

## CIRCULAR

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This Circular is not being sent to shareholders with registered addresses in the United States, Canada, Australia or Japan and is not an offer of securities for sale in any of these jurisdictions. Accordingly copies of this document or any accompanying documents are not being mailed and must not be, directly or indirectly, mailed or otherwise distributed, forwarded or transmitted into the United States, Canada, Australia or Japan and all persons receiving such documents (including, without limitation, custodians, nominees and trustees) should observe these restrictions and must not mail or otherwise distribute, forward or transmit them in, into or from the United States, Canada, Australia or Japan.

If you have sold or otherwise transferred all of your Shares in the Company, please send this document and the accompanying documents at once to the purchaser or transferee or to the stockbroker, bank or other person through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee. However, such documents should not be distributed, forwarded or transmitted in or into the United States, Canada, Australia or Japan or into any other jurisdiction if to do so would constitute a violation of the relevant laws and regulations in such other jurisdiction.

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# PHAUNOS TIMBER FUND LIMITED

*(a closed-ended investment company incorporated with limited liability under the laws of Guernsey with registration number 45564)*

## Extraordinary General Meeting

### **Proposals for the amendment of the Articles of Association to enable the Company to issue C Shares, increase in authorised share capital and migration of the Company from the Alternative Investment Market to the Official List and to trading on the London Stock Exchange**

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The Proposals described in this document are conditional on Shareholder approval at an EGM. Notice of an EGM of the Company to be held at 10.00 a.m. on 10 January 2008 at the offices of Anson Registrars Limited, Anson Place, Mill Court, La Charroterie, Guernsey GY1 1EJ is set out at the end of this document.

Shareholders are requested to return the reply-paid Form of Proxy accompanying this document for use at the EGM. To be valid, a Form of Proxy for use at the EGM must be completed and returned in accordance with the instructions printed thereon so as to be received by Anson Registrars Limited, P.O. Box 426, Anson Place, Mill Court, La Charroterie, Guernsey GY1 3WX as soon as possible and, in any event, not later than 48 hours before the time of the EGM.

**Your attention is drawn to the letter from the Chairman of Phaunos Timber Fund Limited which is set out in Part 1 of this document and which recommends that you vote in favour of the Resolutions to be proposed at the EGM. Your attention is also drawn to the section entitled “Action to be Taken by Shareholders” on page 2 of this document.**

This Circular is not a prospectus and is not an offer to sell or a solicitation of any offer to buy any securities in the United States or in any other jurisdiction. No offering of the C Shares will be made in the United States and the C Shares will not be registered under the US Securities Act of 1933, as amended. The Company has not been, and will not be, registered under the US Investment Company Act of 1940, as amended.

## **EXPECTED TIMETABLE**

Latest time and date for receipt of Forms of Proxy for the EGM	10.00 a.m. on 8 January 2008
<b>EGM of the Company</b>	<b>10.00 a.m. on 10 January 2008</b>

## **ACTION TO BE TAKEN BY SHAREHOLDERS**

**ALL HOLDERS OF SHARES ARE RECOMMENDED TO COMPLETE AND RETURN THEIR FORMS OF PROXY TO INDICATE HOW THEY WISH TO VOTE IN RELATION TO THE PROPOSALS. COMPLETION AND RETURN OF THE FORM OF PROXY WILL NOT AFFECT A SHAREHOLDER'S RIGHT TO ATTEND AND VOTE AT THE EGM.**

Shareholders are requested to complete and return the Form of Proxy for the EGM as soon as possible and in any event not later than 48 hours before the meeting.

Where a shareholder being a body corporate wishes to attend and vote at the EGM an appropriate Letter of Representation and suitable identification of the person nominated to represent the body corporate must be presented before the EGM commences.

## PART 1

### LETTER FROM THE CHAIRMAN

# PHAUNOS TIMBER FUND LIMITED

*(a closed-ended investment company incorporated with limited liability under the laws of Guernsey with registration number 45564)*

*Directors:*

Keith Oates (*Chairman*)  
John Le Prevost  
Liane Luke  
Peter Niven  
Kimberly Tara

*Registered office:*

Anson Place  
Mill Court  
La Charroterie  
St. Peter Port  
Guernsey GY1 1EJ

**PROPOSALS FOR THE AMENDMENT OF THE ARTICLES OF ASSOCIATION TO  
ENABLE THE COMPANY TO ISSUE C SHARES, INCREASE IN AUTHORISED SHARE  
CAPITAL AND MIGRATION OF THE COMPANY FROM THE ALTERNATIVE  
INVESTMENT MARKET TO THE OFFICIAL LIST AND TO TRADING ON THE LONDON  
STOCK EXCHANGE**

Dear Shareholder,

**Introduction**

In recent months, Phaunos has either invested in or committed funds to a number of timber land or timber related investments in the United States, Brazil, Serbia, Indonesia and Uruguay. Phaunos' pipeline of potential investment opportunities includes a number where the Board believes that Phaunos could make very substantial, attractive investments, subject to the availability of funds. Phaunos has a number of investment opportunities which are in the latter stages of the due diligence process and further announcements regarding new investments are expected to be made in the near future. As a result of these new and potential investments, the funds raised by Phaunos to date will, in the near future, be close to being fully allocated.

In the context of this substantial investment pipeline, your Board has been approached by an investor which is advised by one of the largest asset managers in Luxembourg and which has expressed a strong interest in arranging a very substantial investment in Phaunos. Certain other existing and potential new investors have also indicated interest in relation to further investment in the Company.

Consequently, after due consideration, your Board has determined to increase the Company's share capital by creating C Shares, further details of which are set out below, with a view to meeting investor demand by placing such shares with existing and new Shareholders during the course of 2008 and potentially thereafter.

The Company intends to seek now the requisite authorities from Shareholders to allow it to raise additional capital of up to approximately \$1.6 billion through one or more issues of C Shares. Your Board considers that the raising of additional capital should bring benefits to the Company including broadening the Company's investor base, enabling further growth, providing the means to further diversify the Company's investment portfolio, creating further economies of scale and increasing the Company's profile within the investor community. The raising of such additional funds through the placing of C Shares will also permit the Company to take larger investment participations in those investment opportunities considered to be sufficiently attractive to merit it. Furthermore, Phaunos' ability to make larger investments will give it access to potential investments that might not have otherwise been available.

The Company is seeking authority to make multiple issues of C Shares. It is expected that the initial issue, the Placing, will be a non-pre-emptive institutional placing of up to 1 billion C Shares which will be effected in tranches, at escalating prices commencing at \$1 per C Share, by way of a series of placings

which are anticipated to occur quarterly from the end of March 2008 to the end of December 2008, to accommodate the anticipated flows of funds from potential investors. Subsequent issues of C Shares, representing separate classes of C Shares, to effect further capital raising exercises would be at the Directors' discretion. The Directors would not in any event issue more than 1 billion C Shares of the class to be issued under the initial Placing until such time as 70 per cent. of the net proceeds of the initial Placing have been invested or committed.

Subject to complying with applicable law and regulation and the terms of issue of any such C Shares, the decision whether or not to seek a listing for any relevant class of C Shares will rest with the Directors and may be influenced by the nature of the investor demand at the particular point in time.

In order to allow the Company to implement these C Share issues in the future, the consent of existing Shareholders is required now in order to increase the authorised share capital of the Company and to effect the necessary amendments to the Company's Articles of Association to incorporate the rights attributable to the C Shares.

If any new investor subscribing for C Shares would thereby come to own Shares in the Company carrying 30 per cent. or more of the total voting rights of the Company, that investor would normally be obliged to make a takeover offer for all the Company's shares in accordance with the UK City Code on Take-Overs and Mergers which applies to the Company. Due to the indicated potential level of investment in the Company by at least one of the potential investors, this obligation might be triggered in the absence of an EGM sanction. In those circumstances, your Board would intend, prior to any such investment taking place, to convene a further EGM in order to obtain Shareholder approval for the issue of the C Shares to such investor and to obtain approval to dispense with the requirement for that investor to make a general offer for the Company.

At or around the same time as the Placing, the Directors are proposing that the Company should de-list from AIM and seek admission to the Official List and to trading on the Main Market of the London Stock Exchange for all its Shares ("**Main Market Listing**"). De-listing from AIM is conditional upon the UKLA granting admission of the Shares to the Official List and the London Stock Exchange confirming that the Shares can commence trading on the Main Market. The Directors believe that a Main Market Listing should enhance liquidity and provide the Company with exposure to a wider investor base. Furthermore, the Board considers that moving the Company's listing to the Main Market is appropriate given the Company's expected market capitalisation once the Placing is fully implemented.

The purpose of this document is to provide you with details of, and to seek your approval for, the Proposals.

Implementation of the Proposals requires the approval of Shareholders at the EGM convened for 10.00 a.m. on 10 January 2008 (or at any adjournment thereof). A notice of EGM is set out at the end of this document.

The Board believes that the Proposals are in the best interests of the Company and its Shareholders as a whole and recommends that you vote in favour of the Resolutions at the EGM. You are therefore urged to complete and return the enclosed Form of Proxy without delay, whether or not you intend to attend the EGM.

#### **Reasons for raising additional capital by way of a C Share issue**

The issue of further equity in the form of C Shares is designed to overcome the potential disadvantages for both existing and new investors which would arise out of a conventional fixed price issue of further shares for cash. In particular:

- the investments from time to time representing the proceeds of the issue of any class of C Shares will be accounted for as a distinct pool of assets until the Conversion Date, by which time it is expected they will have been substantially invested in accordance with the Company's investment policy. As a result, holders of existing Shares should not be exposed to a portfolio containing substantial uninvested cash;
- the net asset value of the existing Shares will not be diluted by the expenses associated with any C Share issue, which will be borne by the subscribers for C Shares; and

- the Conversion Ratio basis upon which the C Shares will convert into Shares is such that the number of Shares to which holders of C Shares will become entitled will reflect the relative investment performance since issue and net asset value of the pool of additional capital attributable to the C Shares as of the Calculation Date, as described further below, as compared to the net asset value of the existing Shares at that time. As a result, neither the net asset value attributable to the existing Shares nor the net asset value attributable to the C Shares will be adversely affected by Conversion.

### **Details of the C Shares**

It is intended that, initially, one or more tranches of C Shares will be issued by the Company quarterly, commencing on or about 31 March 2008. The Directors, subject to the proposed amended Articles of Association, will have the power to determine the detailed commercial terms of any issue of C Shares.

Following the issue of C Shares, as at the Calculation Date the net assets attributable to the C Shares and, hence, the Conversion Ratio, will be calculated. Holders of C Shares will receive such number of Shares as results from applying the relevant Conversion Ratio to their holdings of C Shares at the Conversion Date. The Directors may deal in such manner as they think fit with fractional entitlements to new Shares arising on Conversion, including, without prejudice to the generality of the foregoing, selling any such Shares representing such fractional entitlements and retaining the proceeds for the benefit of the Company. Further details concerning Conversion are contained in the proposed amendments to the Articles of Association, which are set out in full in the notice of EGM at the end of this document.

The net proceeds of the issue of any C Shares will be accounted for as a separate pool of assets until the Conversion Date. The Calculation Date which will be the earlier of:

- (a) the close of business on a date specified by the Directors occurring on or after the day on which the Investment Manager has given notice to the Directors, and the Directors agree, that the Specified Proportion of the assets attributable to the C Shares has been invested or committed to timberland and timber related investments;
- (b) the close of business on such date as the Directors may decide is necessary to enable the Company to comply with its obligations in respect of Conversion;
- (c) the close of business on the Back Stop Date; and
- (d) the date specified by the Directors falling after the day on which the Directors resolve that any Early Investment Condition has been satisfied.

The Company will specify by a RNS announcement prior to the issue of each C Share tranche of a relevant share class: the relevant issue price, the Specified Proportion, the Back Stop Date and the Early Investment Condition.

At the point where the earlier of the events described in (a) to (d) above has occurred, the Conversion Ratio for the C Shares into Shares will be calculated on the basis of the published audited annual accounts of the Company or an estimated net asset value calculated by the Directors. Once the Conversion Ratio has been calculated (which may take up to twenty days), the C Shares will convert into Shares on the basis referred to above.

Pending Conversion, C Shares will carry the right to any dividends or distributions in respect of the assets attributable to the relevant C Share class only, although it is not expected that any such dividends or distributions will be paid.

C Shares will rank *pari passu* with the Shares for the purpose of participating in commitments to new investments by the Company. The amount to be invested from each C Share class and the Shares in a new investment will be calculated *pro rata* by reference to the aggregate net assets relating to each of the relevant classes of C Shares and Shares respectively, as reflected in the most recently available interim accounts or audited annual accounts, prior to the date on which the Company is required to commit funds to each such new investment.

C Shares will carry the same rights as the Shares in relation to attendance and receiving notice of any general meetings of the Company. C Shares will be transferable in the same manner as the Shares. The

rights of C Shares in relation to voting at general meetings are set out in the proposed amendments to the Articles of Association, which are set out in full in the notice of EGM at the end of this document. In summary, the number of votes attaching to the Shares as a class and to each class of C Shares will reflect the respective aggregate net asset value of the relevant classes.

The consent of each class of Shareholders at a separate general meeting will be required in connection with any amendments to the Memorandum and Articles of Association of the Company, any alteration by the Company of the rights attaching to any of its issued or authorised share capital, any resolution to wind up the Company and the selection of any accounting reference date other than that which is currently in place. Holders of C Shares will be entitled to participate in a winding-up of the Company or on a return of capital, as specified in the proposed amendments to the Articles of Association. In summary, each share class will participate only in its respective pool of assets.

### **Benefits of C Shares**

The Board considers that the issue of C Shares has a number of benefits:

- An increase in the capital of the Company will enable the Investment Manager to increase the Company's investment exposure and access larger investment opportunities than might otherwise be possible.
- The increase in capitalisation should raise the profile of the Company and widen its appeal to the investor community.
- It is expected that an increase in the Company's investor base should, following Conversion, improve the market liquidity for all Shareholders.
- The enlarged size of the Company should mean that the fixed costs of operating the Company will be spread across a larger asset base than at present, which will benefit all Shareholders.

### **Risks relating to C Shares**

Where Conversion would occur as a result of the Early Investment Criteria being satisfied, there is a risk that existing Shareholders would suffer cash drag if conversion occurred before the C Share asset pool has been substantially invested. With regards to the Placing the Board considers that even if Conversion does occur prior to the initial C Share asset pool being substantially invested, the risk is mitigated by the fact that full investment of the initial C Share asset pool is currently expected by the Investment Manager to take place not much later than December 2008. This estimate reflects the Investment Manager's expectation for a number of significant investment opportunities to be available to the Company between June and December 2008.

### **Adoption of new Articles of Association**

Amended Articles of Association are proposed to be adopted at the EGM to reflect the rights of the C Shares, details of which are set out in the notice of EGM at the end of this document. The draft of the amended Articles of Association will be available for inspection from the date of this Circular until the conclusion of the EGM at the address referred to at paragraph 3 of Part 2 of this Circular and at the place of the EGM for at least 15 minutes prior to, and during, the meeting. The draft of the amended Articles of Association is also available free of charge in Guernsey from the Company's Secretary and Administrator, Anson Fund Managers Limited, Anson Place, Mill Court, La Charroterie, St. Peter Port, Guernsey GY1 1EJ.

### **De-listing from AIM and migrating to the Main Market of the London Stock Exchange**

The Board proposes that the Company de-list from AIM and seek admission for the Shares to the Official List of the UKLA and to trading on the Main Market of the London Stock Exchange. De-listing from AIM is conditional upon the UKLA granting admission of the Shares to the Official List and the London Stock Exchange confirming that the Shares can commence trading on the Main Market.

### **Benefits of migrating to the Main Market**

The Board believes that migrating from AIM to the Main Market will result in several benefits to the Company, including:

- widening the pool of potential investors which may assist in relation to future capital raisings;
- increasing liquidity in the Company's Shares;
- increasing the Company's profile within the financial and investment community and amongst timber managers and potential investee companies, funds or vehicles; and
- potentially, attracting greater analyst coverage.

In addition, the Board considers a migration to the Main List appropriate for the Company given its current market capitalisation and especially following completion of the anticipated Placing.

### **Resolutions**

You will find set out at the end of this document, a Notice convening an EGM of the Company to be held at 10.00 a.m. on 10 January 2008. The resolutions to be proposed at the EGM will be: (i) as an ordinary resolution, to increase the authorised share capital of the Company by the creation of 1,600,000,000 C Shares of no par value in the capital of the Company; and (ii) as a special resolution, to adopt the amended Articles of Association of the Company containing provisions relating to C Shares; and (iii) as a special resolution, to authorise the Company to de-list from AIM and migrate to the Official List of the London Stock Exchange.

### **ACTION TO BE TAKEN**

#### **Form of Proxy**

Shareholders will find enclosed a Form of Proxy for use at the EGM. Whether or not you intend to attend the EGM, you should complete and return the Form of Proxy by post or by hand (during normal business hours) to Anson Registrars Limited, P.O. Box 426, Anson Place, Mill Court, La Charroterie, St. Peter Port, Guernsey GY1 3WX so as to arrive not later than 48 hours before the time of the EGM. Completion and return of the Form of Proxy will not affect a Shareholder's right to attend and vote at the EGM.

A quorum consisting of two Shareholders entitled to vote and attending in person or by proxy is required for the EGM.

#### **Recommendation**

The Board considers that the Proposals are in the best interests of Shareholders as a whole. Accordingly, the Board unanimously recommends Shareholders to vote in favour of the Resolutions to be proposed at the EGM.

Your Directors intend to vote in favour of the Resolutions to be proposed at the EGM in respect of their entire shareholdings of 130,000 Shares, representing 0.028 per cent. of the total number of issued Shares in the Company.

Yours faithfully

**Keith Oates**  
*Chairman*

## PART 2

### ADDITIONAL INFORMATION

#### 1. Directors' and Other Interests

- 1.1 As at 20 December 2007 (being the latest practicable date prior to the publication of this Circular) in so far as is known to the Company, the interests of each Director, including any connected person, the existence of which is known to, or could with reasonable diligence be ascertained by, that Director whether or not held through another party, in the share capital of the Company together with any options in respect of such capital are set out below. All such Shares allotted and issued are beneficially held by such Directors unless otherwise stated.

<i>Director</i>	<i>Shares</i>	
	<i>Beneficial</i>	<i>Non-Beneficial</i>
Keith Oates* (Chairman)	50,000	—
John Le Prevost	—	—
Liane Luke	—	—
Peter Niven	30,000	—
Kimberly Tara**	50,000**	—
<b>Total</b>	<b>130,000</b>	<b>—</b>

\* Keith Oates also holds options to subscribe for up to a further 150,000 Shares.

\*\* Kimberly Tara, a shareholder of FourWinds Capital Management, is beneficially interested in 50,000 Shares.

- 1.2 As at 20 December 2007 (being the latest practicable date prior to the publication of this Circular), the Company had not been notified of any persons who were interested, directly or indirectly, in 5 per cent. or more of the issued share capital of the Company.
- 1.3 No Director has a service contract with the Company, nor are any such contracts proposed. The Directors' appointments can be terminated in accordance with the Articles of Association and save than in relation to the Chairman, without compensation. There is no notice period specified in the Articles of Association for the removal of Directors. The Articles provide that the office of Director shall be terminated by, among other things: (i) written resignation; (ii) unauthorised absences from board meetings for 6 months or more; (iii) written request of the other Directors; and (iv) a resolution of a majority of the shareholders eligible to vote at a general meeting.
- 1.4 No loan has been granted to, nor any guarantee provided for the benefit of, any Director by the Company.
- 1.5 John Le Prevost, a Director of the Company, is also a director of Anson Fund Managers Limited, the Company's Administrator and Secretary, and Anson Registrars Limited, the Company's Registrar. Kimberly Tara, a Director of the Company, is working full time with the Investment Manager and Liane Luke, also a Director of the Company, is also working full time with the Investment Manager.
- 1.6 None of the Directors has, or has had, an interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company or which has been effected by the Company since its incorporation.

#### 2. No Significant Change in Financial Position

- 2.1 There has been no significant change in the financial or trading position of the Company since the date of its unaudited half yearly financial report for the period ended 30 June 2007, dated 27 September 2007.



**3. Documents available for inspection**

3.1 Copies of the following documents are available for inspection at the offices of Herbert Smith LLP, Exchange House, Primrose Street, London EC2A 2HS and at the registered office of the Company during normal business hours on any business day (Saturdays and public holidays excepted) until the conclusion of the EGM:

3.1.1 the Memorandum and Articles of Association of the Company and a draft of the amended Articles of Association (containing the full terms of the amendments proposed to be made); and

3.1.2 this Circular (which includes explanatory notes on the Proposals).

Copies of these documents are also available free of charge in Guernsey from the Company's Registrar, Anson Fund Managers Limited, Anson Place, Mill Court, La Charroterie, St. Peter Port, Guernsey GY1 1EJ.

Copies will also be available for download from the Company's website [www.phaunostimber.com](http://www.phaunostimber.com)

The Articles of Association (including the draft of the amended Articles of Association containing the full terms of the amendments proposed to be made) will be available at the EGM for at least 15 minutes prior to and during the meeting.

21 December 2007

## DEFINITIONS

<b>“AIM”</b>	the Alternative Investment Market of the London Stock Exchange
<b>“Articles of Association”</b>	the articles of association of the Company in force from time to time
<b>“Back Stop Date”</b>	such date by which conversion of the relevant class of C Shares must occur as determined by the Directors and set out in the Specified Conversion Criteria in accordance with the terms of the Revised Articles
<b>“Board” or “Directors”</b>	the board of directors of the Company
<b>“C Shares”</b>	shares of no par value in the capital of the Company which will be issued as C Shares having the rights and privileges and being subject to the restrictions contained in the Revised Articles and which will convert into Shares on Conversion
<b>“Calculation Date”</b>	the date at which the Conversion Ratio is calculated in accordance with the terms of the Revised Articles
<b>“Circular”</b>	this document
<b>“Company” or “Phaunos”</b>	Phaunos Timber Fund Limited
<b>“Conversion”</b>	the conversion of a C Share class into Shares (including as may be agreed in writing by the Directors in relation to a particular C Share class), in accordance with the terms of the Revised Articles
<b>“Conversion Date”</b>	the date on which Conversion occurs in accordance with the terms of the Revised Articles
<b>“Conversion Ratio”</b>	the ratio at which a C Share class converts into Shares in accordance with the terms of the Revised Articles
<b>“Early Investment Condition”</b>	the condition specified in the Specified Conversion Criteria in respect of receipt of subscriptions for a C Share class by the Company, which when satisfied would result in conversion of the relevant C Share class in accordance with the terms of the Revised Articles
<b>“Extraordinary General Meeting” or “EGM”</b>	the extraordinary general meeting of the Company convened for 10.00 a.m on 10 January 2008 (or any adjournment thereof), notice of which is set out at the end of this document
<b>“Form of Proxy”</b>	the form of proxy for use at the EGM
<b>“Investment Manager”</b>	FourWinds Capital Management
<b>“London Stock Exchange”</b>	London Stock Exchange plc
<b>“Main Market”</b>	the London Stock Exchange’s main market for listed securities
<b>“Official List”</b>	the Official List of the UKLA

<b>“Placing”</b>	the proposed initial non-pre-emptive institutional placing or placings of up to 1,000,000,000 C Shares anticipated to be effected in quarterly tranches from March to December 2008, as described in the Circular
<b>“Proposals”</b>	the proposals described in this document relating to the amendment of the Articles of Association to enable to Company to issue C Shares, to increase the authorised share capital and to effect the migration of the Company from AIM to the Main Market
<b>“Resolutions”</b>	the ordinary and special resolutions to be proposed at the EGM and contained in the notice of the EGM
<b>“Revised Articles”</b>	the draft amended Articles of Association to be considered at the EGM
<b>“RNS”</b>	Regulatory News Service which is the Regulatory Information Service provided by the London Stock Exchange for the distribution to the public of company announcements
<b>“Shareholders”</b>	holders of Shares and/or C Shares, as the context may require
<b>“Shares”</b>	ordinary shares of no par value in the capital of the Company
<b>“Specified Conversion Criteria”</b>	such criteria as may be determined by the Directors establishing, among other things, the Specified Proportion, the Back Stop Date and the Early Investment Condition and announced by the Company through a RNS prior to each issue of a tranche of C Shares of a relevant C Share class in accordance with the terms of the Revised Articles
<b>“Specified Proportion”</b>	the specified percentage of the assets attributable to a relevant C Share class which must be invested before conversion can occur as determined by the Directors and set out in the Specified Conversion Criteria in accordance with the terms of the Revised Articles
<b>“UKLA”</b>	UK Listing Authority, the FSA acting in its capacity as the competent authority for the purposes of Part VI of the FSMA
<b>“\$”</b>	refers to the lawful currency of the United States

# PHAUNOS TIMBER FUND LIMITED

*(a closed-ended investment company incorporated with limited liability under the laws of Guernsey with registration number 45564)*

(the “Company”)

## NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE is hereby given that an extraordinary general meeting of the Company will be held at Anson Place, Mill Court, La Charroterie, St. Peter Port, Guernsey GY1 1EJ on Thursday, 10 January 2008 at 10.00 a.m. to consider and, if thought fit, to pass the following resolutions:

### ORDINARY RESOLUTION

**1. THAT:** the authorised share capital of the Company be increased by the creation of 1,600,000,000 C Shares of no par value in the capital of the Company, having attached thereto the rights and privileges and being subject to the restrictions contained in the amended Articles of Association of the Company to be adopted pursuant to paragraphs (1) and (2) of Special Resolution 2 below.

### SPECIAL RESOLUTION

**2. THAT:**

(1) the Articles of Association of the Company be and are hereby amended by inserting the following new definitions in the definitions section:

“**AIM**” means the AIM market of the London Stock Exchange;

“**Auditor**” means Ernst & Young LLP or such other firm of chartered accountants as the Directors may appoint for the purpose;

“**Back Stop Date**” means such date as determined by the Directors and set out in the Specified Conversion Criteria;

“**Business Day**” means any day other than a Saturday or Sunday or a day on which the major clearing banks are not open for business in London and Guernsey;

“**C Share Surplus**” means the net assets of the Company attributable to the relevant C Share class (including, for the avoidance of doubt, any income and/or revenue (net of expenses) arising from or relating to such assets) less such proportion of the Company’s liabilities as shall reasonably be allocated by the Directors to the assets of the Company attributable to that C Share class;

“**C Share**” means a C Share of no par value in the capital of the Company;

“**Calculation Date**” means the earliest of:

- (a) the close of business on a date specified by the Directors occurring on or after the day on which the Investment Manager shall have given notice to the Directors, and the Directors agree, that the Specified Proportion of the assets attributable to the relevant C Share class has been invested in timberland and timber related assets in accordance with the investment policy of the Company;
- (b) the close of business on such date as the Directors may decide is necessary to enable the Company to comply with its obligations in respect of Conversion of the relevant C Share class;
- (c) the close of business on the Back Stop Date; and
- (d) the date specified by the Directors falling after the date on which the Directors resolve that any Early Investment Condition in respect of a particular class of C Shares has been satisfied;

**“Companies Laws”** means the Companies (Guernsey) Laws, 1994 to 1996 and every statutory modification on re-enactment thereof for the time being in force and any other legislation from time to time relating to companies and affecting the Company;

**“Conversion”** means, in relation to any class of C Shares, conversion of that class of C Shares in accordance with article 3A.8 below;

**“Conversion Ratio”** is A divided by B calculated to four decimal places (with 0.00005 being rounded upwards) where:

$$A = \frac{C - D}{E}$$

and

$$B = \frac{F - G}{H}$$

and where “C” is the aggregate of:

- (a) the value of the timberland and timber related investments of the Company attributable to a relevant C Share class calculated by reference to (i) the most recently published audited annual accounts; or (ii) at the Directors’ discretion (unless or until otherwise agreed in writing by the Directors in relation to a particular C Share class), accounts (whether audited or unaudited) drawn up as at such date as may be specified by the Directors, including any income accruing on the investments of the Company attributable to the C Shares of that class, from the date on which such investments are acquired for the benefit of the holders of C Shares of that class up to and including the Calculation Date;
- (b) the value of any investments of the Company attributable to a relevant C Share class which are listed or dealt on a stock exchange or on a similar market:
  - (i) calculated by reference to the middle-market quotations of, or, if appropriate, the daily average of the prices marked for, those investments at the Calculation Date on the principal stock exchange or market where the relevant investment is listed or dealt in as derived from the relevant stock exchange’s or market’s recognised method of publication of prices for such investments where such published prices are available; or
  - (ii) where such published prices are not available, calculated by reference to the Directors’ belief as to a fair current trading price for those investments, after taking account of any other price publication services reasonably available to the Directors;
- (c) all other investments of the Company attributable to a relevant C Share class as reflected in the most recently published audited annual accounts of the Company, subject to such adjustments as the Directors may deem appropriate to be made for any variations in the value of such investments between the date of acquisition and the Calculation Date; and
- (d) the amount which, in the Directors’ opinion, fairly reflects, at the Calculation Date, the value of the other assets of the Company attributable to a relevant C Share class (including cash and deposits with or balances at bank and including any accrued income and other items of a revenue nature less accrued expenses);

“D” is the amount (to the extent not otherwise deduced in the calculation of “C”) which, in the Directors’ opinion, fairly reflects the amount of the liabilities attributable to a relevant C Share class at the Calculation Date (including, for the avoidance of doubt, the costs of acquisition of the relevant C Share class investments referred to above);

“E” is the number of C Shares of the relevant class in issue at the Calculation Date;

“F” is the aggregate of:

- (a) the value of the timberland and timber related investments of the Company attributable to Ordinary Shares, other than any investments attributable to C Shares, calculated by reference to (i) the most recently published audited annual accounts; or (ii) at the Directors’ discretion (unless or until otherwise agreed in writing by the Directors in relation to a particular C Share class), accounts (whether audited or unaudited) drawn up as at such date as may be specified by the Directors, of such investments as at the Calculation Date;
- (b) the value of any investments of the Company attributable to Ordinary Shares, other than any investments attributable to C Shares, which are listed or dealt in on a stock exchange or on a similar market:
  - (i) calculated by reference to the middle-market quotations of, or, if appropriate, the daily average of the prices marked for, those investments at the Calculation Date on the principal stock exchange or market where the relevant investment is listed or dealt in as derived from the relevant stock exchange’s or market’s recognised method of publication of prices for such investments where such published prices are available; or
  - (ii) where such published prices are not available, calculated by reference to the Directors’ belief as to a fair current trading price for those investments, after taking account of any other price publication services reasonably available to the Directors;
- (c) the value of all other investments of the Company as reflected in the most recently published audited annual accounts, attributable to Ordinary Shares, subject to such adjustments as the Directors may deem appropriate to be made for any variations in the value of such investments between the date of acquisition and the Calculation Date; and
- (d) the amount which, in the Directors’ opinion, fairly reflects, at the Calculation Date, the value of the other assets of the Company (including cash and deposits with or balances at bank and including any accrued income or other items of a revenue nature less accrued expenses), attributable to Ordinary Shares;

“G” is the amount (to the extent not otherwise deducted in the calculation of “F”) which, in the Directors’ opinion, fairly reflects the amount of the liabilities of the Company less the amount of “D” representing the portion thereof as may be attributable to C Shares and the full amount of all dividends declared but not paid on the Ordinary Shares, at the Calculation Date;

“H” is the number of Ordinary Shares in issue at the Calculation Date;

“**Conversion Date**” means, in relation to any class of C Shares, a time falling after the Calculation Date at which the admission of the Ordinary Shares arising on Conversion to trading on one or more of: (i) AIM; (ii) the Official List of the UK Listing Authority; (iii) the Channel Islands Stock Exchange; or (iv) any other stock exchange on which the Ordinary Shares are listed at the Conversion Date, becomes effective and which is the opening of business on such Business Day as is selected by the Directors provided that such day shall not be more than 20 days after the Calculation Date;

“**Disclosure Document**” means any relevant disclosure document, or Prospectus (as the case may be) issued by the Company from time to time in connection with the issue of C Shares;

“**Early Investment Condition**” means the condition specified in the Specified Conversion Criteria;

“**Investment Manager**” means the manager from time to time of the Company’s investments;

“**Issue Date**” means the date on which the Company receives the net proceeds of the issue of the relevant class of C Shares;

“**Ordinary Share**” means an ordinary share of no par value in the capital of the Company and an ordinary share of no par value in the capital of the Company arising on Conversion, as the context requires;

**“Ordinary Share Surplus”** means the net assets of the Company less the C Share Surplus of all C Share classes;

**“Prospectus”** means a prospectus prepared in accordance with the Listing Rules and the Prospectus Rules of the UK Listing Authority issued by the Company from time to time in connection with the issue of C Shares;

**“RNS”** means a Regulatory News Service which is the Regulatory Information Service provided by the London Stock Exchange for the distribution to the public of company announcements;

**“Specified Conversion Criteria”** means such criteria as determined by the Directors and announced by the Company through a RNS, setting out, among other things, the Specified Proportion, the Back Stop Date and the Early Investment Condition; and

**“Specified Proportion”** means a specified percentage of the assets attributable to the C Shares of the relevant class as determined by the Directors and set out in the Specified Conversion Criteria.

References to “Ordinary Shareholders” and “C Shareholders” shall be construed as references to holders for the time being of Ordinary Shares and C Shares (or, if there is more than one class of C Shares in issue at the relevant time, C Shares of the relevant class).

References to the Auditor certifying any matter shall be construed to mean certification of their opinion as to such matter, whether qualified or not.

For the purposes of these provisions, other than in Article 3A.4 below, assets or investments attributable to the C Shares of a particular class or the C Shareholders of a particular class shall mean the net cash proceeds (after all expenses relating thereto) of the issue of such C Shares as invested in or represented by investments or cash or other assets from time to time.

For the purposes of paragraph (a) of the definition of Calculation Date, the assets attributable to a relevant C Share class shall be treated as having been **“invested”** if they have been expended by or on behalf of the Company in the acquisition or making of an investment (whether by subscription or purchase) or if an obligation to make such payment has arisen or crystallised (in each case unconditionally or subject only to the satisfaction of normal pre-issue conditions) in relation to which the consideration amount has been determined or is capable of being determined by operation of an agreed contractual mechanic.

- (2) the Articles of Association of the Company be and are hereby amended by inserting the following new Article as Article 3A after the existing Article 3:

**“3A.1 ISSUES OF C SHARES**

3A.1.1 Subject to the Laws, the Directors are authorised to issue C Shares of such classes, of such number of tranches and on such terms as they determine provided that such terms are consistent with the provisions of this Article 3A.

3A.1.2 If there are in issue at the same time C Shares carrying different rights, each shall be deemed to be a separate class of shares. The Directors may, if they so decide, designate each class of C Shares in such manner as they see fit in order that each class of C Shares can be separately identified.

**3A.2 DIVIDENDS AND PARI PASSU RANKING OF C SHARES AND ORDINARY SHARES**

3A.2.1 Pending Conversion, the C Shareholders of a particular class shall be entitled to receive any dividends and other distributions declared in respect of the assets attributable to that class of C Shares only.

3A.2.2 Pending Conversion, the Ordinary Shareholders shall be entitled to receive any dividends and other distributions declared in respect of the assets attributable to the Ordinary Shares only.

3A.2.3 The new Ordinary Shares arising on Conversion shall rank in full for all dividends and other distributions declared, made or paid after the Conversion Date and otherwise pari passu with the Ordinary Shares in issue at the Conversion Date, save to the extent of any dividend limitation which may be specified by the Directors in the Specified Conversion Criteria.

### **3A.3 CO-INVESTMENT RIGHTS**

3A.3.1 Any class of C Shares shall rank pari passu with the Ordinary Shares for the purpose of participating in commitments to new timberland and timber related investments by the Company.

3A.3.2 The amount to be invested from each of the relevant classes of C Share and the Ordinary Share pools in a new timberland and timber related investment shall be calculated pro rata by reference to the aggregate net asset value of the assets attributable to each of the Ordinary Shares and to the relevant classes of C Shares respectively, as reflected in the most recently published interim accounts or audited annual accounts (as the case may be), prior to the date on which the Company is required to commit funds to such new investment provided that the respective proportions to be invested will not exceed the value of the assets respectively attributable to the Ordinary Shares and to the relevant class of C Shares which is available for investment.

3A.3.3 Co-investment rights will continue until such a time as the Ordinary Shares are fully committed, after which all new commitments (or portions of commitments above full commitment of the Ordinary Shares) will be allocated fully to the C Shares and apportioned as between any different classes of C Shares on the basis set out in Article 3A.3.2.

### **3A.4 RIGHTS AS TO CAPITAL**

3A.4.1 The capital and assets of the Company shall, on a winding-up or on a return of capital prior, in each case, to Conversion, be applied as follows:

- (a) the Ordinary Share Surplus shall be divided amongst the Ordinary Shareholders pro rata according to their holdings of Ordinary Shares; and
- (b) the C Share Surplus attributable to each class of C Shares shall be divided amongst the C Shareholders pro rata according to their holdings of C Shares of that class.

3A.4.2 The capital and assets of the Company on a winding-up or on a return of capital (other than by way of purchase or redemption of own shares) after Conversion of all outstanding classes of C Shares, shall be divided amongst the Ordinary Shareholders pro rata according to their holdings of Ordinary Shares.

### **3A.5 VOTING AND TRANSFER**

3A.5.1 Except as provided in Article 3A.6 below, C Shares shall:

- (a) have the same rights as the Ordinary Shares in relation to attendance at, and receiving notice of, any general meetings of the Company;
- (b) in relation to voting at general meetings:
  - (i) each holder of C Shares shall on a show of hands, have one vote; and
  - (ii) on a poll, each holder of C Shares attending in person, by proxy or by corporate representative shall have such number of votes as results from all the C Shares of the relevant class in issue having in aggregate, such number of votes as is the same percentage or multiple of the votes attributable to all the Ordinary Shares then in issue as the net assets attributable to such C Share class bears to the net assets attributable to such Ordinary Shares, as determined by the Directors in



their absolute discretion and stated in the circular accompanying the notice given to Shareholders of the relevant meeting; and

- (c) be transferable in the same manner as Ordinary Shares.

### **3A.6 CLASS CONSENTS AND VARIATION RIGHTS**

Without prejudice to the generality of the Articles, until Conversion the consent of the holders of the relevant C Shares as a class shall be required for and, accordingly, the special rights attached to any class of C Shares shall be deemed to be varied, *inter alia*, by:

- (a) any alteration to the Memorandum or the Articles; or
- (b) any alteration, increase, consolidation, division, sub-division, cancellation, reduction or purchase by the Company of any issued or authorised share capital of the Company (other than on the issue of further C Shares of the same or any other class, or on Conversion); or
- (c) the passing of any resolution to wind up the Company; or
- (d) the selection of any accounting reference date other than that declared in the Disclosure Document.

### **3A.7 UNDERTAKINGS**

Until Conversion, and without prejudice to its obligations under the Companies Laws, the Company undertakes in relation to each class of C Shares to:

- (a) procure that the Company's records and bank accounts shall be operated so that the assets attributable to the C Shares of the relevant class can, at all times, be separately identified and, in particular but without prejudice to the generality of the foregoing, the Company shall procure that separate cash accounts shall be created and maintained in the books of the Company for the assets attributable to the C Shares of the relevant class;
- (b) allocate to the assets attributable to the C Shares such proportion of the expenses or liabilities of the Company incurred or accrued between the Issue Date and the Calculation Date (both dates inclusive) as the Directors fairly consider to be attributable to the C Shares of the relevant class including, without prejudice to the generality of the foregoing, those liabilities specifically identified in the definition of "Conversion Ratio" above; and
- (c) give appropriate instructions to the Investment Manger to manage the Company's assets so that such undertakings can be complied with by the Company.

### **3A.8 CONVERSION**

3A.8.1 The Directors shall procure that:

- (a) the Administrator shall be requested to calculate, within 10 Business Days after the Calculation Date, the Conversion Ratio as at the Calculation Date and the number of Ordinary Shares to which each holder of C Shares of that class shall be entitled on Conversion; and
- (b) the Auditor shall be requested to certify, within 15 Business Days after the date on which the Conversion Ratio has been calculated, that such calculations:
  - (i) have been performed in accordance with the Articles; and
  - (ii) are arithmetically accurate,

whereupon such calculations shall become final and binding on the Company and all holders of Ordinary Shares and the relevant C Share class.

- 3A.8.2 The Directors shall procure that, as soon as practicable following such certification, a RNS announcement is made advising holders of C Shares of that class of the Conversion Date, the Conversion Ratio and the aggregate number of new Ordinary Shares to which holders of C Shares of that class are entitled on Conversion.
- 3A.8.3 The Ordinary Shares arising upon Conversion shall be divided amongst the former holders of the C Shares of the relevant class pro rata according to their respective former holdings of C Shares of the relevant class (provided always that the Directors may deal in such manner as they think fit with fractional entitlements to Ordinary Shares, including, without prejudice to the generality of the foregoing, selling any such shares representing such fractional entitlements and retaining the proceeds for the benefit of the Company) and for such purposes any Director is hereby authorised as agent on behalf of the former C Shareholders, in the case of a share in certificated form, to execute any stock transfer and to do any other act or thing as may be required to give effect to the same including, in the case of a share in uncertificated form, the giving of directions to or on behalf of the former C Shareholder who shall be bound by them.
- 3A.8.4 Forthwith upon Conversion, any certificates relating to the C Shares of the relevant class shall be cancelled and the Company shall issue to each such former C Shareholder new certificates in respect of the Ordinary Shares which have arisen upon Conversion unless such former C Shareholder elects to hold their Ordinary Shares in uncertificated form.
- 3A.8.5 The Company will not apply for any class of C Shares to be admitted to (i) the AIM; (ii) the Official List of the UK Listing Authority; (iii) the Channel Islands Stock Exchange; or (iv) any such other stock exchange prior, to 1 January 2009.
- 3A.8.6 The Company will use its reasonable endeavours to procure that, upon Conversion, the Ordinary Shares are admitted to (i) the AIM; (ii) the Official List of the UK Listing Authority; (iii) the Channel Islands Stock Exchange; or (iv) any such other stock exchange on which the Ordinary Shares are listed at that time.
- 3A.8.7 In connection with any issue of a C Share class, the Directors shall state the Specified Conversion Criteria in:
- (a) any relevant Disclosure Document or press announcement published; and
  - (b) in a RNS release,
- at the time of offer of such C Shares for subscription.
- (3) the Articles of Association of the Company be and are hereby amended by replacing the definition of “shares” with the following: “means Ordinary Shares and/or C Shares as the context may require”; and
- (4) the Articles of Association of the Company be and are hereby amended by inserting the following words at the beginning of Article 137(1): “Subject to the provisions relating to C Shares set out in these Articles, ”.
3. **THAT** the Company de-list from AIM conditional upon the UKLA granting admission of the Shares to the Official List and the London Stock Exchange confirming that the Shares can commence trading on the Main Market.

*By order of the Board*  
Anson Fund Managers Limited  
Secretary

*Registered Office*  
Anson Place  
Mill Court  
La Charroterie  
St. Peter Port  
Guernsey GY1 1EJ

Dated: 21 December 2007

*Notes:*

- (1) A member entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
- (2) For the convenience of members who may be unable to attend the EGM, a reply-paid Form of Proxy is enclosed with this document. To be valid, the Form of Proxy should be completed in accordance with the instructions printed on it and sent, so as to reach the Company's Registrar, Anson Registrars Limited, P.O. Box 426, Anson Place, Mill Court, La Charroterie, St. Peter Port, Guernsey GY1 3WX no later than 48 hours before the time fixed for the EGM. The fact that members may have completed Forms of Proxy will not prevent them from attending and voting in person should they subsequently decide to do so.
- (3) Only Shareholders registered in the register of members of the Company on the close of business on 8 January 2008 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of Shares registered in their name at that time or in the event that the meeting is adjourned, in the register of members at close of business two days before the time of any adjourned meeting. Changes to entries on the register of members after such time or, in the event that the meeting is adjourned, to entries in the register of members after close of business two days before the time of the adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- (4) In the event that a Form of Proxy is returned without an indication as to how the proxy shall vote on the Resolutions, the proxy will exercise his discretion as to whether, and if so how, he votes.

