Phaunos
TIMBER

PHAUNOS TIMBER FUND LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the period ended 30 June 2017


Eucalyptus Plantation, Pradera Roja, Uruguay.

Phaunos Timber Fund Limited (the "Company" or "Phaunos") invests in a portfolio of timber assets which is broadly diversified in a variety of tree species, tree age classes and a range of geographic timberland markets in order to provide sustainable returns, control volatility and manage risk. At the 2017 AGM on 19 June 2017 a majority of the votes submitted were against continuing the Company for a further five years. Shareholders have approved a change to the Company's investment policy to permit an orderly realisation of its assets.

About the Manager

Stafford Capital Partners Limited (the "Manager" or "Stafford") is a leading private markets investment and advisory group, with US$4.9 billion of funds under management and advice as at 30 June 2017. The Stafford group comprises focused teams in the timberland, agriculture, infrastructure, private equity, sustainable capital and venture capital sectors. Phaunos is the only publicly listed company under Stafford's management. With effect from 17 August 2017, Stafford has tendered its resignation as the Company's Manager and will serve a six-month notice period.

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

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Radiata Pine Plantation, Matariki, New Zealand.

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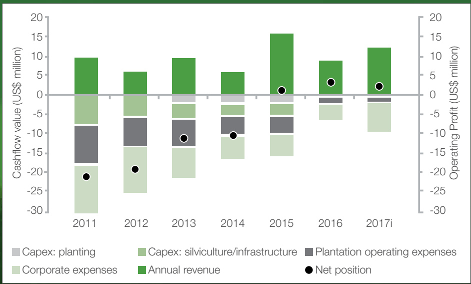
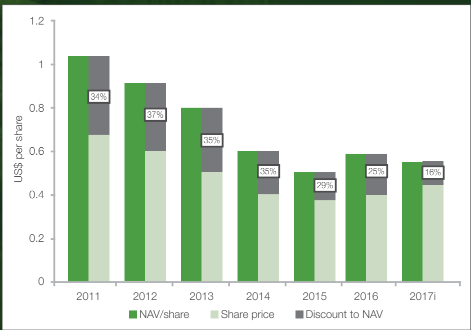
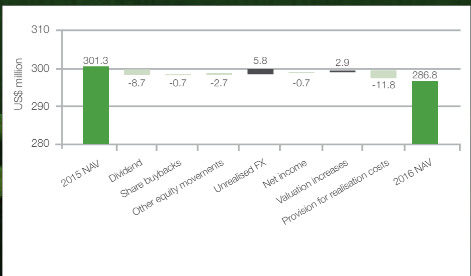


NAV and Share Price Performance



NAV Reconciliation



"i" refers to interim

2017 Interim Summary

- At the AGM on 19 June 2017 a majority of the votes submitted were against continuing the Company for a further five years.
- The Board has put forward a plan to realise the assets of the Company in an orderly manner. Shareholders approved a revised investment policy at an Extraordinary General Meeting held on 17 August 2017.
- On 10 July 2017 Stafford tendered its resignation as Manager. Accordingly, a six-month notice period has commenced with effect from 17 August 2017.
- On 25 July 2017, the Board approved the appointment of Mr Brendan Hawthorne as a non-executive Director. This appointment was confirmed by Shareholders at the EGM on 17 August 2017.
- **5% decrease** in Net Asset Value ("NAV") to US$286.8 million from US$301.3 million at 31 December 2016 (net of share buybacks). This is primarily due to US$11.8 million provided for in estimated sales and deregistration costs as well as realisation taxes as a result of the anticipated wind-down of the Company. The final 2016 dividend declared of US$8.7 million was partly offset by US$7.6 million in distributions received from Matariki.
- **4% decrease in NAV per share** from 55 cents to 53 cents.
- Share price discount to NAV **narrowed 9%** from 25% at 31 December 2016 to 16% at 30 June 2017.
- **1.5 million shares repurchased** through the share buyback programme at a weighted average price of 46 cents per share.
- Timber and Investment operating expenses for the period **increased** from US$3.1 million to US$4.4 million. This increase is primarily attributable to the management fee paid to Stafford as a result of the Shareholders vote not to continue the Company for a further five years. This is in accordance with the Portfolio Investment Agreement. Concurrently, the Company achieved continued operational cost savings.

EXECUTIVE SUMMARY

The Board of Phaunos Timber Fund Limited ("Phaunos" or the "Company") hereby presents its Condensed Interim Financial Report and Consolidated Financial Statements ("Interim Report") for the six months to 30 June 2017 ("period"). The Company is an authorised closed-ended, Guernsey domiciled, investment company, which has been managed by Stafford Capital Partners Limited (the "Manager" or "Stafford") since 1 July 2014.

AMENDED INVESTMENT OBJECTIVE AND POLICY

At the Company's Annual General Meeting held on 19 June 2017, a resolution that the Company continue in business for a further five years was not approved by Shareholders. As a result of the resolution not having been passed, the Company was required within four months to put forward to Shareholders alternative proposals for the future of the Company. Consequently, Shareholders approved a revised investment objective and policy of the Company at an Extraordinary General Meeting held on 17 August 2017.

The revised investment objective and policy are as follows:

Investment Objective

The Company will be managed with the intention of realising all remaining assets in the Portfolio, in a prudent manner consistent with the principles of good investment management with a view to returning capital to the Shareholders in an orderly manner ("Managed Wind-down").

Investment Policy

The Managed Wind-down will be effected with a view to the Company realising all of its investments in a manner that achieves a balance between maximising the value from the Company's investments and making timely returns of capital to Shareholders. The Company may sell its investments either to co-investors in the relevant asset or to third parties, but in all cases with the objective of achieving the best available price in a reasonable time scale.

The Company will cease to make any new investments or to undertake capital expenditure except where necessary in the reasonable opinion of the Board and the Investment Manager (or, where relevant, the Investment Manager's successors) in order to protect or enhance the value of any existing investments or to facilitate orderly disposals.

Any cash received by the Company as part of the realisation process prior to its distribution to Shareholders will be held by the Company as cash on deposit and/or as cash equivalents. The Company will not undertake new borrowing other than for short-term working capital purposes.

EXECUTIVE SUMMARY CONTINUED

CHANGES TO THE BOARD AND MANAGEMENT

On 3 July 2017, the Board announced its intention to change the Board composition. The Board has engaged search agents to seek out individuals with expertise in forestry, the sale of real assets and other skills relevant to the effective management of the realisation of the Company's portfolio and the wind-down of the Company. The Board appointed Mr Brendan Hawthorne as a Board member and he was re-appointed at the EGM on 17 August 2017 and as such, he has been elected as the first member of the new Board. The Board intends that each of its current members, including the Chairman, will stand down, after a process of orderly hand over, once replacements are appointed.

On 10 July 2017 Stafford informed the Phaunos Board that it will resign as Manager with effect from the Company's EGM held on 17 August 2017. From that date a six-month notice period commenced.

During the notice period, Stafford will focus on the ongoing management of the Company's assets, the appointment of a sales agent to manage the realisation of assets, and the provision of fund information as part of an orderly hand over to a new manager, if required.

The following is a high-level summary of the performance of the Company for the period:

	6 months to 30 June 2017 (unaudited)	12 months to 31 Dec 2016 (audited)	6 months to 30 June 2016 (unaudited)
Net Asset Value ("NAV")	US$286.8 million	US$301.3 million	US$299.4 million
NAV per Ordinary Share	53 cents	55 cents	54 cents
Share price	44.5 cents	41 cents	40.5 cents
Share price discount to NAV	16%	25%	25%
Cash balance	US$47.1 million	US$45.6 million	US$50.3 million
(Loss)/profit for the period/year	US$(0.7) million	US$18.3 million	US$12.1 million
(Loss)/earnings per Ordinary Share	(0.13) cents	3.37 cents	2.16 cents

CHAIRMAN'S STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2017

My Chairman's statement this year is written against the backdrop of the decision by Shareholders at the Company's Annual General Meeting held on 19 June 2017 that the Company should not continue.

Operationally, the performance of the Company's underlying investments and assets over the first half of 2017 was very encouraging, reflecting the cost savings and focus on revenue generation put into place by Stafford and the Board over the past few years. High log demand from Asia has contributed to the strong performance of Matariki, while Stafford has been successful in finalising wood supply agreements for the Brazilian eucalyptus plantation estates of Eucateca and Mata Mineira. Following the declaration of a dividend and prior to the Annual General Meeting on 19 June 2017 the share price discount narrowed to 9%, compared to 25% at the start of the year. It has subsequently widened to 20% at the time of writing.

As a result of the decision not to continue and in line with previous statements, the Board put proposals to an Extraordinary General Meeting on 17 August 2017 for a revised investment policy for the Company to permit the orderly realisation of the Company's assets and the timely distribution of the proceeds to Shareholders. These proposals have also been passed, as a consequence of which the Company is no longer a going concern and these accounts have been prepared on this basis.

RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

The overall NAV of Phaunos at 30 June 2017 is US$286.8 million, compared with US$301.3 million at 31 December 2016. On a per share basis, the NAV per Ordinary Share decreased to 53 cents per share from 55 cents over the same period. The main components of the reduction in value were the declaration of a final dividend of US$8.7 million as well as provisions amounting to US$11.8 million for the estimated wind-down costs, including potential sales commissions and tax liabilities associated with the sale of the assets and repatriation of funds together with the Increased Base Fee due to Stafford, on the terms agreed by Shareholders in 2014, payable once the continuation vote was not passed.

At an operational level the Company made a profit of US$2.3 million.

Adjustments have been made to these accounts, wherever possible, to reflect the fact that the Company is no longer reporting on a going concern basis. It has not been practical in the time between the continuation vote and the preparation of these accounts to obtain new independent third-party valuations for the assets at 30 June 2017. This is in line with the process followed for previous interim reporting periods. Therefore, as in the past, the independent third-party valuations at 31 December 2016 for land and biological assets have been used in the accounts adjusted for foreign exchange movements and also by provisions for the sales commissions and taxes anticipated to be incurred on disposal. The ultimate realisable value of the biological assets and land stated in these accounts will depend on a number of factors which cannot be predicted with confidence, at this stage, including the illiquid nature of the assets and the limitations of the markets for them.

CHANGES TO THE COMPOSITION OF THE BOARD AND MANAGEMENT

With the change in the Company's investment policy to allow a realisation strategy to be implemented, the Board believes that individuals with appropriate expertise should oversee the future realisation process. The Company has announced that each of its current Board members, including myself, will stand down after suitable replacements are appointed and an orderly hand-over is completed.

Consequently, the Board has engaged search agents to find suitable candidates with the relevant expertise. This process is well underway and the Company announced on 25 July 2017 that Mr Brendan Hawthorne had joined the Board. Mr Hawthorne is a managing director at Duff & Phelps, a global valuations and corporate recovery firm. Notably, he brings over twenty years' experience as a specialist in asset recovery, working across multiple international jurisdictions. The Board considers Mr Hawthorne's diverse experience will be of great benefit to the Company.

It is expected that a new Chairman will be appointed as soon as is practicable.

Stafford Capital Partners Limited, Phaunos' investment manager since July 2014, tendered its resignation with effect from the 17 August 2017 Extraordinary General Meeting. Stafford will serve a six-month notice period. During this time Stafford will focus on the ongoing management of the Company's assets, the appointment of a sales agent to manage the realisation of assets, and the provision of fund information as part of an orderly hand over to a new manager or whatever new management arrangements the new Board puts in place.

On behalf of the Board, I want to thank Stafford for what it has achieved. Stafford's expertise and hard work in transforming the Company over the last three years has been exceptional and I wish them well in their ongoing international timberland investment business.

REALISATION PROCESS UPDATE

The Board and Stafford both consider that the best way to realise Shareholder value is to appoint a single lead sales agent for the sale of all of the Company's assets. This will allow the sale process to seek offers for all of the assets as a package as well as for the individual assets. Having this flexibility and a strategic approach to realisation is considered to be the best way to deliver on the realisation objectives. A number of sales agents have been approached to provide proposals to the new Board. As stated in an announcement on 3 July 2017, the objective of the sales process will be to maximise overall returns to Shareholders, taking into account the ability of potential buyers to complete transactions in a timely manner.

It is accepted that certain assets may take longer to sell than others given legal and regulatory requirements and prevailing market conditions. Subject to the level of interest received, it is hoped that the process will take between eighteen to twenty-four months. It could however take longer. The new Board will, of course, provide updates as progress is made.

CHAIRMAN'S STATEMENT CONTINUED

DISTRIBUTION OF CASH

Phaunos' cash balance increased by US$1.5 million from US$45.6 million as at 31 December 2016 to US$47.1 million as at 30 June 2017. Most of this cash has come from asset sales. The jurisdictions in which the Company operates and has assets have legal and regulatory protocols and tax considerations that must be adhered to and completed before the proceeds can be remitted to Guernsey. The administrative nature of cash repatriation takes time which is not always within the control of the Board. Funds available for distribution are subject to the completion of these processes.

At 30 June 2017 the cash held in Guernsey stood at US$26.4 million against US$12.5 at 31 December 2016. On 28 July 2017 the 2016 final dividend of US$8.7 million was paid and the Company anticipates a distribution of a further US$10 million through a compulsory redemption of shares pro rata to Shareholders' holdings as soon as practicable. Shareholders approved the relevant changes to the Company's articles to permit capital returns in this manner at the Company's recent EGM.

Further distributions are expected to be made as funds are repatriated back to the Phaunos Guernsey parent company.

CONCLUSION

Since my appointment in 2012, the Board has focused on improving the performance of a portfolio of assets which we had no part in purchasing. We replaced the previous manager, FourWinds, with Stafford. Working with Stafford, costs have been cut, revenues increased and underperforming assets sold. Throughout this journey, we were conscious that at the same time as turning Phaunos into a viable timber investment vehicle through improving performance, we were also increasing Shareholder value in the event of a wind-down of the Company, which was always a possible outcome of the continuation votes held in 2016 and 2017. Disposing of the harder to sell proportion of the portfolio has simplified and, we hope, shortened the realisation process.

This has been a team effort. I feel fortunate to have worked as part of a Board whose wisdom, expertise and business acumen I hugely respect. Working with Stafford and its staff has been a privilege and I would also like to thank all other service providers who make an investment company of this nature function for their help and support.

Looking forward, I am confident in the ability of the search agents to identify an excellent and effective new Chairman and a new Board. I would also like to extend my best wishes and support for Brendan Hawthorne and his future colleagues in delivering the new investment objectives.

Finally, on behalf of the Board I would like to express my appreciation to the Shareholders of Phaunos for your support throughout my time as Chairman.

Sir Henry Studholme Bt

Chairman

24 August 2017

Loblolly Pine, Aurora Forestal, Uruguay.

1. INTRODUCTION

At the end of 2016 Stafford concluded that the Phaunos portfolio was well positioned to deliver sustainable growth going forward. Whilst performance of the underlying investments during the last six months has supported this view, the decision by Shareholders at the AGM to discontinue the Company and realise its assets has impacted the results reported here.

Specific developments during the period include:

- NAV per share fell by 4% from 55 cents to 53 cents.
- The NAV decreased by 5% to US$286.8 million (2016: US$301.3 million). This decrease is due primarily to the return of cash by way of a final dividend for 2016 (US$8.7 million), and for provisions recognising potential tax charges and sales costs anticipated in the realisation of Phaunos’ assets (US$11.8 million) as a consequence of the continuation vote not being passed.
- The cash balance increased by 3% to US$47.1 million (2016: US$ 45.6 million).
- The Company has generated timber revenues and investment income of US$7.0 million (2016: US$2.1 million).
- Matariki distributions totalled US$7.6 million, compared to US$6.2 million for the full year 2016.
- Two new wood supply agreements were finalised in Brazil, with a gross value of approximately US$1.7 million. Harvesting for these will commence in the second half of the year, and are expected to boost overall cash flow for 2017.
- Operating costs amounted to US$4.4 million. This is an increase on the 2016 figure of US$3.1 million, and is primarily due to the net cost of US$1.5 million due to Stafford as compensation for the cancellation of warrants (in the form of an Increased Base Fee in lieu of the lapsed warrants due) following the 2017 continuation vote not being passed.
- Share buybacks totalled 1.5 million shares at a weighted average price of 46 cents per share.

2. VALUATIONS

As detailed in Table 1 below, the total unaudited NAV for the Group at 30 June 2017 was US$286.8 million (31 Dec 2016: US$301.3 million). This represents a reduction of US$14.5 million, or 5% to the audited NAV at 31 December 2016. All underlying assets are independently valued on 31 December each year, but not for the interim reporting period. The NAVs at 30 June 2017 are therefore based on the 31 December 2016 valuations, adjusted for changes in foreign exchange rates and for the financial results of the period. As a consequence of the decision to discontinue the Company, Phaunos is no longer a going concern and therefore a provision has been included to reflect estimated sales costs and realisation taxes. A detailed analysis of the closing NAV as at 30 June 2017 and the current period movements is provided in Appendix A on page 50.

Table 1: Movements in NAV for the period ended 30 June 2017

Assets	Opening NAV 31 Dec 2016	Movements in Investments & Equity[1]	Foreign Exchange Gains/ (Losses)	Valuation Gains/ (Losses)	Provision for Sales Costs & Realisation Taxes[2]	Net income/ (expenses)	Closing NAV 30 Jun 2017	% of NAV 30 Jun 2017
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	
Core Assets								
Matariki	138,507	(1,547)	6,446	3,936	(5,935)	–	141,407	49.3
Mata Mineira	34,273	–	(432)	–	(655)	180	33,366	11.7
Eucateca	28,786	–	(545)	–	(1,463)	(641)	26,137	9.1
Aurora Forestal	27,413	–	–	91	(2,540)	–	24,964	8.7
Pradera Roja	19,876	–	(5)	–	(562)	(50)	19,259	6.7
Subtotal	248,855	(1,547)	5,464	4,027	(11,155)	(511)	245,133	85.5
Non-core Assets[3]	15,494	–	1	(1,095)	(350)	(10)	14,040	4.9
Parent Company Cash on hand and other net assets	36,968	(10,579)[4]	318	–	(320)	1,230	27,617[5]	9.6
Total Group NAV	**301,317**	**(12,126)**	**5,783**	**2,932**	**(11,825)**	**709**	**286,790**	**100**
No. of Ordinary Shares	547,024,832						545,529,832	
NAV per Ordinary Share	US$0.55						US$0.53	

[1] Includes movements in working capital investments, return of capital, share capital and the warrant instrument reserve.
[2] Includes estimated realisation taxes (direct and indirect taxes, withholding taxes on repatriating funds to the ultimate parent, and taxes on the forgiveness of intercompany loans), commissions and other costs to realise the assets. These estimates are based on the assumptions disclosed in Note 3.
[3] Consists of GreenWood Tree Farm Fund and NTP.
[4] Includes cash outflows for share buybacks, payment of dividends and the release of the warrant instrument reserve.
[5] This includes funds in non-operating subsidiaries and distributions received from investments in associates and financial assets.

3. KEY EVENTS FOR THE FIRST HALF OF 2017

Matariki Forests re-invests cash into new harvesting rights

Matariki Forests has used the proceeds from the sale of its Lismore property to acquire harvesting rights on three new forest blocks. These new blocks are expected to be value accretive since they contain better quality and more mature trees which will be capable of generating earlier cashflows. This will allow the Company to benefit from the strength in both domestic and export markets for sawlogs experienced during the first six months of 2017, and expected to continue for the remainder of the year.

Two new wood supply agreements secured in Brazil

In line with its efforts to secure markets, two new wood supply agreements have been entered into. The first is to supply approximately 96,000 m^3 of eucalyptus pulpwood from its Mata Mineira plantation. The second is for the supply of approximately 56,000 m^3 of eucalyptus fuelwood from its Eucateca plantation in Mato Grosso. These volumes will be additional to those already budgeted for the year, and are expected to result in an improvement in cash flows towards the end of the year and into 2018.

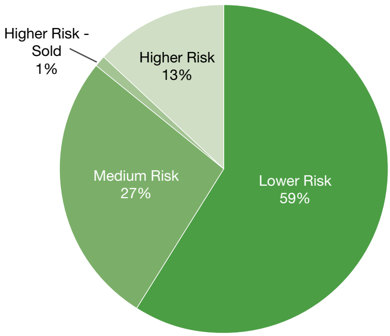
Disposal of the underlying assets of Greenwood Tree Farm Fund ("GTFF")

Following the sale of the Boardman Tree Farm ("BTF") in 2016, the sawmilling equipment from the Upper Columbia Mill ("UCM") was successfully sold by auction. The industrial building that housed its planing operation in the Port of Morrow has also been sold. GTFF still owns the UCM mill site and its associated buildings, together with the Lower Columbia Tree Farm and the remaining standing tree crop on BTF.

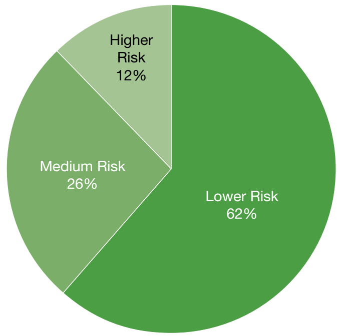
4. PORTFOLIO CONSTRUCTION

Although no significant changes occurred to the portfolio in this period, Stafford continued to seek opportunities to rebalance the portfolio to minimise exposure to higher risk assets. The relative movement in valuations as at 30 June 2017 has been in line with this objective, with medium and higher risk assets reducing by 3% in favour of low risk assets.

Portfolio risk based on 31 December 2016 NAV:



Portfolio risk based on 30 June 2017 NAV:



5. CASH FLOW

Phaunos’ total cash as at 30 June 2017 was US$47.1 million (31 December 2016: US$45.6 million). The increase is primarily attributable to distributions from Matariki (US$7.6 million), cash received from the sale of the Eucateca teak plantation, Alto Jauru, in 2016 (US$2.7 million) and the 2016 dividend received from Aurora Forestal (US$1.1 million). No asset sales were completed during the period.

Cash outflows were higher than in previous periods due to the payment of an Increased Base Fee to the Manager in lieu of the lapsed warrants (US$4.2 million) following the outcome of the 2017 continuation vote.

Pre-tax net cash flow from operations remained positive however, with a US$3.2 million surplus for the period.

Given the Company’s continued strong cash position, and the fact that it will now enter a realisation process of its assets, it is anticipated that further cash returns will be made to Shareholders before the end of the year although certain jurisdictions have legal and regulatory protocols that must be adhered to and completed before the cash can be remitted to Guernsey. Whilst the process is underway to repatriate cash in a timely manner, the administrative nature of the repatriation processes take time.

Figures 1 and 2 below detail the cash flows from operations, plus asset sales/share buybacks respectively.

Figure 1: Cash flows from operations and investments

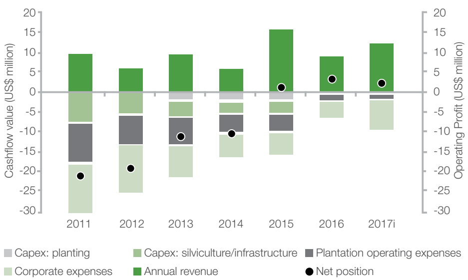
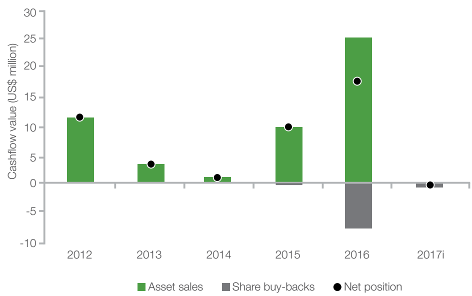


Figure 2: Cash flows from asset sales and share buybacks



A reconciliation of Figure 1 to the Interim Consolidated Financial Statements is provided in Appendix B on page 51.

“i” refers to interim

6. LOOKING AHEAD & CONCLUSION

Stafford is confident that Phaunos' portfolio of investments is performing well, and should perform in line with its budgeted results over the full year.

However, the decision by Shareholders to discontinue the Company and realise its assets implies a significant shift in focus for the second half of 2017. During this period, we will support the Board in appointing a sales agent to manage the asset realisation process, and will assist this appointee with the necessary information and data. At the operational level Stafford will continue to seek opportunities to increase revenues and to ensure that the assets are maintained to a good standard.

Sadly, Stafford has announced its resignation as Phaunos' Investment Manager and our six-month notice period commenced on 17 August 2017, the date of the EGM. We have relished the challenge of managing Phaunos during the last three years and take pride in the positive changes we have managed to bring about during this time.

Stafford Capital Partners Limited

24 August 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

We confirm that to the best of our knowledge:

a) the Unaudited Interim Condensed Financial Report and Unaudited Consolidated Financial Statements for the period ended 30 June 2017 have been prepared in accordance with International Accounting Standard (IAS) 34 *'Interim Financial Reporting'* as adopted by the European Union;

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

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

Signed on behalf of the Board by:

Sir Henry Studholme Bt	Ian M. Burns
Director	Director

24 August 2017


Eucalyptus Plantation, Mata Mineira, Brazil.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 30 JUNE 2017

	Note	30 June 2017 Unaudited US$'000	30 June 2016 Unaudited US$'000
Revenue from timber operations	4	576	96
Cost of sales	5	(282)	(34)
Gross profit		**294**	**62**
Other operating income		31	102
Timber operating expenses	6	(1,328)	(1,069)
Timber operating loss		**(1,003)**	**(905)**
Investment income	7	6,451	1,963
Investment operating expenses	8	(3,115)	(2,061)
Operating profit/(loss)		**2,333**	**(1,003)**
Net (loss)/gains on financial assets at fair value through profit or loss	11	(933)	5,071
Net realised (loss)/gain on disposal of assets		(4)	8,287
Profit before tax		**1,396**	**12,355**
Income tax expense	9	(2,113)	(225)
(Loss)/profit for the period		**(717)**	**12,130**
Other comprehensive (loss)/income			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods (net of tax)			
Exchange differences on translation of foreign operations		(514)	12,618
Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods (net of tax)			
Revaluation of Land	11	(1,194)	–
Other comprehensive (loss)/income, net of tax		**(1,708)**	**12,618**
Total comprehensive (loss)/income, net of tax		**(2,425)**	**24,748**
Basic and diluted (loss)/earnings per Ordinary		**Cents**	**Cents**
Share for the period	10	(0.13)	2.16

The notes on pages 21 to 46 form an integral part of these Unaudited Interim Condensed Consolidated Financial Statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Note	30 June 2017 Unaudited US$'000	31 Dec 2016 Audited US$'000
Assets			
Non-Current Assets			
Financial assets at fair value through profit or loss	11	–	180,579
Biological assets	11	–	29,298
Land	11	–	40,739
Other assets		–	172
Trade and other receivables	14	–	615
		–	**251,403**
Current Assets			
Financial assets at fair value through profit or loss	11	179,585	–
Biological assets	11	28,148	–
Land	11	38,866	–
Cash and cash equivalents	13	47,089	45,582
Trade and other receivables	14	3,058	5,812
Inventories		11	17
Other assets		119	–
		296,876	**51,411**
TOTAL ASSETS		**296,876**	**302,814**
Equity and Liabilities			
Equity			
Issued capital	17	443,866	443,866
Treasury shares	17	(11,398)	(10,707)
Retained earnings		(205,807)	(196,362)
Other components of equity		60,129	64,520
TOTAL EQUITY		**286,790**	**301,317**
Current Liabilities			
Trade and other payables	15	9,766	1,497
Provisions	16	320	–
		10,086	**1,497**
TOTAL LIABILITIES		**10,086**	**1,497**
TOTAL EQUITY AND LIABILITIES		**296,876**	**302,814**
Ordinary Shares in Issue		545,529,832	547,024,832
		US cents	**US cents**
Net Asset Value per Ordinary Share		53	55

The Unaudited Interim Condensed Consolidated Financial Statements on pages 15 to 46 were approved by the Board of Directors on 24 August 2017 and signed on its behalf by:

Sir Henry Studholme Bt
Director

Ian M. Burns
Director

The notes on pages 21 to 46 form an integral part of these Unaudited Interim Condensed Consolidated Financial Statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 30 JUNE 2017

		Attributed to equity holders of the parent							
		Issued capital	Treasury Shares	Retained earnings	Foreign currency translation reserve	Land revaluation reserve	Other reserves	Warrant Instrument Reserve	Total Equity
	Note	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
As at 1 January 2016		443,866	(3,176)	(212,780)	(65,677)	4,001	110,418	2,109	278,761
Profit for the period		–	–	12,130	–	–	–	–	12,130
Other comprehensive income		–	–	–	12,618	–	–	–	12,618
Total comprehensive income		**–**	**–**	**12,130**	**12,618**	**–**	**–**	**–**	**24,748**
Adjustment	11	–	–	(713)	–	–	–	–	(713)
Buy back of Ordinary Shares		–	(3,390)	–	–	–	–	–	(3,390)
As at 30 June 2016		**443,866**	**(6,566)**	**(201,363)**	**(53,059)**	**4,001**	**110,418**	**2,109**	**299,406**
As at 1 January 2017		443,866	(10,707)	(196,362)	(54,440)	5,859	110,418	2,683	301,317
Loss for the period		–	–	(717)	–	–	–	–	(717)
Other comprehensive loss		–	–	–	(514)	–	–	–	(514)
Total comprehensive loss		**–**	**–**	**(717)**	**(514)**	**–**	**–**	**–**	**(1,231)**
Dividends declared	19	–	–	(8,728)	–	–	–	–	(8,728)
Buy back in lieu of lapsed warrants	18	–	–	–	–	–	–	(2,683)	(2,683)
Movement in Land Reserve	11	–	–	–	–	(1,194)	–	–	(1,194)
Buy back of Ordinary Shares	17	–	(691)	–	–	–	–	–	(691)
As at 30 June 2017		**443,866**	**(11,398)**	**(205,807)**	**(54,954)**	**4,665**	**110,418**	**–**	**286,790**

The notes on pages 21 to 46 form an integral part of these Unaudited Interim Condensed Consolidated Financial Statements.

Harvesting, Aurora Forestal, Uruguay.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 30 JUNE 2017

	Note	30 June 2017 Unaudited US$'000	30 June 2016 Unaudited US$'000
Operating activities			
Net profit before tax		1,396	12,355
Adjustments to reconcile net (profit)/loss before tax to net cash flows	pg. 20	(3,577)	(12,787)
		(2,181)	(432)
Working capital adjustments			
Decrease in trade and other receivables		3,368	830
(Decrease)/increase in trade and other payables		(139)	474
(Decrease)/increase in inventories		6	(24)
		3,235	1,280
Income tax paid	9	(2,113)	(225)
Net cash flows from operating activities		**(1,059)**	**623**
Investing activities			
Net cash flows from investing activities	pg. 20	**7,416**	**27,418**
Financing activities			
Warrant instrument reserve	18	(2,683)	–
Payment for buy back of shares	17	(691)	(3,390)
Net cash flows from financing activities		**(3,374)**	**(3,390)**
Net increase in cash and cash equivalents		**2,983**	**24,651**
Cash and cash equivalents at beginning of period	13	45,582	25,617
Effect of foreign exchange rate changes on cash and cash equivalents		(1,476)	2
Cash and cash equivalents at end of period	13	**47,089**	**50,270**

The notes on pages 21 to 46 form an integral part of these Unaudited Interim Condensed Consolidated Financial Statements.

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 30 JUNE 2017

	Note	30 June 2017 Unaudited US$'000	30 June 2016 Unaudited US$'000
Adjustment to reconcile (profit)/loss before tax to net cash flows			
Depletion	5	265	–
Dividends and distributions received	7	(6,031)	(1,450)
Interest income	7	(420)	(513)
Gain on disposal of investments		–	(8,287)
Effect of foreign exchange rate changes on associates and financial assets at fair value through profit or loss	11	(6,446)	(4,763)
Effect of foreign exchange rate changes on other non-cash financial assets and liabilities		1,635	2,498
Net (gain)/loss on financial assets designated at fair value through profit or loss (excluding foreign exchange)	11	5,893	(308)
Loss on revaluation of biological assets	11	1,127	–
Loss on revaluation of land	11	359	–
Other adjustments		41	36
Adjustments for non-cash items	pg. 19	**(3,577)**	**(12,787)**

	Note	30 June 2017 Unaudited US$'000	30 June 2016 Unaudited US$'000
Investing activities			
Return of capital and disposal of assets:			
Dividends and distributions received	7	6,031	1,450
Interest income	7	420	513
Return of capital from associates and financial assets	11	1,547	18,088
Proceeds from disposal of plant and equipment		(20)	–
Proceeds from sale of investments		–	8,287
Third party repayments on the disposal of assets		–	(154)
		7,978	**28,184**
Purchase of assets and silviculture costs:			
Silviculture and other biological asset costs	11	(561)	(764)
Purchase of other assets		(1)	(2)
		(562)	**(766)**
Net cash flows from investing activities	pg. 19	**7,416**	**27,418**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2017

1. CORPORATE INFORMATION

The Unaudited Interim Condensed Consolidated Financial Statements ("Interim Consolidated Financial Statements"), of Phaunos Timber Fund Limited (the "Company" or "Phaunos") and its subsidiaries (collectively, the "Group") for the period ended 30 June 2017 were authorised for issue in accordance with a resolution of the Directors on 24 August 2017.

Phaunos Timber Fund Limited is a limited company incorporated and domiciled in Guernsey and whose shares are publicly traded on the London Stock Exchange. The registered office is located at 11 New Street, St Peter Port, Guernsey, GY1 2PF.

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

On 10 July 2017 Stafford informed the Phaunos Board of its resignation as Manager with effect from the Company's EGM which was held on 17 August 2017. From that date the six-month notice period has commenced.

During the notice period, Stafford will focus on the ongoing management of the Company's assets, the appointment of a sales agent to manage the realisation of assets, and the provision of fund information as part of an orderly hand over to a new manager.

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

2.1 Basis of Preparation

The Unaudited Interim Condensed Consolidated Financial Statements of the Group for the period ended 30 June 2017 have been prepared in accordance with International Accounting Standard ("IAS") 34: Interim Financial Reporting, as adopted by the European Union together with applicable and regulatory requirements of Companies (Guernsey) Law, 2008, and the listing rules of the London Stock Exchange Main Market. The Unaudited Interim Condensed Consolidated Financial Statements give a true and fair view of the Group's affairs and comply with the requirements of the Companies (Guernsey) Law, 2008.

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

The Interim Consolidated Financial Statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Company's Annual Report and Consolidated Financial Statements for the year ended 31 December 2016 ("2016 Annual Report").

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2017

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

2.1 Basis of Preparation (continued)

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

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

The Interim Consolidated Financial Statements have not been audited or reviewed by the Company's auditors.

2.2 Basis of measurement

These Interim Consolidated Financial Statements have been prepared on a historical cost basis adjusted to take account of the revaluation of biological assets, land and financial assets designated at recoverable amount through profit or loss.

2.3 New standards and amendments adopted by the Group

The accounting policies adopted in the preparation of the Interim Consolidated Financial Statements remain consistent with those followed in the preparation of the Group's 2016 Annual Consolidated Financial Statements with the exception of the adjustments required to disclose the assets at their anticipated value and provisions made for the anticipated wind-down of the Company.

The Group has considered the adoption of new standards and interpretations effective as of 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

There is no impact in this reporting period for new standards applied and no impact expected as a result of new standards applicable in future periods.

The nature and the effect of the changes to the standards are disclosed in the 2016 Annual Report. Although these new standards and amendments apply for the first time in 2017, they do not have a material impact on the Interim Consolidated Financial Statements of the Group.

No new or revised IFRS mandates have materialised since the publication of the 2016 Annual Report.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

This section specifically details new assumptions and estimates which have been made during this reporting period as a result of the change in circumstances of the Company.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2017

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Judgements

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

Going concern

At the 2017 AGM Shareholders voted that the Company should not continue and the Directors have considered the impact of the basis of preparation of the Interim Consolidated Financial Statements. The fact that the going concern basis is inappropriate does not automatically mean that a 'break-up' basis is appropriate. The Directors are of the view that the preparation of the financial statements on this basis is not appropriate and that the financial statements should reflect the circumstances existing at the end of the reporting period.

It is hoped that the realisation of the assets will take between eighteen to twenty-four months.

In this situation, the Directors believe the financial statements should not be prepared on a 'break-up' basis but rather on a basis that is consistent with IFRS and amended to reflect the fact that the 'going concern' assumption is not appropriate. This involves writing assets down to their recoverable amount based on conditions existing at the end of the reporting period and providing for contractual commitments which may have become onerous as a consequence of the decision to wind-down the entity.

Estimates and assumptions

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

Determining fair values and adjusted value of assets

The fair value of associates and other investments are based on the NAV at 31 December 2016, which represents the fair value of the investments. Land and biological assets are based on valuations determined by independent timber valuation experts using recognised valuation techniques and the principles of IFRS 13. These valuations were made for the 31 December 2016 reporting period and no independent valuations have been carried out for the 30 June 2017 reporting period. Changes in the fair value of associates and other financial assets are subject to the value of the underlying land and biological assets. Therefore, it is deemed appropriate to use the value of the land and biological assets when determining the fair value.

The key assumptions used by valuers in estimating the fair value of financial assets, land and biological assets are set out in Note 11.

Independent valuations have not been carried out at the interim reporting period end. Accordingly, the December 2016 independent valuations have been utilised as the starting basis for determining the value of the assets and have been adjusted for changes in foreign exchange, estimated selling costs and applicable taxes as a result of the Shareholders vote to not continue the Company. These adjustments are required on the basis that the Company is not a going concern. The adjustments are outlined below.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2017

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimated Taxation

As a result of the decision by the Shareholders not to continue the Company the Board has commissioned tax specialists to calculate the possible direct and indirect tax impact of the realisation of the assets, repatriation of funds, and intercompany loan forgiveness based on certain assumptions. These tax implications would not otherwise have had to be considered under a going concern scenario. For the purpose of providing estimates it was assumed that all companies are tax resident in the territory in which they are incorporated and that the underlying assets will be sold. Changes in the assumptions concerning these key considerations can cause a material adjustment to the carrying amounts of the estimated taxation and will be updated for each reporting period.

Estimated Sales Commission and Realisation Costs

Stafford has held initial high-level discussions with organisations to manage the sale of assets for Phaunos.

Based on these discussions the value of assets has been adjusted to include estimates of the sales commission and other costs such as administrative costs which may be incurred in selling the assets.

Provision for deregistration costs

Given the anticipated wind-down of the Company, a provision has been made for the costs to liquidate and deregister all wholly owned subsidiaries.

The provisions have been recorded in Note 16.

Impairment of intercompany loans

Given that the Interim Condensed Consolidated Financial Statements are not prepared on the going concern basis, the potential impairment of intercompany loans has been considered.

The principal and any applicable interest accrued on all intercompany loans has been forgiven on the basis that the borrower does not have the ability to repay the loan. In addition, the Board has commissioned tax specialists to assess the tax implications of forgiving the intercompany loans. Where applicable, the estimated taxation has been included in the adjusted value of the assets as it arises from the Company's anticipated wind-down.

4. REVENUE FROM TIMBER OPERATIONS

	30 June 2017 Unaudited US$'000	30 June 2016 Unaudited US$'000
Income – standing timber sales	576	96
	576	**96**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2017

5. COST OF SALES

	30 June 2017 Unaudited US$'000	30 June 2016 Unaudited US$'000
Depletion	265	–
Cost of sales – standing timber	17	34
	282	**34**

6. TIMBER OPERATING EXPENSES

	30 June 2017 Unaudited US$'000	30 June 2016 Unaudited US$'000
Direct timber costs		
Property management fees	356	336
Property, repairs and maintenance	80	41
	436	**377**
Indirect timber costs		
Other timber costs	188	79
Foreign exchange losses	163	64
Deregistration costs	130	–
Accounting fees	119	98
Professional fees	116	235
Legal fees	98	72
Fees paid to auditors for audit services	43	43
Other taxes	35	101
	892	**692**
Total timber operating expenses	**1,328**	**1,069**

7. INVESTMENT INCOME

	30 June 2017 Unaudited US$'000	30 June 2016 Unaudited US$'000
Distribution income	6,031	1,450
Interest income	420	513
	6,451	**1,963**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2017

8. INVESTMENT OPERATING EXPENSES

	30 June 2017 Unaudited US$'000	30 June 2016 Unaudited US$'000
Portfolio management fees*	1,911	482
Administration fees	390	211
Deregistration costs	190	–
Fees paid to auditors for audit services	179	152
Directors' remuneration	116	110
Other operating expenses	84	760
Professional fees	57	64
Legal fees	55	138
Corporate advisory fees	41	54
Travel expenses	37	45
Appraisal fees	22	–
Accounting fees	15	16
Directors' expenses	10	10
Directors', Officers' and other insurance	8	19
	3,115	**2,061**

*In accordance with the amended Portfolio Management Agreement ("PMA") which came into effect from 1 December 2016, the Shareholders vote not to continue the Company at the June 2017 AGM mandated an additional payment as compensation for Stafford's rights under the warrant instrument. Stafford is entitled to an increased base fee payment from 1 July 2014 (the Commencement Date of the PMA) to the date on which the 2017 continuation vote was held of 65 basis points (0.65%) of Phaunos' Market Capitalisation, bringing the total fees for that period to 100 basis points (1%) of Phaunos' Market Capitalisation.

A cash payment of US$4.2 million was made in June 2017. US$2.7 million was offset against the warrant instrument reserve and the residual balance of US$1.5 million was recorded as portfolio management fees in the Statement of Comprehensive Income.

9. INCOME TAX EXPENSE

	30 June 2017 Unaudited US$'000	30 June 2016 Unaudited US$'000
US corporate income taxes*	1,883	–
South America corporate income taxes	223	200
Other income taxes	7	25
	2,113	**225**

* This balance refers to federal and state income taxes paid by Phaunos US Inc as a result of 2016 distributions received from GreenWood Tree Farm Fund on the partial sale of the Boardman Tree Farm.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2017

10. EARNINGS/(LOSS) PER SHARE

The basic and diluted loss per Ordinary Share is based on the net losses for the period attributable to Ordinary Shareholders of US$(0.7) million (30 June 2016: US$12.1 million gain for the period) and 546,074,252 (30 June 2016: 562,760,978) Ordinary Shares, being the basic weighted average number of Ordinary Shares in issue during the period.

During the prior years (2016, 2015 and 2014) the Company issued warrants to Stafford to subscribe for an aggregate of 30 million shares in the Company as part of the Portfolio Management Agreement, as disclosed in Note 18. At no point between the issue of the warrants and the date on which they lapsed had the share price of the Company been above the strike price of the warrants. As such, these warrants were deemed to be anti-dilutive and have not impacted the basic earnings per share. The warrants have now lapsed as a result of the 2017 AGM and the Shareholders ordinary resolution not to continue the Company for a further five years.

11. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

11.1 Fair Value Hierarchy

Financial assets designated at fair value through profit or loss (including investments in associates), biological assets and land recorded at fair value are analysed by using a fair value hierarchy that reflects the significance of inputs. The fair value hierarchy has the following levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

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

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

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

As at 30 June 2017 the value of the assets is based on the 31 December 2016 NAV adjusted for sales commission expense, estimated taxation and other costs to sell the assets.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2017

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

11.1 Fair Value Hierarchy (continued)

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

	30 June 2017 Unaudited US$'000	31 Dec 2016 Audited US$'000
Financial assets at fair value through profit or loss		
Associates	166,372	165,921
Other financial assets	13,213	14,658
	179,585	**180,579**
Non-financial assets		
Biological assets	28,148	29,298
Land	38,866	40,739
	67,014	**70,037**
Fair Value at the end of the period	**246,599**	**250,616**

Inputs for the determination of the fair values of financial assets designated, including investment in associates, land and biological assets as Level 3 are derived by critical estimates explained in Note 11.5.

For assets that are recognised in the Interim Consolidated Financial Statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Levels during the period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2017

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

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

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

As at 30 June 2017 (Unaudited)	Associates US$'000	Other financial assets US$'000	Biological assets US$'000	Land US$'000	Total US$'000
Opening fair value	**165,921**	**14,658**	**29,298**	**40,739**	**250,616**
Total gains or losses for the year:					
Unrealised gain/(loss) included in profit or loss:					
Revaluation and impairments	4,027	(1,095)	–	–	2,932
Provision for realisation costs	(8,475)	(350)	(1,127)	(359)	(10,311)
Foreign exchange translation	6,446	–	–	–	6,446
	1,998	(1,445)	(1,127)	(359)	(933)
Unrealised loss included in other comprehensive income:					
Provision for realisation costs	–	–	–	(1,194)	(1,194)
Foreign exchange translation	–	–	(319)	(320)	(639)
	–	–	(319)	(1,514)	(1,833)
Purchases, issues, sales and other movements:					
Purchases and other costs	–	–	561	–	561
Depletion	–	–	(265)	–	(265)
Return of capital[1]	(1,547)	–	–	–	(1,547)
	(1,547)	–	296	–	(1,251)
Closing fair value	**166,372**	**13,213**	**28,148**	**38,866**	**246,599**

[1]**Return of capital**
In June 2017, US$1.5 million was distributed to Phaunos Timber Fund Limited from Matariki as a result of a repayment of the principal on a shareholder loan provided by Phaunos to Matariki. This is treated as a return of capital.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE PERIOD ENDED 30 JUNE 2017

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

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

As at 31 December 2016 (Audited)	Associates US$'000	Other financial assets US$'000	Biological assets US$'000	Land US$'000	Total US$'000
Opening fair value	**152,908**	**38,191**	**23,352**	**35,421**	**249,872**
Total gains or losses for the year:					
Unrealised gain/(loss) included in profit or loss:					
Revaluation and impairments	13,270	(6,748)	1,152	697	8,371
Foreign exchange translation	1,758	–	–	–	1,758
Reversal on disposal of assets	–	–	1,824	–	1,824
	15,028	(6,748)	2,976	697	11,953
Unrealised gain included in other comprehensive income:					
Revaluation	–	–	–	2,303	2,303
Foreign exchange translation	–	–	4,397	4,577	8,974
	–	–	4,397	6,880	11,277
Purchases, issues, sales and other movements:					
Purchases and other costs	–	–	1,896	–	1,896
Depletion	–	–	(75)	–	(75)
Disposals[2]	–	–	(3,248)	(1,814)	(5,062)
Return of capital[2]	(1,303)	(16,785)	–	–	(18,088)
Reclassified on disposal of land	–	–	–	(445)	(445)
Adjustment to cost	(712)	–	–	–	(712)
	(2,015)	(16,785)	(1,427)	(2,259)	(22,486)
Closing fair value	**165,921**	**14,658**	**29,298**	**40,739**	**250,616**

[2]Disposals and return of capital

During the 2016 financial year, Eucateca sold the standing timber of one of the remaining two teak estate properties (Alto Jauru) for a net sale value of US$2.3 million. The disposal of the carrying amount of land amounted to US$1.6 million. No realised gain was recognised on the sale of this estate.

Pradera Roja sold a part of the land of the Tupambae property resulting in proceeds of US$0.2 million.

In March 2016, US$1.3 million was distributed to Phaunos Timber Fund Limited from Matariki as a result of a share redemption of 1,852,000 redeemable shares (at NZ$1 per share). This was treated as a return of capital.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2017

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

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

In March 2016 and June 2016 US$13.4 million and US$3.4 million was respectively distributed to Phaunos US Inc as a result of the partial sale of the Boardman Tree Farm by Greenwood Tree Farm Fund. This was treated as a return of capital.

11.3 Reconciliation of cost to fair value

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

As at 30 June 2017 (Unaudited)	Associates US$'000	Other financial assets US$'000	Biological assets US$'000	Land US$'000	Total US$'000
Cost:					
Opening cost	153,347	22,052	84,978	61,919	322,296
Additions to cost	–	–	561	–	561
Depletion – current year	–	–	(265)	–	(265)
Return of capital	(1,547)	–	–	–	(1,547)
Closing cost	151,800	22,052	85,274	61,919	321,045
Unrealised revaluation gain/(loss):					
Opening balance	14,017	(7,394)	(15,900)	5,859	(3,418)
Provision for realisation costs	(8,475)	(350)	(1,127)	(1,553)	(11,505)
Unrealised gain/(loss) for the period	4,027	(1,095)	–	–	2,932
Closing unrealised gain/(loss)	9,569	(8,839)	(17,027)	4,306	(11,991)
Impairments:					
Opening balance	–	–	–	(3,542)	(3,542)
Unrealised gain for the year	–	–	–	–	–
Closing impairments	–	–	–	(3,542)	(3,542)
Unrealised foreign exchange gain/(loss):					
Opening balance	(1,443)	–	(39,780)	(23,497)	(64,720)
Unrealised gain/(loss) for the period	6,446	–	(319)	(320)	5,807
Closing unrealised foreign exchange gain/(loss)	5,003	–	(40,099)	(23,817)	(58,913)
Closing fair value	**166,372**	**13,213**	**28,148**	**38,866**	**246,599**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2017

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

11.3 Reconciliation of cost to fair value (continued)

As at 31 December 2016 (Audited)	Associates US$'000	Other financial assets US$'000	Biological assets US$'000	Land US$'000	Total US$'000
Cost:					
Opening cost	155,362	109,040	86,405	63,733	414,540
Additions to cost	–	–	1,896	–	1,896
Depletion – current year	–	–	(75)	–	(75)
Disposals	–	(64,273)	(3,248)	(1,814)	(69,335)
Return of capital	(1,303)	(16,785)	–	–	(18,088)
Clearing of loan	–	(5,930)	–	–	(5,930)
Adjustment to cost	(712)	–	–	–	(712)
Closing cost	153,347	22,052	84,978	61,919	322,296
Unrealised revaluation gain/(loss):					
Opening balance	747	(67,938)	(18,876)	4,001	(82,066)
Reversal of gain/(loss) on disposal of assets	–	–	1,824	(445)	1,379
Clearing of loan	–	5,930	–	–	5,930
Unrealised gain on disposals of assets	–	61,362	–	–	61,362
Unrealised gain/(loss) for the year	13,270	(6,748)	1,152	2,303	9,977
Closing unrealised gain/(loss)	14,017	(7,394)	(15,900)	5,859	(3,418)
Impairments:					
Opening balance	–	–	–	(4,239)	(4,239)
Unrealised gain for the year	–	–	–	697	697
Closing impairments	–	–	–	(3,542)	(3,542)
Unrealised foreign exchange gain/(loss):					
Opening balance	(3,201)	(2,911)	(44,177)	(28,074)	(78,363)
Unrealised gain on disposals of assets	–	2,911	–	–	2,911
Unrealised gain for the year	1,758	–	4,397	4,577	10,732
Closing unrealised foreign exchange loss	(1,443)	–	(39,780)	(23,497)	(64,720)
Closing fair value	**165,921**	**14,658**	**29,298**	**40,739**	**250,616**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2017

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

11.4 Valuation process

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

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

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

Investments in associates are measured at fair value based on the 31 December 2016 NAV of the associate as reported by the underlying manager. Such NAVs are prepared on a fair value basis in accordance with IFRS. The 31 December 2016 NAV of each associate includes assets valued by an independent external appraiser. These appraisals, which are reviewed by the Manager and the Directors, use the methods described in ii) below. Phaunos adjusts the NAV with the fair value of land and biological assets for the associates and, in the case of Aurora Forestal, also for the sawmill and co-generation plant. This is based on the Investment in Associates Note 12 which incorporates the results of the independent appraisals. The NAV at 30 June 2017 of all associates has been adjusted to incorporate estimated direct and indirect taxes, sales commission, and other costs anticipated on the realisation of the investments.

Other financial assets are measured at fair value based on each underlying company's 31 December 2016 NAV in accordance with IFRS, as reported by the underlying manager. The 31 December 2016 NAV includes assets valued by an independent external valuer at year end and reviewed by the Manager. The Manager reviews the main assumptions of market price, land prices, timber prices, growth rates and discount rates and utilises more updated information if applicable and, where relevant, will recommend adjustments to determine fair value. Any adjustments are subject to approval by the Board. The NAV at 30 June 2017 of all financial assets has been adjusted to incorporate estimated direct and indirect taxes, sales commission, and other costs anticipated on the realisation of the investments.

ii. Valuation of land and biological assets

Land and biological assets held by operating subsidiaries are carried at fair value at 30 June 2017. In line with common industry practice, the fair value is based on the value determined by independent external valuers at 31 December 2016 and, where appropriate, adjusted by the Directors based on the Manager's recommendation.

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2017

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

11.4 Valuation process (continued)

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

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

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

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

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

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

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2017

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

11.4 Valuation process (continued)

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

Due to the number of detailed inputs used within biological valuations many managers prefer to rely upon annual valuations rather than make adjustments for individual valuation inputs that may or may not be representative of a change in value at the end of the interim reporting period. For these reasons the Board has accepted the Manager's recommendation to rely upon the more detailed annual valuation determined at 31 December each year. Therefore the revaluation amounts at 31 December 2016 have then been adjusted at 30 June 2017 for the estimated direct and indirect taxes, sales commission, and other costs anticipated on the realisation of the investments.

11.5 Significant unobservable inputs and sensitivity analysis

IFRS 13 requires that quantitative information be provided about significant unobservable inputs used in the fair value measurement for each class of Level 3 asset and liabilities. The following data at 30 June 2017 and 31 December 2016 summarises the valuation methods and information about fair value measurements and related significant unobservable inputs (Level 3), where if changed, could significantly increase or decrease the valuation of an asset (e.g. NAV per share, timber and land prices, discount rates).


Radiata Pine Seedlings, Matariki, New Zealand.

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

11.5 Significant unobservable inputs and sensitivity analysis (continued)

Asset	Fair Value 30 June 2017 US$'000	Fair Value 31 Dec 2016 US$'000	Valuation method	Valuation source	Significant unobservable inputs	Range[1]	Sensitivity rate[2]	Inter-relationship between significant unobservable inputs and fair value measurement
Associates	**166,372**	**165,921**	NAV at fair value	Underlying manager based on independent appraisals	NAV based on average log prices, discount rates and land prices	Average log price change[3] of ±5% (2016: ±5%) Average production cost change of ±5% (2016: ±5%) Discount rate change of ±1% (2016: ±1%) Average land price change[3] of ±5% (2016: ±5%)	±15% ±10% ±11% ±3%	The fair value would increase / (decrease) if the NAV of the associate increased or decreased due to: • estimated log prices being higher/(lower) • the risk-adjusted discount rates being lower/(higher) • estimated future overheads being lower/(higher) • land prices being higher/(lower)
Other Financial assets	**13,213**	**14,658**	NAV at fair value	Underlying manager based on independent appraisals	NAV at fair value	Discount rate change of ±1% (2016: ±1%)	+1%	The fair value would increase / (decrease) if the NAV of the underlying company increased or decreased due to: • estimated log prices being higher/(lower)
Biological assets	**28,148**	**29,298**	Combination of the income and cost capitalisation and comparative sales approach	Independent appraisal	Timber prices per m³ Discount rates[3]	Average log price change[3] of ±5% (2016: ±5%) Discount rate change of ±1% (2016:±1%)	±1% ±1%	The fair value would increase / (decrease) if: • estimated log prices were higher/(lower) • the risk-adjusted discount rates were lower/(higher) • estimated future overheads were lower/(higher)
Land	**38,866**	**40,739**	Income and cost capitalisation approach	Independent appraisal	Land prices per hectare	Average land price change[3] of ±5% (2016: ±5%)	±1%	The estimates fair value would increase / (decrease) if: • land prices were higher/(lower)

[1] All discount rates shown in the table are real rates as opposed to nominal rates. All timber and land price ranges are those used by the valuer in determining the biological assets and land valuations.
[2] This is the expected maximum change, positive or negative, in NAV of any of the assets (in the respective asset class) which could be incurred as a result of a shift in the unobservable input.
[3] Log and land prices have been adjusted for growth rates, transport costs and liquidity.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2017

12. INVESTMENT IN ASSOCIATES

Matariki Forestry Group

The Company holds 23.01% (31 December 2016: 23.01%) ownership and voting rights in Matariki, a forestry company which owns and/or leases forestry assets in New Zealand, where Matariki is incorporated.

The following is a summary of distributions received by the Company from Matariki, significant balances per Matariki's Consolidated Financial Statements for the period ended 30 June 2017, and a reconciliation of the fair value of Matariki, which is included in the total value of financial assets designated at fair value through profit or loss:

	30 June 2017 Unaudited US$'000	30 June 2016 Unaudited US$'000
Distributions		
Distributions received*	**7,578**	**2,753**
Summary of Consolidated Income Statement for the period ended 30 June 2017		
Gross timber revenue	170,687	134,119
Profit from continuing operations	34,339	20,336
Other comprehensive income	2,651	17,236
Total comprehensive income	36,990	37,572

	30 June 2017 Unaudited US$'000	31 Dec 2016 Audited US$'000
Summary of Consolidated Statement of Financial Position at 30 June 2017		
ASSETS		
Non-current Assets		
Biological assets	551,092	504,768
Property, plant and equipment	100,392	95,967
Other non-current assets	47,732	42,770
Total non-current assets	**699,216**	**643,505**
Total current assets	**37,261**	**31,800**
Total Assets	**736,477**	**675,305**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2017

12. INVESTMENT IN ASSOCIATES (continued)

Matariki Forestry Group (continued)

	30 June 2017 Unaudited US$'000	31 Dec 2016 Audited US$'000
LIABILITIES		
Non-current liabilities		
Deferred tax liability	70,153	52,646
Other non-current liabilities	671	897
Total non-current liabilities	**70,824**	**53,543**
Current liabilities		
Shareholder loans	51,860	81,517
Other current liabilities	25,315	19,819
Total current liabilities	**77,175**	**101,336**
Total Liabilities	**147,999**	**154,879**
Total Net Assets	**588,478**	**520,426**
Fair Value of Associate		
23.01% Share of Total Net Assets (2016: 23.01%)	135,409	119,750
23.01% Share of Shareholder Loan (2016: 23.01%)	11,933	18,757
	147,342	**138,507**

The balances in the above summaries are converted from New Zealand to US Dollars using the closing exchange rate of 1.3630 (31 December 2016: 1.4412) for the summary of the Consolidated Statement of Financial Position. The average exchange rate of 1.4020 (30 June 2016: 1.4704) was used to convert the balances in the summary of the Consolidated Income Statement.

*2017 Distributions consist of US$6.0 million relating to the repayment of capitalised interest on shareholder loans (investment income) and US$1.6 million relating to the repayment of the principal on shareholder loans (return of capital).

2016 Distributions consist of US$1.5 million relating to the repayment of capitalised interest on shareholder loans (investment income) and US$1.3 million received from the redemption of redeemable shares (1,852,000 shares at NZ$1 per share).

Aurora Forestal Limited

The Company holds 23.57% (31 December 2016: 23.57%) ownership in Aurora Forestal Ltd, a company incorporated in the British Virgin Islands, which has mixed aged pine plantations and a fully integrated sawmill and co-generation plant in Uruguay. The following is a summary of significant balances per Aurora Forestal's Consolidated Financial Statements for the six months ended 30 June 2017, along with a reconciliation of the fair market value of Aurora Forestal, which is included in the total value of financial assets designated at fair value through profit or loss:

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2017

12. INVESTMENT IN ASSOCIATES (continued)

Aurora Forestal Limited (continued)

	30 June 2017 Unaudited US$'000	30 June 2016 Unaudited US$'000
Summary of Consolidated Income Statement for the period ended 30 June 2017		
Gross timber revenue	11,149	10,063
(Loss)/profit from continuing operations	(3,577)	1,207
Other comprehensive (loss)/income	(937)	12
Total comprehensive (loss)/income	(4,514)	1,219

	30 June 2017 Unaudited US$'000	31 Dec 2016 Audited US$'000
Summary of Consolidated Statement of Financial Position at 30 June 2017		
ASSETS		
Non-current Assets		
Biological assets	47,712	47,712
Property, plant and equipment	85,779	85,865
Other non-current assets	1,956	1,827
Total non-current assets	**135,447**	**135,404**
Total current assets	**7,470**	**10,442**
Total Assets	**142,917**	**145,846**
LIABILITIES		
Total non-current liabilities	10,922	11,594
Total current liabilities	15,305	17,946
Total Liabilities	**26,227**	**29,540**
Total Net Assets	**116,690**	**116,306**
Fair Value of Associate		
23.57% Share of Total Net Assets (2016: 23.57%)	**27,504**	**27,413**

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

Dividends

Historically, Aurora has declared annual dividends in the second half of the financial year. Therefore, no dividends were declared during the current or comparative interim period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2017

13. CASH AND CASH EQUIVALENTS

For the purpose of the Interim Condensed Statement of Cash Flows, cash and cash equivalents are comprised of the following:

	30 June 2017 Unaudited US$'000	31 Dec 2016 Audited US$'000
Cash at bank and in hand	44,910	45,148
Short-term deposits	2,144	399
Cash held by third parties	35	35
	47,089	**45,582**

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

	30 June 2017 Unaudited US$'000	31 Dec 2016 Unaudited US$'000
Guernsey	26,430	12,465
Brazil	8,629	7,392
Norway	8,082	7,895
United States	2,911	16,793
China	634	579
Uruguay	153	267
Cyprus	153	156
Australia	61	10
Netherlands	36	25
	47,089	**45,582**

The intention of the Board is to distribute cash to Shareholders in a timely and orderly manner. It is recognised that certain jurisdictions have legal and regulatory protocols that must be adhered to and completed before the cash can be remitted to Guernsey.

Whilst the process is underway to repatriate cash in a timely manner, the administrative nature of the repatriation processes takes time which is not always within the control of the Board.

It should further be noted that funds will be retained in the local jurisdictions to cover operational expenses and the anticipated deregistration cost.

Subsequent to the period end the final 2016 dividend of US$8.7 million has been paid to Shareholders.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE PERIOD ENDED 30 JUNE 2017

14. TRADE AND OTHER RECEIVABLES

	30 June 2017 Unaudited US$'000	31 Dec 2016 Audited US$'000
Amounts falling due within one year:		
Amounts due from third parties on disposal of assets	1,973	3,932
Tax receivables	476	400
Other receivables	281	82
Trade receivables	249	251
Other prepayments	79	38
Dividend receivable from associates	–	1,109
	3,058	**5,812**
Amounts falling due after one year:		
Amounts due from third parties on disposal of assets	–	615
	–	**615**
	3,058	**6,427**

15. TRADE AND OTHER PAYABLES

	30 June 2017 Unaudited US$'000	31 Dec 2016 Audited US$'000
Amounts falling due within one year:		
Dividend payable	8,728	–
Other payables	582	643
Taxes payable	207	436
Trade payables	151	113
Portfolio management fees payable	79	274
Deferred revenue	19	31
	9,766	**1,497**

16. PROVISIONS

	30 June 2017 Unaudited US$'000	31 Dec 2016 Audited US$'000
Amounts falling due within one year:		
Provision for deregistration costs	320	–
	320	**–**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2017

17. ISSUED CAPITAL AND RESERVES

Authorised shares

	US$
At 31 December 2016 and 30 June 2017:	
Unlimited Ordinary Shares of no par value	–

Ordinary Shares issued and fully paid

	31 Dec 2016 US$'000	Movement US$'000	30 June 2017 US$'000
Share Capital – Ordinary Shares	571,758	–	571,758
Less: Issue costs of Ordinary Shares	(17,474)	–	(17,474)
Less: Transfer to distributable reserve	(110,418)	–	(110,418)
Total Share Capital – Ordinary Shares	**443,866**	**–**	**443,866**
No. of Ordinary Shares	**547,024,832**	**(1,495,000)**	**545,529,832**

Treasury Shares

	31 Dec 2016 US$'000	Movement US$'000	30 June 2017 US$'000
Total Treasury Shares	**10,707**	**691**	**11,398**
No. of Treasury Shares	**24,190,045**	**1,495,000**	**25,685,045**

During the six months ended 30 June 2017, the Company purchased a total of 1,495,000 Ordinary Shares of no par value at a weighted average price of 46 cents per share which are held in treasury.

The Authorised Share Capital of the Company is an unlimited number of Ordinary Shares of no par value and 1,556,490,000 C Shares of no par value.

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

18. WARRANT INSTRUMENT RESERVE

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

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

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

The warrants previously vested have lapsed without exercise as a result of the continuation vote not being passed.

The warrant instrument reserve lapsed at 30 June 2017 and the warrants were bought back by the Company (the 31 December 2016 warrant reserve balance was US$2.7 million or 8.94 cents per warrant) given that the continuation vote was not passed at the 2017 AGM. The December value is based on the fair value of the 2016 warrants which vested on 1 July 2016 of US$0.6 million and those which vested on 1 July 2015 of US$0.6 million and 1 July 2014 of US$1.5 million. The fair value of the warrants for each series of warrants issued to date, at the issue date, was calculated using the Black-Scholes option price model and the following inputs:

	2016	2015	2014
Exercise price	63 cents	58 cents	50 cents
Share price	41 cents	35 cents	42 cents
Risk-free interest rate	1.0%	1.0%	2.0%
Share price volatility (since inception)	39.5%	41.3%	43.2%
Expected life (years)	3	4	5
Expected dividend yield	0%	0%	0%

There is no information provided above for 2017 given that the warrant instrument lapsed.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2017

18. WARRANT INSTRUMENT RESERVE (continued)

The share-based management fee arising from the equity-settled share-based payment transaction was US$1.5 million (2016: US$0.6 million). Given that the share price of the Company did not increase to more than the subscription price of the 2014 Warrants (50 cents), 2015 Warrants (58 cents) and 2016 Warrants (63 cents) at the vesting date, 1 July 2016 (40.5 cents) and the reporting date (41 cents), the warrants are deemed not to be dilutive for the year and have not impacted the basic loss per share.

19. DISTRIBUTIONS MADE AND PROPOSED

	30 June 2017 Unaudited US$'000	31 Dec 2016 Audited US$'000
Cash dividends to equity holders of the parent	8,728	1,643

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2017

20. RELATED PARTIES

The following table provides the total amount of transactions that have been entered into with related parties during the period ended 30 June 2017 and 30 June 2016, as well as balances with related parties as at 30 June 2017 and 31 December 2016.

Related Party	Period	Nature of related party transaction	Amounts received from/(paid to) related parties Unaudited US$'000	Amounts owed by/(to) related parties Unaudited US$'000
Transactions with related parties:				
Aurora Forestal Limited	2017	Dividend income	–	–
	2016		–	1,109
Matariki Forestry Group	2017	Distribution income	6,031	–
	2016		1,450	–
	2017	Return of capital	1,547	–
	2016		1,303	–
Key management personnel of the Group:				
Directors within the Group	2017	Directors remuneration	(127)	(47)
	2016		(110)	(44)
Phaunos Boston Inc.	2017	Compensation	(77)	–
	2016		(162)	–
Stafford Capital Partners	2017	Portfolio Management Fees	(1,911)*	(79)
	2016		(482)	(274)

* Refer to Note 8 on page 26 for further details as to the Increased Based Fee in lieu of the lapsed warrants due to Stafford as a result of the 2017 continuation vote.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE PERIOD ENDED 30 JUNE 2017

21. EVENTS AFTER REPORTING PERIOD

Payment of 2016 Final Dividend
On 28 July 2017, a final 2016 dividend of US$0.016 per Ordinary Share was paid to holders of fully paid Ordinary Shares. The total value of the dividend was US$8.7 million and the payment of this dividend brings the total 2016 dividend to US$0.019 per Ordinary Share (or US$10.3 million).

New Director Appointment
On 25 July 2017, the Board appointed Mr Brendan Hawthorne as an interim non-executive Director. At the EGM held on 17 August 2017, Shareholders voted in favour of Mr Hawthorne's election.

2017 EGM Outcome
At the EGM held on 17 August 2017, Shareholders approved the following additional resolutions:

1) To modify the company's Investment Objective and Policy in the manner described in the Circular dated 1 August 2017.
2) Conditional upon the passing of Resolution 1, to approve and adopt the new Articles of Incorporation, in substitute for and to exclusion of the existing Articles of Incorporation.

INVESTOR INFORMATION

COMPANY INFORMATION

PTF is a Guernsey-domiciled authorised closed-ended investment scheme, authorised by the Guernsey Financial Services Commission under section 8 of The Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended) and the Authorised Closed-ended Investment Schemes Rules 2008 made thereunder. The Company's Ordinary Shares are traded on the Main Market of the London Stock Exchange.

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

The issued share capital of the Company as at 30 June 2017 was 545,529,832 Ordinary Shares (31 December 2016: 547,024,832) and 25,685,045 Ordinary Shares (31 December 2016: 24,190,045) were held in treasury (Treasury Shares).

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

ISIN	SEDOL	LSE mnemonic
GG00B1G3RS66	B1G3RS6	PTF

SHAREHOLDER ENQUIRIES

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

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

DIRECTORS AND SERVICE PROVIDERS

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Directors
Sir Henry Studholme Bt
Ian Burns
William Vanderfelt
Jane Lewis
Brendan Hawthorne (appointed 25 July 2017)

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GLOSSARY OF TERMS

DEFINITIONS

The Company or Phaunos	Phaunos Timber Fund Limited
The Group	Comprises the Company and entities controlled by the Company
The Manager or Stafford	Stafford Capital Partners Limited (formerly Stafford Timberland Limited)
Ordinary Shares	US Dollar denominated Ordinary Shares at no par value
Treasury Shares	Ordinary Shares that were purchased by the Company and now held in Treasury
Official List	Official List of the UK Listing Authority
LSE	London Stock Exchange plc
AGM	Annual General Meeting
EGM	Extraordinary General Meeting
Asset risk analysis, higher risk, medium risk and low risk	In 2016 the Manager undertook a qualitative assessment of each Phaunos investment and assessed the productivity (growth rate) risk, market risk, cash flow risk, sovereign risk, liquidity or exit risk, and the infrastructure risk for each asset.
Core assets	Core Assets are assets that have been deemed by the Manager to be part of the Phaunos portfolio in the medium to longer term. They are typically assets with Low or Medium Risk and have the potential for yield generation from timber harvesting in the short term. Eucateca is the only Higher risk asset included as a core asset because of the potential for immediate harvesting subject to market development.
Non-core assets	Non-core assets are higher risk assets that are not expected to provide positive cash flows in the near term. The Manager intends to liquidate or divest these assets over time in order to reduce the risk profile of the Group and also to reduce the annual operating costs.
Mt	Million cubic metres
Mha	Million hectares
Alternative Performance Measure ("APM")	For the purpose of these guidelines an APM is understood as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.
Movement in NAV Analysis	Refer to Appendix A – used for management purposes.
Discount to NAV	Situation where the shares of the Company are trading at a price lower than the Company's NAV per share.
Corporate, accounting and management cost	Costs incurred as a result of the administrative, accounting, and managerial functions of the Company.

APPENDIX A:
2017 MOVEMENT IN NAV ANALYSIS

Table 1 on page 8 of the Manager's Report illustrates the movements in NAV for the various assets of the Company. The following analysis has been formulated to reconcile how the closing NAV balances agree to the Consolidated Financial Statements and Notes to the Consolidated Financial Statements as at 30 June 2017.

Assets	Opening NAV 31 Dec 2016	Movements in Investments & Equity	Foreign Exchange Gains/ (losses)	Valuation Gains/ (losses)	Provision for Sales Costs & Realisation Taxes	Net Income/ (expenses)	Closing NAV 30 June 2017
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Core Assets							
Matariki Forestry	138,507	(1,547)	6,446	3,936	(5,935)	–	141,407
Mata Mineira	34,273	–	(432)	–	(655)	180	33,366
Eucateca	28,786	–	(545)	–	(1,463)	(641)	26,137
Aurora Forestal	27,413	–	–	91	(2,540)	–	24,964
Pradera Roja	19,876	–	(5)	–	(562)	(50)	19,259
Subtotal	248,855	(1,547)	5,464	4,027	(11,155)	(511)	245,133
Non-Core Assets	15,494	–	1	(1,095)	(350)	(10)	14,040
Parent company							
Phaunos Timber Fund	36,968	(10,579)	318	–	(320)	1,230	27,617
Total Net Asset Value	**301,317**	**(12,126)**	[A] **5,783**	[B] **2,932**	[C] **(11,825)**	[D] **709**	**286,790**
No. of Ordinary Shares	547,024,832						545,529,832
NAV per Ordinary Share	US$0.55						US$0.55

		[A]	[B]	[C]	[D]
Reconciliation:		[A]	[B]	[C]	[D]
Matariki FX included in fair value gains		(6,446)	6,446		
Differences from mapping		(5)			(19)
Sub-Total		**(668)**	**9,378**	**(11,825)**	**690**
Reported in the Consolidated Financial Statements					
Exchange differences in profit and loss (other operating income)	Refer to page 15	13			(13)
Exchange differences in profit and loss	Note 6	(163)			163
Exchange differences in other comprehensive income	Refer to page 15	(514)			
Net gains on financial assets at FVTPL	Refer to page 15		(933)		
Net realised gain on disposal of assets	Refer to page 15	(4)			
Estimated taxes, commissions and sales costs	Note 11		11,505	(11,505)	
Provision for deregistration costs	Note 16			(320)	320
Revaluation of land recorded in other comprehensive income	Refer to page 15		(1,194)		
Operating profit	Refer to page 15				2,333
Income tax	Refer to page 15				(2,113)
Sub-Total		**(668)**	**9,378**	**(11,825)**	**690**
Difference		**–**	**–**	**–**	**–**
Check					
		P&L	OCI		
Per Consolidated Financial Statements	Refer to page 15	(717)	(1,708)		
Per above		(717)	(1,708)		
Difference		**–**	**–**		

APPENDIX B: CASH FLOWS FROM OPERATIONS AND INVESTMENTS

Figure 1 on page 11 of the Manager's Report illustrates cash flows from operations and investments of the Company for the six-month period to 30 June 2017. The following analysis has been formulated to reconcile the chart balances to the Interim Consolidated Financial Statements and Notes to the Consolidated Financial Statements as at 30 June 2017.

Cash Flows From Operations and Investments	Note	Amount per Chart	Amount per Interim Accounts
Annual Revenue		11,857	
Reconciled as follows:			
Matariki Distribution Income	7		6,031
Matariki Return of Capital	11.2		1,547
Interest Income	7		420
Aurora 2016 Dividend Received	14		1,109
2016 Timber Revenue Received in 2017	14		1,959
2017 Timber Revenue Received in 2017	4		576
Impact of Foreign Exchanges Rates			215
		11,857	**11,857**
Corporate Expenses		8,242	
Plantation Operating Expenses		1,197	
Reconciled as follows:			
Timber Operating Expenses	6		1,328
Investment Operating Expenses	8		3,115
Income Tax Expense	9		2,113
Warrant Instrument	18		2,683
Impact of Foreign Exchange Rates			200
		9,439	**9,439**