

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. IT CONTAINS PROPOSALS RELATING TO PHAUNOS TIMBER FUND LIMITED (THE “COMPANY”) ON WHICH YOU ARE BEING ASKED TO VOTE.

If you are in any doubt about the contents of this Circular or the action you should take, you are recommended to seek immediately your own personal financial advice from your independent financial adviser, stockbroker, bank manager, solicitor, accountant or from an appropriately qualified and duly authorised independent adviser.

If you have sold or otherwise transferred all of your Shares in the Company, please send this Circular 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.

The Proposals described in this Circular are conditional on the approval of the Shareholders at an Extraordinary General Meeting. Notice of the EGM to be held at 11 New Street, St Peter Port, Guernsey GY1 2PF at 2.00 p.m. on 15 September 2014 is set out at the end of this Circular.

PHAUNOS TIMBER FUND LIMITED

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

Recommended Proposals for an Issue to raise capital of approximately US\$10 million, Approval of Related Party Transactions and the Issue of Warrants to the Manager

Notice convening an Extraordinary General Meeting

The Company is an authorised closed-ended investment scheme, in accordance with Section 8 of the Protection of Investors (Bailiwick of Guernsey) Law, 1987 as amended and the Authorised Closed-Ended Investment Schemes Rules 2008. The Guernsey Financial Services Commission has not reviewed this Circular and takes no responsibility for the financial soundness of the Company or for the correctness of any statements made or opinions expressed with regard to it.

Shareholders are requested to return a Proxy Appointment by one of the following methods: (i) in hard copy form by post, by courier or by hand to the Company’s registrars, Capita Asset Services, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU; (ii) via www.capitashareportal.com; or (iii) in the case of CREST members, by utilising the CREST electronic proxy appointment service (details of which are contained in this Circular), in any case so as to be received by the Company’s registrar, Capita Asset Services, as soon as possible and, in any event, not less than 48 hours before the time at which the EGM (or any adjournment thereof) is to begin. Completion of a Proxy Appointment will not preclude a Shareholder from attending, speaking and voting in person at the EGM.

Your attention is drawn to the section entitled “Action to be Taken by Shareholders” on page 11 of this Circular. Capitalised terms used in this Circular shall have the meanings set out in the section entitled “Definitions” on page 27 of this Circular.

This Circular is not a prospectus and is not an offer to sell or a solicitation of any offer to buy any securities to, or for the account or benefit of, US Persons or in the United States or any other jurisdiction. The Shares have not been, and will not be, registered under the US Securities Act of 1933 (“US Securities Act”), as amended, or under any securities laws of any state or other jurisdiction of the United States. The Shares may not be offered, sold, resold, transferred, delivered or distributed, directly or indirectly, into or within the United States or to, or for the account or benefit of, US Persons (as defined in Regulation S under the US Securities Act, “US Person”), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. The Company has not been and will not be registered under the US Investment Company Act of 1940, as amended (the “US Investment Company Act”) and, as such, investors will not be entitled to the benefits of the US Investment Company Act. No offer, purchase, sale or transfer of the Shares may be made except under circumstances which will not result in the Company being required to register as an investment company under the US Investment Company Act. There will be no public offer of the Shares in the United States.

EXPECTED TIMETABLE

	<i>2014</i>
Commencement of bookbuilding	26 August
Latest time and date of receipt of Proxy Appointments for the EGM	5.00 p.m. on 10 September
EGM	2.00 p.m. on 15 September
Announcement of results of the EGM	15 September
Bookbuilding closes	9.00 a.m. on 16 September
Announcement of results of Issue	16 September
Admission and unconditional dealings in Issue Shares commence	22 September
Crediting of CREST stock accounts in respect of Issue Shares	As soon as possible after 8.00 a.m. on 22 September
Share certificates in respect of certificated Issue Shares to be despatched	Week commencing 6 October

The above times and/or dates, other than those relating to the EGM, may be subject to change and, in the event of any such change, the revised times and/or dates will be notified to Shareholders by an announcement through a Regulatory Information Service.

All references to times in this Circular are to London times, unless otherwise stated.

PART I

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:

Sir Henry Studholme Bt (*Chairman*)
Ian Burns
Martin Ricketts
William Vanderfelt

Registered office:

11 New Street
St Peter Port
Guernsey
GY1 2PF

22 August 2014

Dear Shareholder

Recommended Proposals for an Issue to raise capital of approximately US\$10 million, Approval of Related Party Transactions and the Issue of Warrants to the Manager

1. INTRODUCTION

Your Board wishes to seek Shareholder approval for:

- the issue of Shares in order to raise capital of approximately US\$10 million, on a non pre-emptive basis at the Issue Price;
- the participation of the members of the Board, Sir Henry Studholme Bt and Mr William Vanderfelt, and the Company's portfolio manager, Stafford Timberland Limited (the "**Manager**"), who are related parties of the Company, in the proposed capital raising; and
- the issue of Shares arising on the exercise of rights under warrants proposed to be issued to the Manager, as a part of its remuneration for its services to the Company, on a non pre-emptive basis and at subscription prices below the then prevailing Net Asset Value per Share,

(together, the "**Proposals**").

Further details of the Proposals are set out below under paragraph 3 of this Part I.

The Company is therefore convening the EGM for Shareholders to consider and, if thought fit, to approve the Proposals, which are unanimously recommended by the Board. The principal purpose of this Circular is to provide you with details of, and background to, the Proposals and explain why the Directors are recommending that you vote in favour of each of the Resolutions to be proposed at the EGM.

This Circular includes notice for the EGM to be held at 2.00 p.m. on 15 September 2014 at 11 New Street, St Peter Port, Guernsey GY1 2PF.

The Board also wishes to reiterate its intention to hold a Shareholder vote on whether the Company should continue in existence (the "**Continuation Vote**") at its Annual General Meeting in July 2016. The Board would further like to assure Shareholders that no new investment will be undertaken before the Continuation Vote even in the event that there is a sale of any asset, although monies may be applied to existing assets as appropriate and any amounts viewed as surplus to the needs of the existing investments and a working capital buffer will be returned to Shareholders by way of share buy backs, tender offers or other distributions.

2. BACKGROUND AND REASONS FOR THE PROPOSALS

2.1 *Issue and Related Party Transactions*

On 24 June 2014, the Company announced the completion of the Manager's strategic review into its portfolio of investments. On the basis of this review, the Board and the Manager are of the view that, in light of the volatile and unpredictable nature of cash flows from timberland assets, the Company should hold a cash balance representing approximately two years' expected operating costs (including operating costs of wholly owned subsidiaries, possible cash calls in minority interests and corporate overheads).

However, as announced by the Company on 5 August 2014, despite the Manager having worked towards reducing costs and cash outflows since its appointment on 1 July 2014, the Company's cash balances currently represent less than six months' expected operating costs. This level of cash balance is considered to be too low to be prudent and the Board, as advised by the Manager, believes that, without action, the Company may be unable to pay its liabilities as they fall due within the next three to six months.

Other than by an equity fund-raising, the Company could meet its cash requirements through debt financing or through an asset sale. Ongoing discussions with potential debt providers indicate that although debt financing may be available, it is likely to only be available at a high cost to the Company. Further, an enforced sale of an asset would likely be at a "fire sale" price and therefore damaging to Shareholders' interests. There is also no guarantee that the sale of such an asset, even at a "fire sale" price, would happen quickly enough to provide for any unexpected cash requirements and there could be further unanticipated adverse consequences for the Company, including being forced into compulsory liquidation.

On that basis, the Directors believe that an equity fund-raising is in the best interests of the Shareholders as a whole. The Company is therefore proposing to raise approximately US\$10 million by issuing Shares for cash (the "**Issue**") to provide it with a cash balance representing approximately two years' expected operating costs. However, Shareholders should note that depending on investor demand for the Shares, the Company may raise up to a maximum of US\$12 million pursuant to the Issue, subject to the total number of Shares issued pursuant to the Issue not exceeding 10 per cent. of the Company's issued share capital as at the date of the EGM. In order to implement the Issue, the Company intends to use its general authority to issue Shares pursuant to Article 3.1(e) of the Articles but given that the Company intends to carry out the Issue: (i) on a non pre-emptive basis; and (ii) at a price below the prevailing Net Asset Value per Share, it is necessary to obtain the prior approval of Shareholders. In the event the Issue is not successful, the Company will continue to explore the possibility of raising debt in the first instance.

The Chairman, Sir Henry Studholme Bt, another member of the Board, Mr William Vanderfelt and the Manager intend to apply to participate in the Issue and accordingly the Company is also seeking Shareholders' approval of the Related Party Transactions that may arise with respect to their participation.

Further details of the Issue and Related Party Transactions are set out below under paragraphs 3.1 and 3.2 of this Part I.

2.2 *Warrant Issue*

On 24 June 2014, the Company announced that it had reached an agreement with Stafford Timberland Limited to manage its portfolio of investments with effect from 1 July 2014.

The Company and the Manager thereafter entered into the Management Agreement, pursuant to which the Company agreed to pay to the Manager a base fee and a further fee for its services. The base fee is calculated with reference to the Company's Market Capitalisation (the "**Base Fee**") and the further fee may be, as applicable under the terms of the Management Agreement, in the form of (i) an increase in the Base Fee or an issue of Warrants to subscribe for Shares in the Company; or (ii) an increase in the Base Fee and a further payment on the Company's liquidation (the "**Further Fee**") (together with

the Base Fee, the “**Management Fee**”). Further details of the Management Fee are set out below under paragraph 3.3 of this Part I.

Accordingly, the Company now intends to create the Warrants described above by executing the Warrant Instrument as a deed poll and to issue the Warrants to the Manager (the “**Warrant Issue**”). The Warrant Issue is subject to the approval of the Shareholders. Further details of the Warrant Issue are set out below under paragraph 3.3 of this Part I. The full terms of the Warrant Issue are set out in Part II of this Circular.

3. PROPOSALS

3.1 Issue

3.1.1 Issue

Subject to approval of the Shareholders for the terms of the Issue, the Company intends to raise approximately US\$10 million by issuing Shares at the Issue Price, which is below the unaudited Net Asset Value per Share of US\$0.807 as at 30 June 2014. However, Shareholders should note that, depending on investor demand for the Shares, the Company may raise up to a maximum of US\$12 million pursuant to the Issue, subject to the total number of Shares issued pursuant to the Issue not exceeding 10 per cent. of the Company’s issued share capital as at the date of the EGM. The Issue will be made only to Qualifying Investors (as defined in section 86(7) of the Financial Services and Markets Act 2000 (as amended)) through the Company’s corporate broker, Winterflood.

The Chairman and another member of the Board, Mr Vanderfelt currently intend to apply to participate in the Issue, subject to Resolutions 2 and 3 being approved respectively.

Shares issued pursuant to the Issue will not rank for any dividends or other distributions declared, paid or made for which the record date is prior to the day on which the Shares are allotted but, subject thereto, will rank in full for all dividends and other distributions in respect of the then current financial year and *pari passu* in all other respects with the Shares in issue on the day on which the Shares are allotted.

3.1.2 Shareholder approval of the Issue

The Articles contain pre-emption rights in respect of the allotment or sale for cash of “equity securities” (which includes Shares and Warrants), which can be disapplied by way of a special resolution. Furthermore, Listing Rule 15.4.11R requires the Company to have obtained prior approval of the Shareholders for it to be able to issue Shares for cash at a price representing a discount to their prevailing NAV per Share.

It is therefore being proposed that: (i) the pre-emption rights are disapplied in accordance with the Articles in respect of such number of Shares to be issued pursuant to the Issue, the aggregate value of which, based on the Issue Price, will be up to US\$12 million (subject to the total number of Shares issued pursuant to the Issue not exceeding 10 per cent. of the Company’s issued share capital (excluding Shares held in treasury) as at the date of the EGM); and (ii) approval be given for the issue of Shares for cash at a discount to their prevailing NAV per Share. Based on the Issue Price, this would represent an issue of up to 5.6 per cent. of the Company’s issued share capital (excluding Shares held in treasury).

Shareholders should note that, since the Issue is not being made on a pre-emptive basis existing Shareholders who do not participate in the Issue for an amount at least pro rata to their holding will have their percentage holding diluted following the implementation of the Issue. Furthermore, the Issue will be made at an Issue Price below the prevailing Net Asset Value per Share and hence will be moderately dilutive to Shareholders’ Net Asset Value. The Board recognises the dilutive effect of the Issue for existing Shareholders but believes that it would be in the best interests of Shareholders as a whole to raise capital by way of the Issue.

The Issue is conditional on the passing of Resolution 1 to be proposed at the EGM and on Admission of the Issue Shares becoming effective. The Issue is not conditional on the passing of Resolutions 2, 3, 4 or 5.

3.1.3 *Issue Arrangements*

Immediately following the publication of this Circular, Winterflood will commence a bookbuilding process to determine the level of demand from potential investors for participation in the Issue. Although the Issue will not be on a pre-emptive basis, Winterflood will endeavour, where possible, to give priority in the bookbuild to existing Shareholders. The number of Shares to be issued (the “**Issue Shares**”) will be agreed between Winterflood and the Company following close of the bookbuild on 16 September 2014, and announced shortly thereafter. The Issue Shares will be issued at a price of not less than US\$0.40 per Share (“**Issue Price**”).

The bookbuild is expected to close at 9.00 a.m. on 16 September 2014 but may be closed earlier or later at the discretion of the Company and Winterflood. Winterflood will be entitled to, in agreement with the Company, accept bids that are received after the bookbuild has closed.

Subject to the above, Winterflood will be entitled to choose to accept bids, either in whole or in part, on the basis of allocations determined in agreement with the Company, and to scale down any bids for this purpose on such basis as the Company and Winterflood may determine. Winterflood will also be able to, notwithstanding the above, subject to the prior consent of the Company: (i) allocate Issue Shares after the time of any initial allocation to any person submitting a bid after that time; and (ii) allocate Issue Shares after the bookbuild has closed to any person submitting a bid after that time. The Company will reserve the right to reduce the amount to be raised pursuant to the Issue.

3.1.4 *Application for listing and admission to trading*

Applications will be made to the Financial Conduct Authority for admission of the Issue Shares to the premium segment of the Official List of the UKLA and to the London Stock Exchange plc for admission to trading of the Issue Shares on its main market for listed securities (together, “**Admission**”). It is expected that, conditional upon Resolution 1 being passed, Admission will become effective, and dealing in the Issue Shares will commence, on or around 22 September 2014.

All Shares issued pursuant to the Issue will be in registered form and will be delivered in uncertificated form, unless otherwise requested.

It is expected that the Company will arrange for Euroclear to be instructed on 22 September 2014 to credit the appropriate CREST accounts of the subscribers concerned or their nominees with their respective entitlements to Issue Shares. The names of subscribers or their nominees investing through their CREST accounts will be entered directly on to the share register of the Company. Definitive certificates in respect of Issue Shares in certificated form will be dispatched by post in the week commencing 6 October 2014. Temporary documents of title will not be issued.

3.2 *Related Party Transactions*

The Chairman, Mr Vanderfelt and the Manager are related parties of the Company for the purposes of the Listing Rules (the “**Related Parties**”).

It is proposed that the Related Parties will participate in the Issue. Each such participation will be treated as a related party transaction for the purposes of the Listing Rules (together, the “**Related Party Transactions**”). Depending on the number of Shares issued pursuant to the Issue and the extent of the Related Parties’ participation in the Issue, the participation of each of the Related Parties in the Issue may individually exceed, in terms of size, certain specified thresholds under the Listing Rules and may, consequently, require the approval of independent Shareholders. Since neither the number of Shares issued pursuant to the Issue nor the extent of the Related Parties’ participation in the Issue

can be determined as at the date of this Circular, the Directors are seeking Shareholder approval of each of the Related Party Transactions irrespective of whether such Shareholder approval is required under the Listing Rules. The Directors believe that the approval of the Related Party Transactions is beneficial to the overall Issue.

Should the Related Parties choose to participate in the Issue, each of their participation will be on the same terms as other investors in the Issue.

It is proposed that the maximum amount for which each Related Party will subscribe for in the Issue will be limited as follows: US\$20,000 in relation to the Chairman, US\$0.8 million in relation to Mr Vanderfelt and US\$0.4 million in relation to the Manager. Depending on the extent of the other investors' participation in the Issue, these maximum amounts may be adjusted upwards or downwards, as appropriate.

Conditional upon Resolution 1 being approved, Resolutions 2, 3 and 4 which are to be proposed as ordinary resolutions at the EGM, seek Shareholder approval for the Related Party Transactions.

The Chairman, Mr Vanderfelt and the Manager have undertaken not to, and to take all reasonable steps to ensure that their associates will not, vote on Resolutions 2, 3 and 4 respectively.

The interests of the Chairman and Mr. Vanderfelt in the Shares are set out in paragraph 3 in Part III of this Circular.

The Issue is not conditional on the passing of any of Resolutions 2, 3 or 4. If Resolutions 2, 3 or 4 are not passed, the Chairman, Mr Vanderfelt and the Manager respectively may still participate in the Issue, subject to the limits and relevant provisions of the Listing Rules.

In the event of excess demand under the Issue, the allocation of Shares to any participant in the Issue other than the Related Parties will not, to the extent reasonably practicable, be scaled back for the benefit of any of the Related Parties.

3.3 ***Warrant Issue***

3.3.1 *Base Fee*

Pursuant to the Management Agreement, the Manager is entitled to a quarterly Base Fee of a sum equal to one quarter of 35 basis points (0.35 per cent.) per annum of the Company's Market Capitalisation, calculated by taking the average of the buy price at the close of business on each Business Day in the relevant quarter. The Base Fee is payable by the Company quarterly in arrear (but accrues daily and will be payable pro rata for any part of a quarter).

3.3.2 *Warrants*

In addition to the Base Fee the Manager is entitled to a Further Fee, which, subject to the approval of the Shareholders, takes the form of rights to subscribe for new Shares pursuant to the Warrant Instrument.

The Warrant Instrument contains the following principal commercial terms and is otherwise on such terms as are reasonably typical for such a document. The full terms of the Warrants are set out in Part II of this Circular.

Pursuant to the Warrant Instrument, the Warrants are split into, and vest in, three tranches:

- the first tranche relates to 10 million Shares in the Company and will vest with retrospective effect from 1 July 2014, and will be exercisable in full or in part at any time within the Subscription Period of 5 years from 1 July 2014 with a Subscription Price of 50 cents;
- the second tranche relates to 10 million Shares in the Company and will vest on 1 July 2015 and will be exercisable in full or in part at any time within the Subscription Period of 4 years from 1 July 2015 with a Subscription Price of 58 cents; and

- the third tranche relates to 10 million Shares in the Company and will vest on 1 July 2016 and will be exercisable in full or in part at any time within the Subscription Period of 3 years from 1 July 2016 with a Subscription Price of 63 cents.

Save as provided for under the terms of the Warrant Instrument, the Manager is not entitled, without the prior consent in writing of the Company, to transfer or exercise any of its rights under the Warrant Instrument in respect of any tranche of Warrants in the Company at any time prior to the Continuation Vote in 2016.

Under terms of the Warrant Instrument, the Subscription Rights (irrespective of whether they have vested or not) may become exercisable in the event of a takeover offer or liquidation of the Company.

The Subscription Rights under the Warrant Instrument are only transferable following the passing of the Continuation Vote. Further, following any exercise of the Subscription Rights, the relevant new Shares cannot be disposed of up to one year following the exercise of the Subscription Rights.

All Subscription Rights which are not exercised within the relevant Subscription Period shall lapse immediately at the end of the Subscription Period or earlier in certain limited circumstances described in the Warrant Instrument. The full terms of the Warrants are set out in Part II of this Circular.

The Warrant Instrument includes customary provisions to deal with the effect of any capital reorganisation of the Company and other corporate actions.

3.3.3 *Shareholder approval of the Warrants*

In order to implement the Warrant Issue, it is necessary for the Company to have the authority to allot and issue Shares arising on the exercise of Subscription Rights attaching to the Warrants on a non pre-emptive basis. Furthermore, Listing Rule 15.4.11R requires the Company to have obtained prior approval of Shareholders for it be able to issue such Shares for cash at a discount to their prevailing NAV per Share.

The Company is therefore proposing that Shareholders approve: (i) the disapplication of pre-emption rights in accordance with the Articles in respect of the issue of the Warrants and the issue of new Shares on the exercise of the Subscription Rights attaching to the Warrants; and (ii) the issue of such Shares for cash at prices representing discounts to the prevailing NAV per Share. Based on the number of Shares in issue as at the date of this document, the issue of Shares on the exercise of the Subscription Rights attaching to the Warrants would represent an issue of up to 5.6 per cent. of the Company's current issued share capital (excluding Shares held in treasury).

The Warrant Issue is conditional on the passing of Resolution 5 to be proposed at the EGM. The Warrant Issue is not conditional on the passing of Resolutions 1, 2, 3 or 4.

3.3.4 *Arrangements in the event Shareholders do not approve the Warrant Issue*

In the event that Shareholders do not approve the Warrant Issue, no Warrants will be issued by the Company and instead, pursuant to the terms of the Management Agreement, the Manager's annual Base Fee will be increased by 0.65 per cent. of the Company's Market Capitalisation (calculated by taking the average of the buy price at the close of business on each Business Day in the relevant quarter) to 1.0 per cent. of the Company's Market Capitalisation (calculated by taking the average of the buy price at the close of business on each Business Day in the relevant quarter) (the "**Increased Base Fee**") on and with retrospective effect from 1 July 2014.

3.3.5 *Continuation Vote*

In the event that the Warrant Issue is approved by the Shareholders but the Shareholders resolve not to continue the Company pursuant to the Continuation Vote then the rights of the Manager

under the Warrant Instrument (including those rights that have already vested) will lapse forthwith and the Manager will, as an alternative, be entitled thereafter to a revised remuneration package which seeks to provide an incentive to maximise cash returned to Shareholders and whose economic value is designed to be similar to the Base Fee and Warrant Instrument. This will be comprised of the Increased Base Fee payable on and from the day after the Continuation Vote and a further payment (the “**Liquidation Payment**”) as set out below:

- in the event that Shareholders are or would be entitled to receive more than 50 cents but less than 58 cents per Share by way of dividend or other distribution between the date of the Management Agreement and the end of the liquidation other than dividends in the ordinary course paid out of net operating income (“**Applicable Distributions**”), the Manager shall be entitled to 2 (two) per cent. of the excess of Applicable Distributions over 50 cents per Share;
- in the event that Shareholders are or would be entitled to receive 58 cents or more but less than 63 cents per Share by way of Applicable Distributions the Manager shall be entitled to 4 (four) per cent. of the excess of Applicable Distributions over 58 cents per Share; and
- in the event that Shareholders are or would be entitled to receive 63 cents or more per Share by way of Applicable Distributions, the Manager shall be entitled to 6 (six) per cent. of the excess of Applicable Distributions over 63 cents per Share.

The Manager’s remuneration as described above (including the Base Fee, the Warrant Issue, the Increased Base Fee and the Liquidation Payment) have been agreed and are contained in the Management Agreement, on the terms of which the Manager has been appointed.

3.3.6 *Illustration of the Manager’s aggregate remuneration*

On the assumption that Shareholders approve the Warrant Issue and pass the Continuation Vote in 2016, the table below sets out the pro forma net value of the Warrant Issue to the Manager at various Share prices, assuming that all Warrants are exercised on the Final Subscription Date, being 30 June 2019, as a percentage of the Company’s Market Capitalisation as at 30 June 2019.

On 30 June 2019

<i>Share Price</i>	<i>Increase in Share Price from current 40 cents</i>	<i>Increase in Share Price – annualised</i>	<i>Value of Warrant Issue as % of Market Capitalisation</i>	<i>Annualised equivalent over 5 years</i>
50 cents	25.0%	4.6%	Nil	Nil
60 cents	50.0%	8.4%	0.34%	0.07%
70 cents	75.0%	11.8%	0.94%	0.19%
80 cents	100.0%	14.9%	1.46%	0.29%
90 cents	125.0%	17.6%	1.86%	0.37%
100 cents	150.0%	20.1%	2.18%	0.44%

Assumptions:

- *The Manager exercises all of its Subscription Rights in full on the Final Subscription Date, being 30 June 2019. Value is the difference between the projected Share price and the Subscription Prices of the Warrants multiplied by the number of Warrants issued.*
- *The Issue, as described in this Circular, is successfully implemented at the Issue Price.*
- *No further Shares are issued other than pursuant to the Issue prior to 30 June 2019.*
- *No Shares are redeemed prior to 30 June 2019.*

3.4 *Illustration of the financial effects of the Issue and the Warrant Issue*

3.4.1 *Issue (in isolation)*

On the basis that the Company receives US\$10,000,000 the Net Asset Value per Share will reduce by 2.2 per cent. from 80.7 cents per Share to 78.8 cents per Share. While recognising that the Issue will be mildly dilutive to Shareholders' Net Asset Value, the Board believes that it would be in the best interests of Shareholders as a whole to raise capital by way of the Issue.

3.4.2 *Warrant Issue (in isolation)*

When issued, the Warrants described above will be out of the money on a Share price basis. However, on a NAV basis they will be in the money and the table below sets out a calculation of fully diluted NAV per Share if each of the Warrants is exercised. This assumes a prior Net Asset Value of US\$433,244,000, being the unaudited Net Asset Value as at 30 June 2014.

<i>Tranche</i>	<i>NAV after exercise (US\$,000)</i>	<i>Fully Diluted NAV per Share</i>	<i>Cumulative change</i>
(None)	433,244	80.7	None
One	438,244	80.1	-0.7%
One and Two	444,044	79.7	-1.2%
One, Two and Three	450,344	79.4	-1.6%

3.4.3 *Combined effect of the Issue and the Warrant Issue*

On the basis of the illustrative figures above, the undiluted NAV per Share would be 78.8 cents per Share and the fully diluted NAV, after recalculating for Warrants, would be 77.7 cents per Share, an aggregate 3.64 per cent. reduction.

4. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG and at the registered office of the Company during normal business hours on any Business Day from the date of this Circular until the conclusion of the EGM and at the place of the EGM for at least 15 minutes prior to, and during, the EGM:

- the current Articles;
- the Management Agreement;
- the Warrant Instrument; and
- this Circular.

5. RESOLUTIONS

The EGM is being convened for 2.00 p.m. on 15 September 2014 to be held at 11 New Street, St Peter Port, Guernsey GY1 2PF.

Five resolutions will be proposed at the EGM as follows:

Resolution 1 – this resolution approves the Issue, disapplies the pre-emption rights in the Articles in respect of such number of Shares to be issued pursuant to the Issue, the aggregate value of which, based on the Issue Price, will be up to US\$12 million (subject to the total number of Shares issued pursuant to the Issue not exceeding 10 per cent. of the Company's issued share capital (excluding Shares held in treasury) as at the date of the EGM) and authorises the Company to issue such Shares at a price below the prevailing Net Asset Value per Share.

Resolution 2 – this resolution is conditional upon Resolution 1 being passed and approves the issue of Shares to the Chairman pursuant to the Issue.

Resolution 3 – this resolution is conditional upon Resolution 1 being passed and approves the issue of Shares to Mr Vanderfelt pursuant to the Issue.

Resolution 4 – this resolution is conditional upon Resolution 1 being passed and approves the issue of Shares to the Manager pursuant to the Issue.

Resolution 5 – this resolution approves the Warrant Issue, disappplies the pre-emption rights in the Articles in relation to the issue of Shares on the exercise of Subscription Rights under the Warrant Instrument and authorises the Company to issue such Shares at prices below the prevailing Net Asset Value per Share.

Resolutions 1 and 5 will be proposed as special resolutions and, therefore, each of these resolutions requires a majority of 75 per cent. or more of the votes cast to be in favour for it to be passed. Resolutions 2, 3 and 4 will be proposed as an ordinary resolution and therefore, requires a majority of more than 50 per cent. of the votes cast to be in favour for it to be passed. A quorum consisting of two Shareholders present in person or by proxy is required for the EGM.

The notice convening the EGM is set out at the end of this Circular.

All persons holding Shares at 5.00 p.m. on 10 September 2014, or if the EGM is adjourned, on the register of Shareholders of the Company 48 hours before the time of any adjourned EGM, shall be entitled to attend, speak or vote at the EGM and shall be entitled on a poll to one vote per Share held. As at 21 August 2014, there were 537,149,832 Shares in issue (excluding Shares held in treasury).

6. GUERNSEY REGULATORY REQUIREMENTS

The Company has received authorisation as an authorised closed-ended investment scheme by the Guernsey Financial Services Commission (the “**Commission**”) under section 8 of The Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended) and the Authorised Closed-ended Investment Schemes Rules 2008 made thereunder (the “**Rules**”). Notification of the Proposals outlined in this Circular have been given to the Commission pursuant to Part 5 of the Rules.

7. COSTS OF THE PROPOSALS

The costs relating to the Proposals will be borne by the Company and are expected to be approximately £150,000.

8. ACTION TO BE TAKEN BY SHAREHOLDERS

Whether or not you intend to attend the EGM, you should ensure that your Proxy Appointment is returned to the Company’s registrars, Capita Asset Services, by one of the following means:

- in hard copy form by post, by courier or by hand to, Capita Asset Services, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU;
- via www.capitashareportal.com; or
- in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out in the notes to the notice of the EGM.

In each case, the Proxy Appointment must be received by the Company no later than 5.00 p.m. on 10 September 2014. To be valid, the relevant Proxy Appointment should be completed in accordance with the instructions accompanying it and lodged with the Company’s registrars by the relevant time.

Completion and return of the Proxy Appointment will not affect a Shareholder’s right to attend, speak and vote at the EGM.

9. RECOMMENDATION

The Board considers each of the Resolutions to be in the best interests of the Company and Shareholders as a whole and unanimously recommends that Shareholders vote in favour of the resolutions to be proposed at the EGM.

The Chairman and Mr Vanderfelt have not taken part in the Board's consideration of the Related Party Transactions pertaining to each of them.

The Board, which in respect of the Related Party Transactions has been so advised by Winterflood, considers the Related Party Transactions to be fair and reasonable so far as the Shareholders are concerned. In providing its advice to the Board, Winterflood has taken into account the commercial assessment of the Board.

The Chairman, Mr Vanderfelt and the Manager have undertaken not to, and to take all reasonable steps to ensure that their associates will not, vote on Resolutions 2, 3 and 4 respectively.

Your Directors (save as set out in the paragraph above) intend to vote in favour of the Resolutions to be proposed at the EGM in respect of their entire shareholdings of 5,170,000 Shares, representing 0.96 per cent. of the total number of issued Shares in the Company (excluding Shares held in treasury).

Yours faithfully

Sir Henry Studholme Bt
Chairman

PART II

THE TERMS OF THE WARRANT ISSUE

1. EFFECTIVE DATE, CONSTITUTION, GRANT AND FORM OF WARRANTS

- 1.1 The Warrant Instrument shall come into full force and effect as at 1 July 2014 subject to Shareholder approval.
- 1.2 The Company shall constitute, on the terms and subject to the conditions of the Warrant Instrument:
 - 1.2.1 the 2014 Warrants to subscribe in aggregate for 10 million Shares;
 - 1.2.2 the 2015 Warrants to subscribe in aggregate for 10 million Shares; and
 - 1.2.3 the 2016 Warrants to subscribe in aggregate for 10 million Shares,
- 1.3 The Warrants shall be issued on the date of the Warrant Instrument to the Manager.
- 1.4 The Warrants shall be issued on the terms and subject to the conditions of the Warrant Instrument which are binding on the Company and each Warrantholder, and all persons claiming through or under them respectively.

2. SUBSCRIPTION RIGHTS

2.1 *Subscription Rights*

- 2.1.1 A registered holder for the time being of a 2014 Warrant shall have the right (but not the obligation) to subscribe in cash (the “**2014 Subscription Right**”) at the 2014 Subscription Price for one Share at any time in the 2014 Subscription Period by following the procedures set out in paragraph 2.5 below.
- 2.1.2 A registered holder for the time being of a 2015 Warrant shall have the right (but not the obligation) to subscribe in cash (the “**2015 Subscription Right**”) at the 2015 Subscription Price for one Share at any time in the 2015 Subscription Period by following the procedures set out in paragraph 2.5 below.
- 2.1.3 A registered holder for the time being of a 2016 Warrant shall have the right (but not the obligation) to subscribe in cash (the “**2016 Subscription Right**”) at the 2016 Subscription Price for one Share at any time in the 2016 Subscription Period by following the procedures set out in paragraph 2.5 below.
- 2.1.4 In each case above, the Subscription Rights are subject to any adjustment, where applicable, pursuant to paragraph 3 below.

2.2 *Subscription Period*

- 2.2.1 Subject to paragraph 2.2.5 below, 2014 Warrantholders shall be entitled to exercise their 2014 Subscription Rights at any time during the 2014 Subscription Period.
- 2.2.2 Subject to paragraph 2.2.5 below, 2015 Warrantholders shall be entitled to exercise their 2015 Subscription Rights at any time during the 2015 Subscription Period.
- 2.2.3 Subject to paragraph 2.2.5 below, 2016 Warrantholders shall be entitled to exercise their 2016 Subscription Rights at any time during the 2016 Subscription Period.
- 2.2.4 Any date on which subscription occurs is described as a “**Subscription Date**”.
- 2.2.5 Except where paragraph 4.2 below applies, the Manager shall not, without the consent in writing of the Company, exercise any of its Subscription Rights at any time prior to the Continuation Vote.

2.3 *Subscription Price*

- 2.3.1 The price per Share payable on the exercise of 2014 Subscription Rights shall be 50 cents (the “**2014 Subscription Price**”).
- 2.3.2 The price per Share payable on the exercise of 2015 Subscription Rights shall be 58 cents (the “**2015 Subscription Price**”).
- 2.3.3 The price per Share payable on the exercise of 2016 Subscription Rights shall be 63 cents (the “**2016 Subscription Price**”).
- 2.3.4 The Subscription Price shall be payable in US Dollars in full in cash upon subscription. Each Warrant relates to a Subscription Right to one Share, but the relevant Subscription Price (and the number of Shares the subject of the Subscription Rights) will be subject to adjustment, where applicable, as provided in paragraph 3 below.
- 2.4 The Warrants registered in a holder’s name will be evidenced by a Warrant certificate issued by the Company on or within 14 days of the date of the Warrant Instrument. The Warrant certificates shall not be endorsed with the terms, conditions and Subscription Rights attaching to the Warrants. The Company will issue one certificate to each Warrantholder for each class of Warrants held by such Warrantholder.
- 2.5 In order to exercise the Subscription Rights which are conferred by any Warrants, in whole or in part, Warrantholders must lodge the relevant Warrant certificate at the office of the registrars for the time being of the Company (the “**Registrars**”), and/or at such other address or addresses as the Company may from time to time notify to Warrantholders during the applicable Subscription Period having completed the notice of subscription thereon (in the form set out in the Warrant Instrument) (the “**Subscription Notice**”) accompanied by a remittance to such account as the Company may from time to time notify to Warrantholders for the aggregate of the relevant Subscription Price payable on subscription for the Shares in respect of which the Subscription Rights are exercised. Any notice of exercise received other than on a Business Day or after 5.00 p.m. on any Business Day will be treated as having been received on the following Business Day. Once lodged, a notice of exercise of Subscription Rights shall be irrevocable save with the consent of the Directors. For the Subscription Notice to be effective, compliance must also be made with any statutory and regulatory requirements for the time being applicable to the exercise of Subscription Rights the subject of such Subscription Notice.
- 2.6 The Company shall not be required to give notice (in writing or otherwise) to the Warrantholders, at any time prior to the Final Subscription Date, reminding them of their Subscription Rights.
- 2.7 It shall be a condition of the allotment and issue of Shares pursuant to the exercise of Subscription Rights that the registered holder of the Shares shall undertake that, except where paragraph 4.3 applies, it will not sell, transfer or dispose of or purport to sell, transfer or dispose of such Shares to any person or create any charge, mortgage, lien or encumbrance over any of such Shares, or purport to do so until the first anniversary of the relevant Subscription Date.
- 2.8 Shares issued pursuant to the exercise of Subscription Rights will be allotted no later than 14 days after the Subscription Notice has been received by the Company. Unless the Directors otherwise determine, or unless the Regulations and/or the rules of the Relevant Electronic System concerned otherwise require, the Shares allotted on the exercise of any Subscription Rights shall be allotted and issued in uncertificated form. In the event Shares are to be allotted and issued in certificated form, certificates in respect of such Shares will be issued free of charge and despatched (at the risk of the person(s) entitled thereto) not later than 28 days after the last day of the relevant calendar quarter in which the Subscription Notice was received by the Company to the person(s) in whose name(s) the Warrants are registered at the date of such exercise (and, if more than one, to the first named, which shall be sufficient despatch for all) or (subject as provided by law and to the payment of any stamp duty, stamp duty reserve tax or any like tax as may be applicable) to such other person(s) as may be nominated on the reverse of the relevant Warrant certificate (and, if more than one, to the first named,

which shall be sufficient despatch for all). In the event of a partial exercise of the Subscription Rights comprised in Warrants the subject of the same Warrant certificate, the Company shall at the same time as the issue of the said certificate in respect of the Shares the subject of such exercise of Subscription Rights, issue a fresh Warrant certificate in the name of the holder(s) for any balance of Subscription Rights remaining exercisable with respect to the Warrants the subject of the same Warrant certificate. No fraction of a Share will be issued on the exercise of any Warrant and no refund will be made to a Warrantholder in respect of any subscription monies paid by that Warrantholder which represents such a fraction (if any) provided that if the Subscription Rights represented by more than one Warrant of a particular class are exercised by the same Warrantholder as at the same Subscription Date then the number of Shares to be issued to such Warrantholder in relation to all such Warrants of the same class exercised shall be aggregated and whether any fractions then arise shall be determined accordingly. In the case of Shares to be allotted and issued in uncertificated form, the Company shall procure that the appropriate instructions are given to enable such Shares to be evidenced by means of the Relevant Electronic System as a holding of the person(s) in whose name(s) the Warrants in respect of which Subscription Rights have been exercised were registered as at the date of such exercise or (subject as provided by law, to the payment of stamp duty reserve tax or any like tax as may be applicable, to such terms and conditions as the Directors may from time to time prescribe for this purpose and to the facilities and requirements of the Relevant Electronic System) to such other person(s) (not being more than four in number) as may be named in the properly authenticated dematerialised instruction and/or other instruction or notification in such form.

- 2.9 Shares issued pursuant to the exercise of Subscription Rights will not rank for any dividends or other distributions declared, paid or made for which the record date is prior to the day on which the Shares are allotted following the exercise of the Subscription Rights pursuant to paragraph 2.8 above but, subject thereto, will rank in full for all dividends and other distributions in respect of the then current financial year and *pari passu* in all other respects with the Shares in issue on the day on which the Shares are allotted following the exercise of the Subscription Rights pursuant to paragraph 2.8 above.
- 2.10 For so long as the Shares are admitted to a Relevant Exchange, the Company will apply for the Shares issued pursuant to any exercise of Subscription Rights to be listed or traded on the Relevant Exchange and the Company will use its best endeavours to obtain the admission thereof not later than 14 days after the relevant date of allotment of such Shares.
- 2.11 The Warrants and the Shares arising on the exercise of Subscription Rights have not been and will not be registered under the US Securities Act. The Warrants, the Subscription Rights and the Shares to be issued upon exercise of the Subscription Rights may not be offered, sold, resold, taken up, exercised, renounced, transferred or delivered, directly or indirectly, into or within the United States, Australia, Canada, Japan or any other jurisdiction which may result in the contravention of any registration or other legal requirement of such jurisdiction (each “**Restricted Territory**”) or to any citizen or resident of any Restricted Territory (a “**Restricted Person**”) or to or for the benefit of any such person. Persons subscribing for Shares in connection with the exercise of Subscription Rights shall (unless the relevant Shares can lawfully be allotted to them) be deemed to represent and warrant to the Company that they are not a Restricted Person and that they are not subscribing for such Shares for the account of any Restricted Person and are not subscribing with a view to the re-offer or re-sale of such Shares, directly or indirectly, in any Restricted Territory and will not offer, sell, renounce, transfer or deliver, directly or indirectly, such Shares in any Restricted Territory or to or for the benefit of any Restricted Person.
- 2.12 The exercise of Subscription Rights by any Warrantholder or beneficial owner of the Warrants who is a Restricted Person or the right of such a Warrantholder or beneficial holder to receive the Shares falling to be issued to them following the exercise of their Subscription Rights, will be subject to such other requirements, conditions, restrictions, limitations or prohibitions as the Company may at any time impose, in its sole discretion, for the purpose of complying with (or for avoiding any requirement which would otherwise arise to comply with) the securities laws of the United States (including, without limitation, the US Securities Act, the US Investment Company Act and any rules or regulations promulgated thereunder) and the laws of any other Restricted Territory.

3. ADJUSTMENT OF SUBSCRIPTION RIGHTS

- 3.1 The Subscription Price (and the number of Warrants outstanding) shall from time to time be adjusted in accordance with the provisions of this paragraph 3.
- 3.2 If and whenever there shall be an alteration on a date (or by reference to a date) on or before the Final Subscription Date in the number of Shares in issue as a result of a consolidation or subdivision of Shares, the relevant Subscription Price in force immediately prior to such alteration shall be adjusted by multiplying it by a fraction of which the numerator shall be the Net Asset Value of one such Share immediately after such alteration and the denominator shall be the Net Asset Value of one such Share immediately prior to such alteration, and such adjustment shall become effective on the date the alteration takes effect, and the provisions of paragraphs 3.7 and 3.8 below shall also apply.
- 3.3 If and whenever the Company shall allot to the Shareholders any Shares credited as fully paid by way of capitalisation of reserves or profits (other than Shares paid up out of distributable profits and issued in lieu of a cash dividend which would otherwise have been paid out of net income (which shall exclude proceeds from the sale of investments net of costs of such sale) (“**Scrip Dividend**”)) on a date (or by reference to a date) on or before the Final Subscription Date, the relevant Subscription Price in force immediately prior to such allotment shall be adjusted by multiplying it by a fraction of which the numerator shall be the Net Asset Value of one such Share immediately before such allotment and the Net Asset Value of one such Share immediately after such allotment and such adjustment shall become effective as at the date of allotment of such Shares.
- 3.4 If on a date (or by reference to a record date) on or before the Final Subscription Date, the Company makes any offer or invitation (by way of rights issue, open offer or otherwise but excluding an offer of Shares made in connection with Scrip Dividend) to Shareholders (subject to such exclusions as may be necessary to deal with legal, regulatory or practical problems in any jurisdiction) or to other persons to subscribe for new Shares or for securities convertible into or exchangeable for Shares or conferring rights to subscribe for Shares, then the Company shall, so far as it is reasonably able at the election of the Warrantheolders, either:
- 3.4.1 procure that at the same time the same offer or invitation is made to the then Warrantheolders as if their Subscription Rights (irrespective of whether they have vested in accordance with paragraph 2.2) had been exercisable and had been exercised on the date immediately preceding the record date for such offer or invitation on the terms (subject to any adjustment made previously pursuant to paragraphs 3.2 to 3.4 above) on which the same could have been exercised if such date had been a Subscription Date; or
- 3.4.2 the Subscription Price shall be adjusted:
- (A) in the case of an offer of new Shares for subscription by way of a rights issue at a price per Share which is less than the latest Net Asset Value per Share published immediately prior to the date of announcement of the terms of the offer (the “**Pre-Announcement NAV**”), by multiplying the relevant Subscription Price by a fraction of which the numerator is the number of Shares in issue on the date of such announcement plus the number of Shares of which would be equal to the aggregate amount payable for the total number of Shares comprised in such offer calculated by reference to the Pre-Announcement NAV and the denominator is the number of Shares in issue on the date of such announcement plus the aggregate number of Shares offered for subscription; and
- (B) in any other case, in such manner as the Auditors (or the other person selected by the Directors) shall report in writing to be fair and reasonable to the Warrantheolders taking into account any reduction in the Net Asset Value per Share, if any, arising from the proposed offer or invitation.
- 3.5 Any such adjustments shall become effective as at the record date for the offer or invitation.

- 3.6 No adjustment will be made to the Subscription Price pursuant to paragraphs 3.2, 3.3 or 3.4 above (other than by reason of a consolidation of Shares as referred to in paragraph 3.2 above) if it would result in an increase in the Subscription Price and, in any event, no adjustment will be made if such adjustment would (taken together with the amount of any adjustment carried forward under the provisions of this paragraph 3.6) be less than 1 per cent. of the Subscription Price then in force and on any adjustment the adjusted Subscription Price will be rounded down to the nearest whole cent. Any adjustment not so made and any amount by which the Subscription Price is rounded down will be carried forward and taken into account in any subsequent adjustment.
- 3.7 Whenever the Subscription Price is adjusted as provided in accordance with paragraphs 3.2 to 3.3 above (other than by reason of a consolidation of Shares as referred to in paragraph 3.2 above), the Company shall issue, for no payment, additional Warrants, registered as fully paid, to each Warrantholder at the same time as such adjustment takes effect. The number of additional Warrants to which a Warrantholder will be entitled shall be the number of existing Warrants held by them multiplied by the fraction:
- $$(A - B)/B$$
- where:
- A = the Subscription Price which would have been payable if the Subscription Rights had been exercisable and had been exercised immediately prior to the relevant adjustment pursuant to paragraphs 3.2 to 3.3 above; and
- B = the Subscription Price as adjusted pursuant to paragraphs 3.2 to 3.3 above.
- 3.8 Fractions of Warrants will not be allotted to Warrantholders.
- 3.9 Whenever the Subscription Price is adjusted in accordance with this paragraph 3 by reason of a consolidation of Shares as referred to in paragraph 3.2 above or a capitalisation of reserves or profits as referred to in paragraph 3.3 above, the number of Shares to which each Warrantholder is entitled to convert such Warrants will respectively be reduced and increased, in each case so as to maintain the aggregate Subscription Price.
- 3.10 The Company shall give notice to Warrantholders within 28 days of any adjustment made pursuant to paragraphs 3.2 to 3.9 above.
- 3.11 Notwithstanding the provisions of paragraphs 3.2 to 3.9 above, in any circumstances, where the Directors consider that an adjustment to the Subscription Price provided for under the aforementioned paragraphs should not be made or should be calculated on a different basis or that an adjustment to the Subscription Price should be made notwithstanding that no such adjustment is required under the aforementioned paragraphs or that an adjustment should take effect on a different date or with a different time from that provided under the aforementioned paragraphs in order to give a result which is fair and reasonable to the Warrantholders, the Company may appoint the Auditors (or such other person as the Directors may in good faith select for the purpose) to consider whether for any reason whatsoever the adjustment to be made (or the absence of adjustment) would or might not appropriately reflect the relative interests of the persons affected thereby and, if the Auditors (or the other person selected by the Directors) shall consider this to be the case, the adjustment shall be modified or nullified, or another adjustment made instead, or no adjustment made, in such manner, including without limitation making an adjustment calculated on a different basis and/or to take effect from such other date and/or time as shall be reported by the Auditors (or the other person selected by the Directors) to be in their opinion appropriate in order to give a result which is fair and reasonable to the Warrantholders.
- 3.12 Where an event which gives or may give rise to an adjustment to the Subscription Price occurs whether in such proximity in time to another such event or otherwise in circumstances such that the Company in its reasonable discretion determines that the foregoing provisions need to be operated subject to some modification in order to give a result which is fair and reasonable to the

Warrantheolders in all the circumstances such modification shall be made in the operation of the foregoing provisions as may be advised by the Auditors (or such other person as the Directors may in good faith select for the purpose) to be in their opinion appropriate in order to give such a result.

4. OTHER PROVISIONS

So long as any Subscription Rights remain capable of exercise:

- 4.1 the Company shall not (except with the sanction of a special resolution of the Warrantheolders):
 - 4.1.1 make any distribution of capital profits or capital reserves except by means of a capitalisation issue in the form of fully paid Shares; or
 - 4.1.2 issue securities by way of capitalisation of profits or reserves except fully paid Shares issued to the holders of its Shares pro rata to their existing holdings.
- 4.2 subject to paragraph 4.3 below, if at any time an offer is made to all Shareholders (or all such Shareholders other than the offeror and/or any company controlled by the offeror and/or persons acting in concert with the offeror) to acquire the whole or any part of the issued Shares of the Company and the Company becomes aware that as a result of such offer the right to cast a majority of the votes which may ordinarily be cast on a poll at a general meeting of the Shareholders has or will become vested in the offeror and/or such companies and/or such persons as aforesaid, the Company shall give notice to the Warrantheolders of such vesting or prospective vesting within 14 days of its becoming so aware and each Warrantheolder shall be entitled, at any time within the period of 30 days immediately following the date of such notice, to exercise its Subscription Rights (irrespective of whether they have vested in accordance with paragraph 2.2 above) on the terms (subject to any adjustments pursuant to paragraphs 3) on which the same could have been exercised if the day on which the Company shall become aware as aforesaid had been a Subscription Date. The publication of a scheme of arrangement providing for the acquisition (by whatever means) by any person of the whole or any part of the issued Shares of the Company shall be deemed to be the making of an offer for the purposes of this paragraph and references in the Warrant Instrument to such an offer shall be made and construed accordingly;
- 4.3 if any offer as is referred to in paragraph 4.2 above shall be made where the consideration shall consist solely of the issue of ordinary shares of the offeror and the offeror shall make available to Warrantheolders an offer of warrants to subscribe for ordinary shares in the offeror in exchange for the Warrants which the Auditors (or such other person as the Directors may in good faith select for the purpose) shall consider in their opinion to be fair and reasonable to the Warrantheolders (having regard to the terms of the offer and any other circumstances which may appear to the financial advisers to the Company to be relevant), then the Warrantheolders shall be required to accept such offer and any director of the Company shall be authorised as attorney for the Warrantheolders to (i) execute a transfer of the Warrants in favour of the offeror in consideration of the issue of warrants to subscribe for ordinary shares in the offeror as aforesaid whereupon all the Warrants shall lapse, and (ii) do all such acts and things as may be necessary or appropriate in connection therewith, subject in the case of both (i) and (ii) aforesaid to such offer becoming or being declared unconditional in all respects and the offeror being in a position to compulsorily acquire the whole of the issued Shares of the Company;
- 4.4 the Company shall not (except with the sanction of a special resolution of the Warrantheolders or for a reduction not involving any payment to Shareholders) reduce any of its share capital, any uncalled or unpaid liability in respect of any of its share capital or any of its non-distributable reserves provided that the Company shall not be restricted by this paragraph 4.4 from reducing its share capital and from cancelling or reducing any other non-distributable reserve in connection with, or from making, any purchase of (i) Shares at prices below the Net Asset Value per Share as envisaged by paragraph 4.6 below or (ii) Warrants as envisaged by paragraph 6 below;

4.5 subject to paragraph 9.2.1, if:

4.5.1 an order is made or an effective resolution is passed for winding up the Company (except for the purpose of reconstruction, amalgamation or unitisation on terms sanctioned by a special resolution of the Warrantholders);

4.5.2 in such winding up and on the basis that all Subscription Rights (irrespective of whether they have vested in accordance with paragraph 2.2 above) had been exercised in full and the Subscription Price in respect thereof had been received in full by the Company there would be a surplus available for distribution amongst the Shareholders, including for this purpose the Shares which would arise on exercise of all such Subscription Rights (taking into account any adjustments pursuant to paragraphs 3.2 to 3.9, 3.11 and 3.12 above), which surplus would, on such basis, exceed in respect of each Share the Subscription Price applicable to the Subscription Rights;

each Warrantholder shall be treated as if immediately before the date of such order or resolution (as the case may be) such Subscription Rights had been exercisable and had been exercised in full on the terms (subject to any adjustments pursuant to paragraphs 3.2 to 3.9, 3.11 and 3.12 above) on which the same could have been exercised if they had been exercisable and had been exercised in full but at any reduced Subscription Price immediately before the date of such order or resolution (as the case may be), and shall accordingly be entitled to receive out of the assets available in the liquidation *pari passu* with the Shareholders such sum as they would have received had it been the holder of the Shares to which it would have become entitled by virtue of exercising such Subscription Rights after deducting a sum per Share equal to the Subscription Price (subject to any adjustments pursuant to paragraphs 3.2 to 3.9, 3.11 and 3.12 above). Subject to the foregoing, all Subscription Rights shall lapse on liquidation of the Company;

4.6 notwithstanding paragraphs 4.1 to 4.5 above, the Company may, without the sanction of any special resolution of Warrantholders:

4.6.1 purchase any of its own share capital (whether by tender, by private treaty or through the market);

4.6.2 hold any of its issued share capital in treasury pursuant to the Companies Law; and

4.6.3 effect a reduction in its share premium account or capital redemption reserve unless prohibited by paragraph 4.4 above.

5. MODIFICATION OF RIGHTS

All or any of the rights for the time being attached to the Warrants may from time to time (whether or not the Company is being wound up) be compromised, altered or abrogated with the sanction of a special resolution of the Warrantholders. Modifications to the rights of the Warrants which are of a minor nature, or made to correct a manifest error, and which in each case, in the reasonable opinion of the Directors do not adversely affect the interests of the Warrantholders shall be deemed not to be an alteration or abrogation of the rights attached to the Warrants and may be effected (without the sanction or an special resolution of the Warrantholders) by a deed poll executed by the Company and expressed to be supplemental to the Warrant Instrument and notice of each such modification made pursuant thereto shall be given by the Company to the Warrantholders as soon as practicable.

6. PURCHASE

The Company shall have the right to purchase Warrants by private treaty. All Warrants so purchased shall forthwith be cancelled and shall not be available for reissue or resale.

7. TRANSFER

- 7.1 Each Warrant will be in registered certificated form and, subject to paragraph 7.2 below, will be transferable in whole or in part by instrument of transfer in any usual or common form or in any other form which may be approved by the Directors. No transfer of a right to subscribe for a fraction of a Share may be effected. Subject as provided in this paragraph 7, the provisions of the Articles for the time being of the Company relating to the registration, transfer and transmission of Shares and the issue of certificates shall apply *mutatis mutandis* to the Warrants.
- 7.2 Save with the prior written consent of the Company, the Warrants shall be transferable only after the Continuation Vote is passed by the Shareholders or pursuant to paragraph 4.3 above.

8. GENERAL

- 8.1 The Company will, concurrently with the issue of the same to the Shareholders, send to each Warranholder (or, in the case of joint holders, to the first named) a copy of the financial statements sent to Shareholders, together with all documents required by law to be annexed thereto, and a copy of every other statement, notice or circular issued by the Company to Warranholders.
- 8.2 For the purposes of these conditions, “special resolution of the Warranholders” means a resolution proposed at a meeting of the Warranholders duly convened and quorate and passed by a majority consisting of not less than three-fourths of the votes cast, whether on a show of hands or on a poll.
- 8.3 Subject as provided in paragraph 7 above, the provisions of the Articles relating to notice of meetings, untraced members, lost certificates and the registration, transfer and transmission of Shares shall, *mutatis mutandis*, apply to the Warranholders as if the Warrants were Shares.
- 8.4 Any determination or adjustment made pursuant to the Warrant Instrument by the Auditors (or the other person selected by the Directors) shall be made by them as experts and not as arbitrators and any such determination or adjustment made by them shall be final and binding on the Company and each of the Warranholders.
- 8.5 Any references in these particulars to a statutory provision shall include that provision as from time to time modified or re-enacted.
- 8.6 Subject to paragraph 4.5 above, Warrants carry no right to any dividend or other distribution by the Company and (save to the extent that the Directors elect in connection with an exercise of Subscription Rights as provided in paragraph 9.3.2 below) no right to be redeemed (although the Company may elect to purchase Warrants pursuant to paragraph 6 above). Warranholders are not entitled to attend or vote at meetings of Shareholders and, save as provided in paragraph 4.5 above, have no right to share in any surplus in the event of liquidation of the Company.

9. LAPSE OF SUBSCRIPTION RIGHTS

- 9.1 All Subscription Rights which are not exercised within the relevant Subscription Period Date shall lapse immediately at the end of the relevant Subscription Period or earlier in accordance with paragraphs 9.2 and 9.3.
- 9.2
- 9.2.1 Subject to paragraph 9.2.2 below, all Subscription Rights, including those that: (a) have become exercisable pursuant to paragraph 2.1 above, shall lapse forthwith in the event Shareholders resolve not to continue the Company pursuant to the vote of Shareholders scheduled to take place in 2016 as described in paragraph 2.2.3 of Part A of Schedule 3 of the Management Agreement (the “**Continuation Vote**”).
- 9.2.2 In the event that the Continuation Vote has not been passed by the Shareholders and the Subscription Rights of the Warranholder under the Warrant Instrument have consequently lapsed in accordance with paragraph 9.2.1 above, but the Company either: (i) continues its business pursuant to an amended resolution or other determination of the Shareholders such

that no liquidation of the Company takes place; or (ii) is the subject of an invitation or offer to which paragraph 4.2 above applies at any time prior to the proposed liquidation, the Company and the Warrantholder shall agree in good faith the extent to which the Subscription Rights shall be reinstated so as to continue to be exercisable in lieu of the Liquidation Payment (as such term is defined in the Management Agreement).

9.3

9.3.1 Without prejudice to paragraph 9.2 above and subject to paragraph 9.3.2 below, all Subscription Rights, to the extent that they: (a) have become exercisable pursuant to paragraph 2.1; and (b) have not already lapsed in accordance with paragraph 9 or been exercised, shall remain capable of being exercised following the termination of the Management Agreement.

9.3.2 If the termination of the Management Agreement is attributable to the wilful default or fraud of any Manager Indemnified Person (as such term is defined in the Management Agreement) all Subscription Rights, including those that: (a) have become exercisable pursuant to paragraph 2.1 above, shall lapse forthwith unless the corresponding Warrants have been transferred to a person other than an associate of the Manager in accordance with paragraph 7 above prior to the termination of the Management Agreement.

10. SEVERANCE

If any provision of the Warrant Instrument is void or unenforceable, it shall be deemed to be deleted and the remaining provisions of the Warrant Instrument shall continue in full force and effect.

11. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

11.1 Subject to paragraph 11.2 below, no provision of the Warrant Instrument is enforceable under the Contracts (Rights of Third Parties) Act 1999 by a person who is not a party to the Warrant Instrument.

11.2 Each Warrantholder shall be entitled to enforce the Warrant Instrument.

12. GOVERNING LAW AND JURISDICTION

12.1 The Warrant Instrument and any dispute or claim arising out of or in connection with it or its subject matter, existence, negotiation, validity, termination or enforceability (including non-contractual disputes or claims) shall be governed by and construed in accordance with English law.

12.2 Each party irrevocably agrees that the courts of England shall have exclusive jurisdiction in relation to any dispute or claim arising out of or in connection with the Warrant Instrument or its subject matter, existence, negotiation, validity, termination or enforceability (including non-contractual disputes or claims). Each party irrevocably waives any right that it may have to object to an action being brought in those courts, to claim that the action has been brought in an inconvenient forum, or to claim that those courts do not have jurisdiction. Regardless of whether the courts of any country other than England have jurisdiction to consider a dispute falling within paragraph 12.1 above each party irrevocably undertakes that it shall neither issue or cause to be issued originating or other process in respect to such a dispute in any jurisdiction other than England. In the event that either party commences an action in the courts of any country other than Scotland (a “**foreign action**”), the party which commenced the foreign action shall indemnify the other party in respect of any and all costs and/or liabilities which it has incurred in connection with the foreign action, whether or not those costs and/or liabilities would be recoverable apart from the provisions of this paragraph 12.

PART III

ADDITIONAL INFORMATION

1. MATERIAL CONTRACTS

Management Agreement

- 1.1 The Company and the Manager have entered into a portfolio management agreement, dated 21 August 2014 (the “**Management Agreement**”) but effective from 1 July 2014, pursuant to which the Manager has been given sole responsibility for the portfolio management and risk management of the investments and to advise the Company in relation to the investments on a day to day basis, in each case in accordance with the investment guidelines and restrictions applicable to the Company. On entering into the Management Agreement, the Manager has become the AIFM of the Company. The Manager will be entitled to receive from the Company the Management Fee as set out in paragraphs 2.1 and 3.1 of Part I of this Circular.

Termination

- 1.2 Subject to the provisions below, the Management Agreement and the appointment of the Manager under the Management Agreement shall continue in force unless and until terminated by:
- 1.2.1 the Company giving the Manager not less than 6 months’ written notice; or
- 1.2.2 the Manager giving the Company not less than 6 months’ written notice.
- 1.3 The Management Agreement may be terminated by the Company with immediate effect from the time at which notice of termination is given or if later, the time at which such notice is expressed to take effect, if:
- 1.3.1 an order has been made or an effective resolution passed for the winding-up or liquidation of the Manager (except a voluntary liquidation for the purpose of reconstruction or amalgamation upon terms previously consented to in writing by the Company, such consent not to be unreasonably withheld or delayed), or a receiver or similar officer has been appointed in respect of the Manager or of any material part of the Manager’s assets, or the Manager enters into an arrangement with its creditors or any of them, or the Manager is, or is deemed to be, unable to pay its debts;
- 1.3.2 the Manager ceases, or takes steps to cease, to carry on its business or substantially the whole of its business, or makes or threatens to make any material alteration to the nature of its business as carried on at the date of the Management Agreement;
- 1.3.3 the Manager has committed a breach of its obligations under the Management Agreement (except a breach of certain service standards set out in the Management Agreement) that is material in the context of the Management Agreement (whether or not, for the avoidance of doubt, such breach would otherwise be a repudiatory breach), and where such breach is capable of remedy, fails to remedy such breach within 30 days after receiving notice from the Company requiring the same to be remedied;
- 1.3.4 the Manager has breached its obligation to provide appropriately qualified, trained and experienced professionals and fails to remedy such breach within 90 days after receiving notice from the Company requiring the same to be remedied;
- 1.3.5 either Steve Addicott or Richard Bowley ceases to be employed by the Manager for any reason whatsoever and the Manager has been unable to secure or appoint a replacement for such person within 90 days after such cessation of employment and such replacement has a level of experience, repute and qualification satisfactory to the Company acting reasonably;

- 1.3.6 the Manager ceases to maintain its permission from the FCA to act as AIFM of the Company, or such permission is suspended;
 - 1.3.7 the Manager ceases to hold any other authorisation required in order to perform its obligations under the Management Agreement and fails to remedy the situation without any material adverse implications for the Company within such period as the Company may specify and which is reasonable in the circumstances;
 - 1.3.8 the scope of the Manager's permission from the FCA to act as AIFM of the Company is restricted to the extent that, in the opinion of the Company, acting reasonably, it impairs the Manager's ability to perform its obligations under the Management Agreement;
 - 1.3.9 the Manager fails to notify the Company of an FCA enquiry or investigation concerning the Manager's conduct as the AIFM which could reasonably be expected to result in the Manager being unable to continue as the AIFM of the Company on a temporary or permanent basis;
 - 1.3.10 the Manager breaches any provision of the Management Agreement and such breach results in either the listing of the Shares on the official list of the London Stock Exchange or trading of the Shares on the London Stock Exchange being suspended or terminated, or results in the Company losing its exempt tax status for the purposes of the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 as amended or the Company becoming resident in the UK for tax purposes; or
 - 1.3.11 the Company is required by any relevant regulatory authority to terminate the Manager's appointment.
- 1.4 The Management Agreement may be terminated by the Manager with immediate effect from the time at which notice of termination is given or, if later, the time at which such notice is expressed to take effect, if: (i) an order has been made or an effective resolution passed for the winding-up or liquidation of the Company (except a voluntary liquidation for the purpose of reconstruction or amalgamation upon terms previously consented to in writing by the Manager, such consent not to be unreasonably withheld or delayed); or (ii) any person acquires or obtains an interest of 30 per cent. or more in the share capital of the Company; or (iii) the Company is in breach of the Management Agreement which is material in the context of the Management Agreement, including without limitation, the Management Fees payable to the Manager being overdue by more than 45 days, without the agreement in writing of the Manager.
- 1.5 If the Board notifies the Manager in writing that it proposes to make a material change to the investment guidelines which would require shareholder approval (the "**Investment Guidelines Notice**"), and in the opinion of the Manager, acting reasonably, the proposed change is of such significance that the Manager would no longer be able to meet the requirements of the service standards under the Management Agreement, the Manager may terminate the Management Agreement on the earlier of (i) the date on which the appointment of a replacement AIFM becomes effective or, (ii) the Business Day prior to the date on which the proposed changes to the investment guidelines are intended to take effect.
- 1.6 If the Company notifies the Manager of an intended breach of, or change to, any value of the agreed thresholds and profiles required to be disclosed by the Manager under the AIFMD with respect to the Company ("**Thresholds and Profiles**") in accordance with the process set out in Management Agreement, and: (i) in the opinion of the Manager, acting reasonably, the intended breach or change in value is such that it would cause the Manager to be in breach of, or otherwise become unable to comply with its obligations under, the AIFMD; or (ii) the Manager, acting reasonably, determines that, taking into account all the circumstances, it has been given unreasonably short notice to make such assessment; the Manager may terminate the Management Agreement on the earlier of (i) the date on which the appointment of a replacement AIFM becomes effective or, (ii) the Business Day prior to the effective date of the intended breach or, as the case may be, the date on which such adjusted values are disclosed to any third party by the Company or on the Company's request.

- 1.7 If (i) the Manager notifies the Company of any proposed change to any value of the agreed Thresholds and Profiles expressly required by the FCA or any Applicable Requirements in accordance with the process set out in the Management Agreement and the Company has not agreed to the proposed change to the Thresholds and Profiles within a reasonable time period (taking into account any deadline set by the FCA in respect of such change); or (ii) an act or omission by the Company breaches the AIFMD, the FCA Rules or any Applicable Requirements and the FCA expressly instructs the Manager to, or recommends that the Manager should, terminate the Management Agreement; then the Manager may terminate the Management Agreement on the earlier of (i) the date on which the appointment of a replacement AIFM in respect of the Company becomes effective or (ii) the time at which the notice of termination given by the Manager is expressed to take effect.
- 1.8 Any termination of the Management Agreement shall be without prejudice to any claim by any party against the other for any breach of the Management Agreement committed prior to such termination.
- 1.9 Subject to any proper instructions, termination of the Management Agreement (for whatever cause) shall be without prejudice to transactions already initiated and transactions in progress shall be completed. The Company and the Manager shall consult together to determine the way in which transactions in progress are to be dealt with upon such termination.

Consequences of Termination

- 1.10 If the Management Agreement is terminated pursuant to paragraph 1.2 above and the Manager serves the full notice period applicable (which the Manager shall be entitled to do), the Company shall pay to the Manager: (a) the Base Fee payable to the effective date of termination; (b) any Further Fee payable to the effective date of termination; and (c) promptly reimburse to the Manager all of its out of pocket expenses properly incurred in respect of the performance of its obligations under the Management Agreement up to the effective date of termination and payable by the Company in accordance with the Management Agreement.
- 1.11 If the Management Agreement is terminated pursuant to paragraph 1.3 above, the Company shall pay to the Manager: (a) the Base Fee payable to the effective date of termination; (b) any Further Fee payable to the effective date of termination, unless the termination of the Management Agreement is attributable to the wilful default or fraud of any Manager Indemnified Person; and (c) promptly reimburse to the Manager all of its out of pocket expenses properly incurred in respect of the performance of its obligations under the Management Agreement up to the effective date of termination and payable by the Company in accordance with the Management Agreement. Subject to paragraphs 1.14 to 1.17 below, no additional payment shall be required to be made to the Manager by the Company.
- 1.12 If the Management Agreement is terminated pursuant to paragraphs 1.4, 1.5, 1.6 or 1.7 above, the Company shall pay to the Manager:
 - 1.12.1 (i) the Base Fee that would have been payable to the effective date of termination; (ii) an amount equal to the remaining Base Fee that would have been due had the full notice applicable under paragraph 1.2 been served; and (iii) any Further Fee payable up to the date on which it would have been due had full notice applicable under paragraph 1.2 been served, save that, (i) in the case of termination under paragraph 1.5, the notice period shall be deemed to begin 2 weeks after the date on which the relevant Investment Guidelines Notice is received by the Manager, and (ii) in the case of termination under paragraph 1.6, the notice period shall be deemed to begin 2 weeks after the date on which the Manager receives notice from the Company of the intended breach or change in Thresholds and Profiles; and
 - 1.12.2 promptly reimburse to the Manager all of its out of pocket expenses properly incurred in respect of the performance of its obligations under the Management Agreement up to the effective date of termination and payable by the Company in accordance with the Management Agreement.

- 1.13 Subject to paragraphs 1.14 to 1.17 below, no additional payment shall be required to be made to the Manager by the Company.
- 1.14 Subject to paragraph 1.15 below, if the Management Agreement is terminated, all rights, only to the extent that they have vested, have not already lapsed and are capable of exercise under the Warrant Instrument, shall continue to be exercisable following such termination.
- 1.15 If the termination of the Management Agreement is attributable to the wilful default or fraud of any Manager Indemnified Person, all rights under the Warrant Instrument (including rights that have already vested) shall lapse forthwith unless they have been transferred by the Manager in accordance with the terms of the Warrant Instrument to a person other than an associate of the Manager at any time prior to such termination.
- 1.16 Subject to paragraph 1.17 below, if the Management Agreement is terminated pursuant to paragraph 1.2 in the event of or after the Continuation Vote not being passed and paragraph 1.4(iii) does not apply, the Manager shall continue to be entitled to the Liquidation Payment following such termination, but not otherwise.
- 1.17 If the termination of the Management Agreement is attributable to the wilful default or fraud of any Manager Indemnified Person, the Manager shall not be entitled to the Liquidation Payment.
- 1.18 For the avoidance of doubt, if notices of termination are served pursuant to more than one provision of the Management Agreement, under no circumstances shall the subsequently served notice of termination have the effect of extending the period for which Base Fee would have been payable pursuant to the previously served notice of termination.
- 1.19 On the termination of the Management Agreement for any reason, the Manager shall take all proper steps to facilitate the handover of the management of the portfolio of investments to the Company or to such other person as the Company directs as soon as is reasonably practicable and, in any event, within 30 Business Days; and (without limitation) shall comply with all reasonable proper instructions of the Company as to the orderly transition of such management. All reasonable costs incurred by the Manager in complying with this shall be reimbursed by the Company to the Manager in full on demand.
- 1.20 On the termination of the Management Agreement, subject to the obligations of confidentiality under the Management Agreement, the Manager shall:
 - 1.20.1 forthwith return or procure the return to the Company or as the Company shall direct, all papers, advice, contract notes and accounting records and other documents and materials belonging to the Company or prepared in accordance with the Management Agreement (including in electronic form), provided that the Manager shall be entitled to retain one copy of each signed document for regulatory or record keeping purposes only. The Manager shall not have, or purport to claim, a lien over any such documents or materials; and
 - 1.20.2 subject to paragraph 1.19, forthwith procure the retirement or resignation of its representatives on the board of directors of any Asset Holding Vehicle as directed by the Company.
- 1.21 Prior to the return by the Manager of all such documents and materials, the Manager shall, at the request of the Company, provide any person specified by the Company with reasonable access to such documents and materials, and all documents or materials relating to the Company, which are in its possession or in the possession of any of the Manager's associates, agents or delegates.
- 1.22 To the extent required by the Manager to defend itself against any claims or proceedings brought against it after the termination of the Management Agreement, the Company shall grant the Manager reasonable access during office hours to the records, papers, advice and contract notes prepared by the Manager for the Company in accordance with the Management Agreement.
- 1.23 Termination shall not affect accrued rights, indemnities, existing commitments or any contractual provision intended to survive termination and shall be without penalty or additional payment. The

provisions relating to confidentiality, paragraphs 1.10 to 1.23 above and any other provisions intended to have further effect shall continue to apply notwithstanding termination of the Management Agreement.

Indemnities

- 1.24 The Company has given certain market standard indemnities in favour of the Manager in respect of the Manager's potential losses in carrying out its responsibilities under the Management Agreement.

General

- 1.25 The Management Agreement is governed by English law.

2. MAJOR SHAREHOLDERS

As at 21 August 2014, insofar as is known to the Company, the following persons are directly or indirectly interested in 5 per cent. or more of the Company's total voting rights:

<i>Name</i>	<i>% Company's voting rights</i>
Citibank Noms (Ireland) Ltd	13.58
HSBC Global Custody Nominees (UK) Ltd	12.54
Bank of New York (Nominees) Limited	12.16
Chase Nominees Ltd	11.12
Euroclear Nominees Ltd	9.35
Vidacos Nominees Ltd	8.76
Nortrust Nominees Ltd	6.28

3. DIRECTORS' INTERESTS

All the Directors are non-executive directors of the Company. No Director has a service contract with the Company, nor are any such contracts proposed. Save to the extent of the Chairman's and Mr. Vanderfelt's proposed participation in the Issue, as at 20 August 2014, the Company has not entered into any related party transactions with any Director since incorporation.

As at 20 August 2014, the interests of the Directors in the Shares are as follows:

<i>Name</i>	<i>Number of Shares</i>
Sir Henry Studholme Bt	380,000
Mr. William Vanderfelt	4,790,000
Ian Burns	Nil
Martin Ricketts	Nil

4. SIGNIFICANT CHANGE

Save as described in this Circular, there has been no significant change in the financial or trading position of the Group since 31 December 2013, being the last date in respect of which the Group has published financial information.

5. CONSENT

Winterflood has given and not withdrawn its written consent to the inclusion of the reference to its name in the form and context in which it appears.

DEFINITIONS

“2014 Subscription Period”	1 July 2014 to 30 June 2019 (both dates inclusive)
“2014 Subscription Price”	50 cents
“2014 Subscription Right”	Has the meaning given to it in paragraph 2.1.1 in Part II of this Circular
“2014 Warranholders”	the holders of the 2014 Warrants
“2014 Warrants”	the warrants issued by the Company pursuant to the Warrant Instrument as described in paragraph 1.2.1 in Part II of this Circular
“2015 Subscription Period”	1 July 2015 to 30 June 2019 (both dates inclusive)
“2015 Subscription Price”	58 cents
“2015 Subscription Right”	has the meaning given to it in paragraph 2.1.2 in Part II of this Circular
“2015 Warranholders”	the holders of the 2015 Warrants
“2015 Warrants”	the warrants issued by the Company pursuant to the Warrant Instrument as described in paragraph 1.2.2 in Part II of this Circular
“2016 Subscription Period”	1 July 2016 to 30 June 2019 (both dates inclusive)
“2016 Subscription Price”	63 cents
“2016 Subscription Right”	has the meaning given to it in paragraph 2.1.3 in Part II of this Circular
“2016 Warranholders”	the holders of the 2016 Warrants
“2016 Warrants”	the warrants issued by the Company pursuant to the Warrant Instrument as described in paragraph 1.2.3 in Part II of this Circular
“Administrator” or “Secretary”	Legis Fund Services Limited
“Admission”	the admission to the Official List and admission to trading on the London Stock Exchange of the Shares becoming effective
“AIFM”	has the meaning given in UK SI 2013/1773, the Alternative Investment Fund Managers Regulations 2013
“AIFMD”	the Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No. 1095/2010; the Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision; the UK SI 2013/1773, the Alternative Investment Fund Managers Regulations 2013 and any other applicable national implementing measures
“Applicable Distributions”	has the meaning given to it in paragraph 3.3.5 of Part I of this Circular

“Applicable Requirements”	all applicable law (whether in the form of statute or decision of a court or administrative tribunal) and regulation and, if applicable, the prevailing rules, regulations, determinations, guidelines or instructions of any governmental, stock exchange or regulatory authority in any jurisdiction to which the Manager, any associate of the Manager, the Company or any Asset Holding Vehicle (as the context may require) is subject, as amended from time to time
“Articles of Incorporation” or “Articles”	the articles of incorporation of the Company in force from time to time
“Asset Holding Vehicles”	special purpose vehicles as may be established or acquired, directly or indirectly, by the Company from time to time
“Base Fee”	has the meaning given to it in paragraph 2.2 of Part I of this Circular
“Board” or “Directors”	the board of directors of the Company
“Business Day”	a day on which the London Stock Exchange and banks in London are normally open for business
“Circular”	this document
“Commission”	the Guernsey Financial Services Commission
“Companies Law”	The Companies (Guernsey) Law 2008, as amended
“Company” or “Phaunos”	Phaunos Timber Fund Limited
“Continuation Vote”	has the meaning given to it in paragraph 1 of Part I of this Circular
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company convened for 2.00 p.m. on 15 September 2014 (or any adjournment thereof), notice of which is set out at the end of this Circular
“FCA”	means the Financial Conduct Authority of the United Kingdom
“FCA Rules”	the rules and guidance set out in the FCA Handbook of Rules and Guidance from time to time
“Final Subscription Date”	means 30 June 2019
“Further Fee”	has the meaning given to it in paragraph 2.2 of Part I of this Circular
“Increased Base Fee”	has the meaning given to it in paragraph 3.3.4 of Part I of this Circular
“Issue”	issue of Shares to be made by the Company to Qualifying Investors, as described in Part I of this Circular
“Issue Price”	not less than US\$0.40 per Share
“Issue Shares”	Shares to be issued under the Issue
“Liquidation Payment”	has the meaning given to it in paragraph 3.3.5 of Part I of this Circular
“Listing Rules”	the Listing Rules made by the UK Listing Authority pursuant to Part VI of the UK Financial Services and Markets Act 2000, as amended from time to time
“London Stock Exchange”	London Stock Exchange plc

“Management Agreement”	the portfolio management agreement, dated 21 August 2014, between the Company and the Manager
“Manager”	Stafford Timberland Limited
“Manager Indemnified Person”	the Manager, its associates, delegates or agents, and the officers, directors or employees of the Manager, or its associates, delegates or agents
“Market Capitalisation”	means the number of issued Shares multiplied by the price per Share as determined by taking the average of the buy price at the close of business on each Business Day in the relevant quarter
“Net Asset Value” or “NAV”	means the total assets of the Company less the total liabilities of the Company (including accrued but unpaid fees) valued in accordance with the accounting policies adopted by the Company from time to time and expressed in U.S. Dollars
“Net Asset Value per Share” or “NAV per Share”	means the Net Asset Value divided by the number of Shares in issue (other than Shares held in treasury) at the date of calculation
“Proposal”	the proposals relating to the approval by Shareholders of the Warrant Issue, the Issue and the Related Party Transactions described in paragraph 2 of Part I of this Circular
“Proxy Appointment”	the appointment of a proxy on behalf of a Shareholder in accordance with the procedures described in this Circular
“Registrars”	the registrars of the Company from time to time
“Regulations”	Uncertificated Securities Regulations 2001 (SI 2001/3755)
“Related Parties”	Sir Henry Studholme Bt, William Vanderfelt and Stafford Timberland Limited (each of them individually a “ Related Party ”)
“Related Party Transactions”	the issue of Shares to each of the Related Parties pursuant to the Issue
“Relevant Electronic System”	any relevant computer-based system enabling title to units of a security to be evidenced and transferred without a written instrument
“Relevant Exchange”	means the stock exchange, stock market or other recognised exchange (including for the avoidance of doubt, where reference is made to the rules of the Relevant Exchange, the London Stock Exchange) on which the Shares are listed and/or traded
“Resolutions”	the special and ordinary resolutions to be proposed at the EGM and contained in the notice of the EGM
“Restricted Person”	has the meaning given to it in paragraph 2.11 in Part II of this Circular
“Restricted Territory”	has the meaning given to it in paragraph 2.11 in Part II of this Circular
“Rules”	the Authorised Closed-ended Investment Schemes Rules 2008
“Shareholders”	holders of Shares

“Shares” or “Ordinary Shares”	US Dollar denominated ordinary shares of no par value in the capital of the Company
“Subscription Date”	has the meaning given to it in paragraph 2.2.4 in Part II of this Circular
“Subscription Period”	the 2014 Subscription Period and/or the 2015 Subscription Period and/or the 2016 Subscription Period, as the context requires
“Subscription Price”	the 2014 Subscription Price and/or the 2015 Subscription Price and/or the 2016 Subscription Price, as the context requires
“Subscription Rights”	the 2014 Subscription Right and/or the 2015 Subscription Right and/or the 2016 Subscription Right, as the context requires
“Subscription Notice”	has the meaning given to it in paragraph 2.5 in Part II of this Circular
“US Investment Company Act”	the US Investment Company Act of 1940, as amended
“US Securities Act”	the US Securities Act of 1933, as amended
“US\$”	refers to the lawful currency of the United States
“Warrant Instrument”	the deed poll executed by the Company to be dated on or around the date of the EGM issuing warrants to subscribe for Shares
“Warrant Issue”	has the meaning given to it in paragraph 2.2 of Part I of this Circular
“Warrantholders”	the 2014 Warrantholders and/or the 2015 Warrantholders, and/or the 2016 Warrantholders as the context requires
“Warrants”	the warrants constituted by the Warrant Instrument
“Winterflood”	Winterflood Securities Limited

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 2.00 p.m. on 15 September at 11 New Street, St Peter Port, Guernsey GY1 2PF to consider and, if thought fit, to pass the following resolutions:

SPECIAL RESOLUTION

1.

- (A) **THAT** the Issue be and is hereby approved.
- (B) **THAT** the Directors be and are hereby empowered pursuant to Article 3.2(g) of the Articles to issue or allot Shares for cash pursuant to Article 3.1(e) of the Articles or by way of a sale of treasury shares as if Article 3.2 (b) of the Articles did not apply to any such issue or allotment provided that this power shall be limited to the allotment and issue of such number of Shares, the aggregate value of which, based on the Issue Price, will be up to US\$12 million (subject to the total number of Shares issued pursuant to the Issue not exceeding 10 per cent. of the Company’s issued share capital (excluding Shares held in treasury) as at the date of the EGM) and shall expire on the date of the next annual general meeting of the Company, save that the Company shall be entitled to make offers or agreements before the expiry of such power which would or might require Shares to be issued or allotted after such expiry and the Directors shall be entitled to issue or allot Shares pursuant to any such offer or agreement as if the power conferred hereby had not expired.
- (C) **THAT** the Directors be and are hereby empowered to issue or allot Shares for cash pursuant to Article 3.1(e) of the Articles at a discount to their prevailing Net Asset Value per Share pursuant to the Issue.

ORDINARY RESOLUTION

2. **THAT**, conditional upon Resolution 1 being passed, the issue of any new Shares to Sir Henry Studholme Bt under the Issue on the basis described in the Circular be and is hereby approved.

ORDINARY RESOLUTION

3. **THAT**, conditional upon Resolution 1 being passed, the issue of any new Shares to William Vanderfelt under the Issue on the basis described in the Circular be and is hereby approved.

ORDINARY RESOLUTION

4. **THAT**, conditional upon Resolution 1 being passed, the issue of any new Shares to Stafford Timberland Limited under the Issue on the basis described in the Circular be and is hereby approved.

SPECIAL RESOLUTION

5.

- (A) **THAT** the issue of Warrants as described in the Circular and subject to, and in accordance with, the terms and conditions of the Warrant Instrument be and is hereby approved;
- (B) **THAT** the Directors be and are hereby empowered pursuant to Article 3.2(g) of the Articles to issue or allot Shares for cash pursuant to Article 3.1(e) of the Articles as if Article 3.2 (b) of the Articles did not apply to any such issue or allotment provided that this power shall be limited to the allotment and

issue of Shares pursuant to the exercise of Subscription Rights attaching to the Warrants (as described in the Circular) and subject to, and in accordance with, the terms and conditions of the Warrant Instrument; and

- (C) **THAT** the Directors be and are hereby empowered to issue or allot Shares for cash pursuant to Article 3.1(e) of the Articles at a discount to their prevailing Net Asset Value per Share pursuant to the exercise of Subscription Rights attaching to the Warrants (as described in the Circular) and subject to, and in accordance with, the terms and conditions of the Warrant Instrument.

Terms defined in the Circular shall have the same meanings in this resolution and this Notice, save where the context otherwise requires.

By order of the Board

For and on behalf of

Legis Fund Services Limited

Company Secretary

Registered Office:

11 New Street
St Peter Port
Guernsey
GY1 2PF

Dated: 22 August 2014

Notes:

1. A shareholder of the Company (“**Shareholder**”) entitled to attend, speak and vote at the extraordinary general meeting (“**EGM**”) is entitled to appoint one or more proxies to exercise all or any of his rights to attend, speak and vote at the EGM.
2. A form of appointment of proxy (the “**Proxy Appointment**”) is enclosed with this notice which, if required, should be completed in accordance with these instructions and the instructions thereon. You can only appoint a proxy using the procedures set out in these notes and the notes to the Proxy Appointment.
3. A proxy need not be a Shareholder, but must attend the EGM to represent you. Details of how to appoint the Chairman of the meeting or another person as your proxy using the Proxy Appointment are set out in the notes to the Proxy Appointment. If you wish your proxy to speak on your behalf at the EGM you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them. If you wish to appoint a person other than the Chairman of the EGM, please insert the name of your chosen proxy holder in the space provided on the enclosed Proxy Appointment.
4. In the case of joint holders such persons shall not have the right to vote individually in respect of an ordinary share in the capital of the Company (“**Share**”) but shall elect one person to represent them and vote in person or by proxy in their name. In default of such an election, the person first named in the register of members of the Company tendering a vote will be accepted to the exclusion of the votes of the other joint holders.
5. You may appoint more than one proxy provided each proxy is appointed to exercise the rights attached to different Shares. You may not appoint more than one proxy to exercise rights attached to any one Share. To appoint more than one proxy you may photocopy the enclosed Proxy Appointment. Please indicate the proxy holder’s name and the number of Shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of Shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All hard copy Proxy Appointments must be signed and should be returned together in the same envelope.
6. The notes to the Proxy Appointment explain how to direct your proxy to vote on each resolution or abstain from voting.
7. In order to be valid a Proxy Appointment must be returned by one of the following methods:
 - in hard copy form by post, by courier or by hand together with any power of attorney or other authority under which it is executed (or a notarially certified copy of such power of attorney or authority) to the Company’s registrars, Capita Asset Services, FREEPOST RSBH-UXKS-LRBC, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, BR3 4TU;
 - via www.capitashareportal.com; or

- in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below,

and in each case must be received by the Company no later than 5.00 p.m. on 10 September 2014. A Shareholder that appoints a person to act on its behalf under any power of attorney or other authority under which it is executed (or a notarially certified copy of such power of attorney or authority) and wishes to use above methods must return such power of attorney or other authority under which it is executed (or a notarially certified copy of such power of attorney or authority) to the Company's registrars, FREEPOST RSBH-UXKS-LRBC, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, BR3 4TU prior to using such method and in any event not less than 48 hours before the time of the EGM.

8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the EGM and any adjournment thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
9. In order for a Proxy Appointment, or instruction, made by means of CREST to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("**EUI**") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message regardless of whether it relates to the Proxy Appointment or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA 10) not less than 48 hours before the time of the EGM. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) of the Uncertificated Securities Regulations 2001. CREST members and where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy instructions. It is therefore the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his or her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
10. Any corporation which is a Shareholder may by a resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of Shareholders of the Company or to approve a resolution submitted in writing and the person so authorised shall be entitled to exercise on behalf of the corporation which he represents the same powers (other than to appoint a proxy) as that corporation could exercise if it were an individual Shareholder of the Company.
11. Completion and return of the Proxy Appointment will not preclude a holder of Shares from subsequently attending, speaking and voting in person at the EGM should they wish. If a Shareholder attends the EGM in person, any Proxy Appointment will automatically be terminated.
12. By attending the EGM a holder of Shares expressly agrees they are requesting and willing to receive any communications made at the EGM.
13. To change your proxy instructions simply submit a new Proxy Appointment using the methods set out above and in the notes to the Proxy Appointment. Note that the cut-off date and time for receipt of a Proxy Appointment (see above) also apply in relation to amended instructions; any amended Proxy Appointment received after the relevant cut-off date and time will be disregarded. Where you have appointed a proxy using the hard-copy Proxy Appointment and would like to change the instructions using another hard-copy Proxy Appointment, please contact Capita Asset Services on 0871 664 0300 (calls cost 10p per minute plus network extras) or if calling from overseas +44 (0) 208 639 3399. Lines are open from 9.00 a.m. to 5.30 p.m., Monday to Friday.
14. If you submit more than one valid Proxy Appointment, the Proxy Appointment received last before the latest time for the receipt of proxies will take precedence. If the Company is unable to determine which Proxy Appointment was last validly received, none of them shall be treated as valid in respect of the same.
15. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your Proxy Appointment to Capita Asset Services, FREEPOST RSBH-UXKS-LRBC, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, BR3 4TU. In the case of a Shareholder which is an individual the revocation notice must be under the hand of the appointer or of his attorney duly authorised in writing or in the case of a Shareholder which is a company, the revocation notice must be executed under its common seal or under the hand of an officer of the company or an attorney duly authorised.
16. Any power of attorney or any other authority under which the revocation notice is signed (or a notarially certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by the Capita Asset Services no later than 5.00 p.m. on 10 September 2014 or 48 hours before any adjourned meeting. If you attempt to revoke your

proxy appointment but the revocation is received after the time specified then, subject to paragraph 12 above, your proxy appointment will remain valid.

17. To have the right to attend, speak and to vote at the EGM (and also for the purpose of how many votes a holder of Shares casts), a holder of Shares must first have his or her name entered in the register of holders of Shares by no later than 5.00 p.m. on 10 September 2014. Changes to entries on the register of holders of Shares after that time shall be disregarded in determining the right of any holder of Shares to attend and vote at the EGM.
18. A quorum consisting of two Shareholders being entitled to vote and attending in person or by proxy is required for the EGM. If within half an hour after the time appointed for the meeting a quorum is not present the EGM shall be adjourned for 7 (seven) days at the same time and place or to such other day and at such other time and place as the Board may determine and no notice of adjournment need be given at any such adjourned meeting. Those Shareholders present in person or by proxy shall constitute the quorum at any such adjourned meeting.
19. The resolutions numbered 1 and 5 to be proposed at the EGM will each be proposed as a special resolution which, to be passed, must receive the support of not less than seventy five per cent. of the total number of votes cast for or against the resolution.
20. Except as provided above, Shareholders who have general queries about the EGM should contact Capita Asset Services on 0871 664 0300 (calls cost 10p per minute plus network extras) or if calling from overseas +44 (0) 208 639 3399. Lines are open from 9.00 a.m. to 5.30 p.m. Monday to Friday. No other methods of communication will be accepted.

