Partner of Euroconsult Monaco for 11 years until 2007 and has extensive experience in financial and operational analysis, acquisitions and mergers. He is multilingual and has worked in Continental Europe over the last 45 years for, among others, Swiss Re, Chase Manhattan Bank, Eurofinance, TBG and North Atlantic/Saurer AG. He is currently a board member of Fidinam (Monte Carlo) S.A.M., a subsidiary of the largest independent fiduciary company in Switzerland. He is resident in Monaco.

Ian Burns (British), aged 52. Ian Burns was appointed as a Director on 1 March 2011. He is a Chartered Accountant and Chartered Fellow of the Chartered Securities and Investment Institute. He has extensive experience of the structuring, administration, reporting and governance of offshore companies including investment funds and captive insurance companies. He is currently senior executive director of Via Executive Ltd, a consulting company in Guernsey and President of Regent Mercantile Bancorp Inc, a leading private investment firm based in Canada. He is the Finance Director of AIM listed Polo Resources Limited and a non-executive director of Darwin Property Investment Management (Guernsey) Ltd and Premier Asset Management (Guernsey) Ltd. He is resident in Guernsey. Until 18 October 2006 he was also a director of The Glanmore Property Fund Limited (listed on the Irish Stock Exchange) and The British Real Estate Fund Limited (listed on the Channel Islands Stock Exchange).

Peter Niven resigned as a Director on 5 January 2011.

Sarah Evans resigned as a Director on 5 January 2011.

Investment Manager, Administrator and Company Secretary

Investment Manager

FourWinds Capital Management is the Company's Investment Manager and its management team has a proven track record of generating competitive returns from timberland and timber-related investments across multiple geographic locations. The Directors consider such broad timberland and timber-related experience to be beneficial as the Company seeks to execute its investment strategy.

The Investment Manager is a Cayman Islands exempted company with offices and affiliates in Boston, London, Hong Kong and Dubai and was incorporated on 14 March 2005. The Investment Manager has discretionary authority to invest the Company's assets and is responsible for all investment decisions made on behalf of the Company, subject to the overall control, supervision and policies of the Board.

It is also primarily responsible for researching, selecting and monitoring the Company's investments and making decisions on when and how much to invest in, or withdraw from, a particular investment, subject to the overall control, supervision and policies of the Board. The timber management team works solely on timberland investments.

There is also a focus on the development and risk management of investment vehicles for natural resources, commodities and real assets.

The Investment Manager currently has other investments under management, including Aqua Resources Fund Limited, Ceres Agriculture II, Environmental Infrastructure Partnership (MEA) L.P., Waste Resources Fund L.P., Zephyr Liquid Commodities Fund II LLC and Zephyr Commodity Fund.

Administrator and Company Secretary

HSBC Securities Services (Guernsey) Limited was Administrator and Company Secretary of the Company during the year ended 31 December 2011. With effect from 15 February 2012 Legis Fund Services Limited ("Legis") has been appointed, as Administrator and Company Secretary to replace HSBC Securities Services (Guernsey) Limited. With effect from 1 March 2012 Legis has also been appointed as the Listing Sponsor for CISX to replace Mourant Ozannes Securities Limited.

Report of the Directors

The Directors present the Annual Report and Audited Consolidated Financial Statements for Phaunos and its subsidiaries (the

"Group") for the year ended 31 December 2011.

Principal Activity and Business Review
The Company has been established to invest in a diversified global portfolio of timberland and timber-related investments.

A description of the principal activities of the Company and the Group during the year is given in the Report of the Investment Manager.

Status
Phaunos is an authorised closed-ended investment company, incorporated in Guernsey on 28 September 2006, with an unlimited life. The Company has one class of US Dollar denominated shares in issue being Ordinary Shares. The Company converted all its issued C shares into Ordinary Shares in June 2010 and currently has no C shares in issue. Since inception, the Company has raised a total of US$559.8 million (before expenses) through Ordinary Share and C share placings.

Share Issues and Repurchases
The Company's authorised share capital is represented by an unlimited number of Ordinary Shares of no par value.

The issued share capital of the Company at 31 December 2011 and 31 December 2010 was 537,149,832 Ordinary Shares and 4,065,045 Ordinary Shares held in treasury ("Treasury Shares").

The Ordinary Shares of the Company are admitted to listing on the Official List, to trading on the Main Market of the LSE and to listing and trading on the CISX.

The Articles of Incorporation of the Company have granted authority to the Directors, pursuant to the Companies (Guernsey) Law 2008, to allot an unlimited number of Ordinary Shares and 1,556,490,000 C Shares (including warrants, options and other rights in respect of such shares). This authority has a term of five years from the date of adoption of the Articles of Incorporation on 24 March 2011.

The Company has authority to buy back up to 14.99% of its Ordinary Shares, which expires at the conclusion of the 2012 annual general meeting of the Company (the "2012 Annual General Meeting"). The Company is seeking renewal of this authority at the 2012 Annual General Meeting, again in respect of up to 14.99% of the Ordinary Shares in issue at the time of the 2012 Annual General Meeting.

At 31 December 2011 the following shareholders had an interest of 3% or more in the Ordinary Shares of the Company:

Ordinary Share Holder	Number of Shares	% of Total Shares in Issue
Chase Nominees Limited*	139,014,358	25.88
Citibank Nominees (Ireland) Limited*	84,311,866	15.70
Euroclear Nominees Limited*	49,076,904	9.14
HSBC Global Custody Nominee (UK) Limited*	35,642,010	6.64
Securities Services Nominees Limited*	26,166,524	4.87
Nortrust Nominees Limited*	25,325,988	4.71
The Bank of New York (Nominees) Limited*	22,428,346	4.17
DWS Access SA	22,311,421	4.15
State Street Nominees Limited*	21,026,013	3.91
Pershing Nominees Limited*	20,786,748	3.87

*Custodian accounts held on behalf of individual shareholders. These holdings are aggregated holdings.

Investment Objective and Investment Policy
The investment objective and policy of the Company are stated in the Investment Objective and Policy section.

Net Asset Value
The audited NAV per Ordinary Share at 31 December 2011 was US$1.04 per share (2010: US$1.11).

Results
The results for the year are set out in the Consolidated Statement of Comprehensive Income.

Dividends
The Company paid its first dividend of US$0.02 per Ordinary Share in July 2011 (being a final dividend in respect of the year ended 31 December 2010). Subject to shareholder approval at the 2012 Annual General Meeting, the Board proposes to declare the payment in 2012 of a final dividend in respect of the year ended 31 December 2011 of US$0.025 per Ordinary Share.

Performance Fees
A performance fee becomes payable to the Investment Manager at the end of the first performance period when the NAV of the Company, as adjusted for share premiums on Ordinary Share issues and discounts on Ordinary Share buybacks, exceeds US$1.08. The adjusted NAV for the purpose of calculating the performance fee at 31 December 2011 was US$1.03. This is below the first performance hurdle and consequently no performance fee is payable. Please refer to Note 25 for details on determining the performance fee.

Further Share Issues and Pre-emption Rights
The Company's authorised share capital is such that either further issues of new Ordinary Shares or re-issues of Ordinary Shares held in treasury may be made. Subject to prevailing market conditions, the Board may decide to make one or more further issues or

re-issues of Ordinary Shares for cash from time to time, and, where required, a prospectus relating to any such issue or re-issue will be published by the Company. Any further issues of new Ordinary Shares or re-issues of Ordinary Shares held in treasury will rank pari passu with Ordinary Shares in issue.

The Articles of Incorporation have granted authority to the Directors, pursuant to the Companies (Guernsey) Law 2008, to allot an unlimited number of Ordinary Shares and 1,556,490,000 C Shares (including warrants, options and other rights in respect of such shares). This authority has a term of five years from the date of adoption of the Articles of Incorporation on 24 March 2011 (ending 23 March 2016). The Board intends to seek renewal of this authority prior to the end of this period.

As a Guernsey incorporated vehicle, the Company is not subject to any local statutory requirements in respect of shareholder pre-emption rights for new share issues for cash. However at an extraordinary general meeting of the Company held on 24 March 2011 (the "2011 EGM"), new Articles of Incorporation of the Company were adopted to introduce pre-emption rights in respect of all new Ordinary Share issues for cash in order to ensure that the Company complied with certain amendments to the UKLA Listing Rules and retained its premium listing for the Ordinary Shares.

In addition, at the 2011 EGM and subsequently at the annual general meeting of the Company in 2011 ("2011 Annual General Meeting"), the pre-emption rights introduced in the new Articles of Incorporation were disapplied in respect of new issues of Ordinary Shares for cash, subject to the disapplication being limited to a proportion of any new issue of Ordinary Shares that represented approximately 5 per cent. of the issued share capital of the Company (including Treasury Shares) at that time, being 27,060,744 Ordinary Shares. The Company is seeking further renewal of this disapplication at the 2012 Annual General Meeting, again in respect of 5% of the Ordinary Shares in issue at the date of publication of these consolidated financial statements.

Financing Strategy

Unless authorised by shareholders, the Company will not issue further Ordinary Shares or re-issue Ordinary Shares out of treasury for cash at a price below the prevailing NAV per Ordinary Share unless they are first offered pro rata to existing shareholders.

The Directors do not intend to borrow, save for short-term liquidity and working capital requirements. However, if the Directors deem it prudent, the Company or members of the Group may borrow for longer term purposes. In any event, the Company's power to borrow is limited to 25% of the NAV of the Company.

Voting rights for portfolio investments

The Investment Manager carefully considers the exercise of voting rights in relation to the Company's portfolio companies 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.

Shareholder Information

The NAV of the Company (and hence the NAV per Ordinary Share) is calculated in US Dollars at the end of each financial year (audited) and each interim reporting period end (unaudited), based upon information supplied by a variety of sources, including third party local managers, as described below. The NAV is the value of all assets of the Company less all liabilities of the Company determined in accordance with the valuation guidelines adopted by the Directors from time to time. Under current valuation guidelines adopted by the Directors, such values are determined in accordance with IFRS adopted by the European Union.

Valuations of the Group's investments classed as financial assets are based on fair value information provided by the underlying managers of those investments. Valuations of the land and biological assets held by operating subsidiaries are based on independent timberland appraisals arranged by the Investment Manager on an annual basis. In addition, the financial reports typically provided to the Company by third party managers are provided on a half yearly basis and generally are issued two to three months after the respective valuation dates. At the end of each financial year, the Company publishes its audited NAV per Ordinary Share. It also publishes an interim unaudited NAV at 30 June each financial year.

Directors and their Interests

The Directors' details are given in the Directors section. Directors' interests in Ordinary Shares at 31 December 2011 are set out below.

Director	Ordinary Shares	Percentage of issued Ordinary Shares
Keith Oates	200,000	0.04%
Ian Burns	-	-
Liane Luke	250,000	0.05%
Martin Ricketts	-	-
Sir Henry Studholme Bt	95,000	0.02%
Kimberly Tara(12)	275,000	0.05%

(12) Kimberly Tara's interest in 275,000 Ordinary Shares is in respect of Ordinary Shares owned by FourWinds Capital Management, the Investment Manager, of which Kimberly Tara is a shareholder and a director.

All of the Directors are non-executive directors. None of the Directors have, or have had during the year, an interest in any transaction which is, or was, unusual in its nature or conditions, or significant to the business of the Group or which has been effected by the Group during the year, except for the interests in the Investment Manager of Kimberly Tara (by virtue of her shareholding in and directorship of the Investment Manager) and Liane Luke (by virtue of her position as Managing Director of the Investment Manager's Timber Group), and therefore in the investment management agreement between the Company and the Investment Manager dated 4 June 2008 (the "Investment Management Agreement") (details of which can be found in Note 25).

Directors' Remuneration

The Chairman receives a fee of £70,000 per annum (2010: £70,000). Each of the other Directors receive an annual fee of £30,000 per annum (2010: £25,000) with effect 1 July 2011, with the exception of Kimberly Tara and Liane Luke who do not receive fees.

During the year Sir Henry Studholme Bt received an additional sum of £5,000 per annum for his chairmanship of the Audit Committee with effect from 5 January 2011. During the year, Martin Ricketts also received an additional sum of £5,000 per annum for his chairmanship of the Management Engagement Committee with effect from 5 January 2011.

Peter Niven and Sarah Evans resigned from the Board of the Company on 5 January 2011.

No commissions or performance related payments have been or will be made to the Directors by the Company.

The aggregate remuneration of the Directors in respect of the year ended 31 December 2011, which is payable out of the assets of the Company, did not exceed £300,000.

Directors' Attendance at meetings

Directors' attendance at Board, Management Engagement Committee and Audit Committee meetings during the year was as follows.(13)

Director	Board Meetings	Audit Committee	Management Engagement Committee	Ad Hoc Meetings
Keith Oates	5	3	2	1
Ian Burns	3	3	2	1
Liane Luke	6	N/A	N/A	-
Martin Ricketts	5	3	2	2
Sir Henry Studholme Bt	5	3	1	-
Kimberly Tara	6	N/A	N/A	1
Peter Niven	1	-	-	-
Sarah Evans	1	-	-	-

(13) Sarah Evans and Peter Niven attended one meeting during 2011 as they resigned as Directors of the Company on 5 January 2011. Sir Henry Studholme Bt and Martin Ricketts were appointed to the Board on 5 January 2011 and Ian Burns was appointed to the Board on 1 March 2011.

Corporate Governance

Overseas companies listed on the Official List are required, under the Listing Rules, to 'comply' or 'explain' against the UK Corporate Governance Code (May 2010) (the "Code") issued by the Financial Reporting Council (the "FRC"). The Code allows for investment companies to discharge this obligation by reporting against the Association of Investment Companies' Code of Corporate Governance (December 2010) (the "AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies (December 2010) (the "AIC Guide"(14)) rather than the Code. The Guernsey Financial Services Commission issued its Code of Corporate Governance (the "Guernsey Code") on 30 September 2011 and it came into effect on 1 January 2012. Companies which report against the Code or the AIC Code are deemed to meet the requirements of the Guernsey Code.

(14) The AIC Guide is publicly available at the website address: http://www.theaic.co.uk/Documents/Technical/AICCorporateGovernanceGuide2010.pdf

The AIC Code, as explained by the AIC Guide, addresses all the 'main principles of the Code' set out in Section 1 of the Code, as well as setting out additional principles and recommendations on issues specific to investment companies, and are considered by the FRC to meet the obligations of the Code.

The Company has complied throughout the year with the recommendations of the AIC Code and the relevant provisions of the Code. Since all the Directors are non-executive, in accordance with the AIC Code and the Code, the provisions of the Code on the role of the chief executive and, except in so far as they apply to non-executive Directors, on Directors' remuneration, are not relevant to the Company, and are not reported on further. In addition, and because all of the Directors are non-executive, there is no remuneration or nomination committee.

The Board meets at least four times a year and between these formal meetings there is regular contact with the Company Secretary and the Investment Manager. The Directors are kept fully informed of investment and financial controls and other matters that are relevant to the business of the Group and which should be brought to their attention.

The Board has a breadth of experience relevant to the Group and the Directors believe that any changes to the Board's composition can be managed without undue disruption. With any new Director appointed to the Board, consideration will be given as to whether an induction process is appropriate.

Remuneration Report

Given there are no executive Directors, no additional controls would be added by establishing a separate remuneration committee. Led by the Chairman, the full Board sets remuneration levels for the independent, non-executive Directors, having considered remuneration levels in comparison to other companies.

Board Responsibilities

At the year end the Board comprised six non-executive Directors, four of whom were independent.

The Board meets quarterly to consider the affairs of the Group in a prescribed and structured manner with additional ad hoc meetings being held as required. Biographies of the current Directors appear in the Directors section above, demonstrating the wide range of skills and experience they bring to the Board.

The Board has formalised arrangements under which Directors, in the furtherance of their duties, may take independent professional advice at the Company's expense. The Directors have access to the advice and services of the Company Secretary through its appointed representatives who are responsible to the Board for ensuring that Board procedures are followed and comply with applicable rules and regulations.

To enable the Board to function effectively and allow Directors to discharge their responsibilities, full and timely access is given to all relevant information.

Under the Articles of Incorporation, one third of the Board is subject to retirement by rotation each year, such that all Directors are required to submit themselves for re-appointment at least every three years. Directors who have served for nine years or more will be subject to annual re-appointment. Pursuant to the Listing Rules, being newly appointed Directors, Sir Henry Studholme Bt, Martin Ricketts and Ian Burns each retired and, being eligible, were re-appointed at the 2011 Annual General Meeting. Keith Oates, having not retired and been offered for re-appointment at the previous two annual general meetings of the Company, also retired and, being eligible, was re-appointed at the 2011 Annual General Meeting. In addition, pursuant to the Listing Rules, both Kimberly Tara and Liane Luke are required to retire from office at each annual general meeting of the Company and may offer themselves for re-appointment at each such meeting. Accordingly, they both retired and were re-appointed at the 2011 Annual General Meeting.

At the 2012 Annual General Meeting Martin Ricketts will retire and, being eligible, will offer himself for re-appointment. In addition, in view of the various corporate governance code provisions which now indicate that it is no longer considered appropriate for an investment manager to appoint directors to an investment company's board, it has been agreed that Kimberly Tara and Liane Luke will retire with effect from the closure of the 2012 Annual General Meeting and will not offer themselves for re-appointment.

None of the Directors have a director's service contract with the Company.

Audit Committee
The Audit Committee comprises of all the independent Directors. In the year ended 31 December 2011, the members were Sir Henry Studholme Bt (Chairman), Martin Ricketts, (each appointed on 5 January 2011, replacing Sarah Evans and Peter Niven who retired on the same date), Ian Burns (appointed on 1 March 2011) and Keith Oates.

The function of the Audit Committee is to ensure that the Company maintains high standards of integrity, financial reporting and internal controls. The Audit Committee reviews the annual and interim reports and the consolidated financial statements of the Company, the internal controls pertinent to the preparation of accurate financial statements and the management of the Company, the Auditors' remuneration and engagement, as well as the Auditors' independence and any non-audit services provided by them.

The Audit Committee receives information from the Administrator and from the Auditors as to the objectivity of their audit and their independence. The terms of reference of the Audit Committee are available on request from the Company Secretary.

Management Engagement Committee
In the year ended 31 December 2011, the Management Engagement Committee comprised Martin Ricketts (Chairman), Sir Henry Studholme Bt (each appointed on 5 January 2011), Ian Burns (appointed on 1 March 2011) and Keith Oates.

The function of the Management Engagement Committee is to ensure that the terms of engagement with all the Company's service providers are operating satisfactorily to ensure the safe and accurate management and administration of the Company's affairs and business, and that the terms of their appointment are competitive and reasonable for the shareholders and to make appropriate recommendations to the Board.

Board Evaluation
Each Director's performance is reviewed annually by the Chairman with input from all Directors and the performance of the Chairman is assessed by the Chairman of the Audit Committee, who likewise receives input from all Directors, in the same time scale.

Internal Controls
The Board is responsible for the Company's internal control systems and for reviewing its effectiveness.

The Board confirms that there is an on-going process for identifying, evaluating and managing the significant risks faced by the Group. The management of the Company's investments is delegated to the Investment Manager, in line with the delegated authorities agreed by the Board.

The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed. Accordingly, the internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against misstatement and loss.

The Group does not have an internal audit department. All the Group's management and administration functions are delegated to independent third parties and it is therefore felt that there is no need for the Group to have an internal audit facility. However, this matter is reviewed periodically by the Board.

Investment Manager
The Investment Manager was appointed on 13 December 2006. The Directors have reviewed the performance of the Investment Manager and are satisfied that the continued appointment of the Investment Manager on the terms agreed is in the best interests of the shareholders and the Company. The Directors have formed this opinion based on the track record of the Investment Manager's team of generating competitive returns from timberland and timber-related investments across multiple geographic locations and

consider that the team's broad timberland and timber-related experience is beneficial to the Group in seeking to execute the Company's investment strategy. Please refer to Note 25 of the consolidated financial statements for the agreed terms of the Investment Manager.

Principal Risks and Uncertainties
The Board monitors the risks the company faces and the actions taken to mitigate those risks. The principal risks which have been identified and the steps taken by the Board to mitigate these areas are follows:

Foreign Exchange
The Company's reporting currency is the US Dollar, and the majority of the Group's assets are located outside the United States. As a consequence the Company and the Group are exposed to the risk of movements in the exchange rates of the currencies in which the assets are held against the US Dollar. The principal currencies are the Brazilian Real, the Norwegian Krone and the New Zealand Dollar. The Company's approach to the management of this risk is discussed in the Report of the Investment Manager.

Liquidity and Cash Flow
The Group's assets are principally land based and their value cannot be realised quickly. It is therefore important that cash flows are monitored closely, long term forecasts are accurate and action taken to identify potential cash shortfalls. The Board regularly reviews cash flow forecasts and takes appropriate action. The cash generated by operations is anticipated to increase as the forestry portfolio matures. Further details are provided in the Report of the Investment Manager and in Note 23(b).

Markets and Economic risk
The price of the timber grown on the Company's investments is dependent on the markets into which that timber is sold and their political and economic stability. To mitigate this risk the Investment Manager has built a portfolio diversified between species and geographic locations and focused on emerging faster growing economies. Details of individual markets are discussed more fully within the Report of the Investment Manager and in Note 23(a).

Accounting, Legal and Regulatory
The Company must comply with the provisions of the Companies (Guernsey) Law, 2008 (as amended) and other relevant Guernsey legislation, and since its shares are listed on the LSE, the UKLA Listing Rules. A breach of the Guernsey legislation could result in the Company and/or the Directors being fined or subject to criminal proceedings. A breach of the UKLA Listing Rules could result in the suspension of the Company's Ordinary Shares. The Board relies on its Company Secretary and advisers to ensure adherence to the Guernsey legislation and UKLA Listing Rules. The Investment Manager and the Administrator are contracted to provide investment, company secretarial, administration and accounting services through qualified professionals.

The Group's financial risk management objectives and policies, including a description of the physical, economic and political and legal risks associated with investment in timber are set out in Note 23 and also in the Risk Management section of the Report of the Investment Manager.

Dialogue with Shareholders
All shareholders of the Company have the right to receive notice of and attend, each annual general meeting of the Company during which the Board and the Investment Manager, at this meeting and other times during the year, are available to discuss issues affecting the Company.

2012 Annual General Meeting

The following information, which is to be discussed at the forthcoming 2012 Annual General Meeting, is important and requires your immediate attention. If you are in any doubt about the action you should take, you are recommended to seek immediately your own advice from an appropriately qualified independent adviser authorised pursuant to the UK Financial Services and Markets Act 2000 (as amended) if in the United Kingdom or otherwise regulated under the laws of your own country. If you have sold or otherwise transferred all of your Ordinary Shares, please send this document, together with all accompanying documents at once to the purchaser or transferee or to the stockbroker, banker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

Resolutions relating to the following items of special business will be proposed at the 2012 Annual General Meeting of the Company. The Directors recommend that shareholders vote in favour of the resolutions which are, in the Directors' opinion, in the best interests of shareholders as a whole.

Resolution 7 - Authority to buy back shares
The resolution to be proposed will seek to renew the authority granted to Directors enabling the Company to purchase its own Ordinary Shares. The Directors will consider repurchasing Ordinary Shares in the market if they believe it to be in shareholders' interests and as a means of addressing any imbalance between the supply of and demand for Ordinary Shares, to increase the NAV per share and to assist in maintaining a narrow discount between the NAV per share and price at which the Ordinary Shares may be trading.

Purchases of Ordinary Shares will only be made through the market for cash at prices below the prevailing NAV per Ordinary Share. Under the Listing Rules of the UKLA the maximum price which can be paid by the Company for an Ordinary Share shall not be more than the higher of (i) 5% above the average of the mid-market values of the Ordinary Shares for the five business days immediately preceding the date of purchase, and (ii) the higher of the last independent trade and the highest current independent bid for the Ordinary Shares on the trading venue where the purchase is carried out. The minimum price (exclusive of expenses) which may be paid for an Ordinary Share pursuant to a buy back under the authority is US$0.01.

The Directors are seeking authority to purchase up to 14.99% of the issued Ordinary Share capital of the Company (excluding Treasury Shares) at the date the resolution is passed. At the date of publication of the consolidated financial statements that represented 80,518,759 Ordinary Shares (excluding Treasury Shares), but this figure may change if there are any repurchases of shares before the date of the 2012 Annual General Meeting. The resolution will be proposed as a special resolution and the authority granted by the resolution will expire at the conclusion of the next annual general meeting of the Company.

The timing of any purchases by the Company pursuant to the authority will be decided by the Directors in their discretion. Any Ordinary Shares bought back may be held in treasury (up to a maximum of 10% of the issued share capital) or be subsequently cancelled by the Company. As at the date of publication of the consolidated financial statements, the Company holds 4,065,045 Ordinary Shares in treasury, being 0.75% of its issued Ordinary Share capital.

The Company has no warrants or options to subscribe for Ordinary Shares that are outstanding as at the date of the consolidated financial statements.

Resolution 8 - Authority to make tender offers

The resolution to be proposed will seek to renew the authority granted to the Directors enabling the Company to purchase its own shares pursuant to a tender offer for up to 25% of the issued Ordinary Shares (excluding Treasury Shares). The Directors will consider making such a tender offer from time to time if they believe it to be in shareholders' interests and as a means of addressing any imbalance between supply of and demand for Ordinary Shares, to increase the NAV per Ordinary Share and to assist in maintaining a narrow discount between the NAV per Ordinary Share and the price at which the Ordinary Shares may be trading.

The Directors are seeking authority to make tender offers for a maximum number of Ordinary Shares up to 25% of the issued Ordinary Share capital of the Company (excluding Treasury Shares). Any such tender offer will be at a maximum price per share which is below the prevailing NAV (less expenses). The minimum price (exclusive of expenses) which may be paid for an Ordinary Share pursuant to a tender offer under the authority is US$0.01. The resolution will be proposed as a special resolution and the authority granted by the resolution will expire at the conclusion of the next annual general meeting of the Company.

The timing of any purchases by the Company pursuant to a tender offer made under the authority will be decided by the Directors in their discretion. Any shares bought back may be held in treasury (up to a maximum of 10% of the issued share capital) or be subsequently cancelled by the Company. As at the date of publication of the consolidated financial statements, the Company holds 4,065,045 Ordinary Shares in treasury, being approximately 0.75% of its issued Ordinary Share capital.

The Company has no warrants or options to subscribe for Ordinary Shares that are outstanding as at the date of the consolidated financial statements.

Resolution 9 - Disapplication of pre-emption rights

The Articles of Incorporation of the Company contain pre-emption rights in respect of all new Ordinary Share issues for cash and the Company currently has a disapplication of such pre-emption rights in respect of new issues of Ordinary Shares limited to a proportion of any new issue of Ordinary Shares that represents approximately 5 per cent. of the issued share capital of the Company (including Treasury Shares).

The resolution to be proposed will seek to renew such disapplication again on a limited basis in respect of a proportion of any new issue of Ordinary Shares that represents approximately 5 per cent. of the issued share capital of the Company (including Treasury Shares) at the date of publication of the consolidated financial statements, being 27,060,744 Ordinary Shares.

The Board considers that this limitation is appropriate and customary for a closed-ended investment fund such as the Company, having regard to guidance from The Association of Investment Companies and the Statement of Principles published by the Pre-emption Group.

The disapplication is proposed by way of a special resolution of the Company and the Board intends to seek such disapplication at each annual general meeting of the Company hereafter. The authority granted by the resolution will expire at the conclusion of the next annual general meeting of the Company.

Going Concern

The Group is in a satisfactory financial position. It has significant cash and cash equivalent resources, no external borrowings and current assets exceed current liabilities. The Directors regularly consider cash flow forecasts, which are prepared by the Investment Manager, at a Company and Group level. After taking account of reasonably probable variations these forecasts show that the Company and the Group will continue to be able to meet their respective liabilities as they fall due over relevant time horizons despite the current uncertain economic outlook.

In light of the above, the Directors have a reasonable expectation that the Group has adequate resources, and accordingly that it is appropriate to continue to adopt the going concern basis in preparing the consolidated financial statements.

Auditors

Ernst & Young LLP have expressed their willingness to continue in office as the Company's auditors. A resolution proposing their re-appointment will be submitted at the 2012 Annual General Meeting. Please refer to Note 5for fees paid by the Company to Ernst & Young LLP during the year.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the financial statements in accordance with applicable Guernsey Law and generally accepted accounting principles. Guernsey company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group as at the end of the financial year and of the profit or loss for that year. In preparing those financial statements, the Directors should:

1. select suitable accounting policies and apply them consistently;

2. make judgements and estimates that are reasonable and prudent;

3. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

4. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Group and to enable them to ensure that the financial statements have been properly prepared in accordance with the Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Responsibility Statement

To the best of the knowledge of the Directors:

- The consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union;

- The Chairman's Statement and Report of the Investment Manager include a fair review of the development and performance of the business and position of the Company, together with a description of the principal risks and uncertainties that the Company faces; and

- There is no relevant audit information of which the Auditors are unaware and each Director has taken all reasonable steps he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Auditors are aware of that information.

By order of the Board:

Ian M Burns	Sir Henry Studholme Bt
Director	Director

18 April 2012

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2011

	Note	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Income			
Net (losses)/gains on financial assets designated at fair value through profit or loss	13	(9,887)	43,677
Revaluation of biological assets	9	19,022	935
Revenue from timber operations	4(a)	10,191	3,348
Other operating income	4(b)	8,582	7,719
		27,908	55,679
Expenses			
Depletion of timber	9	(4,532)	(1,023)
Cost of sales from timber operations	5(a)	(5,419)	(2,628)
		(9,951)	(3,651)
	5(b) 9b		
Timber operating expenses		(14,941)	(12,106)
Investment operating expenses	5(c)	(11,096)	(11,826)
		(35,988)	(27,583)
Operating (loss)/profit before foreign exchange		(8,080)	28,096
Foreign exchange losses		(164)	(6,640)
Operating(loss)/profit before taxation		(8,244)	21,456
Taxation on ordinary activities	6	(1,330)	(742)
(Loss)/profit for the year		(9,574)	20,714
Other comprehensive income/(loss)			
Revaluation of land	10	3,012	(7,685)
Exchange differences on translation of operating subsidiaries' net assets		(18,840)	6,856
		(15,828)	(829)

Total comprehensive (loss)/income for the year	(25,402)	19,885

(Loss)/earnings per Ordinary Share for the year -	**Cents**	**Cents**
Basic and Diluted	(1.78)	3.98

(Based on weighted average number of Ordinary Shares 537,149,832 (2010: 520,301,445))

In arriving at the operating results for the year, all amounts above relate to continuing operations, except as disclosed in Note 17.

Consolidated Statement of Financial Position
at 31 December 2011

	Note	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Non-Current Assets			
Financial assets designated at fair value through profit or loss	13	315,521	323,680
Biological assets	9	120,392	108,774
Land	10	85,758	90,486
Plant and equipment	11	3,461	3,043
Other assets	14	1,586	2,146
		526,718	528,129
Current Assets			
Cash and cash equivalents	15	28,332	68,486
Receivables	16	6,991	2,742
Inventories and work in progress		83	210
Loans receivable	14(b)	2,244	-
Assets classified as held for sale	17	6,893	9,547
		44,543	80,985
TOTAL ASSETS		571,261	609,114
Liabilities			
Payables and provisions	18	11,296	13,446
Deferred tax	19	769	-
Liabilities classified as held for sale	17	418	745
TOTAL LIABILITIES		12,483	14,191
Equity			
Share capital	20	432,101	432,101
Retained earnings		10,327	30,850
Foreign currency translation reserve		2,765	21,605
Land revaluation reserve		5,986	2,974
Distributable reserves	20	110,418	110,418
Purchase of own shares (Treasury Shares)	21	(2,819)	(3,025)
TOTAL EQUITY		558,778	594,923
TOTAL EQUITY AND LIABILITIES		571,261	609,114
Ordinary Shares in Issue	20	537,149,832	537,149,832
		US$	**US$**
Net Asset Value Per Ordinary Share		1.04	1.11

Approved by the Board on 18 April 2012.

Ian M Burns — Sir Henry Studholme Bt

Director — Director

Consolidated Statement of Cash Flows
for the year ended 31 December 2011

	Note	31 Dec 2011 US$'000	31 Dec 2010 US$'000

Operating activities			
Net (loss)/profit for the year attributable to OrdinaryShareholders		(9,574)	20,714
Depreciation and amortisation		6,893	728
Impairment of inventory	5(b)	153	175
Impairment of loans receivable		-	2,290
Reorganisation of loans receivable	14(b)	-	2,280
Less: Net loss/(gains) on financial assets designated at fair value through profit or loss	13)	7,989	(43,677)
Revaluation of biological assets	9	(19,022)	(935)
Prepaid land lease (non-current)		-	(1,617)
Movement in payables		(2,150)	4,957
Movement in receivables		(3,479)	4,294
Movement in inventories		(88)	307
Taxation including accrual	6	1,330	742
Taxation paid		(649)	(1,086)
Net cash outflow from operating activities		(18,597)	(10,828)
Investing activities			
Purchase of financial assets	13	(1,728)	(132,843)
Disposals of plant and equipment	11	169	16
Purchase of biological assets	9	(8,804)	(82,972)
Purchase of land	10	(58)	(32,607)
Purchase of plant and equipment	11	(1,169)	(3,116)
Loans (granted to)/repaid by investees		(1,419)	518
Net cash outflow from investing activities		(13,009)	(251,004)
Financing activities			
Payment of dividend	22	(10,743)	-
Net cash outflow from financing activities		(10,743)	-
Decrease in cash and cash equivalents		(42,349)	(261,832)
Cash and cash equivalents at beginning of year		68,486	331,032
Effect of foreign exchange rate changes		2,195	(714)
Cash and cash equivalents at end of year		28,332	68,486

Consolidated Statement of Changes in Equity
for the year ended 31 December 2011

	Attributed to equity holders of the parent						
	Share capital (Note 20)	Retained earnings	Foreign currency translation reserve	Land revaluation reserve	Distributable reserves (Note 20)	Purchase of own shares (Treasury Shares) (Note 21)	Total Equity
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2011	432,101	30,850	21,605	2,974	110,418	(3,025)	594,923
Loss for the year	-	(9,574)	-	-	-	-	(9,574)
Other comprehensive income/(loss)	-	-	(18,840)	3,012	-	-	(15,828)
Total comprehensive income/(loss) for the year	**-**	**(9,574)**	**(18,840)**	**3,012**	**-**	**-**	**(25,402)**
Dividends (Note 22)	-	(10,743)	-	-	-	-	(10,743)
Reserve transfer (Note 21)		(206)				206	-
At 31 December 2011	**432,101**	**10,327**	**2,765**	**5,986**	**110,418**	**(2,819)**	**558,778**

	Attributed to equity holders of the parent						
						Purchase	

	Share capital(15) (Note 20)	Retained earnings	Foreign currency translation reserve	Land revaluation reserve	Distributable reserves (Note 20)	of own shares (Treasury Shares) (Note 21)	Total Equity
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2010	432,101	10,136	14,749	10,659	110,418	(3,025)	575,038
Profit for the year	-	20,714	-	-	-	-	20,714
Other comprehensive income/(loss)	-	-	6,856	(7,685)	-	-	(829)
Total comprehensive income/(loss) for the year	**-**	**20,714**	**6,856**	**(7,685)**	**-**	**-**	**19,885**
At 31 December 2010	**432,101**	**30,850**	**21,605**	**2,974**	**110,418**	**(3,025)**	**594,923**

(15) The Share Capital, Share Premium and C Share Class figures for the year ended 31 December 2010 and 2011 have been amalgamated into the Share Capital column.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011

1. ACCOUNTING POLICIES

(a) Basis of Preparation and statement of compliance

The consolidated financial statements of the Company and the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and applicable Guernsey company law.

The consolidated financial statements have been prepared on a historical cost basis, except for the measurement at fair value of certain financial instruments, land and biological assets.

The consolidated financial statements are presented in US Dollars. The Group comprises the Company and entities controlled by the Company (its "subsidiaries") as listed below in Note 12.

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

(b) Changes in accounting policies and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations:

- IAS 24 Related Party Disclosures (amendment) effective 1 January 2011
- IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011
- Improvements to IFRSs (May 2010)

The adoption of the above standards or interpretations did not have any impact on the financial statements or performance of the Group.

At the date of approval of these consolidated financial statements, the following standards and interpretations, which have not been applied, were in issue but not yet effective.

- IAS 1 Financial Statement Presentation - Presentation of Items of Other Comprehensive Income
- IAS 12 Income Taxes - Recovery of Underlying Assets
- IAS 19 Employee Benefits (Amendment)
- IAS 27 Separate Financial Statements (as revised in 2011)
- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
- IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements
- IFRS 9 Financial Instruments: Classification and Measurement
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Involvement with Other Entities
- IFRS 13 Fair Value Measurement

A formal assessment has not been undertaken by the Directors to assess if the adoption of these standards and interpretations in future periods will or will not have a material impact on the financial statements of the Group. These standards and interpretations will be adopted when they become effective.

(c) Basis of consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and its subsidiaries which are prepared for the same reporting period as the Company. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

(d) Foreign currency translation

The consolidated financial statements are presented in US Dollars. The Company's functional currency is US Dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are included in operating profit before taxation in the Consolidated Statement of Comprehensive Income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Company's operating subsidiaries, whose functional currency is not the US Dollar, are translated into US Dollars at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are included in other comprehensive income and recognised in the Group's foreign currency translation reserve in the Consolidated Statement of Comprehensive Income.

(e) Operating income

Interest income is accounted for on an accruals basis. Interest income relates only to interest on bank balances and money market deposits. Distributions are recognised when an entitlement to the dividend is established. Income from harvesting services, timber sales, resin sales and pellet mill sales is recognised upon performance of those services or the transfer of risk to the customer.

(f) Taxation

Income tax

Income tax is provided in the financial statements of each subsidiary in accordance with the best estimate of the taxation liability using tax rates enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- Temporary differences in initial recognition of assets and liabilities in a transaction that it is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries to the extent that is not probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the recognition of goodwill.

Deferred tax is measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period such a determination is made.

(g) Expenses

All expenses are accounted for on an accruals basis.

(h) Performance fees

Where the performance hurdle is met in respect of a performance period, a performance fee will be accrued at the reporting date in an amount equal to 20% of any outperformance in respect of the adjusted audited NAV per Ordinary Share over and above the highest previously recorded adjusted audited NAV per Ordinary Share in respect of which a performance fee was paid (or, in the case of the first performance period, above 108% of the initial US$1.00 placing price) multiplied by the time-weighted average number of Ordinary Shares in issue over the performance period. See Note 25 for full details on the calculation of the performance fee expense, which would be included in the Operating Expense in the Consolidated Statement of Comprehensive Income.

(i) Dividend distributions

Dividend distributions are at the discretion of the Company. A dividend distribution to the Company's shareholders is accounted for as a deduction from retained earnings and shown in the Consolidated Statement of Changes in Equity. Dividends which have been declared but not paid are recognised as a liability in the period in which they are paid or, if earlier, approved by shareholders in general meeting.

(j) Share issue costs

Share issue costs are treated as a reduction of equity and are written off through the Consolidated Statement of Changes in

Equity.

(k) Financial assets designated at fair value through profit or loss

All investments which are minority-owned by the Group are designated as financial assets at fair value through profit or loss. The Group takes advantage of the exemptions in IAS 28 and 31 to treat investments that are joint ventures or associates as investments at fair value through profit and loss because, in the opinion of the Directors, the Group qualifies as a venture capital organisation. Investments are initially recognised on the date of purchase at fair value. Investments are derecognised on disposal when the rights to receive cash flows and all risks and rewards of the financial asset have expired or are transferred to a third party through an executed agreement. Transaction costs associated with an investment are recognised immediately in the Consolidated Statement of Comprehensive Income as an expense.

Designation of the investments in this way is consistent with the Company's documented risk management policy and investment strategy and information about the investments is provided to the Board on this basis.

After initial recognition investments are measured at fair value. Gains and losses are recognised in the Consolidated Statement of Comprehensive Income.

(l) Assets and liabilities classified as held for sale

Assets and liabilities are classified as held for sale if the asset's carrying amount is expected to be recovered principally through a sale transaction, rather than continuing use. The sale must be highly probable and completed within one year from the date of classification. Assets and liabilities that meet these and other criteria in accordance with IFRS 5: Non-Current Assets Held for Sale and Discontinued Operations are carried at the lower of carrying amount and fair value less costs to sell, with impairment losses recognised in the Consolidated Statement of Comprehensive Income. On derecognition of assets and liabilities held for sale, any gain or loss is recorded in the Consolidated Statement of Comprehensive Income.

Assets and liabilities classified as held for sale in a previous period are declassified as held for sale in the current period if the assets and liabilities of the related investment no longer meet the criteria in accordance with IFRS 5: Non-Current Assets Held for Sale and Discontinued Operations.

(m) Loan receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group includes in this category interest-bearing, secured loans as detailed in Note 14(b), but excludes the loan to Masarang which is classed as a financial asset designated at fair value through profit or loss. Loans and receivables are carried at amortised cost less any allowance for impairment. Gains and losses are recognised in the Consolidated Statement of Comprehensive Income when loans and receivables are derecognised or impaired, as well as through the amortisation process. Interest earned on loans and receivables is recorded in the Consolidated Statement of Comprehensive Income.

(n) Plant and equipment

Equipment, fittings and furniture are carried at acquisition cost less subsequent depreciation and impairment losses.

Depreciation is calculated on a straight line basis so as to write down the cost to estimated residual value over the asset's useful life. The following periods are used:

Land improvements	10 years
Machines and vehicles	5 to 10 years
Computers	3 years
Other equipment	3 to 4 years

(o) Land

Land held for use in production or administration is initially stated at acquisition cost in accordance with IAS 16: Property, Plant and Equipment. As no finite useful life for land can be determined, related carrying amounts are not depreciated. Land is measured at fair value adjusted for valuation changes and impairment loss recognised after the date of the revaluation. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any subsequent increases in value under the revaluation model are credited to Other Comprehensive Income and accumulated in equity under the heading Land Revaluation Reserve. A decrease arising as a result of a revaluation is recognised in Operating Expense to the extent that it exceeds any amount previously credited to the Land Revaluation Reserve.

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

(p) Biological assets

Biological assets for newly established plantations are initially recognised at cost, which includes silvicultural costs for establishing the plantation. The establishment period is generally assumed to be up to 3 years, which is in line with IAS 41: Agriculture ("IAS 41"). Biological assets for established plantations are initially recognised at cost, which is the contract value for the purchased timber.

Biological assets are measured at fair value when there is evidence of physical change (growth, etc.) and unit price change. Fair value measurement stops when a contract of sale is complete and ownership is transferred to the buyer. Gains and losses on revaluation of biological assets to fair value are recognised in profit/loss for the year in the Consolidated Statement of Comprehensive Income. The same accounting treatment applies when biological assets are derecognised or impaired.

(q) Prepaid land lease

Payments made to acquire the right to use land that do not result in the Group acquiring substantially all the risks and rewards of ownership are treated as operating leases in accordance with IAS 17: Leases ("IAS 17") and included in pre-paid land leases. Such payments are amortised over the lease term on a straight line basis and included in profit/loss for the year in the Consolidated Statement of Comprehensive Income.

(r) Impairment of tangible and intangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease, all of which is recognised in Other Comprehensive Income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(s) Inventories and work in progress

Inventories are stated at the lower of cost and net realisable value. Cost comprises the cost of direct materials and, where applicable, the cost of direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(t) Cash and cash equivalents

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash at bank and investments in short term fixed deposits that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

(u) Provisions, contingent liabilities and contingent assets

Provisions are recognised when present obligations are likely to lead to an outflow of economic resources from the entity and they can be estimated reliably, although the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts including lease terms. Provisions are not recognised for future operating losses. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. The key considerations in valuing plantation assets include the market price of timber, land values, growth rates and discount rates.

In general, future price risk for timber products is the most material risk. Price risk tends to be less in mature timber markets as current market prices are transparent and historical prices are available. Timber prices in developing or frontier markets tend to have more uncertainty as markets and infrastructure are less developed. Timber growth rates and timber quality can also impact values. These timber risks tend to be higher in investments that have less prior forestry operating history; such as greenfield plantations, or plantations growing less traditional species such as teak or hybrid-poplar. Valuation changes due to changes in market capitalization rates tend to have only minor annual fluctuations, but can be material if the market's perception of risk changes (see discussion below on China).

The Group conducts independent external appraisals (except for Green Resources, see Note 2(a) below) every year for financial assets (see Note 14) and the land and biological assets of operating subsidiaries (per Notes 9 and 10 respectively), except for the first year after acquisition, when they are initially carried at acquisition cost providing there are no indicators of material value change.

(a) Valuation of financial assets

The Directors use their judgement in selecting an appropriate valuation technique for financial assets not quoted in an active market. For investments which have been recently acquired, the Directors normally consider the fair value to be equal to cost. The Directors consider that the valuation methods described below are the most appropriate ones for estimating fair value of the relevant investments.

The investments in Matariki, GTFF and NTP are based on each company's Net Asset Value ("NAV") prepared by the underlying manager, which is prepared on a fair value basis. Matariki and GTFF's individual NAVs include assets valued by independent external appraisals conducted during the final quarter of 2011. These external appraisals were coordinated by the underlying managers of GTFF and Matariki respectively and were reviewed by the Investment Manager. The Directors currently expect that the same process will be applied for all future reporting periods.

The fair value of Green Resources has been estimated by the Investment Manager using an independent third party transaction that occurred in Q1 2011.

The value of Aurora is based on the NAV provided by the co-investor, adjusted for land and biological assets valued by an independent external appraisal at 30 September 2011. These external appraisals have been updated by the Investment Manager for the final quarter of 2011, with the results reflected in the consolidated financial statements of the Company for the year ending 31 December 2011. The Directors' currently expect that the same process will be applied for all future reporting periods.

(b) Valuation of land and biological assets

Land and biological assets are carried at fair value at 31 December 2011 at the value determined by independent external appraisers. Where the date of the appraisal is before 31 December the value is projected by the Investment Manager to 31 December.

The fair value of land and biological assets owned by Eucateca, Pradera, Mata Mineira and Green China are based on fair values determined by independent external appraisers at various dates during 2011. These independent external appraisals are updated by the Investment Manager to 31 December 2011 from their most recent appraisal date. See Notes 9 and 10 for the independent external appraisal dates that apply for each entity. The movement in the fair value is included in the Consolidated Statement of Comprehensive Income. Refer to Notes 9 and 10 for valuation methods and assumptions.

3 . SEGMENT INFORMATION

In accordance with IFRS 8, the Board, as a whole, has been determined as constituting the chief operating decision maker of the Group. The key measure of performance used by the Board in the capacity of "chief operating decision maker" is to assess the Group's performance and to allocate resources based on the total return of each individual investment within the Portfolio, as opposed to geographic regions. As a result, the Board is of the view that the Group is engaged in a single segment of business, being investment in timber and timber-related investments. The financial results from this segment are equivalent to the consolidated financial statements of the Group as a whole.

The following table analyses the Group's total income (which comprises operating income, revaluation of biological assets and net gain/(loss) on financial assets designated at fair value through profit or loss) by geographical location and investment type. The basis for attributing the total income, by geographical location, is the place of incorporation of the relevant Portfolio investee entity.

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Africa	(2,154)	9,003
Asia	1,513	93
Europe	2,614	1,417
New Zealand	(320)	32,216
South America	26,095	6,860
United States	160	6,090
	27,908	55,679

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Limited Partnerships	160	6,089
Minority Interest in Equity	(76)	33,976
Majority Interest in Equity	29,958	6,250
Loan Instrument	(2,154)	9,003
Holding Company cash and cash equivalents	20	361
	27,908	55,679

4 . INCOME

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
4(a) Revenue from timber operations		
Income from timber sales	5,188	1,009
Income from pellet mill sales*	2,550	985
Income from harvesting services	1,829	1,354
Income from resin sales	624	-
	10,191	3,348
4(b) Other operating income		
Investment income*	7,613	6,980
Dividend income	739	694
Sundry income*	230	45
	8,582	7,719

* Includes income relating to assets/liabilities held for sale per Note 17.

5 . EXPENSES

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
5(a) Cost of sales from timber operations		
Cost of sales (timber sales)	191	-
Cost of sales (pellet mill sales)*	3,632	1,691
Cost of sales (harvesting services)	1,596	937
	5,419	2,628
5(b) Timber operating expenses		
Direct timber costs		
Future replant costs (see Note 18)	3,262	-
Depreciation and amortisation*	681	696
Resin amortisation	308	-
Impairment of plant and equipment*	863	450
Impairment of inventory*	153	175
	5,267	1,321
Other timber costs		
Accounting fees	1,532	985
Management fees	1,435	1,742
Plant and equipment repairs and maintenance*	1,038	394
Consulting fees	964	576
Impairment of seedling advances	927	879
Professional fees*	553	1,158
Legal fees*	502	638
Employee compensation and benefits	472	361
Audit fees paid to EY*	153	84
Audit fees paid to other auditors	57	43
Non-audit fees paid to EY*	16	-
Non-audit fees paid to other auditors	103	165
Impairment of loan receivable	(452)	2,290
Other timber costs*	2,374	1,470
	9,674	10,785

* Includes expenses relating to assets/liabilities held for sale per Note 17.

5(c) Investment operating expenses	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Investment Manager's fees	8,509	9,060
Legal fees	787	473
Professional fees	177	599
Administration fees	232	314
Audit fees paid to EY	187	129
Non-audit fees paid to EY	-	57
Non-audit fees paid to other auditors	-	18
Directors' remuneration	251	232
Directors' expenses	88	104
Directors' & Officers' insurance	261	177
Other investment operating expenses	604	663
	11,096	11,826

Consistent with IFRS, operating expenses associated with wholly-owned subsidiaries are included in Note 5 along with expenses associated with the parent Company activities. Company level expenses above totalled US$11.1 million or 1.97% of the NAV at 31 December 2011.

Audit and accounting fees

In accordance with guidelines recommended by the United Kingdom's Pensions Investment Research Consultants ("PIRC"), the following fees paid or accrued by the Company and its subsidiaries during the year have been separately disclosed in the note above:

1. Audit fees: services from audit firms for annual audits or interim reviews.
2. Non-audit fees: services provided to the Company's subsidiaries from audit firms of such subsidiaries for non-audit work, such as taxation advice and other corporate finance matters.
3. Accounting fees: services from non-audit firms for accounting assistance and record-keeping.

The Company's auditors, Ernst & Young LLP were paid fees for non-audit services during the year for 950 euro paid to EY Serbia for taxation advice and US$15,200 to EY Hong Kong for taxation advice.

6. TAX

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Deferred tax	(1,102)	(225)
Current tax	(228)	(517)
	(1,330)	(742)

All tax charges for the year relate to continuing operations. Taxation for subsidiaries operating in jurisdictions outside Guernsey is calculated at the rates prevailing in the respective jurisdictions.

Operating profit before taxation	(8,244)	21,456
Effects of various tax rates of subsidiaries operating in other jurisdictions	(1,330)	(742)
Tax charge and effective tax rate for the year of -16.13% (2010: 3.46%)	(1,330)	(742)

The Group has been granted exemption from Guernsey Income Tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989, and is charged an annual fee of £600. As a result, the taxation charge for the year relates solely to the Company's subsidiaries. The principal reason for the tax charge is that some of the Group's subsidiaries made profits, and accordingly, deferred tax charges arose mainly on revaluation gains on biological assets (see Note 19).

7. DIRECTORS' REMUNERATION

The Chairman receives a fee of £70,000 per annum (2010: £70,000). Each of the other Directors receive an annual fee of £30,000 per annum (2010: £25,000) with effect 1 July 2011, with the exception of Kimberly Tara and Liane Luke who do not receive fees.

During the year Sir Henry Studholme received an additional sum of £5,000 per annum for his chairmanship of the Audit Committee with effect from 5 January 2011. During the year, Martin Ricketts received an additional sum of £5,000 per annum for his chairmanship of the Management Engagement Committee with effect from 5 January 2011. Peter Niven and Sarah Evans resigned from the Board of the Company on 5 January 2011.

No commissions or performance related payments have been or will be made to the Directors by the Company. £157,676 or US$251,158 (2010: £150,000 or US$231,746) of Directors' remuneration was incurred by the Company in the year, of which Nil (2010: £52,500 or US$81,968) was outstanding at 31 December 2011. The aggregate remuneration of the Directors in respect of the year ended 31 December 2011, which is payable out of the assets of the Company, did not exceed £300,000.

8. EARNINGS PER SHARE

Earnings per Ordinary Share are based on the net loss for the year attributable to Ordinary Shareholders of US$9.6 million (2010: US$20.7 million profit for the year) and on 537,149,832 (2010: 520,301,445) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year. There are no dilutive instruments and therefore basic and diluted earnings per share are identical.

9. BIOLOGICAL ASSETS

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Cost:		
Plantations		
Opening cost	102,691	20,755
Costs incurred during the year:		
Silviculture costs	7,200	13,105
Treatment costs	706	2,086
Plantations acquired	-	67,727
Other costs	1,234	54
Depletion	(4,532)	(1,023)
Resin amortisation	(308)	-
Disposals	(336)	(13)
	3,964	81,936
Closing cost	106,655	102,691
Revaluation of plantations:		
Opening balance	(198)	(1,133)
Revaluation for the year	19,022	935
Closing balance	18,824	(198)
Exchange differences	(5,087)	6,281
Closing carrying value	120,392	108,774

Biological assets valuation assumptions

Biological assets are carried at fair value at 31 December 2011 at the value determined by independent external appraisers during the year, projected by the Investment Manager to the reporting date where the date of the independent external appraisal differs. The following table summarises the independent external appraisals and the Investment Manager's valuations arranged for biological assets held by operating subsidiaries:

Company	Type of Plantation	External Appraisal		Investment Manager Projections
		Date	Valuation method	
Eucateca	Eucalyptus and Teak	30 September 2011	Cost and income capitalisation	31 December 2011
				31 December

Pradera Roja	Eucalyptus	30 September 2011	Cost	2011
Mata Mineira	Mixed age eucalyptus	30 June 2011	Income capitalisation	31 December 2011
Green China	Mixed age pine, fir and other species	31 December 2011	Income capitalisation	N/A

The external appraisals are valuations performed by an independent third-party appraiser. When conducting the external appraisals the appraisers adhere to the Uniform Standards of Professional Appraisal Practice (USPAP) which defines various methods of valuation such as the "cost approach" and the "income approach".

For Pradera Roja the appraiser valued the property using a cost approach which is based on the premise that a buyer would not pay more for an asset than the cost to obtain an asset of equal utility either by purchase or construction. This approach is more common when appraising young forests since cash flows from their future harvests are more difficult to predict than for older forests which are being actively harvested. In the case of Mata Mineira, the appraiser valued the property using an income approach which is performed by converting future cash flows to a single current capital value - also referred to as a discounted cash flow model. This approach is most common with mature forests like Mata Mineira that have active sales on which to base future cash flows. The appraiser for Eucateca chose to use both approaches and weight them equally as that is what the appraiser felt buyers would likely do since the eucalyptus portion of Eucateca is nearing harvest while the teak portion is not. These valuation approaches apply to the land as well. The valuations do not include future replanting costs or revenues.

For the Investment Manager's valuations at 31 December 2011, the unit values from the external appraisals were applied to timber age classes in existence at that date, which was adjusted to account for three months of additional timber growth. Changes in total timber values since the independent external appraisals are due to changes in the number of hectares for each age class of the pre-merchantable timber or changes in timber volume, not changes in the values per hectare for each age class or timber prices.

Biological assets sensitivity analysis

The following details the sensitivity of the Group's biological assets reported value to a 5% increase or decrease in the per hectare values of each timber age class, with 5% considered by the Directors as an appropriate estimate of the range in per hectare values. At 31 December 2011, if the per hectare values of biological assets were to increase or decrease by 5%, with all other variables held constant, the NAV would have increased or decreased by US$6.0 million (2010: US$5.4 million). This would represent an increase or decrease in Net Asset Value of 1.08% (2010: 0.91%).

10. LAND

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Cost:		
Opening cost	78,845	46,238
Additions	58	32,607
Closing cost	78,903	78,845
Revaluation of land:		
Opening	2,974	10,659
Revaluation for the year	3,012	(7,685)
Closing	5,986	2,974
Reclassed as held for sale (see Note 17)	(278)	(278)
Exchange differences	1,147	8,945
Closing carrying value	85,758	90,486

Land valuation assumptions

Land is carried at fair value at 31 December 2011 determined by independent external appraisers, and is projected to the reporting date by the Investment Manager if the date of the independent external appraisal differs. The following table summarises the independent external appraisals and the Investment Manager's valuations arranged for land held by operating subsidiaries. Please refer to Note 9 for an explanation of each valuation method:

Company	External Appraisal		Investment Manager Projections
	Date	Valuation method	
Eucateca	30 September 2011	Cost and income capitalisation	31 December 2011
Pradera Roja	30 September 2011	Cost	31 December 2011
Mata Mineira	30 June 2011	Income capitalisation	31 December 2011

For the Investment Manager's valuations at 31 December 2011, the unit values from the external appraisals were applied to land areas in existence at that date. Changes in total land values since the independent external appraisals are due to changes in area, not changes in values per hectare.

Land sensitivity analysis

The following details the sensitivity of the Group's reported land value to a 5% increase or decrease in the per hectare values of land, with 5% considered by the Directors as an appropriate estimate of the range in land per hectare values.

At 31 December 2011, if the per hectare values of land were to increase or decrease by 5%, with all other variables held constant, the NAV would have increased or decreased by US$4.3 million (2010: US$4.5 million). This would represent an increase or decrease in Net Asset Value of 0.77% (2010: 0.76%).

11. PLANT AND EQUIPMENT

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Cost:		
Opening cost	13,742	10,650
Additions	1,169	3,116
Disposals	(169)	(24)
Closing cost	14,742	13,742
Depreciation:		
Opening depreciation	(1,166)	(491)
Charge for the year	(1,106)	(687)
Disposal adjustments	28	12
Closing depreciation	(2,244)	(1,166)
Impairment (see Note 5):		
Opening impairment	(450)	-
Charge for the year	(871)	(450)
Closing impairment	(1,321)	(450)
Reclassified as held for sale (see Note 17)	(6,215)	(7,796)
Exchange differences	(1,501)	(1,287)
Closing carrying value	3,461	3,043

12. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries consist of investments in the following wholly-owned Group companies (except for Green China Forestry Company Limited, which is 99.5% owned by the Company and Eucateca SA which is 99.99% owned):

Subsidiary	Place of Incorporation
Alzamendi Participacoes SA	Brazil
BaltFor Timber BV	Netherlands
Caldrey SA	Uruguay
Cottage International Group Limited	British Virgin Islands
Eucateca SA	Brazil
Exclusive Technologies Limited	British Virgin Islands
Forest Enterprise BV	Netherlands
Forest Enterprises doo	Serbia
Green China Forestry Company Limited	Hong Kong
Green China (Jiangxi) Forestry Company Limited	China
Green Nature Forestry Company Limited	Hong Kong
Hamar Holding Limited	British Virgin Islands
Mata Mineira Investimentos Florestais LTDA	Brazil
Nora Timber Cyprus Limited	Cyprus
Nortimber BV	Netherlands
Oxford Financial Investments Limited	British Virgin Islands
Phaunos Brazil Investimentos Florestais LTDA	Brazil
Phaunos China Limited	Hong Kong
Phaunos Norge AS	Norway
Phaunos US Incorporated	USA
Pradera Roja SA	Uruguay
Romfor Timber (Cyprus) Limited	Cyprus
Romfor Timber BV	Netherlands
SC Romfor Timber SRL	Romania
South Hampton International Limited	British Virgin Islands
Terrific Plan Limited	Hong Kong
Tura Holding Limited	British Virgin Islands
Vale do Jequitinhonha Silvicultura e Participacoes LTDA	Brazil
Waimarie Forests Pty Ltd	Australia
Wood NRG Limited	Cyprus

13. INVESTMENTS

FINANCIAL ASSETS DESIGNATED AT

FAIR VALUE THROUGH PROFIT OR LOSS	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Opening portfolio cost	264,253	127,959
Net additions at cost:	1,728	136,294
Closing portfolio cost	**265,981**	**264,253**
Unrealised appreciation on valuation brought forward	46,761	15,492
Unrealised appreciation on valuation for the year	(7,989)	31,269
Unrealised foreign exchange movement brought forward	11,922	(486)
Unrealised foreign exchange movement for the year	(1,898)	12,408
Unrealised appreciation and foreign exchange movement on valuation carried forward	48,796	58,683
Exchange differences on translation of foreign subsidiaries	744	744
Closing valuation	**315,521**	**323,680**

Net losses on financial assets designated at fair value through profit or loss for the year is US$9.9 million (2010: net gains of US$44.4 million which includes US$744,000 for exchange differences on translation of foreign subsidiaries). Net losses on financial assets are reported in the Consolidated Statement of Comprehensive Income.

The nature of the investments designated at fair value through profit or loss is as follows:

Greenwood Tree Farm Fund LP	Timber operation
Aurora Forestal Limited	Timber operation
NTP Timber Plus Fund I LP	Higher-and-better-use conversion
Green Resources AS	Timber operation
Matariki Forestry Group	Timber operation
Masarang Foundation Asset Linked Euro Note 09/2012	Loan

Provision against loan to Masarang Foundation

The Board is concerned that the borrower, Masarang, will be unable to pay back the principal amount at the due date in 2012 from the proceeds of a planned fundraising as originally intended. As a result, the Board considers it appropriate to continue assessing the fair value of the Masarang investment at US$ Nil at 31 December 2011 (2010: US$ Nil).

Fair value analysis

In the opinion of the Directors there is no material difference between the book values and the fair values of other financial assets and liabilities.

Financial assets and financial liabilities 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: Quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for assets or liabilities that are not based on observable market data (that is, unobservable inputs).

The Group's unlisted securities, classified as financial assets designated at fair value through profit or loss and valued at US$315.5 million at 31 December 2011 (31 December 2010: US$323.7 million), were categorised as Level 3 in accordance with the fair value hierarchy.

Inputs for the determination of the fair values of financial assets designated as Level 3 include NAVs provided by the underlying managers for Matariki, GTFF and NTP at the year end. The value of Aurora is based on the NAV provided by the underlying manager, adjusted for land and biological assets valued by an independent external appraisal during the year. There were no transfers of financial assets between Levels during the year. The table below reflects the movements in assets designated as Level 3 during the course of the year.

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Fair value at beginning of year	323,680	142,965
Additions at cost	1,728	136,294
Unrealised appreciation (including foreign exchange)	(9,887)	43,677
Exchange differences on translation of foreign subsidiaries	-	744
Fair value at end of year	315,521	323,680

14. OTHER ASSETS

	Note	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Prepaid land lease	14(a)	1,586	1,617
Loans receivable (non-current asset)*	14(b)	-	528
Intangible assets		-	1
Closing cost		1,586	2,146

*The balance of Loans receivable is a current asset at 31 December 2011.

14(a) Prepaid land lease

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Opening cost	1,790	-
Land lease prepayments during the year	-	1,790
Closing cost	1,790	1,790
Lease amortisation:		
Opening balance	(41)	-
Amortisation for the year	(104)	(41)
Closing balance	(145)	(41)
Exchange differences	2	56
Closing carrying value	1,647	1,805
Summary of prepayments due:		
Expiring within one year (see Note 16)	61	188
Expiring after more than one year	1,586	1,617
Closing cost	1,647	1,805

Through the Company's wholly owned subsidiary, Green China, prepayments were made during the prior year for timberland leases for property located in the Jiangxi province, China. All leases are amortised over the life of the remaining lease terms which vary from 30 to 50 years.

14(b) Loans receivable

	CCY	Balance CCY'000	Market Value CCY'000	Balance US$'000	Market Value US$'000
31 December 2011					
AGN Gestao Florestal LTDA ("AGN") (Formerly Nemus SA)	R$	257	240	138	129
AGP Servicos Agronomicos LTDA ("AP Servicos")	R$	2,957	2,957	1,587	-
Impairment		(2,957)	(2,957)	(1,587)	-
		257	240	138	129
Green Resources AS ("GRAS")	US$	N/A	N/A	2,106	2,106
				2,244	2,235
Summary of loans receivable due at 31 December 2011:					
Loans due to mature within one year				2,244	2,235
Loans due to mature more than one year				-	-
				2,244	2,235
31 December 2010					
AGN Gestao Florestal LTDA ("AGN") (Formerly Nemus SA)	R$	876	983	528	592
AGP Servicos Agronomicos LTDA ("AP Servicos")	R$	3,800	3,800	2,290	-
Impairment		(3,800)	(3,800)	(2,290)	-
		876	983	528	592
				528	592

Summary of loans receivable due at 31 December 2010:		
Loans due to mature within one year	-	-
Loans due to mature more than one year	528	592
	528	592

The AGN loan is secured by two rural properties of 485 hectares, located in Mato Grosso, Brazil. Interest is charged at a rate of 8% per annum. The loan is repayable on 30 September 2012.

The AP Servicos loan is secured by real assets and accounts receivable associated with the nursery operations owned and operated AP Servicos. The loan is repayable on 8 December 2023. At 31 December 2011 the loan remains fully reserved for as the Investment Manager does not anticipate recovery of collateral on the loan. A reversal of the prior year loan impairment of R$842,599 is included in Other Timber Costs (see Note 5) as AP Servicos made repayments of R$442,599 against the loan and equipment worth R$400,000 was recovered during the year.

The GRAS loan provided by Phaunos Norge AS was secured by a plantation located in Mozambique. Interest was charged at a rate of 15% per annum plus a 3% arrangement fee. The loan, interest accrued to 28 February 2012 and the arrangement fee were converted to 777,777 shares in GRAS on 28 February 2012.

15. CASH AND CASH EQUIVALENTS

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Cash at bank	16,353	20,908
Cash equivalents*	11,979	47,578
	28,332	68,486

*****Refers to short term bank deposits.

16. RECEIVABLES

(amounts falling due within one year)

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Prepaid management fees	2,268	-
Other receivables	1,662	818
Amount due from Investment Manager	936	75
Trade receivables	976	120
Dividend receivable	739	-
Other prepayments	349	1,541
Prepaid land lease	61	188
	6,991	2,742

17. ASSETS/LIABILITIES CLASSIFIED AS HELD FOR SALE

The Company's wholly-owned subsidiary, Forest Enterprises is currently held for sale at 31 December 2011 following the strategic decision in 2010 by the Investment Manager to divest of non-core assets. Together with Forest Enterprises, Caldrey was also classified as held for sale at 31 December 2010. However, Caldrey is not classified as held for sale at 31 December 2011 (see further below).

Loss for the year on assets/liabilities classified as held for sale

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Revenue	2,591	2,368
Expense	(4,390)	(4,458)
Gross loss	(1,799)	(2,090)
Finance costs	(5)	(7)
Impairment of plant and equipment	-	(450)
Loss before tax from assets classified as held for sale	(1,804)	(2,547)
Taxation:		
Deferred tax	(242)	(225)
	(2,046)	(2,772)

The results for the year for assets/liabilities classified as held for sale are included in Notes 4 and 5.

Other comprehensive income on assets classified as held for sale:

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Exchange differences on translation of foreign		

operations	185	(1,270)

Assets classified as held for sale

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Plant and equipment	6,215	7,796
Land	278	278
Deferred tax asset	-	238
Inventories	254	192
Trade receivables	16	737
Other receivables	130	306
	6,893	9,547

Liabilities classified as held for sale

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Deferred tax liability	-	16
Other payables	418	729
	418	745

Cash flows from assets/liabilities classified as held for sale

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Net cash used in operating activities	(1,731)	(1,632)
Net cash used in investing activities	(389)	(225)
Net cash from financing activities	1,983	1,505
Net cash flows for the year	(137)	(352)

Forest Enterprises d.o.o. ("FE doo")

FE doo is the wholly-owned subsidiary of Forest Enterprise B.V. ("FE BV"), which in turn is a wholly-owned subsidiary of Phaunos. Once FE doo is sold, it is intended that FE BV will be liquidated. In 2010, FE BV hired Citadel Financial Advisory d.o.o, Beograd (the "Financial Advisor") to manage and execute the sale of FE doo. The sale process was delayed in 2011 due to adverse economic conditions in Europe. The Financial Advisor issued current data to potential buyers in late 2011. Presently, two companies have signed Non-Disclosure Agreements and are performing their due diligence. The Company is unable to predict the timing of sale, the sale price or fee payable to the Financial Advisor for successful completion of the FE doo sale transaction.

The fair value of Forest Enterprises is estimated at the net asset value of the company at 31 December 2011 less costs to sell. All assets and liabilities of Forest Enterprises are separately presented as 'Assets classified as held for sale' and 'Liabilities classified as held for sale' respectively in the Consolidated Statement of Financial Position as noted above.

Caldrey

As of 31 December 2010 the Investment Manager anticipated the sale of Caldrey as a private transaction and Phaunos was in negotiations with an individual interested in purchasing Caldrey. The potential buyer was unable to obtain financing; therefore the Investment Manager has developed plans to discontinue Caldrey operations and sell its equipment. Caldrey's remaining contract ended on 31 March 2012, which is when the operations effectively discontinued. The Investment Manager is storing the marketable equipment until it is sold by auction during 2012. Due to contractual terms, client payments can be received significantly later than work is completed by Caldrey personnel. A consultant will seek to ensure collection of those receivables on behalf of the Company. Cash will be remitted back to Phaunos after closing costs are paid. There are no other significant assets or liabilities.

18. PAYABLES AND PROVISIONS

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Amounts falling due within one year:		
Amount due on Eucateca farm (Alto Jauru)	3,682	4,133
Trade payables	1,839	2,037
Other payables	1,965	1,761
Future replant provisions†	941	-
Amount due to Investment Manager	350	-
Accrued audit fees	142	119
Accrued administration fees	56	88
Amount due on Purchase & Sale Agreements*	-	4,492
Accrued Investment Manager's fees (C Shares)	-	411
Taxation	-	323
Accrued Directors' fees	-	82
	8,975	13,446
Amounts falling due after one year:		

Future replant provisions	2,321	-
	11,296	13,446

†Future replant provisions relate to obligations to replant timber under the terms of the land lease agreement held by Green China.

*Final amounts due on purchase and sale agreements relating to Green China investments completed during 2010.

19. DEFERRED TAX

Deferred tax relates to the following:	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Deferred tax assets		
Tax losses available to be carried forward	994	300
Plant and equipment	547	-
	1,541	300
Deferred tax assets reclassed as held for sale	(41)	(300)
Exchange differences	(160)	-
	1,340	-

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Deferred tax liabilities		
Timber	(2,188)	
Other financial assets	(172)	-
Plant and equipment	1	(16)
	(2,359)	(16)
Deferred tax liabilities reclassed as held for sale	(1)	16
Exchange differences	251	-
	(2,109)	-
Net deferred tax liabilities	(769)	-

Movement in deferred tax relates to the following:		
Movement in deferred tax assets		
Opening	300	637
Closing	1,541	300
Movement for the year	1,241	(337)
Movement in deferred tax liabilities		
Opening	(16)	(128)
Closing	(2,359)	(16)
Movement for the year	(2,343)	112
Total deferred tax movement (see Note 6)	(1,102)	(225)

20. SHARE CAPITAL

Authorised, issued and fully paid

At 31 December 2011 and 31 December 2010**:**	**US$**
Unlimited Ordinary Shares of no par value	-

Issue of Shares	**Number of shares**	**Amount US$'000**
At 31 December 2010 and 31 December 2011:		
Ordinary Shares	541,214,877	559,758
Purchase of Ordinary Shares (now held in Treasury)	(4,065,045)	(2,819)
	537,149,832	556,939

The holders of the Ordinary Shares will, under general law, be entitled to participate in any surplus assets in a winding-up only in proportion to their shareholdings in the appropriate class.

As a Guernsey incorporated vehicle, the Company is not subject to any local statutory requirements in respect of shareholder pre-emption rights for new share issues for cash. However, during the year new Articles of Incorporation of the Company were adopted to introduce pre-emption rights in respect of all new Ordinary Share issues for cash in order to ensure that the Company complied with certain amendments to the UKLA Listing Rules and retained the premium listing for the Ordinary Shares.

In addition, the pre-emption rights introduced in the new Articles of Incorporation were disapplied in respect of new issues of Ordinary Shares for cash, subject to the disapplication being limited to a proportion of any new issue of Ordinary Shares that represented approximately 5 per cent. of the issued share capital of the Company (including Treasury Shares) at that time, being 27,060,744 Ordinary Shares. The disapplication of pre-emption rights will expire at the conclusion of the 2012 Annual General Meeting. A renewal of such disapplication in respect of 5% of the Ordinary Shares in issue at the date of publication of these consolidated financial statements will be sought from shareholders at the 2012 Annual General Meeting.

Transfer to share capital and distributable reserves

At 1 January 2011 the balance of the share premium account of US$432.1 million was transferred to share capital, following changes to Guernsey company law.

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Share Capital Account	432,101	-
Share Premium Account	-	432,101
Balance at 31 December 2011	432,101	432,101

The balance of the share capital account US$432.1 million and the distributable reserves US$110.4 million are all available for distribution subject to meeting the relevant solvency tests in the Guernsey company law. This brings total reserves at 31 December 2011 to US$542.5 million.

The distributable reserves of US$110.4 million, which were created on cancellation of the Company's share premium account in 2007, is available as distributable profits to be used for all purposes permitted by Guernsey companies law, including the buy-back of Ordinary Shares and the payment of dividends.

21. PURCHASE OF OWN SHARES

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Treasury shares reserve at beginning of year	3,025	3,025
Reserve transfer to retained earnings	(206)	-
Treasury shares reserve at end of year	2,819	3,025

The Treasury Shares reserve at the end of the year represents 4,065,045 Ordinary Shares (31 December 2010: 4,065,045 Ordinary Shares) purchased in the market prior to the period at various prices per share ranging from US$0.64 to US$0.80 and held by the Company in Treasury. These shares may be reissued or cancelled.

At the Annual General Meeting of the Company held on 9 June 2011, it was resolved that the Company be authorised to make market purchases of Ordinary Shares, provided that the number of Ordinary Shares purchased does not exceed 14.99% of the number of Ordinary Shares in issue on the date the resolution was passed.

The number of Ordinary Shares (excluding Treasury Shares) in issue at the date the resolution was passed was 537,149,832. The number of Ordinary Shares held in treasury by the Company at the date the resolution was passed was 4,065,045 representing 0.75% of the total number Ordinary Shares in issue (including Treasury Shares at the date the resolution was passed and at 31 December 2011.

The Company's authority to make purchases of its own issued Ordinary Shares will expire at the conclusion of the 2012 Annual General Meeting. A renewal of such authority to make purchases of Ordinary Shares will therefore be sought from shareholders at the 2012 Annual General Meeting.

Under such authority, the Directors only intend to purchase shares where they believe such purchases will result in an increase in the NAV per Ordinary Share and will assist in narrowing any discount to the NAV per Ordinary Share at which the Ordinary Shares may be trading. When Ordinary Shares trade at a substantial discount to the NAV per Ordinary Share and do not coincide with trading volumes in the market, the Directors may feel that it is appropriate to exercise such authority.

22. DIVIDENDS

The following dividend was paid by the Company on 15 July 2011, as a final dividend in respect of the year ended 31 December 2010.

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Dividend for the year:		
US$0.02 per Ordinary Share (2010: US$ Nil)	10,743	-

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are market price risk, liquidity risk, interest rate risk, credit risk and foreign exchange risk. The Board regularly reviews and agrees policies for managing each of these risks and these are summarised below:

(a) Market Price Risk

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Group might suffer through holding market positions in the face of price movements. The Investment Manager actively monitors market prices and reports to the Board as to the appropriateness of the investments held.

There is also a further risk due to the small number of large investments made by the Group. Such a concentration of investments subjects the Group to increased exposure to significant declines in the value of one investment. The Investment Manager actively monitors the appropriateness of such investments held and reports to the Board on the same.

Details of the Group's Investment Objective and Policy are given in the Investment Objective and Policy section.

The value of the financial assets in which the Group invests is principally affected by risks associated with timber, which are detailed as follows:

Physical risks associated with timber
Timberland is subject to a number of natural forces that can damage or destroy growing trees. These include weather events (tornados, hurricanes, ice and snow storms, frost), insects and diseases as well as fire. While some trees might be destroyed during one of these events (particularly tornados), most of these events will leave dead standing trees or leave live trees that are damaged and take a year or two to recover. This is likely to adversely affect the Group's operating and financial condition. However, much of the affected, merchantable timber is salvageable after such events, so some value can be recovered.

Economic risks associated with timber
The Group's operating revenues depend on the prevailing market prices for timber and wood products. Decreases in demand or increases of supply in those products may reduce prices, which may reduce the Group's revenues and the value of its timber.

The demand for timber is dependent on the demand for products such as paper and paperboard, lumber, panels and energy. Changes in the demand for those products will affect the demand for timber and the Group's revenues. The demand for paper and paperboard (and through them the demand for pulpwood) is related to the general level of economic activity. Low economic growth rates may lead to a lessening of demand for pulpwood and lower prices.

The demand for lumber and panels (and through it the demand for sawlogs, veneer logs and pulpwood used in manufacturing panels) is related to construction and remodelling activity. A reduction in such activity may lead to a lessening of demand for logs. The demand for energy (and through it the demand for logging and mill residues, chips and fuelwood) is related to the general level of economic activity and the price of oil. Decreases in oil prices may lead to a decrease in demand for woodbased energy.

Political and legal risks associated with timber
Changes in laws related to forest management and environmental legislation may adversely affect the Group's ability to harvest timber as planned. Regulations might require the Group to reduce harvesting or set aside some land for active timber management or restrict the movement of logs across political boundaries. Such regulatory changes might reduce the volume of timber that can be harvested from Group lands and reduce revenues. In addition, in situations where land is leased, the lease rights could be expropriated (or be subject to legal challenge) both of which could reduce the volume of timber that can be harvested and reduce revenues.

Price sensitivity
The following details the sensitivity of the Portfolio to a 5% increase and decrease in the market prices, with 5% being the sensitivity rate used when reporting price risk internally to key management personnel and representing management's assessment of the possible change in market prices.

At 31 December 2011, if market prices had increased or decreased by 5%, with all the other variables held constant, the net profit and equity for the year would have increased or decreased by US$15.8 million (2010: US$16.2 million), due to the increase or decrease in the fair value of financial assets designated at fair value through profit or loss. This would represent an increase or decrease in Net Asset Value of 2.82% (2010: 2.72%).

(b) Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in realising assets or otherwise raising funds to meet financial commitments. The Group retains a proportion of its liquid assets in cash or near-cash investments for working capital purposes.

The following illustrates the maturity analysis of the Group's financial assets and undiscounted contractual cash flows for liabilities at 31 December 2011:

	Due on demand US$'000	Due < 3 months US$'000	Due 3-12 months US$'000	No fixed maturity US$'000	Total US$'000
Assets					
Investments designated at fair value	-	-	-	315,521	315,521
Trade and other receivables	6,990	-	-	-	6,990
Cash and cash equivalents	20,832	7,500		-	28,332
Total assets	27,822	7,500	-	315,521	350,843
Liabilities					
Trade and other payables	-	7,614	3,682	-	11,296

Total liabilities	-	7,614	3,682	-	11,296

The following illustrates the maturity analysis of the Group's financial assets and undiscounted contractual cash flows for liabilities at 31 December 2010:

	Due on demand US$'000	**Due < 3 months US$'000**	**Due 3-12 months US$'000**	**No fixed maturity US$'000**	**Total US$'000**
Assets					
Investments designated at fair value	-	-	-	323,680	323,680
Trade and other receivables	2,742	-	-	-	2,742
Cash and cash equivalents	68,486	-	-	-	68,486
Total assets	71,228	-	-	323,680	394,908
Liabilities					
Trade and other payables	-	9,313	4,133	-	13,446
Total liabilities	-	9,313	4,133	-	13,446

At 31 December 2011 the Group has non-contractual capital commitments as per Note 24, which are subject to due diligence.

(c) Interest Rate Risk

During the year the Group held cash and cash equivalents in US Dollars, Euro and New Zealand Dollars, the returns on which vary with market rates.

The weighted average effective interest rate for cash and bank balances at 31 December 2011 was 1.47% (2010: 1.15%).

Interest rate sensitivity

If interest rates had been 25 basis points higher or lower and all other variables were held constant, the Group's net profit and equity at 31 December 2011 would have increased or decreased by approximately US$17,819 or 0.003% (2010: US$57,475 or 0.01%) of Net Asset Value, due to an increase or decrease in the amount of interest receivable on the bank balances.

(d) Credit Risk

The Group's investments are exposed to credit risk from holding cash and bank deposits with banks worldwide. The Board monitors credit ratings to ensure that cash and bank balances are maintained with institutions holding at least an Aa1 credit rating or higher rated banks for longer term deposits. The gross credit exposure to the Group arising from the above items is shown in Notes 14(b) to 18.

At 31 December 2011, the Group had loans totalling US$2.1 million (2010: US$528,000) as detailed in Note 14(b), which expose the Group to credit risk. The Group has receivables which have been reviewed for credit quality and all receivables are due within 45 days. There are no bad debts or items that are past due but not impaired.

(e) Foreign Exchange Risk

The Group undertakes certain transactions and has financial assets and financial liabilities denominated in foreign currencies and hence exposures to exchange rate fluctuations arise.

The carrying amounts of the Group's major foreign currency denominated monetary assets (bank balances) at 31 December 2011 are as follows:

	31 Dec 2011 US$'000	**31 Dec 2010 US$'000**
New Zealand Dollar	155	160
Euro	458	254
Brazilian Real	5,416	9,652
Norwegian Krone	701	238

Foreign exchange sensitivity

The Group's major foreign currency exposure, the Brazilian Real is due to the significant amount of Brazilian currency invested in Itau Bank short term investment accounts for working capital needs.

If US Dollar rates against the Brazilian Real had been 3% higher or lower and all other variables were held constant, the Group's net profit and equity as at 31 December 2011 would have increased or decreased by approximately US$162,000 (2010: US$290,000) due to the translation of the Brazilian Real currency.

(f) Capital Management

The Director's view the Group's Capital as being its issued Ordinary Shares plus any longer term borrowing that the Company may enter into from time to time. The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the Consolidated Statement of Financial Position.

Capital for the year is summarised as follows:

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Share capital	432,101	432,101
Retained earnings	10,327	30,850
Foreign currency translation reserve	2,765	21,605
Land revaluation reserves	5,986	2,974
Distributable reserves	110,418	110,418
Purchase of own shares	(2,819)	(3,025)
Total	558,778	594,923

The Group is not subject to externally imposed capital requirements.

The Group's objectives in managing capital are:

- To safeguard its ability to continue as a going concern and provide returns to shareholders, whether in the form of dividends, other distributions or capital returns
- To allocate capital to those assets that the directors consider are most likely to provide the above returns
- To manage, so far as is reasonably possible, the discount between the Company's share price and its NAV per Ordinary Share

Dividends, if any, are expected to be paid in US Dollars. Dividends are paid from available cash resources within the constraints of the Companies (Guernsey) Law, 2008. Please refer to the updated Dividend section in the Directors' Report.

The Investment Manager arranges for the Group to hold sufficient amounts in cash and cash equivalents for committed projects and working capital requirements. Surplus resources are invested in fixed income instruments (including but not limited to bank deposits, bonds or government issued treasury securities) of high credit quality with a low risk of adverse changes in value.

The policy of the Company in relation to borrowing is covered within the Gearing section of the Investment Objective and Policy of this Annual Report.

As the Ordinary Shares are traded on the Main Market of the LSE, they may trade at a discount to the NAV per Ordinary Share. The Directors seek to manage this through judicious use of the Company's share buy-back authority and existing shares held in Treasury. At the Annual General Meeting of the Company held in 2011, the Directors were granted authority to buy back up to 14.99% of the Ordinary Shares in issue at the date of the passing of the resolution granting such authority. The Company's authority to make purchases of its own issued Ordinary Shares will expire at the conclusion of the 2012 Annual General Meeting. A renewal of such authority to make purchases of Ordinary Shares will be sought from shareholders at the 2012 Annual General Meeting. The timing of any purchases, if any, will be decided by the Board.

The Directors intend that purchases will only be made pursuant to this authority through the market, for cash, at prices below the prevailing NAV per Ordinary Share where the Directors believe such purchases will result in an increase in the NAV per Ordinary Share of the remaining Ordinary Shares and to assist in narrowing any discount to NAV per Ordinary Share at which the Ordinary Shares may be trading. Any Ordinary Shares bought back by the Company will either be held by the Company in treasury (and which may be re-issued) or forthwith be cancelled.

The Company's authorised share capital is such that either further issues of new Ordinary Shares or re-issues of Ordinary Shares held in treasury can be made. Subject to prevailing market conditions, the Board may decide to make such issues or re-issues of Ordinary Shares for cash from time to time. Unless authorised by shareholders, the Company will not issue further Ordinary Shares or re-issue Ordinary Shares out of treasury for cash at a price below the prevailing NAV per share unless they are first offered pro rata to existing shareholders.

The Articles of Incorporation have granted authority to the Directors, pursuant to the Companies (Guernsey) Law 2008, to allot an unlimited number of Ordinary Shares and 1,556,490,000 C shares (including warrants, options and other rights in respect of such shares). This authority has a term of five years from the date of adoption of the Articles of Incorporation on 24 March 2011 (ending 23 March 2016). The Board intends to seek renewal of this authority prior to the end of this period.

24. CAPITAL COMMITMENTS

At the year end, the Group has outstanding contractual commitments of up to US$3.0 million (2010: US$4.7 million) in relation to outstanding working capital commitments for GTFF.

25. RELATED PARTIES

HSBC Securities Services (Guernsey) Limited was the Company's Administrator and Company Secretary during the year. US$232,312 (2010: US$281,335) of costs were incurred by the Company with this related party in the year, of which US$133,553 (2010: US$105,268) was outstanding at 31 December 2011. Liane Luke is a senior consultant in the Investment Manager's group. Kimberly Tara is also a director and shareholder of the Investment Manager. US$8.5 million (2010: US$9.1 million) of costs were incurred by the Company with this related party in the year, of which US$ Nil (2010: US$ Nil) was outstanding to this related party as at 31 December 2011.

Management fees are prepaid to the Investment Manager on a quarterly basis during the year. As a result the Company reported total prepayments of US$2.3 million at 31 December 2011 (2010: US$ Nil) in relation to the first quarter of 2012. However, as a result of the prepayments made in respect of the 2011 year, the Investment Manager owed US$935,801 (2010: US$75,322) to the

Company at 31 December 2011.

The Board has agreed to reserve an amount of US$75,000 (2010: US$260,704) in respect of legal services due to the Investment Manager, which the Board considered could more appropriately be provided by the Investment Manager than by external lawyers (but which falls outside of the scope of its investment management services under the Investment Management Agreement) and US$102,487 (2010: US$93,750) in respect of financial reporting and consolidation work for the Company, again which falls outside of the scope of the investment management services under the Investment Management Agreement.

Under the terms of the Investment Management Agreement, the Investment Manager is entitled to receive a base fee together with reimbursement of reasonable expenses incurred by it in the performance of its duties. The base fee will be equal to 0.375% per quarter of the NAV of the Company, calculated quarterly and payable in advance, using an implied straight-line increase in NAV of 10% per annum on a basis which increases at 2.5% per quarter. As the quarterly calculation is based on an estimated NAV, following the calculation of the audited NAV at the end of each financial period, the base fee payable over such financial period will be recalculated and any deficiency will be payable by the Company to the Investment Manager. To the extent that such post-audit recalculation demonstrates that an excess fee has been paid, any such amount will be deducted from the payment due in respect of subsequent periods, up until the amount equal to the excess has been repaid.

In addition, the Investment Manager is entitled to a performance fee if the NAV per Ordinary Share at the end of each performance period exceeds the performance hurdle (as detailed below).

For these purposes the first performance period is the period from 20 December 2006 (being the date on which the Ordinary Shares were first admitted to AIM) to such 31 December on which the NAV per Ordinary Share (adjusted as described below) exceeds 108% of US$1.00 (being the placing price at which the Ordinary Shares were placed at the initial admission to AIM). Thereafter performance periods shall be each 12 month period ending on 31 December.

The performance hurdle is:

(a) for the first performance period, an amount equal to 108% of the initial US$1.00 placing price on admission to AIM; and

(b) for the second performance period, the figure which is 8% above the audited NAV per Ordinary Share as the end of the first performance period (adjusted as described below); and

(c) for each of the third and subsequent performance periods the figure which is 8% above (i) if a performance fee was payable in respect of the immediately prior performance period, the audited NAV per Ordinary Share at the end of such immediately prior performance period(adjusted as described below); or (ii) if no performance fee was payable in respect of the immediately prior performance period, the performance hurdle at the end of such immediately prior performance period (adjusted as described below).

Where the performance hurdle is met in respect of a performance period, a performance fee will be payable in an amount equal to 20% of any outperformance in respect of the adjusted audited NAV per Ordinary Share over and above the highest previously recorded adjusted audited NAV per Ordinary Share in respect of which a performance fee was paid (or, in the case of the first performance period, above 108% of the initial US$1.00 placing price) multiplied by the time-weighted average number of Ordinary Shares in issue over the performance period.

For the purposes of calculating the performance fee hurdle and whether any performance fee is payable in respect of any performance period the NAV at the end of that performance period shall be adjusted so as to:

(a) include the gross amount of all dividends per Ordinary Share declared or announced in respect of such performance period and any undistributed net revenue in respect of such performance period not otherwise taken into account for the purposes of calculating such NAV per Ordinary Share;

(b) not take account of any accrual made in respect of the performance fee itself for that performance period;

(c) not take into account any increase in NAV per Ordinary Share attributable to the issue of Ordinary Shares at a premium to NAV per Ordinary Share or any buy-back of any Ordinary Shares at a discount to NAV per Ordinary Share; and

(d) include any other adjustments which the Audit and Management Committee of the Board and the Investment Manager agree are appropriate.

For the purposes of calculating the performance fee hurdle and whether any performance fee is payable for each of the second and subsequent performance periods, the NAV per Ordinary Share (adjusted as described above) and the performance hurdle as at the end of the immediately prior performance period shall be further adjusted so as to:

(a) exclude the gross amount of all dividends declared or announced in respect of Ordinary Shares in such prior performance period; and

(b) take account of any accrual made in respect of the performance fee attributable to Ordinary Shares in such prior performance period.

Under the terms of the Investment Management Agreement, FourWinds Capital Management will continue as the Investment Manager unless the agreement is terminated by either party giving to the other not less than 36 months' notice. Such notice cannot be given earlier than the seventh anniversary of the initial admission of the Ordinary Shares to AIM, that being 20 December 2013. The Investment Management Agreement may be terminated with immediate effect in such circumstances as the liquidation of either the Company or the Investment Manager, or a material breach of its obligations by the Investment Manager not remedied within 28 days of receiving notice of such breach.

Upon termination of the Investment Management Agreement in accordance with its terms, each of the base fee and the performance fee will be calculated up to and including the date on which the Investment Manager ceases to manage the Company, with the performance hurdle being pro-rated accordingly. No additional payment will be required to be made to the Investment Manager by the Company.

Directors' remuneration is disclosed in Note 7. There are no other key management personnel other than the Directors.

26. EVENTS AFTER THE BALANCE SHEET DATE

- Legis Fund Services Limited ("Legis") has been appointed as the Company's Administrator and Company Secretary to replace HSBC Securities Services (Guernsey) Limited with effect from 15 February 2012. In addition, on the same date the Company's registered office address was changed to 11 New Street, St Peter Port, Guernsey, GY1 2PF, Channel Islands. Mourant Ozannes were replaced by Legis as the Company's listing sponsor for the CISX with effect from 1 March 2012.

- On 28 February 2012 the loan between Phaunos Norge AS and Green Resources along with interest accrued to 28 February 2012 and was converted to shares in Green Resources. The shares are converted as part of a rights offering to all Green Resources shareholders, which was authorised at that company's extraordinary general meeting held 22 December 2011. The loan and interest was converted at NOK 16 per share, resulting in an additional 777,777 shares being issued to Phaunos Norge AS, a wholly-owned subsidiary of Phaunos.

- The Investment Manager has given notice to employees and others that Caldrey is closing down. Caldrey's remaining contract ended on March 31, 2012, which is when the operations effectively discontinued. The Investment Manager is storing the marketable equipment until it is sold by auction during 2012. Due to contractual terms, client payments can be received significantly later than work is completed by Caldrey personnel. A consultant will seek to ensure collection of those receivables on behalf of the Company. Cash will be remitted back to Phaunos after closing costs are paid. There are no other significant assets or liabilities.

- Mr Keith Oates retired as Chairman from the Board of the Company as of 12 April 2012. Sir Henry Studholme Bt, a non-executive Director of Phaunos and Chairman of the Audit Committee, has been appointed as his successor. In light of the appointment of Sir Henry Studholme Bt as Chairman of the Company, it has been agreed by the Directors that Ian Burns, a non-executive Director of Phaunos and member of the Audit Committee, will be appointed as the Chairman of the Audit Committee as successor to Sir Henry Studholme Bt with effect immediately after the publication of these financial statements.

Schedule of Investments

Name of investment	Nature of investment	Fair Value US$'000	31 Dec 2011 Total Net Assets %	31 Dec 2010 Total Net Assets %
Matariki Forestry Group	Timber operation	140,562	25.16%	24.73%
Green Resources AS	Timber operation	93,726	16.77%	16.15%
Greenwood Tree Farm Fund LP	Timber operation	36,734	6.57%	6.02%
Aurora Forestal Limited	Timber operation	33,335	5.97%	5.69%
NTP Timber Plus+ Fund I, LP	Loan	11,164	2.00%	1.82%
Masarang Foundation Asset Linked Euro Note 09/2012	Loan	-	-	-
Total financial assets designated at fair value through profit or loss		315,521	56.47%	54.41%
Other non-current assets		211,197	37.80%	34.36%
Other net current assets		3,728	0.66%	(0.28)%
Cash and cash equivalents		28,332	5.07%	11.51%
Total Net Asset Value		558,778	100.00%	100.00%

Shareholder Information

The Ordinary Shares are traded on the Main Market of the LSE and on the CISX. 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 financial statements, Capita Registrars (Guernsey) Limited, who maintains the Company's registers of shareholders. They may be contacted by telephone on +44 (0)1534847445.

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

Directors and Service Providers

Registered Office (from 15 February 2012) 11 New Street St Peter Port Guernsey GY1 2PF Channel Islands	**Auditors** Ernst & Young LLP PO Box 9 Royal Chambers St Julian's Avenue St Peter Port Guernsey GY1 4AF
Directors Keith Oates (Chairman) - Retired 12 April 2012 Ian Burns - Appointed 1 March 2011 Liane Luke Martin Ricketts - Appointed 5 January 2011 Sir Henry Studholme Bt - Appointed 5 January 2011 and appointed as Chairman on 12 April 2012 Kimberly Tara Sarah Evans - Resigned 5 January 2011 Peter Niven - Resigned 5 January 2011	**Registrar** Capita Registrars (Guernsey) Ltd Longue Hougue House St Sampson Guernsey GY2 4JN
Investment Manager FourWinds Capital Management Scotia Centre PO Box 268GT George Town Grand Cayman Cayman Islands	**Listing Sponsor for CISX (to 1 March 2012)** Mourant Ozannes Securities Limited PO Box 186 1 Le Marchant Street St Peter Port Guernsey GY1 4HP
Administrator and Company Secretary (to 15 February 2012) HSBC Securities Services (Guernsey) Ltd Arnold House St Julian's Avenue St Peter Port Guernsey GY1 3NF	**Administrator and Company Secretary (from 15 February 2012) and Listing Sponsor for CISX (from 1 March 2012)** Legis Fund Services Limited 11 New Street St Peter Port Guernsey GY1 2PF Channel Islands
Joint Corporate Broker (from 5 January 2011) VSA Capital Limited 14 Austin Friars London EC2N 2HE	**Joint Corporate Broker (from 5 January 2011)** Winterflood Investment Trusts The Atrium Building Cannon Bridge House 25 Dowgate Hill

England	London EC4R 2GA England
Corporate Broker (to 5 January 2011) Collins Stewart Europe Limited 88 Wood Street London EC2V 7QR England	**UK Transfer Agent** Capita Registrars Ltd The Registry 34 Beckenham Road Beckenham Kent England BR3 4TU
Solicitors to the Company (as to English Law) Herbert Smith LLP Exchange House Primrose Street London England EC2A 2HS	**Advocates to the Company (as to Guernsey Law)** Mourant Ozannes PO Box 186 1 Le Marchant Street St Peter Port Guernsey GY1 4HP

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