

Phaunos Timber Fund Limited

Interim Report

for the six months ended 30 June 2009

(Unaudited)

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Phaunos Timber Fund Limited

INTERIM MANAGEMENT REPORT for the six months ended 30 June 2009

Phaunos Timber Fund Limited ("Phaunos" or the "Company") is pleased to present the Interim Report for the six months to 30 June 2009 (the "Period"). The Company is an Authorised Closed-ended, Guernsey based, investment scheme managed by FourWinds Capital Management ("Investment Manager") established to invest in timber and timber-related assets on a global basis.

HIGHLIGHTS

- Issued an additional US\$2.8 million of C Shares during the Period.
- Total capital raised since inception in December 2006 is US\$559.9 million.
- US\$211.6 million of portfolio commitments drawn down at 30 June 2009.
- Additional commitment of US\$38.6 million made during the Period, bringing the total portfolio commitment to US\$698.2 million at 30 June 2009.
- Net asset value per Ordinary Share of US\$0.99 at 30 June 2009 (31 December 2008: US\$0.99).
- Net asset value per C Share of US\$0.97 at 30 June 2009 (31 December 2008: US\$0.97).

INVESTMENT UPDATE

Significant events during the Period were as follows:

1. Phaunos US Inc ("Phaunos US"): At 31 December 2008, this wholly-owned subsidiary's commitment to Greenwood Tree Farm Fund LP ("GTFF") was US\$30.0 million, of which US\$29.2 million had been drawn down. During the Period, the total amount committed was increased to US\$36.4 million and a further US\$1.8 million was drawn down, increasing the total invested to US\$31.0 million. The additional commitment and drawdown were made primarily to fund working capital. GTFF is a 34,989 acre mixed age poplar plantation in the Northwest US. Due to depressed lumber and chip markets GTFF is delaying harvesting the mature timber on this property.
2. Aurora Forestal Limited ("Aurora"): At 31 December 2008, our commitment was US\$37.9 million, of which US\$27.7 million had been drawn down. During the Period a further US\$5.0 million was drawn down, increasing the total invested to US\$32.7 million. The additional drawdown was made primarily to fund initial phases of the cogeneration project which will utilize waste wood at the saw mill to generate power. The project is expected to be generating power in early 2011 and overall encompasses 19,437 hectares (owned by Aurora) of mixed age pine in northern Uruguay.
3. Forest Enterprise doo ("Forest Enterprise"): At 31 December 2008, our commitment to this wholly-owned subsidiary was US\$9.0 million, of which US\$8.1 million had been drawn down. During the Period, the total amount committed increased to US\$9.8 million and a further US\$1.7 million was drawn down, increasing the total invested to US\$9.8 million. The additional commitment was made for construction costs and working capital and the additional drawdown was utilised to fund the

INTERIM MANAGEMENT REPORT (continued)

for the six months ended 30 June 2009

construction phase of Forest Enterprise's pellet mill in Eastern Europe. Completion of plant construction has been delayed to the fourth quarter of 2009.

4. Pradera Roja SA ("Pradera Roja"): At 31 December 2008, our commitment was US\$30.0 million, of which US\$14.0 million had been drawn down. During the Period, a further US\$5.2 million was drawn down, increasing the total invested to US\$19.2 million. The additional drawdown was made for the acquisition of land and for working capital to support the planting of eucalyptus plantations. This wholly-owned subsidiary in Uruguay was formed to buy land and develop eucalyptus plantations and at 30 June 2009 owned 8,182 hectares in southern Uruguay.
5. Eucateca SA ("Eucateca"): At 31 December 2008, our commitment to this wholly-owned subsidiary in Brazil was US\$150.0 million, of which US\$47.6 million had been drawn down. During the Period, five farms were acquired using capital already held in this operating company resulting in the ownership of nine farms with a total of 17,202 hectares.
6. Phaunos Norge AS ("Phaunos Norge"): At 31 December 2008, our commitment was US\$36.3 million, all of which had been drawn down. During the Period, the total amount committed and drawn down was increased to US\$36.4 million. These additional amounts were made for working capital purposes. Phaunos Norge, a wholly-owned subsidiary of Phaunos, owns shares in Green Resources AS ("GRAS"), a Norwegian company holding a diversified portfolio of African forestry assets; primarily long-term leases on existing and new plantations, including 14,300 hectares of existing plantations. Phaunos Norge also holds a convertible loan note for US\$10.5 million loaned to GRAS. Phaunos Norge received US\$721,900 in interest payments from GRAS during the Period.
7. Mata Mineira Investimentos Florestais Ltda ("Mata Mineira"): This wholly-owned subsidiary of Phaunos was established during the Period with a commitment of US\$25.0 million, none of which was drawn down. We have established Mata Mineira in Minas Gerais, Brazil, for the purpose of investing in eucalyptus plantations, both existing and greenfield, to supply the local pig iron smelting industry. The first investment in this project is expected in the fourth quarter of 2009.

In addition to the events described above, during the Period the Company made other commitments totalling US\$6.3 million. There were additional drawdowns in relation to existing portfolio investments totalling US\$8.3 million.

The Company continues to make solid progress in building a diversified global timber and timber-related portfolio which it expects will grow in value over many years and is well positioned to take advantage of current market conditions because of its strong cash position.

Subsequent to the Period end, the following events have occurred and the Company has been involved with the following projects:

1. Green China Forestry Company Limited ("Green China"): Green China is a company formed to acquire existing poplar plantations and establish new plantations in China. The Company has committed \$200.0 million to Green China, which continues to work through a robust pipeline of projects. To date, twenty projects have been reviewed;

INTERIM MANAGEMENT REPORT (continued)

for the six months ended 30 June 2009

eight have been rejected. Six are classified as Tier 1 properties, with a higher than average likelihood of investment. China experienced first quarter growth of 6.1%, and second quarter growth of 7-8%¹, and many economists expect China to provide the growth engine for global economic recovery. Phaunos is well positioned to benefit from that growth, and expects to close its first investment in China during the fourth quarter of 2009.

2. SC Romfor Timber SRL and BaltFor Timber OU: Phaunos has established two Eastern European subsidiaries for the purpose of acquiring mixed age, naturally regenerating forest, primarily hardwood in that area. However, due to the turbulence in those markets, the Company is being very cautious and making conservative offers. A total of ten offers for properties have been made; some have been rejected and negotiations are still in progress for others.
3. Pradera Roja SA: Since 30 June 2009, Pradera Roja has acquired an additional two farms, funded from cash held in the operating company. An additional US\$7.1 million was drawn down in July 2009 for anticipated acquisitions in the third quarter of 2009. Total hectares are currently 10,300.
4. Phaunos Norge AS: An additional US\$3.0 million was loaned by Phaunos Norge to GRAS in July 2009 for planting and working capital.

DIRECTORATE CHANGE

With effect from 30 January 2009, John Le Prevost resigned as a Director of the Company and was replaced by Sarah Evans, an independent non-executive Director, who is also a member of the Board's Audit and Management Committees.

SHARE CAPITAL

The Company has the authority to buy back up to 14.99% of its ordinary shares ("Ordinary Shares") from the Company's 2009 annual general meeting ("AGM") (held on 18 June 2009) until 14 months from such date or the 2010 AGM, whichever is the earlier. During the Period, the Company purchased 2,730,045 Ordinary Shares by way of market purchases to hold in Treasury ("Treasury Shares"). The total cost of those purchases was US\$1.8 million.

On 14 May 2009, the Company announced that it had placed a further 2,830,000 C shares ("C Shares") at a price of US\$1 per share.

Following the above transactions the Company has 498,334,561 issued Ordinary Shares, 4,065,045 Ordinary Shares held in Treasury and 41,700,000 issued unlisted C Shares, which will convert no later than 31 December 2009.

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 other price risk), liquidity risk, credit risk and capital management risk.

¹ National Bureau of Statistics of China (NBS)

Phaunos Timber Fund Limited

INTERIM MANAGEMENT REPORT (continued)

for the six months ended 30 June 2009

An explanation of these risks and how they are managed is contained in Note 26 of the Company's Annual Report and Consolidated Financial Statements for the year ended 31 December 2008 ("Annual Report").

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 London Stock Exchange or the Guernsey Financial Services Commission, could have adverse financial consequences and cause reputational damage).

The principal risks and uncertainties that the Company is exposed to through timber or timber-related markets have not significantly changed since the publication of the Annual Report and are not anticipated to change for the remainder of 2009.

The Annual Report is available on the Company's website www.phaunistimber.com.

PERFORMANCE OF THE FUND

The results for the Period are set out in the Condensed Interim Consolidated Statement of Comprehensive Income on page 6.

Total income for the Period was US\$0.6 million, compared to US\$6.3 million for the same period in 2008. There were several factors which have contributed to this reduction. The revaluation of Aurora Forestal and Phaunos US together created unrealised losses of US\$2.5 million. In addition the low interest rates prevailing since June 2008 have impacted the Company's operating income, with interest earned on the Company's surplus cash falling to US\$2.7 million in the Period, from US\$6.3 million for the same period in 2008. Furthermore, income from timber sales has not materialised as harvesting has been delayed in the light of low timber prices across the world.

Operating expenses have increased to US\$8.3 million (30 June 2008: US\$5.7 million) reflecting the expansion of the business during the twelve months to 30 June 2009.

Despite the net operating loss for the period of US\$7.7 million, the Company's unaudited net asset value ("NAV") remains unchanged at US\$0.99 per Ordinary Share as movements in exchange rates, particularly the Brazilian Real, have led to an increase in the value of subsidiaries of US\$5.6 million, as shown in the Condensed Interim Consolidated Statement of Changes in Equity. The Company's unaudited NAV per C Share was US\$0.97.

DIVIDENDS

The Board is not currently proposing an interim dividend for the Period or an annual dividend, but will continue to review the situation.

RELATED PARTIES

There were no significant related party transactions during the Period nor any material change to related party transactions described in the Annual Report. Please refer to Note 17 for details.

INTERIM MANAGEMENT REPORT (continued)

for the six months ended 30 June 2009

RESPONSIBILITY STATEMENT

To the best of the knowledge of the Directors:

The Interim Report for the six months ended 30 June 2009 gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and has been prepared in accordance with International Accounting Standards (IAS) 34 'Interim Financial Reporting'.

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

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

Signed on behalf of the Board by:

Peter Niven
Director

Sarah Evans
Director

27 August 2009

Phaunos Timber Fund Limited

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the six months ended 30 June 2009

	Note	30 June 2009 (Unaudited) US\$	30 June 2008 (Unaudited) US\$
Net losses on financial assets designated at fair value through profit or loss	9	(2,426,223)	(156,166)
Net losses on financial liabilities held for trading	11, 12	(269,382)	-
Operating income	2	<u>3,332,507</u>	<u>6,493,630</u>
Total income		636,902	6,337,464
Operating expenses	3	<u>(8,343,398)</u>	<u>(5,703,699)</u>
Net operating (loss)/income before taxation		(7,706,496)	633,765
Taxation on ordinary activities		-	-
Net (losses)/profit for the Period		<u>(7,706,496)</u>	<u>633,765</u>
Attributable to:			
Equity holders of the parent		(7,706,197)	633,765
Minority interest		<u>(299)</u>	<u>-</u>
Net (loss)/gain for the Period attributable to shareholders		<u>(7,706,496)</u>	<u>633,765</u>
		Cents	Cents
(Deficit)/earnings per share for the Period – Basic and Diluted*		(1.54)	0.13

*Calculated on the weighted average number of 500,733,661 Ordinary Shares (30 June 2008: 470,919,230).

In arriving at the results for the Period, all amounts above relate to continuing operations. The notes on pages 10 to 23 form an integral part of these financial statements.

Phaunos Timber Fund Limited

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 30 June 2009

	Note	30 June 2009 (Unaudited) US\$	31 Dec 2008 (Audited) US\$
NON-CURRENT ASSETS			
Financial assets designated at fair value through profit or loss	9	85,835,961	99,486,532
Intangible assets	4	986	1,334
Plant and equipment	5	8,351,353	8,069,878
Land	6	39,019,484	22,641,096
Biological assets	7	9,202,590	1,248,861
Deferred income tax		218,507	510,286
Loans receivable	10	15,784,824	-
		<u>158,413,705</u>	<u>131,957,987</u>
CURRENT ASSETS			
Financial assets designated at fair value through profit or loss	9	209,000,836	210,198,318
Inventories and work in progress		3,431,384	1,386,089
Receivables		4,045,714	9,742,065
Cash and cash equivalents		164,751,963	186,074,469
		<u>381,229,897</u>	<u>407,400,941</u>
TOTAL ASSETS		<u>539,643,602</u>	<u>539,358,928</u>
CURRENT LIABILITIES			
Financial liabilities held for trading	11	269,382	-
Payables – due within one year		7,885,547	6,572,242
Net assets attributable to C Share class	13	40,388,477	37,791,963
TOTAL LIABILITIES		<u>48,543,406</u>	<u>44,364,205</u>
EQUITY			
Share capital	14	-	-
Share premium		390,546,882	390,546,882
Retained earnings		(4,565,901)	3,140,296
Distributable reserves		110,418,595	110,418,595
Translation reserve		(2,492,598)	(8,126,442)
Purchase of Ordinary Shares (now held in Treasury)		(2,809,311)	(987,436)
Minority interest		2,529	2,828
TOTAL EQUITY		<u>491,100,196</u>	<u>494,994,723</u>
TOTAL EQUITY AND LIABILITIES		<u>539,643,602</u>	<u>539,358,928</u>
SHARES IN ISSUE		498,334,561	501,064,606
		US\$	US\$
NAV PER SHARE		0.99	0.99

The notes on pages 10 to 23 form an integral part of these financial statements.

Phaunos Timber Fund Limited

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS for the six months 30 June 2009

	30 June 2009 (Unaudited) US\$	30 June 2008 (Unaudited) US\$
Operating activities		
Net (loss)/gain for the Period attributable to shareholders	(7,706,496)	633,765
Add: Net losses on financial assets designated at fair value through profit or loss	2,426,223	156,166
Less: Interest income	(2,679,444)	(6,305,256)
Less: Investment income	(166,500)	(188,374)
Add: Depreciation and amortisation	116,360	-
Less: Increase in biological assets and inventories	(9,999,024)	-
Add: Increase in payables	1,313,305	255,761
Less: Decrease/(increase) in receivables excluding accrued income	6,006,694	(2,136,590)
Less: Increase in long term loans receivable (see Note 1d)	(5,306,461)	-
Net cash outflow from operating activities before income	(15,995,343)	(7,584,528)
Interest received	2,369,101	7,018,420
Investment income received	166,500	188,374
Net cash outflow from operating activities	(13,459,742)	(377,734)
Investing activities		
Purchase of financial assets	(407,778,170)	(18,503,341)
Disposals of financial assets	420,200,000	-
Purchase of land	(17,513,986)	-
Purchase of plant and equipment	(99,863)	-
Net cash outflow from investing activities	(5,192,019)	(18,503,341)
Financing activities		
Proceeds of issue of C Shares	2,830,000	-
Costs of issue of C Shares	(227,753)	-
Repurchase of Ordinary Shares	(1,821,875)	-
Net cash inflow from financing activities	780,372	-
Cash and cash equivalents at 1 January	186,074,469	425,863,895
Decrease in cash and cash equivalents	(17,871,389)	(18,881,075)
Effect of foreign exchange rate changes	(3,451,117)	-
Cash and cash equivalents at 30 June	164,751,963	406,982,820

The notes on pages 10 to 23 form an integral part of these financial statements.

Phaunos Timber Fund Limited

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the six months ended 30 June 2009

	30 June 2009 (Unaudited) US\$	31 Dec 2008 (Audited) US\$
Opening balance	494,994,723	478,599,632
Issue of Ordinary Shares	-	33,054,394
Share issue costs	-	(1,068,494)
Purchase of Ordinary Shares (now held in Treasury)	<u>(1,821,875)</u>	<u>(987,436)</u>
	(1,821,875)	30,998,464
Net loss for the Period attributable to shareholders	(7,706,197)	(6,479,759)
Translation reserve	<u>5,633,844</u>	<u>(8,126,442)</u>
	(2,072,353)	(14,606,201)
Minority interest	<u>(299)</u>	<u>2,828</u>
Closing balance	<u><u>491,100,196</u></u>	<u><u>494,994,723</u></u>

The notes on pages 10 to 23 form an integral part of these financial statements.

NOTES TO THE CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended 30 June 2009

1. ACCOUNTING POLICIES

(a) Basis of Preparation

The condensed unaudited interim consolidated financial statements ("interim financial statements") of Phaunos Timber Fund Limited ("Phaunos" or the "Company") have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting". These interim financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Company's consolidated annual financial statements for the year ended 31 December 2008.

The interim financial statements are presented in US Dollars because that is 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 8.

These interim financial statements have not been audited or reviewed by the auditors pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

(b) Significant Accounting Policies

The same accounting policies, presentation and methods of computation are followed in these interim financial statements as those followed in the preparation of the Company's consolidated annual financial statements for the year ended 31 December 2008, except for the adoption of IFRS 8, 'Operating Segments' ("IFRS 8") as noted below. Adoption of this standard, as required by International Financial Reporting Standards did not have any effect on the financial position or performance of the Company.

(c) Changes in accounting policies

Determination and presentation of operating segments

The Company has adopted IFRS 8 as of 1 January 2009, which requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

The Board has considered the requirements of IFRS 8. The Board, as a whole, has been determined as constituting the chief operating decision maker of the Company. The key measure of performance used by the Board in the capacity of 'chief operating decision maker', is to assess the Company's performance and to allocate resources based on the total return of each individual investment within the Company's portfolio, as opposed to geographic regions. As a result, the Board is of the view that the Company is engaged in a single segment of business, being investment in timber and timber-related investments, and therefore, no reconciliation is required between the measure of profit or loss used by the Board and that contained in the interim financial statements.

**NOTES TO THE CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS (continued)**
for the six months ended 30 June 2009**1. ACCOUNTING POLICIES (continued)**

The audited consolidated financial statements for the year ended 31 December 2008 contained disclosure of geographic segments as required by IAS 14, Segment Reporting ("IAS 14"). However, given the revised parameters under IFRS 8, which supersedes IAS 14, and the Board's assessment that the Company is engaged in a single business segment, the IFRS 8 disclosures are not contained in these interim financial statements.

(d) Change in Accounting Treatment

At 31 December 2008, the investment in Phaunos Norge AS (which invests into Green Resources AS) was treated as a financial asset designated at fair value through profit or loss. At 30 June 2009, the assets and liabilities of this wholly-owned subsidiary were fully consolidated. As a result, there is no comparative at 31 December 2008, in the Condensed Interim Consolidated Statement of Financial Position, for the loan advanced by Phaunos Norge AS to Green Resources AS for US\$10.5 million during 2008 (see Note 10). This change in accounting treatment also impacts the Condensed Interim Consolidated Statement of Cash Flows, whereby the increase in long term loans receivable of US\$5.3 million does not include the Phaunos Norge AS loan receivable.

At 31 December 2008, the investment in SC Romfor Timber SRL was treated as a financial asset designated at fair value through profit or loss and represented 0.13% of the Company's NAV at that date (refer to the Schedule of Investments on page 24). At 30 June 2009, the assets and liabilities of this wholly-owned subsidiary were fully consolidated, which resulted in a nil fair value being disclosed in the Schedule of Investments on page 24.

(e) Financial liabilities held for trading*Forward foreign currency contracts*

Open forward foreign currency contracts, which were entered into during the Period, are valued at forward currency rates at that date. The unrealised appreciation or depreciation on open forward foreign currency contracts is calculated by reference to the difference between the contracted rate and the forward rate. The net movement in financial liabilities held for trading is reported in the Condensed Interim Consolidated Statement of Comprehensive Income.

2. OPERATING INCOME

	30 June 2009 (Unaudited) US\$	30 June 2008 (Unaudited) US\$
Investment income	166,500	188,374
Bank interest	2,679,444	6,305,256
Income from sales of services	486,563	-
	<u>3,332,507</u>	<u>6,493,630</u>

Phaunos Timber Fund Limited

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued) for the six months ended 30 June 2009

3. OPERATING EXPENSES

	30 June 2009 (Unaudited) US\$	30 June 2008 (Unaudited) US\$
Company expenses		
<i>General operating expenses</i>		
Administration fees	90,530	102,659
Audit fees	91,623	75,738
Directors' remuneration	126,370	79,952
Directors' expenses	2,779	1,479
Directors' & Officers' insurance	77,158	55,927
Foreign exchange revaluations	281,214	34,665
Investment Manager's fees	3,680,713	3,804,183
Legal and professional fees	522,635	832,995
Regulatory fees	58,443	152,012
Other operating expenses	13,239	37,683
	<u>4,944,704</u>	<u>5,177,293</u>
Subsidiary company expenses		
<i>Setting up expenses</i>		
Legal and professional fees	381,982	526,406
<i>General operating expenses</i>		
Depreciation and amortisation	116,360	-
Employee compensation and benefits	241,792	-
Management fees	978,106	-
Professional fees	302,076	-
Property, repairs and maintenance	384,374	-
Other operating expenses	994,004	-
	<u>3,016,712</u>	<u>-</u>
	<u>8,343,398</u>	<u>5,703,699</u>

Phaunos Timber Fund Limited

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued) for the six months ended 30 June 2009

4. INTANGIBLES

	30 June 2009 (Unaudited) US\$	31 Dec 2008 (Audited) US\$
Cost		
Opening balance	2,087	2,087
Additions	–	–
Closing balance	<u>2,087</u>	<u>2,087</u>
Amortisation:		
Opening amortisation	753	–
Charge for the Period	348	753
Closing amortisation	<u>1,101</u>	<u>753</u>
Net book value		
At Period end	<u>986</u>	<u>1,334</u>

5. PLANT AND EQUIPMENT

	30 June 2009 (Unaudited) US\$	31 Dec 2008 (Audited) US\$
Cost		
Opening balance	8,367,502	121,263
Additions	397,487	8,246,239
Closing balance	<u>8,764,989</u>	<u>8,367,502</u>
Depreciation		
Opening depreciation	297,624	–
Charge for the Period	116,012	297,624
Closing depreciation	<u>413,636</u>	<u>297,624</u>
Net book value		
At Period end	<u>8,351,353</u>	<u>8,069,878</u>

Phaunos Timber Fund Limited

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued) for the six months ended 30 June 2009

6. LAND

	30 June 2009 (Unaudited) US\$	31 Dec 2008 (Audited) US\$
Cost		
Opening balance	22,641,096	–
Additions	17,513,986	24,751,710
Exchange differences	(1,135,598)	(2,110,614)
Closing balance	<u>39,019,484</u>	<u>22,641,096</u>

7. BIOLOGICAL ASSETS

	30 June 2009 (Unaudited) US\$	31 Dec 2008 (Audited) US\$
Opening balance	1,248,861	–
Additions	7,953,729	1,248,861
Closing balance	<u>9,202,590</u>	<u>1,248,861</u>

Biological Assets are held by Pradera Roja SA and 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. Uruguay is one of the main timber markets in South America due to the property laws in relation to security of title for landowners, favourable climate conditions to grow eucalyptus, good technical level of local labour, and presence of the world's largest timber companies.

Biological Assets are also held by Eucateca SA and 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 7 years for fuelwood.

Biological Assets are measured at fair value until harvested.

Phaunos Timber Fund Limited

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued) for the six months ended 30 June 2009

8. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries consist of investments in the following wholly-owned companies (other than Green China Forestry Company Ltd):

Company	Place of Incorporation	Percentage of Shares
Baltfor Timber BV	Netherlands	100%
Baltfor Timber OU	Estonia	100%
Caldrey SA	Uruguay	100%
Cottage International Group Limited	British Virgin Islands	100%
Eucateca SA	Brazil	100%
Exclusive Technologies Limited	British Virgin Islands	100%
Forest Enterprise BV	Netherlands	100%
Forest Enterprise doo	Serbia	100%
Green China Forestry Company Limited	Hong Kong	99.5%
Hamar Holding Limited	British Virgin Islands	100%
Mata Mineira Investimentos Florestais Ltda	Brazil	100%
Nora Timber Cyprus Limited	Cyprus	100%
Nortimber BV	Netherlands	100%
Oxford Financial Investments Limited	British Virgin Islands	100%
Phaunos Brazil Investimentos Florestais Ltda	Brazil	100%
Phaunos China Limited	Hong Kong	100%
Phaunos Norge AS	Norway	100%
Phaunos US Inc.	USA	100%
Pradera Roja SA	Uruguay	100%
Romfor Timber (Cyprus) Limited	Cyprus	100%
Romfor Timber BV	Netherlands	100%
SC Romfor Timber SRL	Romania	100%
South Hampton International Limited	British Virgin Islands	100%
Tura Holding Limited	British Virgin Islands	100%
Wood NRG Limited	Cyprus	100%

Phaunos Timber Fund Limited

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued) for the six months ended 30 June 2009

9. INVESTMENTS

FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	30 June 2009 (Unaudited) US\$	31 Dec 2008 (Audited) US\$
Opening portfolio cost	314,402,939	50,108,528
Additions at cost*	407,778,170	314,222,606
Proceeds on disposals*	(420,200,000)	(49,965,156)
Realised gain on disposal of investments	<u>212,646</u>	<u>36,961</u>
Closing portfolio cost	302,193,755	314,402,939
Unrealised depreciation on valuation brought forward	(4,376,783)	(3,388)
Unrealised depreciation on valuation for the Period	(2,172,215)	(4,373,395)
Unrealised foreign exchange movement brought forward	(341,306)	92,670
Unrealised foreign exchange movement for the Period	<u>(466,654)</u>	<u>(433,976)</u>
Unrealised depreciation and foreign exchange movement on valuation carried forward	<u>(7,356,958)</u>	<u>(4,718,089)</u>
Closing valuation	<u>294,836,797</u>	<u>309,684,850</u>
Non-current assets	85,835,961	99,486,532
Current assets	<u>209,000,836</u>	<u>210,198,318</u>
	<u>294,836,797</u>	<u>309,684,850</u>
Unrealised depreciation and foreign exchange movement on valuation for the Period	<u>(2,638,869)</u>	<u>(4,807,371)</u>
Realised gain on disposal of investments	<u>212,646</u>	<u>36,961</u>
Net losses on financial assets designated at fair value through profit or loss	<u>(2,426,223)</u>	<u>(4,770,410)</u>

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

Phaunos US Inc.	Timber operation
Aurora Forestal Limited	Joint venture
Masarang Foundation Asset Linked Euro Note 09/2012	Loan
NTP Timber Plus Fund I LP	Investment in limited partnership
Phaunos Norge AS (see Note 1d)	Loan and investment in equity
US Treasury Bills 0% 07/02/2009	Financial instrument

* Includes the proceeds on maturity and purchase of replacement US Treasury Bills to the value of approximately US\$420 million during the Period.

NOTES TO THE CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the six months ended 30 June 2009

9. INVESTMENTS (continued)

Investment Appraisals

Timber and timber-related assets are valued by independent external appraisers every year, except for the first year after acquisition, when the investment is carried at acquisition cost. The lag between the date of and receipt of the individual appraisals, 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 financial statements.

During the Period, appraisals were received for assets held through Aurora Forestal Limited, Phaunos US Inc. and Phaunos Norge AS. These appraisal values are included in the fair values of these investments at the end of the Period and the movement in the fair value is included in net losses designated at fair value through profit and loss.

Appraisals will be conducted in the final quarter of 2009 for the following investments and are expected to be reflected in the annual consolidated financial statements for the year ending 31 December 2009:

- Aurora Forestal Limited
- Caldrey SA
- Eucateca SA
- Forest Enterprise doo
- Phaunos Norge AS
- Phaunos US Inc.
- Pradera Roja SA

Loans and Treasury Bills, which are carried at fair value, are excluded from the independent valuation process.

Phaunos Timber Fund Limited

NOTES TO THE CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the six months ended 30 June 2009

10. LOANS RECEIVABLE

Eucateca

Borrower	Ccy	Principal borrowed	Draw down date	Maturity date	Interest rate	30 June 2009 Balance outstanding BRL	30 June 2009 Balance outstanding US\$
Nemus SA AP Servicos Agronomicos	BRL	1,920,000	31 Jan 2009	30 Sept 2012	8% p.a.	1,796,269	913,876
Ltda AP Servicos Agronomicos	BRL	12,261,901	31 Jan 2009	30 Sept 2012	8% p.a.	7,319,963	3,724,130
Ltda	BRL	1,400,000	31 Jan 2009	30 Sept 2012	8% p.a.	1,313,883	668,455
							<u>5,306,461</u>

Phaunos Norge

Borrower	Principal borrowed	Draw down date	Maturity date	Interest rate	30 June 2009 Balance outstanding NOK	30 June 2009 Balance outstanding US\$
Green Resources AS	NOK	4 Dec 2008	28 Feb 2011	12% p.a.	67,510,000	10,478,363
						<u>10,478,363</u>
Total loans receivable						<u>15,784,824</u>

Phaunos Norge: Refer to Note 1(d) for the prior year accounting treatment of this loan receivable.

Phaunos Timber Fund Limited

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued) for the six months ended 30 June 2009

11. FINANCIAL LIABILITIES HELD FOR TRADING

	30 June 2009 (Unaudited) US\$	31 Dec 2008 (Audited) US\$
Forward foreign currency contracts entered into during the Period	269,382	-
Net change in fair value of liabilities held for trading	<u>(269,382)</u>	<u>-</u>

12. FORWARD FOREIGN EXCHANGE POSITIONS

At 30 June 2009, the Company had the following open forward foreign exchange positions:

Currency Bought	Currency Sold	Maturity Date	Unrealised Loss US\$
CNY 203,250,000	USD 30,000,000	27 August 2009	<u>(269,382)</u>

13. NET ASSETS ATTRIBUTABLE TO C SHARE CLASS

	30 June 2009 (Unaudited) US\$	31 Dec 2008 (Audited) US\$
Net assets attributable to C Share class	40,388,477	37,791,963
Net asset value per C Share	0.97	0.97

The issue of C Shares took place as follows:

Date of issue	Number of Shares	Price per Share US\$	Amount received US\$
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
	<u>41,700,000</u>		<u>41,700,000</u>

Phaunos Timber Fund Limited

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued) for the six months ended 30 June 2009

13. NET ASSETS ATTRIBUTABLE TO C SHARE CLASS (continued)

	30 June 2009 US\$	31 Dec 2008 US\$
Reconciliation of carrying amount:		
Issue proceeds	41,700,000	38,870,000
Issue costs	(1,307,066)	(1,079,313)
Income in relation to C Share class	1,285	1,285
Expenses in relation to C Share class	(5,742)	(9)
Net assets attributable to C Share class	<u>40,388,477</u>	<u>37,791,963</u>

The C Shares will be converted into Ordinary Shares at a rate based on the NAV of the respective share classes on a date, yet to be determined, which will be no later than 31 December 2009 (as set out in the Company's prospectus dated 5 June 2008 which can be found on the Company's website, www.phaunostimber.com). Conversion will take place on a date after the respective NAVs have been determined.

NOTES TO THE CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the six months ended 30 June 2009

14. SHARE CAPITAL

Authorised, issued and fully paid

As at 30 June 2009 and 31 December 2008: **US\$**
Unlimited Ordinary Shares of no par value –

The issue and purchase of Ordinary Shares took place as follows:

Issue of Shares	Number of Shares	Price per Share US\$	Amount received US\$
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 30 June 2009	<u>498,334,561</u>		<u>515,385,744</u>

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

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

**NOTES TO THE CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS (continued)**
for the six months ended 30 June 2009**15. PURCHASE OF ORDINARY SHARES (NOW HELD IN TREASURY)**

	30 June 2009 (Unaudited) US\$	31 Dec 2008 (Audited) US\$
Treasury Shares reserve at beginning of Period	987,436	–
Ordinary Shares purchased during the Period	1,821,875	987,436
Treasury Shares reserve at end of Period	<u>2,809,311</u>	<u>987,436</u>

The Treasury Shares reserve at the end of the Period represents 4,065,045 Ordinary Shares (31 December 2008: 1,335,000 Ordinary Shares) of which 2,730,045 Ordinary Shares were purchased in the market during the Period, at various prices per share ranging from \$0.64 to \$0.72. These shares may be reissued or cancelled.

At the AGM of the Company held on 18 June 2009, it was resolved that the Company be authorised to make market purchases of Ordinary Shares for a period of 14 months or until the Company's next AGM (whichever the earlier), provided that the number of Ordinary Shares purchased shall not exceed 14.99% of the number of Ordinary Shares in issue on that date being 500,039,606.

The number of own Ordinary Shares purchased since the passing of the resolution on 18 June 2009, now held in Treasury by the Company at the Period end, represents 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 next AGM of the Company and renewal of such authority to make purchases of Ordinary Shares will be sought from shareholders. Under such authority, the Directors only intend to purchase shares where they believe such purchases will result in an increase in the NAV per Ordinary Share and will assist in narrowing any discount to the NAV per share at which the shares trade.

16. CAPITAL COMMITMENTS

At the Period end the Company had outstanding commitments of up to US\$486.7 million (31 December 2008: US\$659.6 million).

17. RELATED PARTIES

FourWinds Capital Management is the Company's investment manager (the "Investment Manager"). Liane Luke (a Director of the Company) is the Head of Timber with the Investment Manager's group and the portfolio manager for the Company. Kimberly Tara (a Director of the Company) is a director, shareholder and Chief Executive Officer of the Investment Manager. Neither Liane Luke nor Kimberly Tara has any entitlement to receive Directors' fees. US\$3,680,713 (June 2008: US\$3,804,183) of fees were paid by the Company to the Investment Manager during the Period, of which US\$Nil (June 2008: US\$Nil) was due to this related party as at 30 June 2009.

NOTES TO THE CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the six months ended 30 June 2009

18. EVENTS AFTER THE BALANCE SHEET DATE

Pradera Roja SA: Since 30 June 2009, Pradera Roja AS has acquired an additional two farms, funded from cash held in the operating company. An additional US\$7.1 million has been drawn down in July 2009 for anticipated acquisitions in the third quarter of 2009.

Phaunos Norge AS: An additional US\$3.0 million was loaned by Phaunos Norge AS to Green Resources AS in July 2009 for planting and working capital.

Forest Enterprise doo: An additional US\$1.7 million has been drawn down in August 2009 for additional construction costs and working capital.

			30 June 2009	31 Dec 2008
SCHEDULE OF INVESTMENTS				
Name of investment	Nature of investment	Fair Value US\$	TOTAL NET ASSETS %	TOTAL NET ASSETS %
Greenwood Tree Farm Fund LP	Timber operation	29,440,111	5.99%	5.46%
Aurora Forestal Limited	Timber operation	25,731,147	5.24%	5.04%
Masarang Foundation Asset Linked Euro Note 09/2012	Loan	5,608,006	1.14%	1.14%
NTP Timber Plus Fund I LP	Financial instrument	10,533,667	2.14%	1.47%
SC Romfor Timber SRL*	Timber operation	-	-	0.13%
Green Resources AS	Loan and equity investment	14,523,030	2.96%	6.92%
US Treasury Bills 0% 07/02/2009	Financial instrument	209,000,836	42.56%	42.47%
Total financial assets designated at fair value through profit or loss		<u>294,836,797</u>	<u>60.03%</u>	<u>62.63%</u>
Other non-current assets		72,577,744		
Other current assets		(677,831)		
Cash and cash equivalents		164,751,963		
Net assets attributable to C Share class		<u>(40,388,477)</u>		
TOTAL NET ASSET VALUE		<u><u>491,100,196</u></u>		

*SC Romfor Timber SRL: Refer to Note 1(d) for the change in accounting treatment of this investment.

Phaunos Timber Fund Limited

SHAREHOLDER INFORMATION

The Ordinary Shares are traded on the LSE Main Market and on the Channel Islands Stock Exchange ("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 currently listed or traded on any stock exchange and applications for C Shares must be made through placings of C Shares announced by the Company from time to time.

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)1484 600927.

Further information regarding the Company can be found on its website at www.phaunostimber.com.

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

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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

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(until 20 February 2009)

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Phaunos Timber Fund Limited

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(until 20 February 2009)**

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**Solicitors to the Company
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**UK Transfer Agent
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