

# Phaunos Timber Fund Limited

## Annual Report & Consolidated Financial Statements

for the year ended 31 December 2009

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## Information on Phaunos Timber Fund

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

The Company has two classes of shares in issue: US Dollar denominated ordinary shares (“Ordinary Shares”) and US Dollar denominated C shares (“C Shares”). The Ordinary Shares are admitted to the Official List of the UK Listing Authority (“Official List”) and to trading on the Main Market of the London Stock Exchange plc (“LSE”) and to listing and trading on the Channel Islands Stock Exchange (“CISX”). The C Shares are not admitted to the Official List or traded on the LSE, nor are they listed or traded on the CISX.

The C Shares currently in issue will convert into Ordinary Shares in accordance with the provisions relating thereto which are contained in the Company’s prospectus dated 5 June 2008 (“Prospectus”) and its current articles of association (“Articles”) at a conversion ratio determined by reference to the respective net asset values (“NAV”) of the Ordinary Shares and the C Shares at 31 December 2009, with actual conversion taking place shortly after the publication of these consolidated financial statements.

## GLOSSARY OF CURRENCY TERMS

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

### Highlights

- NAV per Ordinary Share of US\$1.07 at 31 December 2009 (2008: US\$0.99).
- Total comprehensive income for the year of US\$17.6 million, which excludes exchange differences on translation of operating subsidiaries (2008: comprehensive loss of US\$6.5 million).
- Total capital raised in Ordinary Shares since inception in December 2006 is US\$518.2 million.
- NAV per C Share of US\$0.96 at 31 December 2009 (2008: US\$0.97).
- Issued an additional US\$4.6 million (before expenses) of C Shares during the year, bringing the total capital raised in C Shares to US\$43.5 million.
- US\$104.5 million of portfolio commitments were drawn down during the year, bringing the total portfolio drawdowns to US\$290.5 million at 31 December 2009.
- Since 31 December 2009 a further US\$152.5 million has been drawn down from the Company. This brings total drawdowns to date to US\$443.0 million.
- Announced the acquisition of a significant minority stake in Matariki Forestry Group (“Matariki”), which owns 183,000 gross hectares in New Zealand, primarily pine, both mature and pre-merchantable. The transaction closed in February 2010.
- Announced the first investment in China by a timber investment management organisation, with the initial acquisition in Jiangxi Province of a small (2,800 hectares, primarily pine and fir) but pivotal property in the roll-out of Phaunos’ China acquisition programme. The transaction closed in March 2010.
- Announced the acquisition of over 19,000 hectares of eucalyptus, both mature and pre-merchantable<sup>1</sup>, in Minas Gerais, Brazil (the “Turmalina Acquisition”). The transaction is scheduled to close in the second quarter of 2010.

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<sup>1</sup> Pre-merchantable is timber of commercial species which has not yet grown large enough to be saleable in the wood markets, as opposed to merchantable timber which is of size, quality and condition to be saleable in the wood markets. However, pre-merchantable timber plantations are suitable for sale to other timberland and industrial investors.

## Chairman's Statement

### Introduction

I am pleased to have the opportunity to update our shareholders on the progress of the Company during 2009.

Phaunos has achieved its goal of global diversification in the three years since its inception. It is now the most globally diversified timberland investment vehicle in the market, with investments in six continents. It has essentially now reached full investment, with the announcement in December 2009 of two of its largest investments – Matariki and the Turmalina Acquisition. The investment in Matariki completed in February 2010 and the Turmalina Acquisition is due to complete in the second quarter of 2010. The remaining capital in the portfolio is earmarked for investments in Brazil and China, and we anticipate deploying it during 2010. Of course, we also maintain reserves for working capital requirements in a number of our investments.

We have seen a net increase in the Company's audited NAV per Ordinary Share from US\$0.99 at 31 December 2008 to US\$1.07 at 31 December 2009. This increase in NAV is largely the result of the increase of US\$36.4 million in the value of Phaunos' land and biological assets in its greenfield plantations in Brazil, and its standing forests and greenfield plantations in Africa. We have been able to achieve favourable acquisition terms on several of our investments, and the benefit has been reflected in the uplift in value of these investments at the year end. The ability to acquire investments at favourable prices arose from our strong cash position during the ongoing global financial crisis, which in itself provided attractive investment opportunities. Significant gains of US\$22.9 million were also recognised on foreign exchange translation differences as a result of a weakening US Dollar against the Norwegian Krone and Brazilian Real.

These gains were to some extent offset by the provision against the full amount of the Masarang Foundation loan of US\$5.6 million, together with net operating losses of US\$11.7 million. Further details on the net increase in the NAV are provided in the Financial Results section on pages 5 to 7.

The Company's audited NAV per C Share was reduced from US\$0.97 at 31 December 2008 to US\$0.96 at 31 December 2009. The decrease was attributable to management fees and issue costs with a minor amount of related income.

Our share price on the LSE has not yet recovered from the downturn that began in 2008. The Board of Directors (the "Board") and FourWinds Capital Management (the "Investment Manager") conducted a strategic review during the third quarter of 2009 in which we sought feedback from major shareholders to ascertain their preferences about actions we could take to address the discount between the share price and the NAV of the Ordinary Shares. The response from the majority of our shareholders indicated that increased communications and periodic buybacks of shares were the preferred actions for us to take to support the Ordinary Share price as opposed to any other more radical solution. The low volume of trading in Ordinary Shares indicates that most of our investors continue to believe in our strategy and in our management and understand that timberland investing is a long-term strategy which we believe will produce excellent results over time.

## **Chairman's Statement (continued)**

Globally, wood markets are now making a recovery from the lows of 2009. However, we believe it will be some time before pre-downturn pricing levels will be attained. As a result, we continue to monitor markets and manage harvest levels carefully with a view to maximising returns over time. Timberland's unique ability to store value on the stump is well suited to weathering, and even flourishing in, these uncertain markets.

### **Conversion of C Shares**

The 43,510,000 C Shares currently in issue will convert into Ordinary Shares (as set out in the Prospectus), at a conversion ratio which is based on the NAV of both classes at 31 December 2009, shortly after the publication of these consolidated financial statements and an announcement will be made when conversion takes place.

### **Dividends**

As we set out in the Prospectus, dividends will only be considered once the Company is fully invested.

### **Outlook**

Our long-term outlook for Phaunos remains very positive. We have made tactical adjustments to our initial global strategy as a result of market conditions, specifically the market instability of some eastern European markets which we are watching closely, and in which we plan to invest when they stabilise. We have also adjusted our investment strategy in China and have now deployed the majority of the capital originally intended for China to Matariki in New Zealand. However, we are now carefully executing our revised plans in China. Matariki offers us access to the markets in China, which is a major importer of wood, as well as to other far eastern markets, including South Korea and India.

The initial investment phase is almost complete with the Investment Manager's teams and operating companies in place. We are a global timber investment company with a spread of species and maturities. We have identified additional opportunities for further investment in partnership with others if necessary to strengthen or expand the portfolio. Phaunos' immediate plans are greenfield investments in Brazil and standing forests in China managed by existing operating companies.

Keith Oates  
Chairman

16 April 2010

## Financial Results

as at 31 December 2009

At 31 December 2009, the Company held a total of thirteen investments in global timber and timber-related investments (investments collectively known as the "Portfolio"). Four investments represent minority positions, one is a loan and the remaining eight are investments where Phaunos is the majority or sole investor.

In accordance with International Financial Reporting Standards ("IFRS"), minority owned investments are classified as financial assets at fair value through profit or loss ("financial assets"). Majority owned investments ("operating subsidiaries") are consolidated on a line by line basis.

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

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

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

## Financial Results (continued)

as at 31 December 2009

The total NAV of the Company at 31 December 2009 increased to US\$575.0 million (2008: US\$495.0 million), which is represented by the NAV of Ordinary Shares, US\$533.5 million and the NAV of C Shares, US\$41.5 million, this translates to US\$1.07 per Ordinary Share (2008: US\$0.99) and US\$0.96 per C Share (2008: US\$0.97).

The major drivers of movement in the NAV of the Ordinary Shares during the year were:

- Unrealised gains on investments relating to the revaluation of land and biological assets for Green Resources AS ("Green Resources"), US\$26.9 million and Eucateca SA ("Eucateca"), US\$9.5 million;
- Full provision against the Masarang Foundation ("Masarang") loan of US\$5.6 million;
- Foreign exchange gains relating to Green Resources, US\$7.5 million and Eucateca, US\$14.1 million as a result of the weakening of the US Dollar against the Norwegian Krone and Brazilian Real respectively; and
- Net operating losses of US\$11.7 million, as a result of expenses exceeding operating income in these formative years prior to full investment.

**Financial Results (continued)**

as at 31 December 2009

The following table presents a summary of the movement in NAV attributable to Ordinary Shares during the year and reconciliation to the total NAV per the consolidated financial statements:

Company	NAV Ordinary Shares 31 Dec 2008 US\$'000	Acquisitions/ (Disposals) US\$'000	Realised Gains US\$'000	Unrealised Gain/(Loss) US\$'000	Treasury Shares US\$'000	FX Translation Differences US\$'000	Net Income/ (Expenses) US\$'000	NAV Ordinary Shares 31 Dec 2009 US\$'000	% of NAV 31 Dec 2009
Phaunos Timber Fund Limited	141,959	78,093	(23)	-	(2,038)	4,994	(7,266)	215,719	37.51
<b>Total Phaunos Timber Fund Limited</b>								<b>215,719</b>	<b>37.51</b>
GreenWood Tree Farm Fund LP	26,983	2,675	-	1,263	-	-	-	30,921	5.38
NTP Timber Plus+ Fund I, LP	7,235	3,040	-	462	-	-	-	10,737	1.86
Aurora Forestal Limited	24,877	5,919	-	(2,981)	-	-	-	27,815	4.84
Green Resources AS <sup>2</sup>	12,066	32,001	-	26,870	-	2,555	-	73,491	12.78
<b>Total Minority-owned investments</b>								<b>142,965</b>	<b>24.86</b>
Masarang Foundation	5,588	-	-	(5,588)	-	-	-	-	-
US Treasury Bills	210,198	(210,015)	117	(300)	-	-	-	-	-
<b>Total Loans and Deposits</b>								<b>-</b>	<b>-</b>
Caldrey SA	3,888	-	8	-	-	-	(169)	3,727	0.65
Pradera Roja SA	13,757	15,283	(3)	67	-	-	(783)	28,321	4.92
Forest Enterprises doo	6,425	3,270	23	-	-	(290)	(871)	8,557	1.49
BaltFor Timber OU	-	695	-	-	-	35	(254)	476	0.08
SC Romfor Timber SRL	574	7,952	26	-	-	645	(294)	8,903	1.55
Eucateca SA	39,395	-	-	9,460	-	14,097	111	63,063	10.97
Mata Mineira Investimentos Florestais Ltda	-	48,750	-	-	-	834	(178)	49,406	8.59
Green China Forestry Company Limited	2,050	12,337	(2)	-	-	5	(2,043)	12,347	2.15
<b>Total Operating Subsidiaries</b>								<b>174,800</b>	<b>30.40</b>
<b>NAV of Ordinary Shares</b>	<b>494,995</b>	<b>-</b>	<b>146</b>	<b>29,253</b>	<b>(2,038)</b>	<b>22,875</b>	<b>(11,747)</b>	<b>533,484</b>	<b>92.77</b>
<b>NAV of C Shares</b>								<b>41,554</b>	<b>7.23</b>
<b>Total NAV</b>								<b>575,038</b>	<b>100.00</b>

<sup>2</sup> Acquisition during 2009 includes conversion of Green Resources loan of NOK 67.5 million to equity (US\$13.6 million).

## **Investment Objective and Policy**

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

### **Diversification and Asset Allocation**

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

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

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

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

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

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

## **Investment Objective and Policy (continued)**

### **Hedging**

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

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

### **Gearing**

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

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

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

### **General**

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

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

## Investment Objective and Policy (continued)

### Investment Restrictions

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

1. the Company and any of its subsidiaries will not conduct a trading activity which is significant in the context of its group as a whole. This does not prevent the businesses forming part of the Company's portfolio from conducting trading activities themselves;
2. not more than 10% in aggregate of the value of the total assets of the Company at the time of its admission to the Official List and to trading on the London Stock Exchange may be invested in other listed closed-ended investment funds, except that this restriction shall not apply to investments in closed-ended investment funds which themselves have published investment policies to invest no more than 15% of their total assets in other listed closed-ended investment funds;
3. the Company will notify to a regulatory information service, within five business days of the end of each quarter, a list of all investments in other listed closed-ended investment funds, as at the last business day of that quarter, which themselves do not have stated investment policies to invest no more than 15% of their total assets in other listed closed-ended investment funds; and
4. to ensure a spread of investment risk the Company will avoid:
  - a) cross financing between the businesses forming part of its portfolio including, for example, through the provision of undertakings or security for borrowings by such businesses for the benefit of another; and
  - b) the operation of common treasury functions as between the Company and investee companies.

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

## Report of the Investment Manager

### Introduction

The Investment Manager, FourWinds Capital Management, is pleased to report on Phaunos' achievements, activities and developments during the year ended 31 December 2009.

We have continued to implement our global strategy for timberland investment, and are aggressively navigating the turbulent waters of current markets on behalf of Phaunos' investors. Throughout 2009, and particularly in December of that year, Phaunos announced several transactions that were the culmination of many months of negotiations and due diligence, and which will provide Phaunos with increased exposure to its target markets across the world.

We have announced the following investments:

- In our largest single transaction to date, Phaunos announced, on 24 December 2009, that it had entered into an agreement to acquire a significant minority stake in Matariki, a New Zealand company holding 183,000 gross hectares in six mixed age plantations across both islands of New Zealand. This investment, completed in February 2010, accomplishes several objectives: it provides opportunities to access some of the most vibrant economies in the world, including China, India and South Korea; it provides both mature and pre-merchantable timber for current harvesting and long-term sustainable harvesting into the indefinite future; and it increases the Portfolio's exposure to softwood fibre.
- In the second largest transaction to date, Phaunos announced, on 14 December 2009, that it had entered into a purchase and sale agreement in respect of the Turmalina Acquisition, to acquire over 19,000 hectares of mixed age plantation in Minas Gerais, Brazil, in pursuit of its eucalyptus-to-vegetal charcoal strategy. Vegetal charcoal is the preferred fibre for several applications in Minas Gerais, particularly for use in the production of iron, and there is a significant shortfall of this product projected for many years. The plantations in both Matariki and the Turmalina Acquisition are in several separate parcels, which reduce the overall vulnerability to threats of fire and disease. Phaunos anticipates this investment will close in the second quarter of 2010, when due diligence is expected to be completed. Alongside Matariki, the Turmalina Acquisition provides exposure to vibrant and growing markets.
- Significantly, Phaunos announced, on 31 December 2009, that it had entered into an agreement in respect of the first ever investment in China by a timber investment management organisation, accomplished through Phaunos' subsidiary, Green China. We believe China's economy is perhaps the most robust in the world, and it has a well-documented fibre shortage. Our strategy for investing in the Chinese market has been refined over the past two years in order to minimize both operational and competitive risk. We are implementing a softwood strategy in targeted, specific markets and intend to roll the strategy out in a very deliberate and careful manner. In the meantime, Phaunos' investment in Matariki, which we hope will provide opportunities to access the Asian wood markets, has deployed much of the capital originally scheduled for investment in China. This tactical shift accomplishes much the same strategic objective while allowing Phaunos the time it needs to build a unique, institutional-quality portfolio in China.

## Report of the Investment Manager (continued)

- On 22 December 2009, Phaunos announced that it had agreed to acquire a further property in southern Uruguay (completed in January 2010), which marks the completion of the Company's initial investment phase of its southern Uruguay investment programme, via its subsidiary, Pradera Roja SA ("Pradera"). Phaunos has, during 2009, invested approximately US\$30 million (including working capital) for acquisitions via Pradera comprising greenfield plantations in south eastern Uruguay. We believe the execution of a greenfield strategy is the best value-added strategy, because it creates a new asset, and does not simply enhance an existing one. This asset can then be sold to another timber investment organisation or industry player, or can be managed to maturity on a sustainable basis.
- In December 2009, Phaunos also converted its loan to Green Resources into equity, including all interest payable through the life of the loan. This brings Phaunos' equity ownership in this vibrant and growing company to over 25%. Green Resources recently won, from the Mozambique government, the right to plant an additional 126,000 hectares. It is already the largest utility pole supplier in the region, which is significant in the context of important electrification programmes in East Africa.

All of these accomplishments were the culmination of many months of careful planning, evaluating, and painstaking due diligence. We have invested a great deal of capital in Phaunos' Portfolio during 2009, with the remaining capital to be used for working capital purposes and for the expansion of its Green China and Eucateca investments. We have achieved an aggressive goal: for Phaunos to become the most globally diversified timberland portfolio in the world. To have accomplished this in three years was an arduous task. We defined our target markets, we sifted through the potential investment scenarios, we adjusted our tactics as markets convulsed in the global financial crisis, and we carefully executed our strategy.

Timberland is ideally positioned to survive and even prosper in down markets, especially our young plantations, which continue to grow regardless of any turmoil in capital markets. The combination of mature, mixed age, and new plantations is very powerful in terms of our Portfolio, allowing us to create sustainable harvest regimens across the Portfolio over time. Phaunos' Portfolio is roughly one third merchantable and two thirds pre-merchantable timber.

The following are summaries of Phaunos' Portfolio at 31 December 2009 and targeted investments through 2010:

## Report of the Investment Manager (continued)

### Portfolio Investments by Location<sup>3</sup>



<sup>3</sup> Portfolio Summary at April 2010

## Report of the Investment Manager (continued)

## Portfolio Summary

Company	Description	Geography	Investment cost <sup>4</sup> At 31 Dec 2009 (US\$m)	Investment value <sup>5</sup> 31 Dec 2009 (US\$m)	Expected investment in 2010 (US\$m)
1. GreenWood Tree Farm Fund LP	Four mixed age poplar plantations totalling 35,000 acres and a new sawmill	NW USA	31.9	30.9	4.5
2. NTP Timber Plus+ Fund I, LP	"Higher-and-better-use" timberland conversion	SE USA	10.1	10.7	-
3. Aurora Forestal Limited	Joint venture in a sawmill and mixed age pine plantations, currently with 19,500 hectares of timberland	Northern Uruguay	32.7	27.8	5.2
4. Caldrey SA	A timber harvesting company	Southern Uruguay	4.9	3.7	-
5. Masarang Foundation	Loan; commercial forestry project with social and environmental goals.	Indonesia	5.9 <sup>6</sup>	-	-
6. Forest Enterprises doo	Pellet fuel plant using waste wood	Serbia	11.5	8.6	0.4
7. Pradera Roja SA	A greenfield plantation project for fast growing eucalyptus, currently 12,000 hectares	Southern Uruguay	29.3	28.3	0.7
8. Eucateca SA	A Brazilian company formed to establish greenfield teak and eucalyptus plantations in Mato Grasso, currently with 17,210 hectares	West Central Brazil	47.5	63.1	32.5 <sup>7</sup>
9. Green China Forestry Company Ltd	An investment in pine, fir and poplar plantations with 2,800 hectares.	China	16.4	12.3	4.1 <sup>8</sup>
10. SC Romfor Timber SRL	Structured to buy existing forests in Eastern Europe	Eastern Europe	8.8	8.9	-
11. Green Resources AS	Mixed age, mixed species plantations, currently with 14,000 productive hectares and rights to plant 92,000 more hectares	East Africa	42.0	73.5	-
12. BaltFor Timber OU	Structured to buy existing forests in Eastern Europe	Eastern Europe	0.7	0.5	-
13. Mata Mineira Investimentos Florestais Ltda	Over 19,000 hectares of mature and mixed age eucalyptus plantations in Minas Gerais, Brazil. Scheduled deal close: second quarter 2010	East Central Brazil	48.8 <sup>9</sup>	49.4	31.2
14. Matariki Forestry Group	Mixed age pine plantations, six estates, 183,000 hectares. Deal closed: February 2010	New Zealand	-	-	120.0
<b>Total Portfolio Value</b>			<b>290.5</b>	<b>317.7</b>	<b>198.6</b>

<sup>4</sup> Investment cost at 31 December 2009 includes investment drawdowns and working capital expenses paid by Phaunos.

<sup>5</sup> Fair value of investments reported in the consolidated financial statements.

<sup>6</sup> The Board has reviewed the loan to Masarang and concluded it prudent to make a provision against the full value, given the uncertainty surrounding the ability of Masarang to repay.

<sup>7</sup> Phaunos has slowed down the pace of investment in Eucateca, but intends to reach the original goal of US\$150 million or more over time, and may seek partnering for this project.

<sup>8</sup> Phaunos' investment programme in China is being carefully rolled out. The Company intends to seek partners for this project if necessary longer term.

<sup>9</sup> To date, the Company has funded a Mata Mineira short term deposit to finance the Turmalina Acquisition expected to close in second quarter of 2010.

## Report of the Investment Manager (continued)

### Portfolio Summary (continued)

1. Greenwood Tree Farm Fund (“GTFF”): Phaunos’ original commitment of US\$30 million to GTFF has grown to US\$36.4 million, of which US\$31.9 million had been invested at 31 December 2009. Whilst some harvesting, especially of lower value wood, occurred in 2009, the implementation of full harvesting schedules and operations in the newly completed state-of-the-art mill have been slowed in the face of depressed prices in target markets.
2. NTP Timber Plus+ Fund I, LP (“NTP”): NTP is a limited partnership structured to make tax-efficient loans for the development of higher-and-better-use timberland conversion in the southeast USA. All of the capital committed by Phaunos, being US\$10.1 million, has been drawn down and quarterly income distributions are now being received.
3. Aurora Forestal Limited (“Aurora”): This integrated pine plantation and sawmill operation in northern Uruguay is a joint venture with the local family that has run the operation for three generations. The company has aggressively expanded its target markets globally, and prices are now rebounding. At 31 December 2009 Phaunos had invested US\$32.7 million in Aurora, and had capitalised its dividend entitlement of US\$968,400. Phaunos has invested an additional US\$2.5 million in first quarter 2010, and is planning to invest further to reach a total of US\$37.9 million by the end of 2010.
4. Caldrey SA (“Caldrey”): Caldrey is a harvesting company designed to provide forestry services to the growing timber management industry in Uruguay. To date, Phaunos has invested US\$4.9 million and Caldrey is operating at break-even. Business has been lower than expected due to depressed market conditions, but new contracts are currently being negotiated.
5. Masarang Foundation (“Masarang”): Due to the crisis in global capital markets, we are concerned that Masarang will be unable to pay back the principal amount of Phaunos’ loan of €4.0 million (US\$5.6 million) which is scheduled to be repaid in 2012 and which it had previously expected to repay from the proceeds of a planned fundraising. As a result, the Board has reluctantly decided that it is prudent to fully provide against the principal amount of the loan together with accrued interest to 31 December 2009. However, Phaunos will continue to vigorously pursue and attempt to recover its position from Masarang.
6. Forest Enterprises doo (“Forest Enterprises”): Forest Enterprises’ Serbian pellet mill has now been completed, is operational and nearing full production levels. At 31 December 2009, Phaunos had invested a total of US\$11.5 million in Forest Enterprises. Since then an additional US\$0.4 million has been invested. In the first quarter of 2010, Forest Enterprises entered into a long term marketing contract to sell its pellets into Western Europe.
7. Pradera Roja SA (“Pradera”): Pradera reached its target investment level of US\$30 million (including working capital requirements) in January 2010 and is in the process of completing the establishment of 12,000 gross hectares of timberland in southern Uruguay, where 7,200 hectares will be plantable. At 31 December 2009, 3,400 hectares had been planted, and a total of US\$29.3 million had been invested. Subsequently, a further 700 hectares have been planted.
8. Eucateca SA (“Eucateca”): At 31 December 2009, Eucateca owned 17,210 gross hectares, of which 11,100 are plantable, with some 8,200 hectares planted. The rainy season in Brazil during 2009 was good to the eucalyptus; some one year old trees have grown to 20 feet or more. At 31 December 2009, Phaunos had invested US\$47.5 million. Subsequently, 9,700 hectares have been planted and a further US\$5.0 million has been invested (including cash for working capital).

## Report of the Investment Manager (continued)

### Portfolio Summary (continued)

9. Green China Forestry Company Limited (“Green China”): In December 2009, Phaunos announced that it had agreed to make its initial investment in 2,800 hectares in Jiangxi province, through an asset won at public auction. The Company believes that this asset is pivotal in a series of acquisitions planned for the region. This initial acquisition, which closed in March 2010, was the first ever investment in China by a timber investment manager. A total of US\$16.4 million had been invested in Green China at 31 December 2009, including cash held for ongoing acquisitions.
10. SC Romfor Timber SRL (“Romfor”): Romfor was formed to hold investments in Romania. Due to market conditions there, we are proceeding with caution. At 31 December 2009, Phaunos had invested a total of US\$8.8 million, in order to fund potential transactions, and due diligence expenses, in Romania. No transactions have been entered into by Romfor to date.
11. Green Resources AS (“Green Resources”): Green Resources owns plantations and a saw mill in East Africa and currently holds about 14,600 planted hectares. In January 2010, Green Resources won the right to plant an additional 126,000 plantable hectares in Mozambique. At 31 December 2009, the total to-be-planted hectares comprised approximately 200,000 hectares. At 31 December 2009, Phaunos owned more than 25% of Green Resources’ shares, and had invested a total of US\$42.0 million.
12. BaltFor Timber OU (“BaltFor”): BaltFor was formed to hold investments in certain Baltic States. Due to market conditions in this region, Phaunos is proceeding with caution. At 31 December 2009, the Company had invested a total of US\$0.7 million to fund potential transactions, and due diligence expenses, in that area. No transactions have been entered into by BaltFor to date.
13. Mata Mineira Investimentos Florestais Ltda (“Mata Mineira”): In December 2009, Mata Mineira entered into the Turmalina Acquisition to acquire a company with over 19,000 hectares of standing eucalyptus plantation in Minas Gerais, Brazil, to implement Phaunos’ “eucalyptus to vegetal-charcoal” strategy. During 2009, Phaunos paid a total of US\$48.8 million into a Mata Mineira short term deposit to fund the Turmalina Acquisition. During the first quarter of 2010, an additional US\$29.0 million was paid by Phaunos into Mata Mineira to further fund the purchase. Investment in the Turmalina Acquisition is expected to complete in the second quarter of 2010.
14. Matariki Forestry Group (“Matariki”): Phaunos announced on 24 December 2009 that it had entered into an agreement to acquire a significant minority stake in Matariki, which was completed in February 2010 after achieving regulatory approval from the New Zealand government. At 31 December 2009, no money had been invested in Matariki, but since the year end a total of US\$117.1 million has been invested.

## Report of the Investment Manager (continued)

### Risk Mitigation

Phaunos' global diversity is unique in timber and timber related investments. Investing in a variety of cultures, and operating and regulatory environments requires adaptability and flexibility, because no single business model will succeed in every country. Phaunos is uniquely structured as a timber investment entity without a fixed life to participate advantageously across a variety of business models, and this is necessary to accomplish global exposure.

For instance, co-investment is a long-standing tactic in the timber investment management industry and Phaunos has invested alongside other institutional investors in projects like Matariki. This provides greater diversification than a single investment, of the same dollar value, could provide. In the Matariki example, Phaunos' operating risk is also diversified across six plantations on the two islands of New Zealand. Our investment of approximately US\$120.0 million could have bought only a fraction of the land mass if invested individually, which would mean decreased operating diversification and increased concentration risk. Additionally, through this investment, Phaunos will benefit from cost efficiencies across a broader land base, as the same management structure is spreading costs across a larger company.

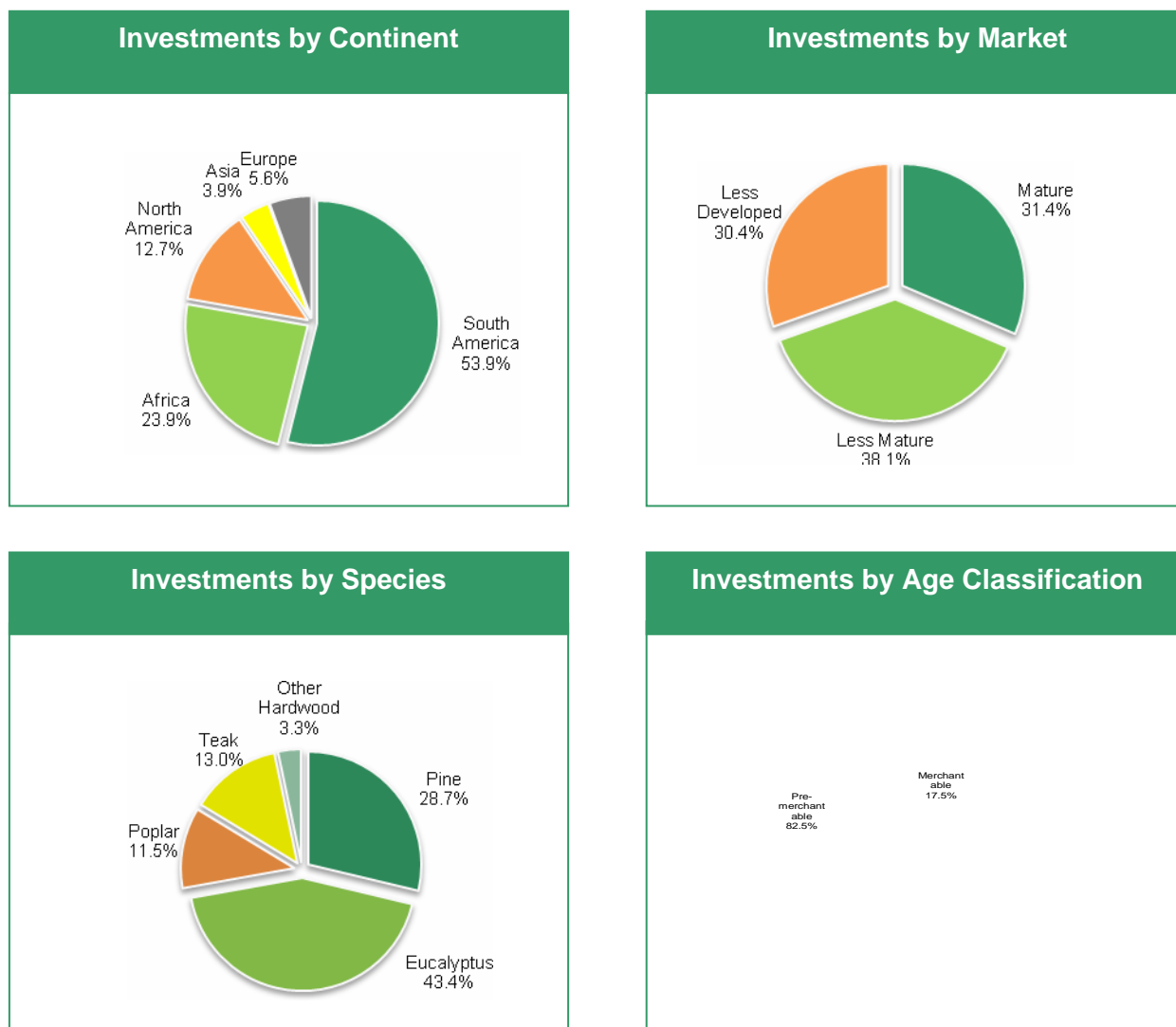
In East Africa, Phaunos has carefully selected and invested in the best operating company it could find, Green Resources, which has an integrated management structure, essential for robust risk management. An integrated management company, where management is vested in a very significant shareholder, aligns interests among all investors. When operating in developing markets, risk sharing is very desirable. In addition to geographic diversification to limit risk, it helps to minimize physical risk and spread costs; it also reduces vulnerability to changes in availability of on-the-ground management should local managers exit the market or change ownership.

Additionally, we believe that the unlimited life structure of Phaunos is superior to investing via limited or fixed term funds when working in developing timberland markets, because the start-up and investment periods of these funds are usually significant, and it is not economically optimal to sell the Company's Portfolio so shortly after it has been assembled. Shorter term structures, like ten-year funds, force liquidation just when the value curve is climbing. In Phaunos, our indeterminate life allows us to manage the Portfolio to its highest value for investors. This is one reason we have been successful investing in markets where many of our competitors have not.

The result is global diversification, which is illustrated in the following charts:

## Report of the Investment Manager (continued)

### Diversification of the Investment Portfolio<sup>10</sup>



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

<sup>10</sup> Percentages are based on fair value of investments at 31 December 2009 as shown on page 7.

## Report of the Investment Manager (continued)

### Summary

Phaunos has developed a very strong presence in the markets in which it has invested. The result is that we have identified more investment opportunities than we can fund, and therefore plan to take partners where appropriate. This will spread costs over larger investments and increase operational efficiency and diversification.

Over the past three years, from the Company's inception, to 31 December 2009, Phaunos' Portfolio has grown to comprise interests in 141,500 hectares of land. At the date of publication of these financial statements that number has grown to an interest in 326,000 gross hectares; and on completion of the Turmalina Acquisition the total will increase to an interest in 347,600 gross hectares.

Recent years have been turbulent for all industries. However, trees keep growing regardless of these external factors. Phaunos was well positioned going into the downturn and we believe we have made good use of the opportunities that market disruptions have provided. We expect Phaunos to harvest the benefits for many years to come.

FourWinds Capital Management

16 April 2010

### Directors

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

**Keith Oates (British)**, aged 67. Keith was Executive Deputy Chairman of Marks & Spencer plc from 1994-1999, having joined as Finance Director in 1984 and being appointed joint Managing Director in 1991. He was the founder, and then Chairman of Marks & Spencer Financial Services for 15 years. In addition to Marks & Spencer, he has held executive positions with the Reed Paper group, IBM, Black and Decker and TBG. A Governor of the BBC from 1988 to 1993, he has also been a non-executive director of B.T. plc, MCI, the Financial Services Authority, the G.B. and English Sports Councils, John Laing plc and Chairman of Quest. He was a non-executive director and Chairman of the Audit Committee of Diageo plc, whose brands include Smirnoff, Johnny Walker, Guinness, Gordons, Captain Morgan and Baileys for nearly 10 years until 2004. He was also a special adviser to Coutts Bank in Monaco from 2002-2005.

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

**Liane Luke (American)**, aged 59. Liane is Managing Director and Head of Timber Investments at FourWinds Capital Management, the Investment Manager of Phaunos. Liane founded Phaunos, along with Kimberly Tara. She also chairs or sits on the boards of all of Phaunos' subsidiaries internationally. With more than 20 years experience in real asset investing and managing investments for institutional clients, she has spent the last 14 years working exclusively in timberland investing. She assembled the Investment Manager's timber investment and management team, focusing on including forestry and international business management skills. Previously, she had been a principal in a major US-based Timber Investment Management Organisation, and began her timberland investment career at Hancock Timber Resource Group, where she worked with four other senior members of the Investment Manager's Timber team. Her qualifications include a BA magna cum laude from the University of New Hampshire and an MBA in finance from the Yale University School of Management.

## Directors (continued)

**Peter Niven (British)**, aged 55. Peter has worked in the financial services industry in the UK and offshore for 34 years. His career with the Lloyds TSB Group spanned 29 years where latterly he was Chief Executive of the group's offshore banking operations, until his retirement from the bank in June 2004. A Fellow of the Institute of Bankers and a Chartered Director, he is currently a non-executive director of a number of London listed, Guernsey based investment funds, a captive insurance company and also Resolution Limited, the Guernsey based and London listed insurance and asset management consolidation vehicle which now owns Friends Provident. He is also Chief Executive of Guernsey Finance LBG, the international promotional body for Guernsey's finance industry. He is resident in Guernsey.

**Kimberly Tara (American)**, aged 40. Kimberly has spent the last 19 years negotiating, executing and managing investments and projects, with a focus on cross-border transactions. She has executed deals in Europe, the US, Latin America, and Asia. She began her career in Mergers & Acquisitions at Morgan Stanley. In 1995 she joined Value Partners, a McKinsey spin-off in Italy. In 1999, she began working as an alternative investment consultant, providing financial and advisory services for clients in Europe and the US. She also worked as Chief Financial Officer for a US-based biotech company. Since 2005 as Chief Executive Officer of the Investment Manager, Kimberly has successfully raised and managed more than US\$1billion in commodities and natural resources. She graduated magna cum laude from Brown University with a degree in Business Economics and received her MBA from INSEAD in France. She is resident in France.

**Sarah Evans (British)**, aged 54. Sarah was appointed as a Director on 30 January 2009. She is an Oxford graduate and a Chartered Accountant. She has worked for many years in the financial services industry in London including working for Kleinwort Benson as head of group finance and latterly for Barclays Bank Plc as a director of treasury and then as Finance Director of Barclays Mercantile. She is a member of the Institute of Directors and is currently a non-executive director of a number of Guernsey based investment funds, including HSBC Infrastructure Company Limited which is listed on the LSE, two AIM listed companies, of which she is chairman of the audit committees and one unlisted fund of hedge funds. She is resident in Guernsey.

**John Le Prevost (British)** John Le Prevost resigned as a Director on 30 January 2009.

## **Investment Manager, Administrator and Company Secretary**

### **Investment Manager**

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

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

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

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

The Investment Manager currently has other investments under management, including Aqua Resources Fund Limited, Ceres Agriculture Fund Limited, Zephyr Commodity Fund and the Waste Resources Fund L.P.

### **Administrator and Company Secretary**

Anson Fund Managers Limited was the Company's administrator and company secretary until 20 February 2009. HSBC Securities Services (Guernsey) Limited was appointed, with effect from 20 February 2009, as administrator and company secretary, to replace Anson Fund Managers Limited.

## Report of the Directors

The Directors present the Annual Report and Audited Consolidated Financial Statements for Phaunos Timber Fund Limited (the "Company" or "Phaunos") for the year ended 31 December 2009.

### Principal Activity and Business Review

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

A description of the principal activities of the Company and the Group during the year is given in the Report of the Investment Manager on pages 11 to 19.

### Status

Phaunos is an authorised closed-ended investment company, incorporated in Guernsey on 28 September 2006, with an unlimited life. The Company has two classes of US Dollar denominated shares in issue: Ordinary Shares and C Shares. Since inception, the Company has raised a total of US\$518.2 million (before expenses) through Ordinary Share placings and US\$43.5 million (before expenses) through C Share placings.

### Share Issues and Repurchases

The Company's authorised share capital is represented by an unlimited number of Ordinary Shares of no par value and 1,600,000,000 C Shares of no par value.

During the year, Phaunos issued a total of 4,640,000 C Shares: 2,830,000 in May 2009, and a further 1,810,000 in October 2009, each at a price of US\$1 per C Share, raising a total of US\$4.6 million (before expenses). In the same year, Phaunos repurchased a total of 2,730,045 Ordinary Shares for a total consideration of US\$1.82 million for holding in treasury.

The issued share capital of the Company at 31 December 2009 was 498,334,561 Ordinary Shares (2008: 501,064,606) and 43,510,000 C Shares (2008: 38,870,000), which for 2009 are classed as equity in the consolidated financial statements.

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

The C Shares are not listed. Those currently in issue will convert to Ordinary Shares using a conversion ratio based on the respective audited NAV per share of the Ordinary Shares and the C Shares on 31 December 2009, with actual conversion occurring shortly after the publication of these consolidated financial statements.

The Company has authority to buy back up to 14.99% of its Ordinary Shares (which has been partially utilised during the year in making the share repurchases of 2,730,045 Ordinary Shares referred to above), which expires at the conclusion of the 2010 annual general meeting of the Company (the "2010 Annual General Meeting"). The Company is seeking renewal of this authority at the 2010 Annual General Meeting, again in respect of 14.99% of the Ordinary Shares in issue at the time of the 2010 Annual General Meeting. Refer to Note 20 to the consolidated financial statements for share repurchases during 2009.

## Report of the Directors (continued)

At 31 December 2009 the following shareholders had an interest of 3% or more in the Ordinary Shares of the Company:

Ordinary Share Holder	Number of Shares	% of Total Shares in Issue
Euroclear Nominees Limited*	107,992,497	21.67%
Citibank Nominees (Ireland) Limited*	95,143,784	19.09%
Chase Nominees Limited*	60,148,374	12.07%
HSBC Global Custody Nominee (UK) Limited*	52,333,174	10.50%
Securities Services Nominees Limited*	29,093,825	5.84%
The Bank of New York (Nominees) Limited*	26,729,342	5.36%
Nortrust Nominees Limited*	26,288,409	5.28%
Pershing Nominees Limited*	22,203,944	4.46%

At 31 December 2009 the following shareholders had an interest of 3% or more in the C Shares of the Company:

C Share Holder	Number of Shares	% of Total Shares in Issue
DWS Access SA	25,010,000	57.48%
State Street Nominees Limited*	11,000,000	25.28%
Vidacos Nominees Limited*	7,500,000	17.24%

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

### Investment Objective and Investment Policy

The investment objective and policy of the Company are stated on pages 8 to 10.

### Results

The results for the year are set out in the Consolidated Statement of Comprehensive Income on page 36.

### Dividends and Dividend Policy

The Board has considered the payment of a dividend for the year ended 31 December 2009 and concluded that, in line with statements made in the Prospectus, dividends will only be paid once the Company is fully invested. The Board has decided therefore that a dividend will not be paid for the year.

Any dividends, if declared, may reflect capital profits to the extent that net income profits are not earned in respect of the relevant year. Dividends, if any, are expected to be paid in US Dollars.

The Company's authorised share capital is such that either further issues of new Ordinary Shares or re-issues of Ordinary Shares held in treasury may be made. Subject to prevailing market conditions, the Board may decide to make one or more further issues or re-issues of Ordinary Shares for cash from time to time, and, where required, a prospectus relating to any such issue or re-issue will be published by the Company. Any further issues of new Ordinary Shares or re-issues of Ordinary Shares held in treasury will rank pari passu with Ordinary Shares in issue.

## Report of the Directors (continued)

Subject to the immediately preceding paragraph, there are no provisions within the Guernsey (Companies) Law, 2008 (the “Companies Law”) or in the Company’s Articles providing pre-emption rights for existing shareholders on the allotment of equity securities for cash or on the re-issue of equity securities out of treasury.

### Financing Strategy

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

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

### Shareholder Information

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

Under current valuation guidelines adopted by the Directors, such values are determined in accordance with IFRS.

If the Directors consider that any of the above bases of valuations are inappropriate in any particular case, or generally, they may, with the agreement of the Company’s auditors, adopt such other valuation procedures as they consider are reasonable in the circumstances.

Valuations of the Group’s investments classed as financial assets are based on valuation information provided by the underlying managers of those investments. Valuations of the land and biological assets held by operating subsidiaries are based on independent timberland appraisals arranged by the Investment Manager on an annual basis. In addition, the financial reports typically provided to the Company by third party managers are provided on a half yearly basis and generally are issued two to three months after the respective valuation dates.

At the end of each financial year, the Company publishes its audited NAV per Ordinary Share and audited NAV per C Share. It also publishes an interim unaudited NAV at 30 June each financial year.

## Report of the Directors (continued)

### Directors and their Interests

The Directors' details are given on pages 20 and 21. Directors' interests in Ordinary Shares at 31 December 2009 are set out below. None of the Directors had any interests in C Shares.

Director	Ordinary Shares	Percentage of issued Ordinary Shares
Keith Oates	200,000	0.04%
John Le Prevost (resigned 30/01/09)	-	-
Sarah Evans (appointed 30/01/09)	38,500	0.01%
Liane Luke	-	-
Peter Niven	30,000	0.01%
Kimberly Tara <sup>11</sup>	275,000	0.06%

None of the Directors have, or have had during the year, an interest in any transaction which is, or was, unusual in its nature or conditions, or significant to the business of the Group or which has been effected by the Group during the year, except for the interests in the Investment Manager of Kimberly Tara (by virtue of her shareholding in and directorship of the Investment Manager) and Liane Luke (by virtue of her position as Chief Timber Officer of the Investment Manager's group), and therefore in the investment management agreement between the Company and the Investment Manager dated 4 June 2008 (the "Investment Management Agreement") (details of which can be found in Note 30).

### Directors' Remuneration

The Chairman receives a fee of £70,000 per annum (2008: £70,000). Each of the other Directors receive an annual fee of £25,000 per annum (2008: £25,000), with the exception of Kimberly Tara and Liane Luke who do not receive fees. Peter Niven receives an additional sum of £5,000 per annum (2008: £5,000) for his chairmanship of the Management Committee and £5,000 per annum (2008: £5,000) for his chairmanship of the Audit Committee; the latter terminated on 30 June 2009. Sarah Evans receives an additional sum of £5,000 per annum for her chairmanship of the Audit Committee, which was effective from 1 July 2009. No commissions or performance related payments have been or will be made to the Directors by the Company.

On 31 December 2008, the amount of US\$75,000 was received by the Chairman in the form of Ordinary Shares of the Company. These formed the second and final tranche of shares in the Company equal to US\$150,000 and were in addition to the Chairman's fees of £70,000.

The aggregate remuneration of the Directors in respect of the year ending 31 December 2010, which is payable out of the assets of the Company, is not expected to exceed £200,000.

<sup>11</sup> Kimberly Tara's interest in 275,000 Ordinary Shares is in respect of Ordinary Shares owned by FourWinds Capital Management, the Investment Manager, of which Kimberly Tara is a shareholder and a director.

## Report of the Directors (continued)

### Net Asset Value

The audited NAV per Ordinary Share at 31 December 2009 was US\$1.07 per share (2008: US\$0.99). The audited NAV per C Share at 31 December 2009 was US\$0.96 per share (2008: US\$0.97).

### Corporate Governance

Guernsey does not currently have its own corporate governance code and, as a Guernsey incorporated company, the Company is not required to comply with the Combined Code on Corporate Governance issued by the Financial Reporting Council (the "Combined Code"). However, it is the Company's policy to comply with best practice on good corporate governance as it applies to investment companies. The Board has therefore considered the principles and recommendations of the Association of Investment Companies' Code of Corporate Governance (the "AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code, as well as setting out additional principles and recommendations on issues specific to investment companies, and is considered by the Financial Reporting Council to meet the obligations of the Combined Code.

The Board considers that it is appropriate to report against the principles and recommendations of the AIC Code, and by reference to the AIC Guide.

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

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

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

### Board Responsibilities

The Board comprises five non-executive Directors, three of whom are independent. The Board meets quarterly to consider the affairs of the Group in a prescribed and structured manner with additional ad hoc meetings being held as required. Biographies of the Directors appear on pages 20 and 21, demonstrating the wide range of skills and experience they bring to the Board.

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

## **Report of the Directors (continued)**

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

Under the Articles, one third of the Board is subject to retirement by rotation each year, such that all Directors are required to submit themselves for re-appointment at least every three years. Directors who have served for nine years or more will be subject to annual re-appointment. Pursuant to the Listing Rules, both Kimberly Tara and Liane Luke are required to retire from office at each annual general meeting of the Company and may offer themselves for re-appointment at each such meeting. Accordingly, at the 2010 Annual General Meeting, Peter Niven, Kimberly Tara and Liane Luke will retire and, being eligible, will offer themselves for re-appointment.

None of the Directors has a service contract with the Company.

### **Audit Committee**

The Audit Committee comprises Sarah Evans (Chairman), Peter Niven and Keith Oates (John Le Prevost was a member of the Audit Committee until his resignation from the Board on 30 January 2009).

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

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

### **Management Committee**

The Management Committee comprises Peter Niven (Chairman), Sarah Evans and Keith Oates (John Le Prevost was a member of the Management Committee until his resignation from the Board on 30 January 2009).

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

### **Board evaluation**

Each Director's performance is reviewed annually by the Chairman and the performance of the Chairman is assessed by his fellow Board colleagues in the same time scale.

## Report of the Directors (continued)

### Attendance at meetings

Directors' attendance at Board, Management and Audit Committee, meetings during the year was as follows:

Director	Quarterly Board Meetings	Ad hoc Board Meetings	Audit Committee	Management Committee
Keith Oates	3	2	3	1
Sarah Evans <sup>12</sup>	3	4	5	1
Peter Niven	4	5	5	1
Kimberly Tara	4	4	N/A	N/A
Liane Luke	4	4	N/A	N/A
John Le Prevost	-	1	N/A	N/A

### Internal Controls

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

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

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

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

### Investment Manager

The Investment Manager was appointed on 13 December 2006. The Directors have reviewed the performance of the Investment Manager and are satisfied that the continued appointment of the Investment Manager on the terms agreed is in the best interests of the shareholders and the Company. Refer to Note 30 of the consolidated financial statements for the agreed terms of the Investment Manager.

### Dialogue with Shareholders

All shareholders of the Company have the right to receive notice of, and attend, each annual general meeting of the Company during which the Board and the Investment Manager are available to discuss issues affecting the Company.

Following the Board's strategic review of the Company during the fourth quarter of 2009, the Board concluded, based on shareholder feedback, to increase marketing and investor communications and also host analyst presentations during 2010.

<sup>12</sup> Appointed on 30 January 2009

## Report of the Directors (continued)

### 2010 Annual General Meeting

The following information, which is to be discussed at the forthcoming 2010 Annual General Meeting, is important and requires your immediate attention. If you are in any doubt about the action you should take you should seek advice from your stockbroker, bank manager, solicitor, accountant or other financial adviser, authorised under the UK Financial Services and Markets Act 2000 (as amended). If you have sold or transferred all of your shares in the Company, you should pass this document, together with all accompanying documents, to the purchaser or transferee or to the person through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Resolutions relating to the following items of special business will be proposed at the 2010 Annual General Meeting of the Company. The Directors recommend that shareholders vote in favour of the resolutions which are, in the Directors' opinion, in the best interests of shareholders as a whole.

#### **Resolution 8 - Authority to buy back shares**

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

Purchases of Ordinary Shares will only be made through the market for cash at prices below the prevailing NAV per share. Under the Listing Rules of the UK Listing Authority the maximum price which can be paid by the Company for a share shall not be more than the higher of (i) 5% above the average of the mid-market values of the Ordinary Shares for the five business days immediately preceding the date of purchase, and (ii) the higher of the last independent trade and the highest current independent bid for the Ordinary Shares on the trading venue where the purchase is carried out.

The Directors are seeking authority to purchase up to 14.99% of the issued Ordinary Share capital of the Company at the date the resolution is passed. At the date of publication of the consolidated financial statements that represented 74,700,351 Ordinary Shares, but this may change if there are any repurchases of shares before the date of the 2010 Annual General Meeting and will change upon any conversion of the C Shares to Ordinary Shares prior to the 2010 Annual General Meeting. The authority granted by the resolution will expire at the conclusion of the next annual general meeting of the Company or, if earlier, 14 months from the date of passing of the resolution.

The timing of any purchases by the Company pursuant to the authority will be decided by the Directors. Any Ordinary Shares bought back may be held in treasury (up to a maximum of 10% of the issued share capital) or be subsequently cancelled by the Company. As at the date of publication of the consolidated financial statements, the Company holds 4,065,045 Ordinary Shares in treasury, being 0.82% of its issued Ordinary Share capital. This percentage will change upon any conversion of the C Shares to Ordinary Shares prior to the 2010 Annual General Meeting.

## Report of the Directors (continued)

### **Resolution 9 - Authority to make tender offers**

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

The Directors are seeking authority to make tender offers for a maximum number of Ordinary Shares up to 25% of the issued ordinary share capital. Any such tender offer will be at a maximum price per share which is below the prevailing NAV (less expenses). The minimum price (exclusive of expenses) which may be paid for an Ordinary Share pursuant to a tender offer under the authority is US\$0.01. The authority granted by the resolution will expire at the conclusion of the next annual general meeting of the Company or, if earlier, 14 months from the date of passing of the resolution.

The timing of any purchases by the Company pursuant to a tender offer made under the authority will be decided by the Directors. Any shares bought back may be held in treasury (up to a maximum of 10% of the issued share capital) or be subsequently cancelled by the Company. As at the date of publication of the consolidated financial statements, the Company holds 4,065,045 Ordinary Shares in treasury, being approximately 0.82% of its issued Ordinary Share capital. This percentage will change upon any conversion of the C Shares to Ordinary Shares prior to the 2010 Annual General Meeting.

### **Special Resolution 10 – Amendment of the Articles of Association of the Company**

The resolution to be proposed will seek to amend the Articles in order to (i) provide that notices of general meeting may be sent to shareholders electronically or published on a website and (ii) to provide that accounts may be sent to shareholders electronically or made available to shareholders by their publishing on a website.

The full terms of the proposed amendments to the Articles will be available for inspection from the date posting of the notice of the 2010 Annual General Meeting until the close of the 2010 Annual General Meeting at the offices of Herbert Smith LLP, Exchange House, Primrose Street, London EC2A 2HS and at the place of the 2010 Annual General Meeting for at least 15 minutes before and during the meeting.

### **Going Concern**

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Report of the Investment Manager on pages 11 to 19. The financial position of the Group, the principal risks and uncertainties, its cash flows, liquidity position and borrowing facilities are described in this report. In addition, Note 28 to the consolidated financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

The Group has sufficient financial resources and no external borrowings. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue to adopt the going concern basis in preparing the Company's annual report and consolidated financial statements.

## Report of the Directors (continued)

### Principal Risks and Uncertainties

The principal risks facing the Company relate to the Company's investment activities. These risks are market risk (comprising currency risk, interest rate risk and price risk), liquidity risk, credit risk and capital management risk.

An explanation of these risks and how they are managed is contained in Note 28 and also in the Risk Management section of the Report of the Investment Manager on pages 11 to 19.

A further risk facing the Company includes regulatory risk (that the loss of the Company's investment status or a breach of the rules of the UK Listing Authority, the LSE, the CISX or the Guernsey Financial Services Commission, could have adverse financial consequences and cause reputational damage).

### Auditors

Ernst & Young LLP have expressed their willingness to continue in office as the Company's auditors. A resolution proposing their re-appointment will be submitted at the 2010 Annual General Meeting.

### Statement of Directors' Responsibilities

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

1. select suitable accounting policies and apply them consistently;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
4. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

## Report of the Directors (continued)

### Responsibility Statement

To the best of the knowledge of the Directors:

- The consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and have been prepared in accordance with International Financial Reporting Standards;
- The Chairman's Statement and Report of the Investment Manager include a fair review of the development and performance of the business and position of the Company, together with a description of the principal risks and uncertainties that the Company faces; and
- There is no relevant audit information of which the Auditors are unaware and each Director has taken all reasonable steps he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Auditors are aware of that information.

By order of the Board:

Sarah Evans  
Director

Peter Niven  
Director

16 April 2010

## Report of the Directors (continued)

### Responsibility Statement

To the best of the knowledge of the Directors:

- The consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and have been prepared in accordance with International Financial Reporting Standards;
- The Chairman's Statement and Report of the Investment Manager include a fair review of the development and performance of the business and position of the Company, together with a description of the principal risks and uncertainties that the Company faces; and
- There is no relevant audit information of which the Auditors are unaware and each Director has taken all reasonable steps he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Auditors are aware of that information.

By order of the Board:



Sarah Evans  
Director

16 April



Peter Niven  
Director

2010

## **Report of the Independent Auditor to the Members of Phaunos Timber Fund Limited**

We have audited the consolidated financial statements of Phaunos Timber Fund Limited (the "Company") for the year ended 31 December 2009 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity and the related Notes 1 to 31. These consolidated financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of Directors and auditors**

The Directors are responsible for the preparation of the financial statements in accordance with applicable Guernsey law and IFRS as adopted by the European Union, as set out in the Statement of Director's Responsibilities.

Our responsibility is to audit the consolidated financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and are properly prepared in accordance with the Companies (Guernsey) Law, 2008. We also report to you if, in our opinion, the Group has not kept proper accounting records, if the Group's consolidated financial statements are not in agreement with the accounting records, or if we have not received all the information and explanations we require for our audit.

We read other information contained in the consolidated financial statements and consider whether it is consistent with the audited consolidated financial statements. The other information comprises Information on Phaunos Timber Fund, Highlights, Chairman's Statement, Financial Results, Investment Objective and Policy, Report of the Investment Manager, Directors, Investment Manager, Administrator and Company Secretary, Report of the Directors, Schedule of Investments, Shareholder Information and Directors and Service Providers.

We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

## **Report of the Independent Auditor to the Members of Phaunos Timber Fund Limited (continued)**

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements.

### **Opinion**

In our opinion the consolidated financial statements give a true and fair view, in accordance with International Financial Reporting Standards as adopted by the European Union, of the state of the Group's affairs as at 31 December 2009 and of its total comprehensive income for the year then ended and have been properly prepared in accordance with the Companies (Guernsey) Law, 2008.

AJ Offen, Partner  
Ernst & Young LLP

Guernsey, Channel Islands

16 April 2010

The consolidated financial statements are published on websites maintained by the Investment Manager.

The maintenance and integrity of these websites are the responsibility of the Investment Manager; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website.

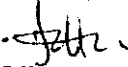
Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Report of the Independent Auditor  
to the Members of Phaunos Timber Fund Limited (continued)**

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements.

**Opinion**

In our opinion the consolidated financial statements give a true and fair view, in accordance with International Financial Reporting Standards as adopted by the European Union, of the state of the Group's affairs as at 31 December 2009 and of its total comprehensive income for the year then ended and have been properly prepared in accordance with the Companies (Guernsey) Law, 2008.

  
AJ Offen, Partner  
Ernst & Young LLP

Guernsey, Channel Islands

16 April 2010

The consolidated financial statements are published on websites maintained by the Investment Manager.

The maintenance and integrity of these websites are the responsibility of the Investment Manager; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Consolidated Statement of Comprehensive Income**

for the year ended 31 December 2009

	Note	31 Dec 2009 US\$	31 Dec 2008 US\$
<b>Income</b>			
Net gain/(loss) on financial assets designated at fair value through profit or loss	13	19,840,892	(4,770,410)
Operating income	4	8,150,271	15,035,793
		<u>27,991,163</u>	<u>10,265,383</u>
<b>Expenses</b>			
Revaluation of biological assets	11	(1,132,733)	-
Operating expenses	5	(18,686,441)	(17,283,409)
		<u>(19,819,174)</u>	<u>(17,283,409)</u>
<b>Operating profit/(loss) before taxation</b>		8,171,989	(7,018,026)
Tax (charge)/credit on ordinary activities	6	(1,178,697)	528,445
<b>Profit/(loss) for the year</b>		<u>6,993,292</u>	<u>(6,489,581)</u>
<b>Other comprehensive income</b>			
Revaluation of land	10,25	10,659,455	-
Exchange differences on translation of subsidiaries	24	22,874,832	(8,126,442)
		<u>33,534,287</u>	<u>(8,126,442)</u>
<b>Total comprehensive income for the year</b>		<u>40,527,579</u>	<u>(14,616,023)</u>
<b>Profit for the year attributable to:</b>			
Equity holders of the parent		6,996,120	(6,479,759)
Minority interest		(2,828)	(9,822)
Net profit/(loss) for the year attributable to Ordinary Shareholders		<u>6,993,292</u>	<u>(6,489,581)</u>
<b>Other comprehensive income attributable to:</b>			
Equity holders of the parent		33,534,287	(8,126,442)
Net gain/(loss) for the year attributable to Ordinary Shareholders		<u>33,534,287</u>	<u>(8,126,442)</u>
Earnings/(loss) per Ordinary Share for the year - Basic and Diluted (in US cents per share)		1.40	(1.34)

(Based on weighted average number of Ordinary Shares 499,520,929 (2008: 485,808,820))

In arriving at the operating results for the financial year, all amounts above relate to continuing operations.

The notes on pages 42 to 77 form an integral part of these consolidated financial statements

**Consolidated Statement of Financial Position**

as at 31 December 2009

	Note	31 Dec 2009 US\$	31 Dec 2008 US\$
<b>Non-Current Assets</b>			
Financial assets designated at fair value through profit or loss	13	142,964,749	99,486,532
Intangible assets		1,405	1,334
Plant and equipment	9	9,857,221	8,069,878
Land	10	62,560,656	22,641,096
Biological assets	11	21,548,269	1,248,861
Deferred tax	19	490,238	510,286
Loans receivable	14	8,430,826	-
		<u>245,853,364</u>	<u>131,957,987</u>
<b>Current Assets</b>			
Financial assets designated at fair value through profit or loss	13	-	210,198,318
Inventories and work in progress		692,237	1,386,089
Receivables	15	7,034,909	9,742,065
Cash and cash equivalents	16	331,032,285	186,074,469
		<u>338,759,431</u>	<u>407,400,941</u>
<b>TOTAL ASSETS</b>		<u>584,612,795</u>	<u>539,358,928</u>
<b>Current Liabilities</b>			
Payables - due within one year	17	9,575,288	6,572,242
Net assets attributable to C Share class	18	-	37,791,963
<b>TOTAL LIABILITIES</b>		<u>9,575,288</u>	<u>44,364,205</u>
<b>Equity</b>			
Share capital	20	-	-
Share premium	22	390,546,882	390,546,882
C Share class	18	41,553,561	-
Retained earnings	23	10,136,416	3,140,296
Foreign currency translation reserve	24	14,748,390	(8,126,442)
Land revaluation reserve	25	10,659,455	-
Distributable reserves	26	110,418,595	110,418,595
Purchase of own shares (Treasury Shares)	21	(3,025,792)	(987,436)
Minority interest		-	2,828
<b>TOTAL EQUITY</b>		<u>575,037,507</u>	<u>494,994,723</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>584,612,795</u>	<u>539,358,928</u>

The notes on pages 42 to 77 form an integral part of these consolidated financial statements.

**Consolidated Statement of Financial Position (continued)**

as at 31 December 2009

	Note	31 Dec 2009 US\$	31 Dec 2008 US\$
Ordinary Shares in Issue	20	498,334,561	501,064,606
C Shares in Issue	18	43,510,000	38,870,000
		<b>US\$</b>	<b>US\$</b>
Net Asset Value Per Ordinary Share		1.07	0.99
Net Asset Value Per C Share		0.96	0.97

Approved by the Board on 16 April 2010.

Sarah Evans  
Director

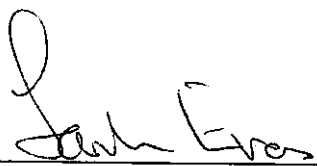
Peter Niven  
Director


The notes on pages 42 to 77 form an integral part of these consolidated financial statements.

**Consolidated Statement of Financial Position (continued)**  
as at 31 December 2009

	Note	31 Dec 2009 US\$	31 Dec 2008 US\$
Ordinary Shares in Issue	20	498,334,561	501,064,606
C Shares in Issue	18	43,510,000	38,870,000
		<b>US\$</b>	<b>US\$</b>
Net Asset Value Per Ordinary Share		1.07	0.99
Net Asset Value Per C Share		0.96	0.97

Approved by the Board on 16 April 2010.

  
\_\_\_\_\_  
Sarah Evans  
Director

  
\_\_\_\_\_  
Peter Niven  
Director

The notes on pages 42 to 77 form an integral part of these consolidated financial statements.

**Consolidated Statement of Cash Flows**

for the year ended 31 December 2009

	Note	31 Dec 2009 US\$	31 Dec 2008 US\$
<b>Operating activities</b>			
Net profit/(loss) for the year attributable to Ordinary Shareholders		6,993,292	(6,489,581)
Add: Revaluation of biological assets	11	1,132,733	(1,301,721)
Movement in inventories		693,852	(1,537,451)
Depreciation and amortisation		214,848	298,377
Movement in payables		3,003,046	3,825,004
Movement in receivables excluding accrued income		3,431,844	(8,933,018)
Less: Net gain/(loss) on financial assets designated at fair value through profit or loss	13	(19,840,892)	4,770,410
Interest income	4	(5,667,135)	(10,209,652)
Investment income	4	(1,437,020)	(420,866)
Tax paid		(389,661)	(496,360)
Net operating (loss)/profit attributable to C Shares	18	<u>(573,335)</u>	<u>1,276</u>
<b>Net cash outflow from operating activities before income</b>		<b>(12,438,428)</b>	<b>(20,493,582)</b>
Interest received		5,352,322	11,486,977
Investment income received	4	<u>1,437,020</u>	<u>420,866</u>
<b>Net cash outflow from operating activities</b>		<b><u>(5,649,086)</u></b>	<b><u>(8,585,739)</u></b>
<b>Investing activities</b>			
Purchase of financial assets	13	(23,453,974)	(314,222,606)
Disposals of financial assets	13	210,014,967	49,965,156
Disposals of plant and equipment	9	53,266	-
Additional costs of biological assets	11	(19,506,075)	-
Purchase of land	10	(21,486,411)	(24,751,710)
Purchase of plant and equipment	9	(2,357,792)	(5,215,225)
Loans granted		(8,855,656)	-
Repayment of loans granted		1,791,649	-
<b>Net cash inflow/(outflow) from investing activities</b>		<b><u>136,199,974</u></b>	<b><u>(294,224,385)</u></b>
<b>Financing activities</b>			
Proceeds of issue of Ordinary Shares	22	-	33,054,394
Proceeds of issue of C Shares	18	4,640,000	38,870,000
Costs of issue of Ordinary Shares	22	-	(1,068,494)
Costs of issue of C Shares	18	(305,067)	(1,079,313)
Repurchase of Ordinary Shares	21	<u>(2,038,356)</u>	<u>(987,436)</u>
<b>Net cash inflow from financing activities</b>		<b><u>2,296,577</u></b>	<b><u>68,789,151</u></b>

The notes on pages 42 to 77 form an integral part of these consolidated financial statements.

**Consolidated Statement of Cash Flows (continued)**

for the year ended 31 December 2009

	<b>31 Dec 2009 US\$</b>	<b>31 Dec 2008 US\$</b>
<b>Cash and cash equivalents at beginning of year</b>	186,074,469	425,863,895
Increase/(decrease) in cash and cash equivalents	132,847,465	(234,020,973)
Effect of foreign exchange rate changes	12,110,351	(5,768,453)
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of year</b>	<b>331,032,285</b>	<b>186,074,469</b>
	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 42 to 77 form an integral part of these consolidated financial statements.

## Consolidated Statement of Changes in Equity

for the year ended 31 December 2009

	Note	31 Dec 2009 US\$	31 Dec 2008 US\$
Opening balance		494,994,723	478,599,632
<b>Comprehensive income for the year</b>			
Profit/(loss) for the year		6,993,292	(6,479,759)
Other comprehensive income:			
Foreign currency translation reserve	24	22,874,832	(8,126,442)
Land revaluation reserve	25	10,659,455	-
		<u>33,534,287</u>	<u>(8,126,442)</u>
<b>Total comprehensive income for the year</b>		40,527,579	(14,606,201)
<b>Transactions with owners, directly recorded in equity</b>			
Issue of Ordinary Shares		-	33,054,394
Share issue costs (Ordinary and C Shares)		-	(1,068,494)
Purchase of own shares (Treasury Shares)	21	(2,038,356)	(987,436)
Reclassification of C Shares	18	41,553,561	-
		<u>39,515,205</u>	<u>30,998,464</u>
<b>Total transactions with owners, directly recorded in equity</b>		39,515,205	30,998,464
Minority interest		-	2,828
<b>Closing balance at 31 December 2009</b>		<u>575,037,507</u>	<u>494,994,723</u>

The notes on pages 42 to 77 form an integral part of these consolidated financial statements.

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

### 1. ACCOUNTING POLICIES

#### (a) Basis of Preparation

The consolidated financial statements of the Company and its Group have been prepared in accordance with IFRS and applicable Guernsey law and on an historical cost basis except for the measurement at fair value of certain financial instruments.

The consolidated financial statements are presented in US Dollars being the currency of the primary economic environment in which the Group operates. The Group comprises the Company and entities controlled by the Company (its "subsidiaries") as listed below in Note 12.

The consolidated financial statements are prepared to the nearest US\$1.

#### (b) Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except the adoption by the Group of the following standards and amendments from 1 January 2009:

- IFRS 8 Operating Segments
- IAS 1 (Revised 2007) Presentation of Financial Statements
- Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments

The effects of these changes are as follows:

##### **IFRS 8 Operating Segments**

This standard is effective for accounting periods beginning on or after 1 January 2009, and it requires disclosure of information about the Group's operating segments, replacing the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. For management purposes, the Group is organised into one business unit and segment information is presented on the same basis as that used for internal reporting purposes. Refer to Note 3 for further details.

##### **IAS 1 (Revised 2007) Presentation of Financial Statements**

The standard replaces IAS 1 Presentation of Financial Statements (revised in 2003) as amended in 2005. The revised IAS 1 Presentation of Financial Statements was issued in September 2007 and is effective for accounting periods beginning on or after 1 January 2009 with early application permitted.

## Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

### 1. ACCOUNTING POLICIES (continued)

#### (b) Changes in accounting policies and disclosures (continued)

The standard requires separate disclosure of owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group has chosen to present one single Consolidated Statement of Comprehensive Income. The grouping of several line items classified within expenses has been amended in order to reflect management reporting.

#### **Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments**

The amendments to IFRS 7 were issued in March 2009 and become effective for annual periods beginning on or after 1 January 2009, with early application permitted. The Group has adopted these amendments with effect from 1 January 2009.

The amendments to IFRS 7 require fair value measurements to be disclosed by the source of inputs, using a three-level hierarchy:

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

In addition, the amendments revise the specified minimum liquidity risk disclosures including: the contractual maturity of non derivative and derivative financial liabilities, and a description of how this is managed.

In the first year of application, comparative information is not required. However, the Group has voluntarily disclosed comparative information.

#### **Revaluation and presentation of land**

For the year ended 31 December 2009, the Group has adopted IAS 16: Property, Plant and Equipment in order to remeasure the class of land at fair value under the revaluation model. The carrying values of land from prior periods have not been restated as they estimate fair value. Refer to Note 1(m) for the accounting treatment of revaluation increases and decreases.

#### **Accounting policies not applied by the Group**

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

## Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

### 1. ACCOUNTING POLICIES (continued)

#### (b) Changes in accounting policies and disclosures (continued)

IFRS 1: First time adoption of international financial reporting standards - additional exemptions for first time adopters (Amendments) - for accounting periods commencing on or after 1 January 2010.

IFRS 2: Group cash-settled share-based payment arrangements (Amendments) - for accounting periods commencing on or after 1 January 2010.

IFRS 3: Business Combinations (Revised) - for accounting periods commencing on or after 1 July 2009.

IFRS 9: Financial instruments - for accounting periods commencing on or after 1 January 2013.

IAS 24: Related party transactions (Revised) - for accounting periods commencing on or after 1 January 2011.

IAS 27: Consolidated and Separate Financial Statements (Amendment) - for accounting periods commencing on or after 1 July 2009.

IAS 32: Classification of rights issues (Amendments) - for accounting periods commencing on or after 1 February 2010.

IAS 39: Financial instruments: recognition and measurement - eligible hedged items (Amendment) - for accounting periods commencing on or after 1 July 2009.

IFRIC 14: Prepayments of a minimum funding requirement (Amendments) - for accounting periods commencing on or after 1 January 2011.

IFRIC 17: Distributions of non-cash assets to owners - for accounting periods commencing on or after 1 July 2009.

IFRIC 18: Transfer of assets from customers - for accounting periods commencing on or after 1 July 2009.

IFRIC 19: Extinguishing financial liabilities with equity instrument - for accounting periods commencing on or after 1 July 2010.

No assessment has been performed by the Directors on the impact of the adoption of these standards and interpretations in future periods. The Directors have adopted a policy of applying new standards and interpretations when they become effective.

Other Standards or Interpretations have been issued but are not expected to affect the Group.

## Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

### 1. ACCOUNTING POLICIES (continued)

#### (c) Change in accounting treatment

At 31 December 2008, the investment in Green Resources of US\$34.2 million, representing 6.91% of the Group's NAV at that date, was treated as a financial asset designated at fair value through profit or loss (refer to Schedule of Investments on page 78). At 31 December 2009, this operating subsidiary was consolidated on a line by line basis.

At 31 December 2008, the investment in Romfor of US\$573,888, representing 0.12% of the Group's NAV at that date, was treated as a financial asset designated at fair value through profit or loss (refer to the Schedule of Investments on page 78). At 31 December 2009, this operating subsidiary was consolidated on a line by line basis.

#### (d) Basis of consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and its subsidiaries made up to 31 December 2009. All inter-Group transactions, balances, income and expenses are eliminated on consolidation.

#### (e) Foreign currency translation

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's non-US Dollar denominated operating subsidiaries are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are classified as other comprehensive income and recognised in the Group's foreign currency translation reserve in the Consolidated Statement of Comprehensive Income. Such translation differences will be recognised as income or expenses in the period in which the Group disposes of an operating subsidiary.

#### (f) Operating income

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

## Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

### 1. ACCOUNTING POLICIES (continued)

#### (g) Taxation

Income tax is provided in the financial statements of each subsidiary in accordance with the best estimate of the taxation liability. No allowance is made for any intergroup relief for loss making entities.

Deferred taxes are calculated using the liability method on temporary timing differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. Deferred tax is also provided on unremitted profits at the mitigating tax rate.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective periods of realisation, provided they are enacted or substantively enacted at the reporting date. Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will be able to be offset against future taxable income.

Changes in deferred tax assets or liabilities are recognised as a component of tax expenses in the Consolidated Statement of Comprehensive Income, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

#### (h) Expenses

All expenses are accounted for on an accruals basis.

#### (i) Share issue costs

The Ordinary Shares have no fixed redemption date. Therefore the costs are written off through the Consolidated Statement of Changes in Equity.

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

All investments that are minority-owned by the Group are designated as financial assets at fair value through profit or loss. Investments are initially recognised on the date of purchase at fair value. Transaction costs associated with an investment are recognised immediately in the Consolidated Statement of Comprehensive Income as an expense.

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

After initial recognition, investments are measured at fair value, with unrealised gains and losses on investments and impairment of investments recognised in the Consolidated Statement of Comprehensive Income. Investments are derecognised on sale. Gains and losses on the sale of investments or impairment will be recognised in the Consolidated Statement of Comprehensive Income.

## Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

### 1. ACCOUNTING POLICIES (continued)

#### (k) Loan receivables

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

#### (l) Plant and equipment

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

Depreciation is calculated on a straight line basis so as to write down the cost to estimated residual value over the following periods:

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

#### (m) Land

Land held for use in production or administration is initially stated at acquisition cost in accordance with IAS 16: Property, Plant and Equipment. As no finite useful life for land can be determined, related carrying amounts are not depreciated. Any subsequent increases in value under the revaluation model are credited to Other Comprehensive Income and accumulated in equity under the heading Land Revaluation Reserve. A decrease arising as a result of a revaluation will be recognised in Operating Expense to the extent that it exceeds any amount previously credited to the Land Revaluation Reserve.

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

#### (n) Biological assets

Biological assets are initially recognised at cost. This treatment applies to all newly established plantations and is in line with IAS 41: Agriculture ("IAS 41"). IAS 41 allows for the deferral of a fair valuation for a period during which there has been little biological transformation, which the Group has defined as 3 years.

## Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

### 1. ACCOUNTING POLICIES (continued)

#### (n) Biological assets (continued)

Biological assets are measured at fair value when there is evidence of part physical change (growth, etc.) and part unit price change. Fair value measurement stops at harvest, after which IAS 2: Inventories applies after harvest. Gains and losses on revaluation of biological assets to fair value are recognised in the Consolidated Statement of Comprehensive Income. The same accounting treatment applies when biological assets are derecognised or impaired.

#### (o) Impairment of tangible and intangible assets

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

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

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

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

#### (p) Inventories and work in progress

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

## Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

### 1. ACCOUNTING POLICIES (continued)

#### (q) Cash and cash equivalents

Cash and cash equivalents are carried at cost. For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash at bank and investments in short term fixed deposits.

#### (r) Joint ventures

The Group's joint ventures have been designated at fair value through profit or loss.

#### (s) Other provisions, contingent liabilities and contingent assets

Other provisions are recognised when present obligations are likely to lead to an outflow of economic resources from the entity and they can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts. Provisions are not recognised for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

#### (t) Share-based payments

The Group has applied the requirements of IFRS 2: Share-based Payment.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Subject to certain conditions, Caldrey, a subsidiary of the Company, has agreed to make equity-settled share-based payments to Fanerey SA in respect of management services undertaken on behalf of the Group by Fanerey SA. The share-based payments will be in the form of ordinary shares of Caldrey and the maximum payments will total 50% of the share capital of Caldrey.

#### (u) Net assets attributable to C Share class

During the year, the Company has issued C Shares which will be converted into Ordinary Shares shortly after the date of publication of these consolidated financial statements. Therefore, under IAS 32, these shares have been reclassified from liabilities to equity. C Shares are shown in the consolidated financial statements at their amortised cost.

## Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

### 2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF

#### ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

The Group ensures independent external appraisals are conducted every year for financial assets (see Note 13) and the land and biological assets of operating subsidiaries (per Notes 10 and 11 respectively), except for the first year after acquisition, when they are carried at acquisition cost. The lag between the date of appraisals and their receipt by the Company may mean that some appraisals will not be received in time for inclusion in the financial statements relating to the period in which the appraisal took place. In these instances the appraised value will be reflected in the next period's consolidated financial statements.

#### (a) Valuation of financial assets

The Directors use their judgement in selecting an appropriate valuation technique for financial assets not quoted in an active market. For investments which have been recently acquired, the Directors consider the fair value to be equal to cost. The movement in the fair value is included in Income in the Consolidated Statement of Comprehensive Income.

The investments in NTP and GTFF are recorded at the underlying manager's valuation prepared on a fair value basis. The value of Aurora is based on the NAV provided by the underlying manager, adjusted for land and biological assets valued by an independent external appraisal during the year. The fair value of Green Resources has been estimated by the Investment Manager using the discounted cash flow model, based on inputs provided by the underlying manager. The Directors consider such valuation methods best represent fair value of the relevant investments. Refer to Note 13 for details on investment appraisals.

An independent external appraisal of the land and biological assets of Aurora will be conducted in the third quarter of 2010, which will be updated by the Investment Manager in the final quarter of 2010. This valuation is expected to be reflected in the consolidated financial statements for the year ending 31 December 2010.

External, independent appraisals will be conducted by the underlying managers of GTFF and Matariki in the final quarter of 2010, which are expected to be reflected in the consolidated financial statements for the year ending 31 December 2010.

#### (b) Valuation of land and biological assets

Land and biological assets are carried at fair value at 31 December 2009 at the value determined by independent appraisers. Where the date of the appraisal is before 31 December the value is projected by the Investment Manager to 31 December.

The fair value of land and biological assets owned by Eucateca and Pradera at 31 December 2009 is based on fair values determined by independent external appraisers at 30 September 2009. The movement in the fair value is included in the Consolidated Statement of Comprehensive Income. Refer to Notes 10 and 11 for valuation methods and assumptions.

Independent external appraisals will be conducted in the third quarter of 2010 for Eucateca and Pradera. The appraisals will be updated by the Investment Manager in the final quarter of 2010, and are expected to be reflected in the consolidated financial statements for the year ending 31 December 2010.

**Notes to the Consolidated Financial Statements (continued)**

for the year ended 31 December 2009

**3. SEGMENT INFORMATION**

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

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

	<b>31 Dec 2009</b>	<b>31 Dec 2008</b>
	<b>US\$</b>	<b>US\$</b>
Africa	29,941,603	(2,192,376)
Asia	(5,569,625)	(76,775)
Europe	529,105	15,788,488
South America	896,981	(1,457,359)
United States	2,193,099	(1,796,595)
	<u>27,991,163</u>	<u>10,265,383</u>

	<b>31 Dec 2009</b>	<b>31 Dec 2008</b>
	<b>US\$</b>	<b>US\$</b>
Limited partnerships	2,193,099	(1,796,595)
Minority interests in equity	(2,012,220)	(2,722,640)
Majority interests in equity	3,034,000	1,144,047
Loan instruments	24,353,203	(2,192,376)
Holding company cash and cash equivalents	423,081	15,832,947
	<u>27,991,163</u>	<u>10,265,383</u>

**Notes to the Consolidated Financial Statements (continued)**

for the year ended 31 December 2009

**4. OPERATING INCOME**

	<b>31 Dec 2009</b>	<b>31 Dec 2008</b>
	<b>US\$</b>	<b>US\$</b>
Investment income*	1,437,020	420,866
Interest income	5,667,135	10,209,652
Income from sales of services	817,700	863,473
Foreign exchange gains	29,421	3,503,603
Sundry income	198,995	38,199
	<u>8,150,271</u>	<u>15,035,793</u>

\*Includes dividend capitalisations of US\$968,400 received from Aurora during 2009.

**5. OPERATING EXPENSES**

	<b>31 Dec 2009</b>	<b>31 Dec 2008</b>
	<b>US\$</b>	<b>US\$</b>
<b>Holding Company Expenses</b>		
<i>General operating expenses</i>		
Administration fees	115,788	118,908
Audit fees	171,970	125,063
Directors' remuneration	205,126	261,826
Directors' expenses	3,271	2,637
Directors' & Officers' insurance	152,365	153,932
Investment Manager's fees	8,088,273	7,316,876
Legal and professional fees	1,813,298	2,181,913
Regulatory fees	147,447	45,794
Other operating expenses	102,583	570,564
	<u>10,800,121</u>	<u>10,777,513</u>
<b>Operating Subsidiary Expenses</b>		
<i>Setting up expenses</i>		
Legal and professional fees	<u>1,033,771</u>	<u>2,490,167</u>
<i>General operating expenses</i>		
Audit fees	445,404	164,381
Depreciation and amortisation	215,661	298,377
Employee compensation and benefits	774,745	216,699
Management fees	1,897,402	1,655,000
Professional fees	408,807	-
Property, repairs and maintenance	541,575	83,718
Other operating expenses	2,568,955	1,597,554
	<u>6,852,549</u>	<u>4,015,729</u>
	<u>18,686,441</u>	<u>17,283,409</u>

**Notes to the Consolidated Financial Statements (continued)**

for the year ended 31 December 2009

**6. TAX**

	<b>31 Dec 2009</b> <b>US\$</b>	<b>31 Dec 2008</b> <b>US\$</b>
Deferred tax	(1,480)	549,004
Current tax	(1,177,217)	(20,559)
	<u>(1,178,697)</u>	<u>528,445</u>

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

	<b>31 Dec 2009</b> <b>US\$</b>	<b>31 Dec 2008</b> <b>US\$</b>
Operating profit/(loss) before taxation	<u>8,171,989</u>	<u>(7,018,026)</u>
Effects of various tax rates of subsidiaries operating in other jurisdictions	(1,178,697)	528,445
Tax credit and effective tax rate for the year of 14.28% (2008: 7.53%)	<u>(1,178,697)</u>	<u>528,445</u>

The Group has been granted exemption from Guernsey Income Tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989, and is charged an annual fee of £600. As a result, the taxation charge for the year relates solely to the subsidiaries where applicable.

**7. DIRECTORS' REMUNERATION**

The Chairman receives a fee of £70,000 per annum (2008: £70,000). Each of the other Directors receive an annual fee of £25,000 per annum (2008: £25,000), with the exception of Kimberly Tara and Liane Luke who do not receive fees. Peter Niven receives an additional sum of £5,000 per annum (2008: £5,000) for his chairmanship of the Management Committee and £5,000 per annum (2008: £5,000) for his chairmanship of the Audit Committee; the latter terminated on 30 June 2009. Sarah Evans receives an additional sum of £5,000 per annum for her chairmanship of the Audit Committee, which was effective from 1 July 2009. No commissions or performance related payments have been or will be made to the Directors by the Company.

On 31 December 2008, a further amount of US\$75,000 was received by the Chairman in the form of Ordinary Shares of the Company. These formed the second and final tranche of shares in the Company equal to US\$150,000 and were in addition to the Chairman's fees of £70,000.

	<b>31 Dec 2009</b> <b>US\$</b>	<b>31 Dec 2008</b> <b>US\$</b>
Fees	205,126	186,826
Share-based awards	-	75,000
	<u>205,126</u>	<u>261,826</u>

**Notes to the Consolidated Financial Statements (continued)**

for the year ended 31 December 2009

**8. EARNINGS PER SHARE**

Earnings per Ordinary Share are based on the net profit for the year attributable to Ordinary Shareholders of US\$6,993,292 (2008: US\$6,489,581 loss for the year) and on 499,520,929 (2008: 485,808,820) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year. There are no dilutive instruments and therefore basic and diluted earnings per share are identical.

**9. PLANT AND EQUIPMENT**

	<b>31 Dec 2009</b>	<b>31 Dec 2008</b>
	<b>US\$</b>	<b>US\$</b>
<b>Cost</b>		
Opening cost	8,367,502	121,263
Additions	2,357,792	8,246,239
Disposals	(75,325)	-
Closing cost	<u>10,649,969</u>	<u>8,367,502</u>
<b>Depreciation</b>		
Opening depreciation	(297,624)	-
Charge for the year	(214,919)	(297,624)
Disposal adjustments	22,059	-
Closing depreciation	<u>(490,484)</u>	<u>(297,624)</u>
<b>Exchange differences</b>	(302,264)	-
Closing carrying value*	<u>9,857,221</u>	<u>8,069,878</u>

\*Includes construction in progress to the value of US\$7.3 million (2008: US\$5.1 million) relating to the construction of the pellet mill by Forest Enterprises.

**10. LAND**

	<b>31 Dec 2009</b>	<b>31 Dec 2008</b>
	<b>US\$</b>	<b>US\$</b>
<b>Cost</b>		
Opening cost	24,751,710	-
Additions	21,486,411	24,751,710
Closing cost	<u>46,238,121</u>	<u>24,751,710</u>
<b>Revaluation of land:</b>		
Opening	-	-
Revaluation for the year	10,659,455	-
Closing	<u>10,659,455</u>	<u>-</u>
<b>Exchange differences</b>	5,663,080	(2,110,614)
Closing carrying value	<u>62,560,656</u>	<u>22,641,096</u>

## Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

### 10. LAND (continued)

#### Land valuation assumptions

Land is carried at fair value at 31 December 2009 at the value determined by independent external appraisers, which is projected by the Investment Manager to the reporting date if the date of the independent external appraisal differs.

Eucateca's land was valued at 30 September 2009 by an independent external appraiser. The appraiser used a combination of the cost approach and the income capitalisation approach. For the Investment Manager's projections at 31 December 2009, the unit values from the external appraisal were applied to land areas in existence at that date. Therefore, any change in total land values from the 30 September 2009 values were due to changes in area, not changes in per hectare values.

Pradera's land was valued at 30 September 2009 by an independent external appraiser. The appraiser used the cost approach. For the Investment Manager's projections at 31 December 2009, the unit values from the external appraisal were applied to land areas in existence at that date. Therefore, any change in total land values from the 30 September 2009 values were due to changes in area, not changes in per hectare values.

#### Land sensitivity analysis

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

At 31 December 2009, if the per hectare values of land were to increase or decrease by 5%, with all other variables held constant, the NAV would have increased or decreased by US\$3.1 million (2008: US\$1.1 million). This would represent an increase or decrease in Net Assets of 0.54% (2008: 0.23%).

**Notes to the Consolidated Financial Statements (continued)**

for the year ended 31 December 2009

**11. BIOLOGICAL ASSETS**

	31 Dec 2009 US\$	31 Dec 2008 US\$
<b>Cost:</b>		
<b>Plantations and biological assets</b>		
Opening cost	1,248,861	-
Costs incurred during the year:		
Silviculture costs	12,429,667	-
Treatment costs	3,778,427	-
Plantations acquired	3,195,665	1,248,861
Other costs	102,316	-
	<u>19,506,075</u>	<u>1,248,861</u>
Closing cost	<u>20,754,936</u>	<u>1,248,861</u>
<b>Revaluation of plantations:</b>		
Opening balance	-	-
Revaluation for the year	<u>(1,132,733)</u>	<u>-</u>
Closing balance	<u>(1,132,733)</u>	<u>-</u>
<b>Exchange differences</b>	1,926,066	-
Closing carrying value	<u>21,548,269</u>	<u>1,248,861</u>

**Biological assets valuation assumptions**

Biological assets are carried at fair value at 31 December 2009 at the value determined by independent external appraisers, which is projected by the Investment Manager to the reporting date if the date of the independent external appraisal differs.

Biological assets held by Eucateca consist of eucalyptus and teak plantations in Brazil. The teak strategy is aimed at the production of premium logs, typically grown for 25 years. The eucalyptus strategy includes short-rotation fuelwood and longer-rotation sawtimber, with the potential to reach final harvest in less than seven years for fuelwood.

Eucateca's biological assets were valued at 30 September 2009 by an independent external appraiser. The appraiser used the replacement cost approach. For the Investment Manager's projections at 31 December 2009, the unit values from the external appraisal were applied to timber age classes at that date. Therefore, any change in total timber values from the 30 September 2009 values were due to changes in the number of hectares for each age class of the pre-merchantable timber, not changes in the per hectare values for each age class.

Biological assets held by Pradera consist of eucalyptus plantations in Uruguay for both the fibre and sawn wood markets. Eucalyptus is typically grown on a nine year rotation for fibre/energy or a fifteen to twenty-two year rotation for sawtimber.

Pradera's biological assets were valued at 30 September 2009 by an independent external appraiser. The appraiser used the cost approach. For the Investment Manager's projections at 31 December 2009, the unit values from this external appraisal were applied to timber age classes at that date. Therefore, any change in total timber values from the 30 September 2009 values were due to changes in the number of hectares for each age class of the pre-merchantable timber, not changes in the per hectare values for each age class.

**Notes to the Consolidated Financial Statements (continued)**

for the year ended 31 December 2009

**11. BIOLOGICAL ASSETS (continued)****Biological assets sensitivity analysis**

The following details the sensitivity of the Group's biological assets reported value to a 5% increase or decrease in the per hectare values of each timber age class, with 5% considered by the Directors as an appropriate estimate of growth in per hectare values.

At 31 December 2009, if the per hectare values of biological assets were to increase or decrease by 5%, with all other variables held constant, the NAV would have increased or decreased by US\$1.1 million (2008: US\$62,443). This would represent an increase or decrease in Net Assets of 0.19% (2008: 0.01%).

**12. INVESTMENTS IN SUBSIDIARIES**

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

<b>Company</b>	<b>Place of Incorporation</b>
BaltFor Timber BV	Netherlands
BaltFor Timber OU	Estonia
Caldrey SA	Uruguay
Cottage International Group Limited	British Virgin Islands
Eucateca SA	Brazil
Exclusive Technologies Limited	British Virgin Islands
Forest Enterprise BV	Netherlands
Forest Enterprises doo	Serbia
Green China Forestry Company Limited	Hong Kong
Hamar Holding Limited	British Virgin Islands
Mata Mineira Investimentos Florestais LTDA	Brazil
Nora Timber Cyprus Limited	Cyprus
Nortimber BV	Netherlands
Oxford Financial Investments Limited	British Virgin Islands
Phaunos Brazil Investimentos Florestais LTDA	Brazil
Phaunos China Limited	Hong Kong
Phaunos Norge AS	Norway
Phaunos US Incorporated	USA
Pradera Roja SA	Uruguay
Romfor Timber (Cyprus) Limited	Cyprus
Romfor Timber BV	Netherlands
SC Romfor Timber SRL	Romania
South Hampton International Limited	British Virgin Islands
Tura Holding Limited	British Virgin Islands
Wood NRG Limited	Cyprus

**Notes to the Consolidated Financial Statements (continued)**

for the year ended 31 December 2009

**13. INVESTMENTS****FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>31 Dec 2009 US\$</b>	<b>31 Dec 2008 US\$</b>
Opening Portfolio cost	314,402,939	50,108,528
Net additions at cost:	23,453,974	314,222,606
Proceeds on disposals*:	(210,014,967)	(49,965,156)
Realised gain on disposal of investments	<u>116,837</u>	<u>36,961</u>
<b>Closing Portfolio cost</b>	<b>127,958,783</b>	<b>314,402,939</b>
Unrealised depreciation on valuation brought forward	(4,376,783)	(3,388)
Unrealised appreciation/(depreciation) on valuation for the year	25,798,716	(4,373,395)
Provision against Masarang loan	(5,929,706)	-
Unrealised foreign exchange movement brought forward	(341,306)	92,670
Unrealised foreign exchange movement for the year	<u>(144,955)</u>	<u>(433,976)</u>
Unrealised appreciation/(depreciation) and foreign exchange movement on valuation carried forward	<u>15,005,966</u>	<u>(4,718,089)</u>
<b>Closing valuation</b>	<b>142,964,749</b>	<b>309,684,850</b>
Unrealised appreciation/(depreciation) and foreign exchange movement on valuation for the year	19,724,055	(4,807,371)
Realised gain on disposal of investments	<u>116,837</u>	<u>36,961</u>
<b>Net gain/(loss) on financial assets designated at fair value through profit or loss</b>	<b><u>19,840,892</u></b>	<b><u>(4,770,410)</u></b>

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

Greenwood Tree Farm Fund LP	Timber operation
Aurora Forestal Limited	Joint venture
NTP Timber Plus Fund I LP	Investment in limited partnership
Green Resources AS	Loan and investment in equity
Masarang Foundation Asset Linked Euro Note 09/2012	Loan
US Treasury Bills 0% 07/02/2009	Financial instrument

\* Includes proceeds on maturity of US Treasury Bills of US\$210.0 million during 2009.

**Notes to the Consolidated Financial Statements (continued)**

for the year ended 31 December 2009

**13. INVESTMENTS (continued)****Provision against loan to Masarang Foundation**

Due to the situation in the global capital markets, the Board is concerned that the borrower will be unable to pay back the principal amount at the due date in 2012 from the proceeds of a planned fundraising as originally intended. As a result, the Board considers it prudent and appropriate to fully provide against the original cost of the US\$5.6 million loan.

**Fair value analysis**

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

Financial assets and financial liabilities recorded at fair value are analysed by using a fair value hierarchy that reflects the significance of inputs. The fair value hierarchy has the following levels:

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

The following table analyses within the fair value hierarchy the Group's financial assets and liabilities measured at fair value:

<b>31 December 2009</b>	<b>Level 1 US\$</b>	<b>Level 2 US\$</b>	<b>Level 3 US\$</b>	<b>Total US\$</b>
<b>Financial assets designated at fair value through profit or loss</b>				
Listed securities	-	-	-	-
Unlisted securities	-	-	142,964,749	142,964,749
	-	-	142,964,749	142,964,749
<b>31 December 2008</b>				
	<b>Level 1 US\$</b>	<b>Level 2 US\$</b>	<b>Level 3 US\$</b>	<b>Total US\$</b>
<b>Financial assets designated at fair value through profit or loss</b>				
Listed securities*	210,198,318	-	-	210,198,318
Unlisted securities	-	-	99,486,532	99,486,532
	210,198,318	-	99,486,532	309,684,850

\*All listed securities, comprising US Treasury Bills, were classified as current assets.

Inputs for the determination of the fair values of financial assets designated as Level 3 include valuations provided by the managers of the underlying investments at the year end. There were no transfers of financial assets between Levels during the year. The table below reflects the movements in assets designated as Level 3 during the course of the year.

**Notes to the Consolidated Financial Statements (continued)**

for the year ended 31 December 2009

**13. INVESTMENTS (continued)**

	<b>Total US\$ 31 Dec 2009</b>
Fair value at beginning of year	99,486,532
Acquisitions at cost	23,453,974
Unrealised appreciation during the year	19,724,055
Reversal of prior year unrealised depreciation	300,188
Transfers to Level 1 and 2	-
Fair value at end of year	<u>142,964,749</u>

**Notes to the Consolidated Financial Statements (continued)**

for the year ended 31 December 2009

**14. LOANS RECEIVABLE**

Borrower	Ccy	Principal borrowed	Draw down date	Maturity date	Interest rate	31 Dec 2009 Local Balance outstanding	31 Dec 2009 Local Market value	31 Dec 2009 Balance outstanding US\$	31 Dec 2009 Market Value US\$
Nemus SA	R\$	1,920,000	31 Jan 2009	30 Sept 2012	8% p.a.	1,497,556	1,522,381	858,937	873,175
AP Servicios Agronomicos LTDA	R\$	12,261,901	31 Jan 2009	30 Sept 2012	8% p.a.	6,093,455	6,194,467	3,494,955	3,552,892
AP Servicios Agronomicos LTDA	R\$	1,400,000	31 Jan 2009	30 Sept 2012	8% p.a.	1,091,709	1,109,806	626,159	636,539
						<u>8,682,720</u>	<u>8,826,654</u>	<u>4,980,051</u>	<u>5,062,607</u>
Green Resources	NOK	20,000,000	17 Jul 2009	30 Nov 2012	12% p.a.	20,000,000	20,110,719	3,450,775	3,469,878
						<u>20,000,000</u>	<u>20,110,719</u>	<u>3,450,775</u>	<u>3,469,878</u>
								<u>8,430,826</u>	<u>8,532,485</u>

**Collateral for loans**

The loan to Nemus of R\$1.5 million is secured by two rural properties of 485 hectares, located in Mato Grosso, Brazil. The loan of R\$6.1 million to AP Servicios is secured by the equipment purchased through this loan. Eucateca has a lien on all the equipment purchased, meaning the loan has to be paid off before AP Servicios receives the titles. The working capital loan of R\$1.1 million to AP Servicios is secured by personal guarantees. The loan to Green Resources of NOK 20.0 million is an unsecured working capital loan to fund the expansion of its plantations.

**Notes to the Consolidated Financial Statements (continued)**

for the year ended 31 December 2009

**15. RECEIVABLES**

(amounts falling due within one year)

	<b>31 Dec 2009</b>	<b>31 Dec 2008</b>
	<b>US\$</b>	<b>US\$</b>
Trade receivables	538,715	570,678
Prepayments	4,432,198	2,916,499
Accrued income	14,904	329,717
Taxation	-	79,107
Sundry receivables	2,049,092	5,846,064
	<u>7,034,909</u>	<u>9,742,065</u>

**16. CASH AND CASH EQUIVALENTS**

	<b>31 Dec 2009</b>	<b>31 Dec 2008</b>
	<b>US\$</b>	<b>US\$</b>
Cash at bank	31,787,130	159,021,140
Cash equivalents*	299,245,155	27,053,329
	<u>331,032,285</u>	<u>186,074,469</u>

\*Refers to short term bank deposits.

**17. PAYABLES**

(amounts falling due within one year)

	<b>31 Dec 2009</b>	<b>31 Dec 2008</b>
	<b>US\$</b>	<b>US\$</b>
Accrued administration fees	59,069	7,887
Accrued audit fees	133,320	107,566
Accrued Investment Manager's fees (C Shares)	581,975	-
Accrued professional fees	155,599	-
Amount due on Eucateca farm (Alto Jauru)	3,934,361	2,963,732
Sundry payables	1,831,465	522,261
Taxation	1,278,081	-
Trade payables	1,601,418	2,970,796
	<u>9,575,288</u>	<u>6,572,242</u>

**Notes to the Consolidated Financial Statements (continued)**

for the year ended 31 December 2009

**18. C SHARE CLASS**

	<b>31 Dec 2009</b> <b>US\$</b>	<b>31 Dec 2008</b> <b>US\$</b>
C Share class	41,553,561	37,791,963
Net Asset Value per C Share	<u>0.96</u>	<u>0.97</u>

The issues of C Shares took place as follows:

<b>Date of issue</b>	<b>Number of shares</b>	<b>Price per share US\$</b>	<b>Amount received US\$</b>
10 October 2008	18,500,000	1.00	18,500,000
22 December 2008	20,370,000	1.00	20,370,000
14 May 2009	2,830,000	1.00	2,830,000
29 October 2009	<u>1,810,000</u>	1.00	<u>1,810,000</u>
	<u>43,510,000</u>		<u>43,510,000</u>

	<b>31 Dec 2009</b> <b>US\$</b>	<b>31 Dec 2008</b> <b>US\$</b>
<b>Reconciliation of carrying amount:</b>		
Issue proceeds	43,510,000	38,870,000
Issue costs	(1,384,380)	(1,079,313)
Income in relation to C Share class	18,514	1,285
Expenses in relation to C Share class	<u>(590,573)</u>	<u>(9)</u>
Net assets attributable to C Share class	<u>41,553,561</u>	<u>37,791,963</u>

In anticipation of the conversion of C Shares into Ordinary Shares in 2010, the value of C shares at 31 December 2009 has been reclassified from liabilities to equity. The C Shares will be converted into Ordinary Shares at a rate based on the audited NAV of the respective share classes at 31 December 2009, on the basis as set out in the Prospectus and the Articles, which can be found on the Company's website, [www.phaunostimber.com](http://www.phaunostimber.com). Conversion will take place shortly after the publication of these consolidated financial statements.

**Notes to the Consolidated Financial Statements (continued)**

for the year ended 31 December 2009

**19. DEFERRED TAX**

Deferred tax relates to the following:

	<b>31 Dec 2009</b>	<b>31 Dec 2008</b>
	<b>US\$</b>	<b>US\$</b>
<b>Deferred tax assets</b>		
Intangible assets	36	36
Tax losses available to be carried forward	636,643	636,643
	<u>636,679</u>	<u>636,679</u>
Exchange differences	(18,590)	-
	<u>618,089</u>	<u>636,679</u>
<b>Deferred tax liabilities</b>		
Property, plant and equipment	(126,989)	(125,509)
Other financial assets	(884)	(884)
	<u>(127,873)</u>	<u>(126,393)</u>
Exchange differences	22	-
	<u>(127,851)</u>	<u>(126,393)</u>
Net deferred tax assets	<u>490,238</u>	<u>510,286</u>

Movement in deferred tax relates to the following:

**Movement in deferred tax assets**

Opening	636,679	-
Charge for the year	-	636,679
Closing	<u>636,679</u>	<u>636,679</u>

**Movement in deferred tax liabilities**

Opening	(126,393)	(38,718)
Charge for the year	(1,480)	(87,675)
Closing	<u>(127,873)</u>	<u>(126,393)</u>

Total deferred tax movement

	<u>(1,480)</u>	<u>549,004</u>
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**Notes to the Consolidated Financial Statements (continued)**

for the year ended 31 December 2009

**20. SHARE CAPITAL****Authorised, issued and fully paid**

At 31 December 2009 and 31 December 2008:

Unlimited Ordinary Shares of no par value

**US\$**

-

The issues of Ordinary Shares and purchase of Treasury Shares took place as follows:

<b>Issue of Shares</b>	<b>Number of shares</b>	<b>Price per share US\$</b>	<b>Amount US\$</b>
20 December 2006	115,150,000	1.00	115,150,000
5 June 2007	355,769,230	1.04	369,999,999
At 31 December 2007	470,919,230		485,149,999
10 July 2008	31,480,376	1.05	33,054,395
Purchase of Ordinary Shares (now held in Treasury):			
21 November 2008	(140,000)	0.70	(98,000)
24 November 2008	(250,000)	0.70	(175,000)
25 November 2008	(160,000)	0.71	(113,600)
26 November 2008	(10,000)	0.73	(7,300)
1 December 2008	(275,000)	0.77	(210,375)
2 December 2008	(150,000)	0.78	(116,250)
3 December 2008	(100,000)	0.79	(78,500)
4 December 2008	(25,000)	0.80	(20,000)
5 December 2008	(225,000)	0.79	(177,750)
At 31 December 2008	501,064,606		517,207,619
Purchase of Ordinary Shares (now held in Treasury):			
1 May 2009	(75,000)	0.69	(51,479)
6 May 2009	(250,000)	0.72	(179,485)
8 May 2009	(350,000)	0.71	(249,875)
12 May 2009	(350,000)	0.71	(247,245)
26 June 2009	(1,405,045)	0.64	(901,029)
30 June 2009	(300,000)	0.64	(192,762)
At 31 December 2009	498,334,561		515,385,744

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

As detailed above, the Company purchased a total of 2,730,045 of its own Ordinary Shares during the year (2008: 1,335,000).

**Notes to the Consolidated Financial Statements (continued)**

for the year ended 31 December 2009

**21. PURCHASE OF OWN SHARES**

	<b>31 Dec 2009 US\$</b>	<b>31 Dec 2008 US\$</b>
Treasury shares reserve at beginning of year	987,436	-
Purchased during the year	2,038,356	987,436
	<u>3,025,792</u>	<u>987,436</u>
Treasury shares reserve at end of year	<u>3,025,792</u>	<u>987,436</u>

The Treasury Shares reserve at the end of the year represents 4,065,045 Ordinary Shares (31 December 2008: 1,335,000 Ordinary Shares) purchased in the market at various prices per share ranging from US\$0.64 to US\$0.80 and held by the Company in treasury. These shares may be reissued or forthwith be cancelled.

At the annual general meeting of the Company held on 18 June 2009, it was resolved that the Company be authorised to make market purchases of Ordinary Shares, provided that the number of Ordinary Shares purchased does not exceed 14.99% of the number of Ordinary Shares in issue on the date the resolution was passed.

The number of Ordinary Shares in issue at the date the resolution was passed was 500,039,606. The number of Ordinary Shares held in treasury by the Company at 31 December 2009 represented 0.81% of the Ordinary Shares in issue at the date the resolution was passed.

The Company's authority to make purchases of its own issued Ordinary Shares will expire at the conclusion of the 2010 Annual General Meeting. A renewal of such authority to make purchases of Ordinary Shares will therefore be sought from shareholders at the 2010 Annual General Meeting. Under such authority, Directors only intend to purchase shares where they believe such purchases will result in an increase in the NAV per Ordinary Share and will assist in narrowing any discount to the NAV per Ordinary Share at which the shares may be trading. When Ordinary Shares trade at a substantial discount to the NAV per Ordinary Share and do not coincide with trading volumes in the market, the Directors may feel that it is appropriate to exercise such authority.

**22. SHARE PREMIUM**

	<b>31 Dec 2009 US\$</b>
Share premium at 28 September 2006	-
Share premium on initial raising 20 December 2006	115,150,000
Share premium on second raising 5 June 2007	370,000,000
Less: Share issue costs	(16,170,423)
Transfer to distributable reserves	(110,418,595)
	<u>358,560,982</u>
Share premium at 31 December 2007	358,560,982
Share premium on further issue 10 July 2008	33,054,394
Less: Share issue costs	(1,068,494)
	<u>390,546,882</u>
Share premium at 31 December 2008 and 31 December 2009	<u>390,546,882</u>

**Notes to the Consolidated Financial Statements (continued)**

for the year ended 31 December 2009

**23. RETAINED EARNINGS**

	<b>31 Dec 2009</b>	<b>31 Dec 2008</b>
	<b>US\$</b>	<b>US\$</b>
Retained earnings at 1 January	3,140,296	9,620,055
Net profit/(loss) for the year attributable to shareholders	6,996,120	(6,479,759)
Balance at 31 December	<u>10,136,416</u>	<u>3,140,296</u>

**24. FOREIGN CURRENCY TRANSLATION RESERVE**

	<b>31 Dec 2009</b>	<b>31 Dec 2008</b>
	<b>US\$</b>	<b>US\$</b>
Foreign currency translation reserve at 1 January	(8,126,442)	-
Exchange differences on translation of operating subsidiaries	22,874,832	(8,126,442)
Balance at 31 December	<u>14,748,390</u>	<u>(8,126,442)</u>

The net gain/(loss) incurred on translation of the net assets of the Group's non-US Dollar denominated operating subsidiaries at the reporting date has been credited to the foreign currency translation reserve.

**25. LAND REVALUATION RESERVE**

	<b>31 Dec 2009</b>	<b>31 Dec 2008</b>
	<b>US\$</b>	<b>US\$</b>
Land revaluation reserve at 1 January	-	-
Revaluation of land	10,659,455	-
Balance at 31 December	<u>10,659,455</u>	<u>-</u>

The net gain incurred on the revaluation of land held by Eucateca at 31 December 2009 has been credited to the land revaluation reserve.

**26. DISTRIBUTABLE RESERVES**

	<b>31 Dec 2009</b>	<b>31 Dec 2008</b>
	<b>US\$</b>	<b>US\$</b>
Balance at 31 December	110,418,595	110,418,595
Transferred from share premium	-	-
Balance at 31 December	<u>110,418,595</u>	<u>110,418,595</u>

The above distributable reserves relate only to the Ordinary Shares.

The Company passed a special resolution reducing the amount standing to the credit of the share premium account on the initial raising to US\$ Nil, and that the surplus created form a distributable reserve. In accordance with The Companies (Guernsey) Law, 1994 (as amended) (the "Companies Law"), the Directors applied to the Royal Court in Guernsey for an order confirming such reduction of the share premium account following admission to the Official List of the UKLA on 11 June 2008. The distributable reserve created on cancellation is available as distributable profits to be used for all purposes permitted by the Companies Law, including the buy-back of Ordinary Shares and the payment of dividends.

## Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

### 27. FINANCIAL INSTRUMENTS

The Group's main financial instruments comprise:

- a) Cash and cash equivalents that arise directly from the Group's operations;
- b) Investments in unlisted entities;

### 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

#### (a) Market Price Risk

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

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

It is the intention of the Directors, subject to market conditions, for the Group to be substantially invested (i.e. 80-85%) or committed in accordance with its investment policy at all times, although the Investment Manager may exercise its discretion to hold cash or cash equivalent instruments. Pending such investment the Group's net funds are invested in fixed income investments (including but not limited to bank deposits, bonds or government issued treasury securities) for the purpose of protecting the capital value of the Group's cash assets.

Details of the Group's Investment Objective and Policy are given on pages 8 to 10.

#### *Physical risks associated with timber*

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

#### *Economic risks associated with timber*

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

## Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

### 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### (a) Market Price Risk (continued)

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

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

#### *Political risks associated with timber*

Changes in laws related to forest management and environmental legislation may adversely affect the Group's ability to harvest timber as planned. Regulations might require the Group to reduce harvesting or set aside some land for active timber management or restrict the movement of logs across political boundaries. Such regulatory changes might reduce the volume of timber that can be harvested from Group lands and reduce revenues.

#### *Risk concentrations*

Refer to the Portfolio Summary, on page 14 of the Report of the Investment Manager, for the geographical risk exposures of the Group's Portfolio.

#### *Price sensitivity*

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

At 31 December 2009, if market prices had increased or decreased by 5%, with all the other variables held constant, the net assets attributable to shareholders for the year would have increased or decreased by US\$7.1 million (2008: US\$4.7 million), due to the increase or decrease in the fair value of financial assets designated at fair value through profit or loss. This would represent an increase or decrease in Net Assets of 1.24% (2008: 0.87%).

#### (b) Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in realising assets or otherwise raising funds to meet financial commitments. Since not all of the Group's investments will be income generating the Group retains a proportion of its liquid assets in cash or near-cash investments for working capital purposes.

The following illustrates the maturity analysis of the Group's financial assets and undiscounted contractual cash flows for liabilities at 31 December 2009:

**Notes to the Consolidated Financial Statements (continued)**

for the year ended 31 December 2009

**28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****(b) Liquidity Risk (continued)**

	Due on demand US\$	Due <3 months US\$	Due >5 Years US\$	Total US\$
<b>Assets</b>				
Investments designated at fair value	-	-	142,964,749	142,964,749
Trade and other receivables	7,034,909	-	-	7,034,909
Cash and cash equivalents	331,032,285	-	-	331,032,285
<b>Total assets</b>	<b>338,067,194</b>	<b>-</b>	<b>142,964,749</b>	<b>481,031,943</b>
<b>Liabilities</b>				
Trade and other payables	-	9,575,288	-	9,575,288
<b>Total liabilities</b>	<b>-</b>	<b>9,575,288</b>	<b>-</b>	<b>9,575,288</b>

The following illustrates the maturity analysis of the Group's financial assets and liabilities at 31 December 2008:

	Due on demand US\$	Due <3 months US\$	Due >5 Years US\$	Total US\$
<b>Assets</b>				
Investments designated at fair value	-	210,198,318	99,486,532	309,684,850
Trade and other receivables	9,742,065	-	-	9,742,065
Cash and cash equivalents	186,074,469	-	-	186,074,469
<b>Total assets</b>	<b>195,816,534</b>	<b>210,198,318</b>	<b>99,486,532</b>	<b>505,501,384</b>
<b>Liabilities</b>				
Trade and other payables	-	6,572,242	-	6,572,242
<b>Total liabilities</b>	<b>-</b>	<b>6,572,242</b>	<b>-</b>	<b>6,572,242</b>

At 31 December 2009 the Group has non-contractual capital commitments per Note 29, which are subject to due diligence.

## Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

### 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### (c) Interest Rate Risk

The Group holds cash in fixed deposits in various currencies, the return on which varies with market rates.

The weighted average effective interest rate for cash and bank balances at 31 December 2009 was 10.34% (2008: 3.34%).

#### *Interest rate sensitivity*

If interest rates had been 25 basis points higher or lower and all other variables were held constant, the Group's net assets attributable to shareholders at 31 December 2009 would have increased or decreased by approximately US\$538,200 or 0.09% (2008: US\$465,200 or 0.09%) of Net Assets, due to an increase or decrease in the amount of interest receivable on the bank balances.

#### (d) Credit Risk

There is a credit risk relating to the Group's investments in joint ventures and other non-wholly-owned operations, where the Group has limited control over its investment. There is a further credit risk from the Group's holdings of cash and bank deposits with banks worldwide. The Board monitors credit ratings to ensure that cash and bank balances are maintained with institutions holding at least an Aa1 credit rating. The gross credit exposure to the Group arising from the above items is shown in Notes 14 to 16.

The Company has made loans totalling US\$8,430,826 as detailed in Note 14. To the extent that the borrowers are unable or unwilling to repay these loans the Company has a counterparty risk. The Company has secured collateral to minimise the impact of default (refer to Note 14).

The Group has receivable balances from many sources at the year end. These have been reviewed for credit quality and it has been confirmed that there are no bad debts or items that are past due but not impaired. The loan to Masarang has been fully provided against, which is included in financial assets designated at fair value through profit and loss (refer to Note 13).

#### (e) Foreign Exchange Risk

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

The carrying amounts of the Group's major foreign currency denominated monetary assets (bank balances) at 31 December 2009 are as follows:

**Notes to the Consolidated Financial Statements (continued)**

for the year ended 31 December 2009

**28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****(e) Foreign Exchange Risk (continued)**

	31 Dec 2009 US\$	31 Dec 2008 US\$
New Zealand Dollar	94,620,030	-
Euro	65,140,540	80,767,321
Brazilian Real	51,797,537	26,659,681
Norwegian Krone	235,441	50,898

*Foreign exchange sensitivity*

The Group's exposure to the Euro and the New Zealand Dollar is mainly through holding of Euro and New Zealand Dollar currencies held on deposit with HSBC Bank plc. The holding of New Zealand Dollars at 31 December 2009 was earmarked for the investment in Matariki during the first quarter of 2010. The Euro holding related to the Company's commitment to invest in Eastern Europe.

If the US Dollar against the New Zealand Dollar rate had been 5% higher or lower and all other variables were held constant, the Group's net assets attributable to shareholders at 31 December 2009 would have increased or decreased by approximately US\$4.7 million (2008: US\$ Nil).

If the US Dollar against the Euro rate had been 5% higher or lower and all other variables were held constant, the Group's net assets attributable to shareholders at 31 December 2009 would have increased or decreased by approximately US\$3.3 million (2008: US\$4.4 million).

The Group's exposure to the Brazilian Real is mainly due to the significant amount of Brazilian currency held in Bank Itau short term investment accounts pending investment in the Turmalina Acquisition and provision of working capital for Mata Mineira and Eucateca.

If US Dollar rates against the Brazilian Real had been 5% higher or lower and all other variables were held constant, the Group's net assets attributable to shareholders at 31 December 2009 would have increased or decreased by approximately US\$2.6 million (2008: US\$1.3 million).

**(f) Capital Management**

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

Details of the Company's Investment Objective and Policy are given on pages 8 to 10 of these consolidated financial statements.

## Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

Pursuant to the Prospectus, dividends will only be considered once the Company is fully invested. Any dividends declared may reflect capital profits to the extent that net income profits are not earned in respect of the relevant year. Dividends, if any, are expected to be paid in US Dollars.

### 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### (f) Capital Management (continued)

As the Ordinary Shares are traded on the Main Market of the LSE, they may trade at a discount to the NAV per Ordinary Share on occasions. In order to address this issue, upon Admission, the Directors were granted authority to buy back up to 14.99 per cent of the Ordinary Shares in issue following Admission. This authority was renewed at the 2009 annual general meeting of the Company. The Company's authority to make purchases of its own issued Ordinary Shares will expire at the conclusion of the 2010 Annual General Meeting. A renewal of such authority to make purchases of Ordinary Shares will be sought from shareholders at the 2010 Annual General Meeting. The timing of any purchases will be decided by the Board.

The Directors intend that purchases will only be made pursuant to this authority through the market, for cash, at prices below the prevailing NAV per Ordinary Share where the Directors believe such purchases will result in an increase in the NAV per share of the remaining Ordinary Shares and to assist in narrowing any discount to NAV per share at which the Ordinary Shares may be trading.

Any Ordinary Shares bought back by the Company will either be held by the Company in treasury (and which may be re-issued) or forthwith be cancelled.

The Company purchased 2,730,045 Ordinary Shares during the year, at various prices per share ranging from US\$0.64 to US\$0.72 as detailed in Note 20. These shares are held by the Company in treasury.

Following approval of the Court in Guernsey, the Company resolved to cancel the amount standing to the credit of its share premium account following Admission. The amount released on cancellation has been credited as a distributable reserve in the books of account and may be used by the Company for the purpose of funding purchases of its Ordinary Shares as described above and for the payment of dividends.

The Company's authorised share capital is such that either further issues of new Ordinary Shares or re-issues of Ordinary Shares held in treasury can be made. Subject to prevailing market conditions, the Board may decide to make such issues or re-issues of Ordinary Shares for cash from time to time. Any further issues of new Ordinary Shares or re-issues of Ordinary Shares held in treasury will rank *pari passu* with Ordinary Shares in issue.

There are no provisions in the Companies (Guernsey) Law, 2008 or the Company's Articles of Incorporation providing pre-emption rights for existing shareholders on the allotment of equity securities for cash or on the re-issue of equity securities out of treasury.

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

**Notes to the Consolidated Financial Statements (continued)**

for the year ended 31 December 2009

At 31 December 2009, the Company had issued 43,510,000 C Shares which will be converted into Ordinary Shares as detailed in Notes 18 and 20.

**28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****(f) Capital Management (continued)**

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the Consolidated Statement of Financial Position. Capital for the year is summarised as follows:

	<b>30 Dec 2009</b>	<b>31 Dec 2008</b>
	<b>US\$</b>	<b>US\$</b>
Share premium	390,546,882	390,546,882
Retained earnings	10,136,416	3,140,296
Distributable reserves	110,418,595	110,418,595
Foreign currency translation reserve	14,748,390	(8,126,442)
Land revaluation reserves	10,659,455	-
Purchase of own shares	(3,025,792)	(987,436)
C Shares	41,553,561	-
Minority interest	-	2,828
	<u>575,037,507</u>	<u>494,994,723</u>
Total		

The Group is not subject to externally imposed capital requirements.

**29. CAPITAL COMMITMENTS**

At the year end, the Group has outstanding non-contractual commitments of up to US\$775.2 million (2008: US\$659.6 million), which are subject to due diligence.

**30. RELATED PARTIES**

Until 20 February 2009, Anson Fund Managers Limited was the Company's administrator and company secretary, Anson Registrars Limited was the Company's registrar, transfer agent and paying agent and Anson Administration (UK) Limited was the UK transfer agent. Until 30 January 2009, John Le Prevost was a director of Anson Fund Managers Limited, Anson Registrars Limited and Anson Administration (UK) Limited.

HSBC Securities Services (Guernsey) Limited was appointed, with effect from 20 February 2009, as Administrator and Company Secretary, to replace Anson Fund Managers Limited, and Capita Registrars (Guernsey) Limited was appointed, also with effect from 20 February 2009, as registrar and UK transfer agent to replace Anson Registrars Limited and Anson Administration (UK) Limited

US\$122,349 (2008: US\$137,724) of costs were incurred by the Company with these related parties in the year, of which US\$88,753 (2008: US\$9,836) was outstanding to these related parties at 31 December 2009.

Liane Luke is a senior consultant in the Investment Manager's group. Kimberly Tara is also a director and shareholder of the Investment Manager. US\$8.1 million (2008: US\$7.3 million)

## Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

of costs were incurred by the Company with this related party in the year, of which US\$ Nil (2008: US\$ Nil) was outstanding to this related party as at 31 December 2009. However, given management fees are prepaid on a quarterly basis during the year, the Investment Manager owed US\$1.1 million (2008: US\$ Nil) to the Company at 31 December 2009.

### 30. RELATED PARTIES (continued)

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

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

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

The performance hurdle is:

- (a) for the first performance period, an amount equal to 108% of the initial US\$1.00 placing price on admission to AIM; and
- (b) for each of the second and subsequent performance periods the figure which is 8% above the audited NAV per Ordinary Share at the end of the previous performance period.

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

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

- (a) include the gross amount of all dividends per Ordinary Share declared or announced in respect of such performance period and any undistributed net revenue in respect of

## Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

such performance period not otherwise taken into account for the purposes of calculating such NAV per Ordinary Share;

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

### 30. RELATED PARTIES (continued)

- (c) not take into account any increase in NAV per Ordinary Share attributable to the issue of Ordinary Shares at a premium to NAV per Ordinary Share or any buy-back of any Ordinary Shares at a discount to NAV per Ordinary Share; and
- (d) there shall be included any other adjustments which the Audit and Management Committee of the Board and the Investment Manager agree are appropriate.

For the purposes of calculating the NAV per Ordinary Share as at the end of the relevant immediate relevant prior performance period such NAV per Ordinary Share shall:

- (a) exclude the gross amount of all dividends declared or announced in respect of the immediate relevant prior performance period; and
- (b) take account of any accrual made in respect of the performance fee for the prior performance period.

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

Directors' remuneration is disclosed in Note 7.

There are no other key management personnel other than the Directors.

The Company has an agreement with Fanerey SA, the manager of Caldrey, under which up to 50% of Caldrey's shares will be transferred to Fanerey SA based on its performance over an extended period.

### 31. EVENTS AFTER THE BALANCE SHEET DATE

**Mata Mineira:** In December 2009, Mata Mineira entered into the Turmalina Acquisition to acquire over 19,000 hectares of plantations near the towns of Turmalina and Diamantina in the state of Minas Gerais, Brazil. The base purchase price is approximately R\$136.0 million. The transaction is expected to close in the second quarter of 2010, subject to satisfactory due diligence.

**Matariki:** In February 2010, the Company completed its investment in Matariki, a private New Zealand company. The aggregate investment, by way of consideration for a share subscription and an investor loan, is NZ\$167 million (approximately US\$117.1 million). This

## Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

makes Phaunos the largest shareholder in Matariki, New Zealand's third largest well-established forestry company that manages mature forests.

### 31. EVENTS AFTER THE BALANCE SHEET DATE (continued)

**Green China:** In March 2010, Green China's subsidiary, Green China (Jiangxi) Forestry Co. Ltd completed its investment in timberland assets consisting of pine, fir and other species in the Jiangxi Province. Total consideration for the acquisition was RMB17.2 million, approximately US\$2.5 million.

**Forest Enterprises:** A marketing and sales agreement between Phaunos' Serbian subsidiary, Forest Enterprises, and International Forest Products Corporation ("IFP") was executed on 8 March 2010. The agreement gives IFP exclusive access to market Forest Enterprises' pellets in Italy, Austria and Germany while allowing Forest Enterprises flexibility to develop local markets and to sell pellets to local domestic, institutional and industrial consumers.

**Pradera:** Since 31 December 2009, Pradera has acquired an additional property "La Tapera" for US\$1.6 million. This purchase completes the acquisition phase of Phaunos' previously announced US\$30 million commitment to Pradera.

**Aurora:** During January 2010, Phaunos invested a further US\$2.5 million into the Aurora Forestal Biomass Energy Project (part of the overall Aurora investment) in Uruguay. This brings the total investment in the project so far to US\$7.4 million, out of the total commitment US\$9.9 million.

## Schedule of Investments

Name of investment	Nature of investment	Fair Value US\$	31 Dec 2009 % of NAV	31 Dec 2008 % of NAV
Greenwood Tree Farm Fund LP	Timber operation	30,921,151	5.38%	5.45%
Aurora Forestal Limited	Timber operation	27,815,140	4.84%	5.03%
Masarang Foundation Asset Linked Euro Note 09/2012	Loan	-	-	1.13%
NTP Timber Plus+ Fund I, LP	Financial instrument	10,736,451	1.86%	1.46%
SC Romfor Timber SRL	Timber operation	-	-	0.12%
Green Resources AS	Equity investment	73,492,007	12.78%	6.91%
US Treasury Bills 0% 07/02/2009	Financial instrument	-	-	42.46%
Total financial assets designated at fair value through profit or loss		142,964,749	24.86%	62.56%
Other non-current assets		102,888,615	17.89%	6.56%
Other net current liabilities		(1,848,142)	(0.32%)	(6.71)%
Cash and cash equivalents		331,032,285	57.57%	37.59%
<b>Total NAV</b>		<b>575,037,507</b>	<b>100.00%</b>	<b>100.00%</b>

## Shareholder Information

The Ordinary Shares are traded on the Main Market of the LSE and on the CISX. The Ordinary Shares may be dealt in directly through a stockbroker or professional adviser acting on an investor's behalf. The buying and selling of Ordinary Shares may be settled through CREST.

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

ISIN	SEDOL	LSE mnemonic
GG00B1G3RS66	B1G3RS6	PTF

The C Shares are not listed or traded on any stock exchange.

### **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 847445.

Further information regarding the Company can be found on its website at [www.phaunostimber.com](http://www.phaunostimber.com).

For information about investing in the Company contact [info@fourwindscm.com](mailto:info@fourwindscm.com).

## Directors and Service Providers

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### Registered Office

Arnold House  
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Guernsey  
GY1 3NF

### Corporate Broker

Shore Capital & Corporate Limited  
Bond Street House  
14 Clifford Street  
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England  
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### Directors

Keith Oates  
John Le Prevost – Resigned 30 January 2009  
Liane Luke  
Peter Niven  
Kimberly Tara  
Sarah Evans – Appointed 30 January 2009

### Auditors

Ernst & Young LLP  
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Royal Chambers  
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### Sponsor to CISX Listing

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### Administrator

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### Investment Manager

FourWinds Capital Management  
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### Registrar

**(until 20 February 2009)**  
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GY1 1EJ

### Registrar

**(from 20 February 2009)**  
Capita Registrars (Guernsey) Ltd  
Longue Hougue House  
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GY1 4PP

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## Directors and Service Providers (continued)

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**UK Transfer Agent**

**(until 20 February 2009)**

Anson Administration (UK) Limited  
3500 Parkway  
Whiteley  
Fareham  
Hampshire  
England  
PO15 7AL

**UK Transfer Agent**

**(from 20 February 2009)**

Capita Registrars Ltd  
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**Solicitors to the Company**

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**Advocates to the Company**

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