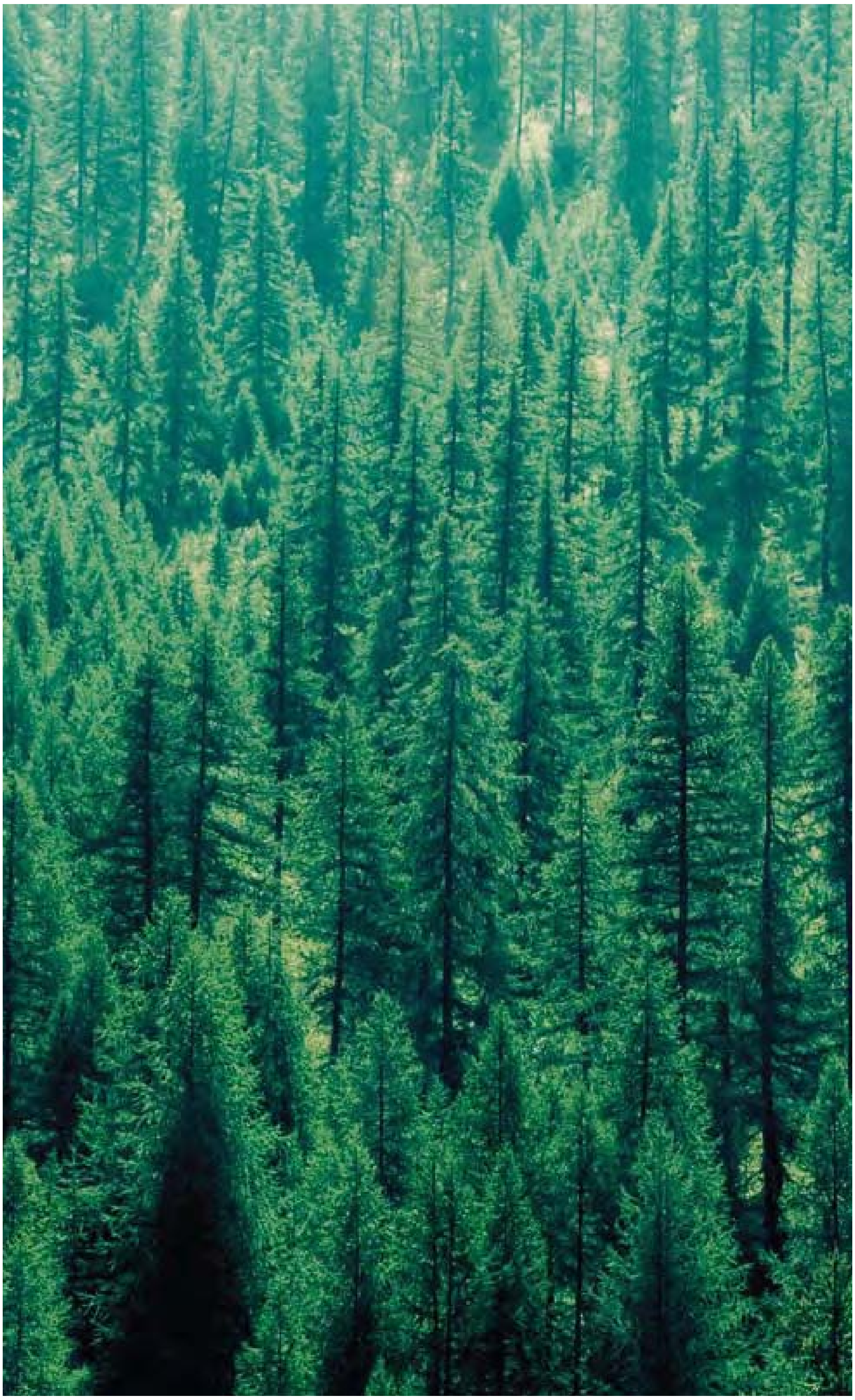

PHAUNOS TIMBER FUND LIMITED

Registered in Guernsey No 45564

Annual Report & Consolidated Financial Statements

For the period from 28 September (Date of Incorporation) to 31 December 2007

CONTENTS

PHAUNOS TIMBER FUND LIMITED
ABOUT THE COMPANY

Phaunos Timber Fund Limited is a closed-ended investment company incorporated in Guernsey on 28 September 2006 with an unlimited life. The Company has one class of share in issue, being US Dollar denominated Ordinary Shares. The Company raised approximately US$115 million through a placing of 115,150,000 Ordinary Shares at a price of US$1 each. On 20 December 2006 this share class was admitted to listing and trading on AIM and the Channel Islands Stock Exchange.

The Company raised a further US$370 million by a secondary equity fund raising in June 2007 through a placing of 355,769,230 Ordinary Shares at a placing price of US$1.04 per share. These shares began trading on 5 June 2007.

Investment Objective and Policy

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

The Investment Manager seeks to accomplish this investment objective by (i) seeking exposure to timberland and timber-related investments on a global basis; (ii) seeking portfolio diversification by tree species, age classes and geographical timberland markets; and (iii) seeking to control risk through portfolio diversification, investment vehicle selection and implementation of risk control strategies. The only predetermined geographical limits enforced on the Company are that no single country or US region may garner more than 40% of the Company's total investment portfolio. This limit has been placed to ensure that the Company can maintain flexibility in the market place. No single investment may, at the time of acquisition, exceed 30 per cent of the gross assets of the Company, without the unanimous approval of the Board.

It is the intention of the Investment Manager to seek investments for the Company that meet or exceed the guidelines set out in the Sustainable Forestry Initiative.

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

The Company's investment portfolio comprises predominantly US Dollar denominated investments. The Directors intend that all monies eventually returned to shareholders and the reported Net Asset Value of a share is denominated in US Dollars. In order to hedge against interest rate risks or currency risk, the Company may, where appropriate, also enter into forward interest rate agreements and forward currency agreements.

As required under the AIM Rules, the Directors intend to seek Shareholder approval of the Company's investment objectives at each annual general meeting of the Company.

The Directors do not currently intend to propose any changes to the Company's investment objective and policy (and associated investment strategy) until the earlier of the time when the net funds currently available are fully invested or three years from the first placing, save in the case of exceptional and unforeseen circumstances and with the prior approval of shareholders by way of special resolution.

Net Asset Value per Share

The net asset value of a share was US$1.02 as at 31 December 2007.

DIRECTORS

The Company has five directors. They are responsible for the implementation of the Company's investment policy.

Keith Oates (British)

Mr Oates, aged 65, was Executive Deputy Chairman of Marks & Spencer plc from 1994-1999, having joined as Financial Director in 1984 and being appointed joint Managing Director in 1991. He was the founder and then Chairman of Marks & Spencer Financial Services for 15 years. In addition to Marks & Spencer, he has held executive positions with the Reed Paper group, IBM, Black and Decker and TBG. A Governor of the BBC from 1988 to 1993, he has also been a Non-Executive Director of B.T. plc, MCI, the Financial Services Authority, the G.B. and English Sports Councils, John Laing plc and chairman of Quest. He was a Non-Executive Director and Chairman of the Audit Committee of Diageo plc, whose brands include Smirnoff, Johnny Walker, Guinness, Gordons, Captain Morgan and Baileys for nearly 10 years until 2004. He was also a special adviser to Coutts Bank in Monaco from 2002-2005. He has been a Member of Council (Governor) of Wycombe Abbey School since 1995. He was appointed a Non-Executive Director of the English National Committee of the Forestry Commission in 2007. Mr Oates graduated with a B.Sc (Econ) from the London School of Economics, a business diploma at Umist and an M.Sc from Bristol University. In 1998, he was awarded an honorary Doctorate of Science (D.Sc.) from Umist and an honorary Doctorate of Laws (LLD) from Bristol. Mr Oates is resident in the United Kingdom and Monaco.

John Le Prevost (British)

Mr Le Prevost, aged 56, is an executive director of Anson Fund Managers Limited, the Company's administrator and secretary, and of Anson Registrars Limited, the Company's registrars. He has spent over 30 years working in offshore trusts and investment business during which time he was managing director of County NatWest Investment Management (Channel Islands) Limited, Royal Bank of Canada's mutual fund company in Guernsey and Republic National Bank of New York's international trust company. He is a director of a number of companies associated with Anson's business as well as being a non-executive director of Louvre Fiduciary Group Limited and a trustee of the Guernsey Sailing Trust. He is resident in Guernsey.

Liane Luke (American)

Ms Luke, aged 57, is Chief Timber Officer at FourWinds and heads timberland investment and timber portfolio management at FourWinds Capital. With more than 20 years experience in real asset investing, she has spent the last 12 years working exclusively in timberland investing. As a Vice President of Hancock Timber Resources Group from 1996 to 1998, she developed timber investment products for US tax-exempt institutional investors with first investments made within six months. From 1998 to 2005, she was a Principal and Managing Director of Resource Management Services, one of the largest privately held timber investment management organizations in the United States, where she designed tax efficient structures for US and international clients. In 2005, she formed Greenway Investments to focus on structured finance and other novel timberland investment projects for a major US insurance company. In her capacity at FourWinds, she sits on several forestry-related companies' boards of directors internationally. Ms Luke earned her BA magna cum laude from the University of New Hampshire and her MBA in finance from the Yale University School of Management. She is resident in the United States of America.

Peter Niven (British)

Mr Niven, aged 53, has worked in the financial services industry in the UK and offshore for 32 years. His career with the Lloyds TSB Group spanned 29 years where latterly he was Chief Executive of the Group's offshore banking operations, until his retirement from the Bank in June 2004. A Fellow of the Institute of Bankers and a Chartered Director, he is currently a director of a number of Guernsey based investment funds and captive insurance companies. This includes his role as Chairman of F&C Commercial Property Trust Limited, a £1bn+ UK listed property investment trust and a director of Dexion Trading Limited, a UK listed Fund of Hedge Funds. He is also Director, Finance Sector Development for the States of Guernsey and Chief Executive of Guernsey Finance LBG, the promotional body for Guernsey's finance industry. He is a resident of Guernsey.

Kimberly Tara (American)

Ms Tara, aged 38, has spent the last 17 years negotiating, executing and managing investments and projects, with a focus on cross-border transactions. She has executed deals in Europe, the US, Latin America, and Asia. She began her career in Mergers & Acquisitions at Morgan Stanley. In 1995 she joined Value Partners, a McKinsey spin-off in Italy. In 1999, she began working as an alternative investment consultant, providing financial and advisory services for clients in Europe and the US. She also worked as CFO for a US-based biotech company focusing on CNS drug development and memory enhancement. Since 2005 as CEO of FourWinds, Ms Tara has successfully raised and managed more than $1b in commodities and natural resources. She graduated magna cum laude from Brown University with a degree in Business Economics and received her MBA from INSEAD in France. She is resident in France.

MANAGER, ADMINISTRATOR AND COMPANY SECRETARY

The Manager

FourWinds Capital Management has been appointed Investment Manager of the Company. The Investment Manager's management team has a proven track record of generating competitive returns from timberland and timber related investments across multiple geographical locations. The Directors consider such broad timberland and timber related experience to be beneficial as the Company seeks to execute its investment strategy.

The Investment Manager is a Cayman Islands exempted company with wholly owned subsidiaries with offices in Boston, London, and Hong Kong, as well as a branch office in Geneva. The Investment Manager was incorporated in the Cayman Islands on 14 March 2005 with registration number CB-146307. The Investment Manager has authority to invest the Company's assets and is responsible for all investment decisions made on behalf of the Company, subject to the control and policies of the Board of the Company.

The Investment Manager is primarily responsible for researching, selecting and monitoring the Company's investments and making decisions on when and how much to invest in or withdraw from a particular investment, subject to the control and policies of the Board.

The Investment Manager focuses on the development,and risk management of investment vehicles for commodities and real assets. The Investment Manager currently has other products under management, including the Zephyr Commodity Fund and the Ceres Agriculture Fund. The Zephyr Commodity Fund is a broadly diversified multi-manager, multi-strategy fund of funds that covers energy, metals and agriculture. The Ceres Agriculture Fund is an actively-managed agriculture fund that invests in exchange-traded agriculture complexes and is listed on the LSE.

The Administrator and Company Secretary

Anson Fund Managers Limited ("Anson") has been appointed as administrator and secretary pursuant to an Administration and Secretarial Agreement. Anson is a Guernsey incorporated privately owned company which provides secretarial and administration services to a number of investment schemes and companies.

CHAIRMAN'S STATEMENT

Highlights

- Raised US$485 million since launch
- Net asset value per share was US$1.02 at 31 December 2007
- 49.4% of capital raised committed as at year end (US$239.6 million)
- US$54.9 million of portfolio commitments drawn down as at year end
- Since 31 December 2007 a further US$350 million committed and further US$8.5 million drawn down
- Conducting due diligence on an extensive pipeline of investments
- Announced $1.6 billion further capital raising
- Proposed migration to London Stock Exchange main market

Dear Shareholders,

It is my pleasure to report that at the year end the Company had identified and secured attractive investments for 49.4% of the capital raised in 2006-2007, namely US$239.6 million and a further US$350 million has been committed since the year end. Including some additional properties that are in the pipeline and nearing completion of due diligence, and allowing for the working capital reserves that are necessary for the operations, it is accurate to say that the available capital in the Company is fully committed.

This achievement is within fifteen months of launch and within nine months of the second issue. The Company is substantially ahead of the timeframe detailed during the fundraising stage and we endeavour to continue to exceed our stated goals.

As at 31 December 2007, the Company had a portfolio that contained five investments: two in North America, two in South America and one in Asia. Since the year end further draw downs have occurred in relation to existing investments in North America and new investments in South America and Serbia and further commitments have been made in China and Eastern Europe. The Company has achieved a diversified portfolio geographically and by species, age class and end market use, in line with our stated strategy.

Our Investment Manager, FourWinds Capital Management, has a pipeline of potential investments that continues to grow. FourWinds has an international reputation in the timber investment management business, and is increasingly sought out for participation in desirable investments for the Company's portfolio and therefore has a growing pipeline of potential investments. This allows the Company to continue to be selective and to implement a considered strategy for long-term growth and profitability.

Net Asset Value

The Company's audited net asset value per share was US$1.02 as at 31 December 2007.

Dividends

The Board is not currently proposing a dividend for the period but is to review this situation later in 2008.

Investments

During the period from incorporation to 31 December 2007, the Company committed to the following projects totalling approximately US$240 million:

- US$30 million in a partnership for investment in the north-western United States, which has acquired four plantations, totalling 35,000-acres of hybrid poplar tree farms in Washington and Oregon. The tree farms are certified under the stringent forest practices guidelines of the Forest Stewardship Council ("FSC"). US$24.4 million was drawn down as at 31 December 2007.
- US$10 million to an investment partnership investing in the south-eastern United States designed to realise the "higher-and-better-use" values of timberland properties. US$3.9 million (net of fees and distributions) was drawn down as at 31 December 2007.

- US$21 million in a joint venture in northern Uruguay with an experienced family-run business in pine plantations and sawmill. The tree farms are managed under the stringent forest practices guidelines of the Forest Stewardship Council ("FSC"). US$19.0 million was drawn down as at 31 December 2007.
- US$6.8 million to a new company designed to provide forestry services to the growing timber management industry in Uruguay. US$4.8 million was drawn down as at 31 December 2007.
- In addition, an in-country partner of the Company in Uruguay has identified a series of investment opportunities for participation in the vibrant fibre market there growing short-rotation eucalyptus. As at 31 December 2007, commitments to these investment opportunities totalled US$7.3 million, with several more in the pipeline and under due diligence.
- US$9 million to a wholly-owned wood pellet plant in Serbia that will produce wood pellets for the residential heating market in Europe. The establishment of this plant, and our plans for future plants similarly using wood waste that otherwise ends up a pollutant in the local environment, is entirely congruent with our goal of maintaining the highest environmental standards wherever we operate. US$1,471 was drawn down as at 31 December 2007. Additionally, because of the Company's participation in Serbia, the Investment Manager has been able to identify additional land-based opportunities in Eastern Europe.
- Euro 4 million (US$ 5.5 million) in a loan to a prominent Dutch foundation operating in Indonesia, which is secured by tropical hardwood plantation of which Euro 2 million (US$ 2.8 million) was drawn down as at 31 December 2007.
- US$150 million in a joint venture partnership with a very experienced company in Brazil for the purchase and establishment of teak and eucalyptus plantations in Mato Grosso. Again, we have identified a strong in-country partner who will contribute assets and expertise to allow us to grow our investment base under the daily management of a partner with whom our interests are closely aligned.

Since 31 December 2007, the Company has committed the following amounts:

- US$200 million in a joint venture partnership in China with an international timberland investment company with whom we have worked in the past, and which has evidenced the highest standards in environmental and management standards.
- US$150 million to a joint venture with Aitchesse Limited aimed at investing in forestry assets across Eastern Europe. Investment could begin as early as the second quarter of 2008.
- The Investment Manager is working through a pipeline of potential projects that will give the Company a strong foothold in this growing market.
- We continue to pursue exceptional opportunities in every market in the world. Our goal is simply to find the best investments in the world for our investors.

Outlook

We are poised for an exciting year. We are seeking to raise new capital of up to US$1.6 billion. This new capital will be used to provide even greater reach and diversification of investments for all of our investors. We will migrate the Company to the London Stock Exchange in the belief that our investors will benefit greatly from the increased liquidity and flexibility that a main market listing will provide. The pipeline is healthy and we are confident that our existing investments will continue to generate value for our shareholders. Phaunos continues to break new ground in timber investment on behalf of all our investors and with investments in 7 different countries Phaunos has become one of the most diverse timber portfolios in the world.

I am delighted to report our progress to date, and look forward to our progress in 2008. In the meantime, shareholders should note that current information about the Company is always available on our website: **www.phaunostimber.com.**

Keith Oates
Chairman
24 April 2008

REPORT BY THE INVESTMENT MANAGER

FourWinds Capital Management is pleased to report that we have committed essentially all of the capital in the Company. As the Chairman indicated, we have committed to ten investments in seven countries, with an additional agreement nearing completion in Central America, a new market for us. Getting investors' capital to work in high quality projects has been FourWinds' primary goal in 2007.

In addition to the broadly diversified portfolio we have already built, we have a robust pipeline of additional investments of over US$2.5 billion worldwide. Of course we decline investment on many more projects than we accept into the pipeline. Our goal is to enlarge our commitments in the regions where we have already invested in 2007 as we continue to incorporate new capital into the Company during 2008. We have retained expert regional assistance to identify the best opportunities in each region, which extends the team's reach and expertise.

As we move into 2008, our emphasis continues to be on those markets where the Company can benefit from change: change in market dynamics, change in political conditions, and change in regional and local economic prospects. In many cases we find that we are developing the investment model in a region, rather than simply acquiring it. We think this is the highest value-added that a manager can provide in timber investment, and it is why we have been able to commit the Company's capital efficiently and with strong return expectations. We continue to avoid the widely-publicised "bid events" and to tease out opportunities that others overlook. We have been most successful at looking at opportunities that are brought to us, and reconfiguring them to the benefit of our investors and our partners.

As you know, in addition to building a world-class team inside FourWinds, we seek out in-country partners wherever we invest. Because the Company has a long-term perspective, unlike many other managers who must liquidate a portfolio at a specific point in time, regardless of the value of the investment, we have been able to invest alongside families and companies who have been in the timber business for years. We seek to work with people who are committed to their countries' economic and social development, and whose reputations are as important to them as ours is to us. When they choose to work with FourWinds timber investment professionals, we know they are evaluating how we will serve the future generations of their families. They, like you, are our long-term partners.

FourWinds Capital Management

REPORT OF THE DIRECTORS

The directors present their report and financial statements for the period from 28 September 2006 to 31 December 2007.

Principal Activity

Phaunos Timber Fund Limited is a closed-ended investment company investing in timber and timber related activities. It was incorporated in Guernsey on 28 September 2006 with an unlimited life. The Company has one class of shares in issue, being US Dollar denominated Ordinary Shares. The Company raised approximately US$115 million through a placing of 115,150,000 Ordinary Shares at a price of US$1 each. On 20 December 2006 this share class was admitted to listing and trading on AIM and the Channel Islands Stock Exchange.

The Company raised a further US$370 million through a secondary equity fundraising in June 2007 through a placing of 355,769,230 Ordinary Shares at a placing price of US$1.04 per share. These shares began trading on 5 June 2007.

Investment Objective and Investment Policy

The investment objective and policy of the Company is as stated on page 3.

Results

The results for the first accounting period are set out in the Income Statements on pages 22 and 24.

Financing Strategy

The Company's authorised share capital is such that either further issues of new Ordinary Shares or reissues of Ordinary Shares held in treasury could be made. No Ordinary Shares were held in treasury as at 31 December 2007. Subject to prevailing market conditions, the Board may decide to make one or more further such issues or reissues of Ordinary Shares for cash from time to time. Any further issues of new Ordinary Shares or reissues of Ordinary Shares held in treasury will rank pari passu with Ordinary Shares in issue. There are no provisions of the Companies Laws or the Articles of Association of the Company providing pre-emption rights for existing Shareholders on the allotment of equity securities for cash or on the reissue of equity securities out of treasury.

Unless authorised by Shareholders, the Company will not issue further Ordinary Shares or reissue Ordinary Shares out of treasury for cash at a price below the prevailing Net Asset Value per Share unless they are first offered pro rata to existing Shareholders.

At an Extraordinary General Meeting of the Company held on 10 January 2008 a resolution was passed increasing the authorised share capital of the Company by the creation of 1,600,000,000 C Shares (having attached thereto the rights and privileges, and being subject to the restrictions, contained in the Articles of Association of the Company).

The Company intends to raise additional capital of up to approximately $1.6 billion, by way of one or more issues of C Shares, in order to take advantage of a number of potential investment opportunities which are or may become available to the Company. The raising of such additional capital will also permit the Company to take larger investment participations in those existing investment opportunities considered to be sufficiently attractive to merit it.

The initial issue of C Shares is expected to be a non pre-emptive institutional placing of up to 1 billion C Shares which will be effected in tranches, at escalating prices commencing at $1 per C Share, which are anticipated to occur quarterly June 2008 to the end of March 2009 (the "Initial Fundraising"). It is anticipated that the first tranche of C Shares (which will not be listed) will be placed with a single institutional investor, DWS ACCESS S.A. (a Luxembourg based multi-compartment authorised securitisation vehicle managed by DWS Investment S.A., the mutual fund arm of Deutsche Asset Management).

These placings could result in DWS ACCESS S.A.'s shareholding reaching or exceeding 30 per cent. of the total voting rights in the Company and may even result in DWS ACCESS S.A.'s shareholding reaching or exceeding 50 per cent. of the total voting rights in the Company. DWS ACCESS S.A. does not currently own any shares in the Company.

Reaching or exceeding 30 per cent. of the total voting rights in the Company would normally trigger an obligation on the part of DWS ACCESS S.A. to make a general offer for the remainder of the entire issued share capital of the Company under the Takeover Code. In addition, any increase in the percentage holding of a shareholder which results from a company buying back its own shares will also trigger such an obligation. The Company currently has authority to buy back up to 14.99 per cent. of the Ordinary Shares in the Company which expires at the conclusion of the first annual general meeting of the Company and is seeking renewal of such authority at the annual general meeting of the Company. Subject to approval of the same by Shareholders, the Takeover Panel agreed to waive the obligation of DWS ACCESS S.A. to make a general offer that would otherwise arise as a result of the placing of C Shares or the Company exercising its authority to buy back Ordinary Shares. The requisite Shareholder approval was obtained at an Extraordinary General Meeting of the Company held on 21 April 2008.

REPORT OF THE DIRECTORS CONTINUED

Shareholder Information

The Net Asset Value of the Company and hence the Net Asset Value per Ordinary Share is calculated in US Dollars by the Company semi – annually, at half year (on an estimated basis) and at financial year end. Only the Net Asset Value which is calculated at financial year end is audited. The calculations are based upon information supplied by a variety of sources including appraisers, auditors, consultants and third party local managers, as described below. The Net Asset Value is the value of all assets of the Company less the liabilities to creditors (including the provisions for such liabilities) of the Company determined in accordance with the valuation guidelines adopted by the Directors from time to time.

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

If the Directors consider that any of the above bases of valuation are inappropriate in any particular case, or generally, they may adopt such other valuation procedures as they consider is reasonable in the circumstances.

Valuations of the Company's portfolio are made, in part, on valuation information provided by the third party managers of investments in the Company's portfolio and on information provided by appraisers, auditors and consultants. Although the Investment Manager will evaluate all such information and data, the Investment Manager is generally not in a position to confirm the completeness, genuineness or accuracy of such information or data. In addition, the financial reports typically provided to the Investment Manager by the local managers are provided only on a half yearly basis and generally are issued 2 to 3 months after the respective valuation dates. Valuations are checked by an independent valuer on a rolling basis.

The Administrator will notify the AIM, the CISX and the public (by way of RNS announcement) of the Net Asset Value per Ordinary Share as soon as practicable after calculation at the end of each financial year.

Any suspension in the calculation of the Net Asset Value of the Company, to the extent required under the Articles of Association of the Company or by the rules of the CISX and/or the AIM Rules (as the case may be) will be notified by the Administrator to the AIM, the CISX and/or the public (via an RNS announcement) as soon as practicable after any such suspension occurs.

Directors

The directors' details are given on pages 5 and 6. Directors' interests in shares as at 31 December 2007 are as follows:

Director	Shares	Percentage of issued shares
Keith Oates* (Chairman)	125,000	0.027
John Le Prevost	–	–
Liane Luke	–	–
Peter Niven	30,000	0.006
Kimberly Tara**	50,000	0.011

* 75,000 Ordinary Shares are held on trust on behalf of Keith Oates by Anson Custody Limited and will vest in Mr Oates on 31 December 2008 provided he remains a Director at that date.

** The interest is held by FourWinds Capital Management, the Investment Manager in which Kimberly Tara is a shareholder

Directors Remuneration

Save for Kimberly Tara and Liane Luke (who do not receive a fee) and the Chairman, each of the Directors receive a fee payable by the Company at the rate of £20,000 per annum. The Chairman receives a fee payable by the Company at the rate of £40,000 per annum. In addition, 150,000 Ordinary Shares were acquired for an aggregate consideration of $1.00 and held on trust on behalf of the Chairman by Anson Custody Limited pursuant to the terms of the declaration of trust, executed by Anson Custody Limited and the Chairman. On 31 December 2007, 75,000 Ordinary Shares were transferred to the Chairman and provided that the Chairman remains a director on 31 December 2008, the remaining 75,000 Ordinary Shares will be transferred to the Chairman. In the event that the Chairman is removed by Shareholders on or before 31 December 2008, any remaining Ordinary Shares held on trust by Anson Custody Limited will be transferred to Mr Oates, as soon as practicable by way of compensation. No commissions or performance related payments will be made to the Directors by the Company. The aggregate remuneration and benefits in kind of the Directors in respect of the Company's accounting period ending on 31 December 2008 which will be payable out of the assets of the Company is not expected to exceed £200,000.

Statement of Directors' Responsibilities

The Directors are required to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss for that period. In preparing those financial statements, the directors are required in accordance with The Companies (Guernsey) Law, 1994, to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements have been properly prepared in accordance with The Companies (Guernsey) Law, 1994, as amended. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate Governance

As a closed-ended investment company incorporated in Guernsey listed on the Channel Islands Stock Exchange and admitted to trading on AIM, the Company is not required to comply with the requirements of the Combined Code issued by the UK Listing Authority. The Board has put in place a framework for corporate governance which it believes is suitable for an investment company of its kind, taking into consideration the Channel Island Stock Exchange Listing Rules and the AIM Rules for Companies.

In addition and where practicable for a company of its size and nature, the Board endeavours to comply with the principles of the Combined Code. Also the Company has become a member of the Association of Investment Companies and endeavours to comply with the principles of the AIC Code of Corporate Governance.

The Board meets at least four times a year and between these formal meetings there is regular contact with the secretary and investment manager. The directors are kept fully informed of investment and financial controls and other matters that are relevant to the business of the Company and should be brought to their attention. The directors also have access, where necessary in the furtherance of their duties, to professional advice at the expense of the Company.

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

Audit Committee

Throughout the period an Audit Committee (the "Committee") has been in operation. The Committee comprises Peter Niven, John Le Prevost and Keith Oates with Peter Niven acting as Chairman of the Audit Committee. The Committee operates within clearly defined terms of reference and provides a forum through which the Company's external auditors report to the Board. The Terms of Reference of the Committee are available from the Secretary upon request.

Under the provisions of The Combined Code on Corporate Governance (the "Combined Code"), Keith Oates, Chairman of the Company, is not considered to be independent. For strict compliance with the Combined Code Keith Oates should not sit on the Committee. However, the Board considers that excluding Keith Oates from membership of the Committee would not be in the best interests of the Company and its shareholders. Accordingly, the Company does not comply with the provisions of C.3.1 of the Combined Code.

The function of the Audit Committee is to ensure that the Company maintains high standards of integrity, financial reporting and internal controls. The Audit Committee examines the effectiveness of the Company's internal control systems, the annual and interim reports and financial statements,

REPORT OF THE DIRECTORS CONTINUED

the auditors' remuneration and engagement, as well as the auditors' independence and any non-audit services provided by them. The Audit Committee receives information from the administrator and secretary and from the external auditors as to the objectivity of their audit and their independence.

Management Committee

Whilst the Board continuously monitors the performance of the Investment Manager and the Administrator it agreed at a meeting held on the 21 November 2007 that, given the short life to date of the Company, it was not appropriate a detailed review as set out in the Management Committee Terms of Reference be carried out at that stage. The Board intends to carry out a full review later in 2008.

Remuneration Committee

As the Company subcontracts it's management and has no executives there is no requirement for a Remuneration Committee. Recommendations on Non Executive remuneration are handled by the Board as a whole and are subject to shareholder approval through the usual processes.

Internal Controls

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for the period under review and up to the date of approval of this annual report and financial statements, and is reviewed by the Board.

The Board has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the Company and the policies by which these risks are managed.

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

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

Going Concern

The directors are satisfied that it is appropriate to continue to adopt the going concern basis in preparing the financial statements as the directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future.

By order of the Board

Keith Oates
Chairman

Peter Niven
Director

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF PHAUNOS TIMBER FUND LIMITED

We have audited the Company's and the Group's financial statements for the period ended 31 December 2007 which comprise the Income Statements, Balance Sheets, Statements of Changes in Equity, Cash Flow Statements and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 64 of the Companies (Guernsey) Law, 1994. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Guernsey) Law, 1994. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, the Company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises About the Company, Investment Objective and Policy, Directors, Manager, Administrator and Secretary, the Chairman's Statement, the Report of the Investment Manager, Report of the Directors, Schedule of Investments, Shareholder Information and Directors and Service Providers. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

in our opinion the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Company's and the Group's affairs as at 31 December 2007 and of its profit for the period then ended and have been properly prepared in accordance with the Companies (Guernsey) Law, 1994.

Ernst & Young LLP
Guernsey, Channel Islands
24 April 2008

The financial statements are published on websites maintained by the Company's Investment Manager, FourWinds Capital Management.

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

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

CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD FROM INCORPORATION TO 31 DECEMBER 2007

	Note	28 Sep 2006 to 31 Dec 2007 USD
Net gains on financial assets designated at fair value through profit or loss	11	89,282
Operating income	4	15,351,262
Total income		15,440,544
Operating expenses	5	(5,820,489)
Net operating income before taxation		9,620,055
Taxation on ordinary activities		–
Net gain for the period attributable to shareholders		**9,620,055**

		Cents
Earnings per share for the period – Basic and Diluted	7	3.54

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

There are no recognised gains or losses for the period other than those disclosed above.

The notes on pages 19 to 32 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2007

	Note	31 Dec 2007 USD
NON-CURRENT ASSETS		
Unquoted financial assets designated as fair value through profit or loss	11	50,197,810
Intangible assets	8	2,087
Plant and equipment	9	121,263
		50,321,160
CURRENT ASSETS		
Debtors	13	2,602,669
Cash and cash equivalents	12	425,863,895
		428,466,564
TOTAL ASSETS		**478,787,724**
CURRENT LIABILITIES		
Creditors - due within one year	14	188,092
TOTAL LIABILITIES		188,092
EQUITY		
Share capital	15	-
Share premium	16	358,560,982
Retained earnings	17	9,620,055
Distributable reserves	18	110,418,595
TOTAL EQUITY		478,599,632
TOTAL EQUITY AND LIABILITIES		**478,787,724**
SHARES IN ISSUE		470,919,230

	USD
NAV PER SHARE	1.02

The financial statements were approved by the Board of directors on 24 April 2008 and are signed on its behalf by:

Keith Oates
Director

Peter Niven
Director

The notes on pages 19 to 32 form an integral part of these financial statements.

INCOME STATEMENT

FOR THE PERIOD FROM INCORPORATION TO 31 DECEMBER 2007

	Note	28 Sep 2006 to 31 Dec 2007 USD
Net gains on financial assets designated at fair value through profit or loss	11	89,282
Operating income	4	15,333,567
Total income		15,422,849
Operating expenses	5	(5,648,949)
Net operating income before taxation		9,773,900
Taxation on ordinary activities		–
Net gain for the period attributable to shareholders		**9,773,900**

		Cents
Earnings per share for the period - Basic and Diluted	7	3.60

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

There are no recognised gains or losses for the period other than those disclosed above.

The notes on pages 19 to 32 form an integral part of these financial statements.

BALANCE SHEET

AS AT 31 DECEMBER 2007

	Note	31 Dec 2007 USD
NON-CURRENT ASSETS		
Investments in subsidiaries	10	29,251,429
Unquoted financial assets designated as fair value through profit or loss	11	25,769,238
		55,020,667
CURRENT ASSETS		
Debtors	13	1,720,066
Cash and cash equivalents	12	422,103,181
		423,823,247
TOTAL ASSETS		**478,843,914**
CURRENT LIABILITIES		
Creditors – due within one year	14	90,437
TOTAL LIABILITIES		90,437
EQUITY		
Share capital	15	–
Share premium	16	358,560,982
Retained earnings	17	9,773,900
Distributable reserves	18	110,418,595
TOTAL EQUITY		478,753,477
TOTAL EQUITY AND LIABILITIES		**478,843,914**
SHARES IN ISSUE		470,919,230

	USD
NAV PER SHARE	1.02

The financial statements were approved by the Board of directors on 24 April 2008 and are signed on its behalf by:

Keith Oates
Director

Peter Niven
Director

The notes on pages 19 to 32 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 31 DECEMBER 2007

	Note	31 Dec 2007 USD
Operating activities		
Net gain for the period attributable to shareholders		9,620,055
Less: Net gains on financial assets designated at fair value through profit or loss		(89,282)
Less: Interest income		(15,216,801)
Less: Investment income		(134,461)
Add: Increase in creditors		188,092
Less: (Increase) in debtors excluding accrued income		(995,627)
Net cash outflow from operating activities before income		(6,628,024)
Interest received		13,609,759
Investment income received		134,461
Net cash inflow from operating activities		7,116,196
Investing activities		
Purchase of financial assets		(50,108,528)
Purchase of intangible assets		(2,087)
Purchase of property, plant and equipment		(121,263)
Net cash outflow from investing activities		(50,231,878)
Financing activities		
Proceeds of issue of shares		485,150,000
Costs of issue of shares		(16,170,423)
Net cash inflow from financing activities		468,979,577
Cash and cash equivalents at beginning of period		–
Increase in cash and cash equivalents		425,863,895
Cash and cash equivalents at end of period	**12**	**425,863,895**

The notes on pages 19 to 32 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 DECEMBER 2007

	Note	31 Dec 2007 USD
Operating activities		
Net gain for the period attributable to shareholders		9,773,900
Less: Net gains on financial assets designated at fair value through profit or loss		(89,282)
Less: Interest income		(15,199,106)
Less: Investment income		(134,461)
Add: Increase in creditors		90,437
Less: (Increase) in debtors excluding accrued income		(113,024)
Net cash absorbed in operations		(5,671,536)
Interest received		13,592,064
Investment income received		134,461
Net cash outflow from operating activities		8,054,989
Investing activities		
Purchase of financial assets		(25,679,956)
Investments in subsidiaries		(29,251,429)
Net cash outflow from investing activities		(54,931,385)
Financing activities		
Proceeds of issue of shares		485,150,000
Costs of issue of shares		(16,170,423)
Net cash inflow from financing activities		468,979,577
Cash and cash equivalents at beginning of period		–
Increase in cash and cash equivalents		422,103,181
Cash and cash equivalents at end of period	12	**422,103,181**

The notes on pages 19 to 32 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 31 DECEMBER 2007

	31 Dec 2007 USD
GROUP	
Opening balance	–
Issue of shares	485,150,000
Share issue costs	(16,170,423)
Net gain for the period attributable to shareholders	9,620,055
Closing balance as at 31 December 2007	**478,599,632**

	31 Dec 2007 USD
COMPANY	
Opening balance	–
Issue of shares	485,150,000
Share issue costs	(16,170,423)
Net gain for the period attributable to shareholders	9,773,900
Closing balance as at 31 December 2007	**478,753,477**

The notes on pages 19 to 32 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2007

1. Accounting Policies

(a) Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and applicable Guernsey law. The consolidated financial statements have been prepared on an historical cost basis except for the measurement at fair value of certain financial instruments.

The consolidated financial statements are presented in US Dollars because that is the currency of the primary economic environment in which the Group operates. The consolidated financial statements are prepared to the nearest US$1.

The following Standards or Interpretations have been issued but not yet adopted by the Group:

IFRS 2 (revised 2008)
Share-based Payment effective for annual periods beginning on or after 1 January 2009

IFRS 3 (revised 2008)
Business Combinations effective for annual periods beginning on or after 1 July 2009

IFRS 8
Operating Segments effective for annual periods beginning on or after 1 January 2009

IFRIC 11 IFRS 2
Group and Treasury Share Transactions effective for annual periods beginning on or after 1 March 2007

IFRIC 12
Service Concession Arrangements effective for annual periods beginning on or after 1 January 2008

IFRIC 13
Customer Loyalty Programmes effective for annual periods beginning on or after 1 July 2008

IFRIC 14 IAS 19
The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction effective for annual periods beginning on or after 1 January 2008

IAS 1 (revised 2007)
Presentation of financial statements effective for annual periods beginning on or after 1 January 2009

IAS 23 (revised 2008)
Borrowing Costs effective for annual periods beginning on or after 1 January 2009

IAS 27 (revised 2008)
Consolidated and Separate Financial Statements effective for annual periods beginning on or after 1 July 2009

Amendments to IAS 32 and IAS 1
Puttable Financial Instruments effective for annual periods beginning on or after 1 January 2009

These Standards and Interpretations are expected to require additional disclosure in future financial statements.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries)(the Group) made up to 31 December 2007. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All inter-group transactions, balances, income and expenses are eliminated on consolidation.

In the separate financial statements of the Company, investments in subsidiaries are recorded at cost net of impairment losses.

(c) Taxation

The Company has been granted exemption under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 from Guernsey Income Tax, and is charged an annual fee of £600.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. Deferred tax is, however, neither provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

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

The Company bases its assessment of the probability of future taxable income on the entity’s latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit.

If a positive forecast of taxable income indicates the probable use of a deferred tax asset, that deferred tax asset is usually recognised in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by the Company based on the specific facts and circumstances.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. Accounting Policies (continued)

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

(d) Expenses

All expenses are accounted for on an accruals basis.

(e) Operating Income

Interest income and distributions receivable are accounted for on an accruals basis. Interest income relates only to interest on bank balances and money market deposits.

(f) Share issue costs

The share issue costs incurred amounted to US$16,170,423. Because the Company's shares have no fixed redemption date, the costs are written off through the statement of changes in equity.

(g) Cash and Cash equivalents

Cash at bank is carried at cost. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash, deposits at bank and money market fund.

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

All investments are designated at fair value through profit or loss. Investments are initially recognised on the date of purchase at cost, being the fair value of the consideration given. Transaction costs associated with the investment are recognised immediately in the Income Statement as an expense.

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

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

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

Phaunos US Incorporated
Investment in subsidiary

Balerio – Aurora Forestal
Joint venture

EMTN linked to Timber Assets of the Masarang Foundation *Loan*

National Timber Partners Timber Fund LP
Investment in limited partnership

Caldrey SA
Investment in subsidiary

(i) Foreign currency translation

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising (where material) are classified as equity and recognised in the Group's foreign currency translation reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

(j) Intangible assets

Other intangible assets include acquired software used in administration. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and install specific software. These items are amortised over 3 years.

Costs associated with maintaining computer software, ie expenditure relating to patches and other minor updates as well as their installation, are expensed as incurred.

(k) Plant and equipment

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

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

Machines and Vehicles	5 years
Computers	3 years

1. Accounting Policies (continued)

(l) Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset might be impaired.

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

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

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

(m) Joint ventures

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

(n) Other provisions, contingent liabilities and contingent assets

Other provisions are recognised when present obligations will probably lead to an outflow of economic resources from the entity and they can be estimated reliably. Timing or amount of the outflow may still be uncertain.

A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, product warranties granted, legal disputes or onerous contracts. Restructuring provisions are recognised only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it. Provisions are not recognised for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Long term provisions are discounted to their present values, where the time value of money is material

Any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision. All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate of the Group's management.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, no liability is recognised.

Probable inflows of economic benefits to the entity that do not yet meet the recognition criteria of an asset are considered contingent assets.

(o) Share-based payments

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

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

Subject to certain conditions, the Group has agreed to make equity-settled share-based payments to UCG in respect of services undertaken on behalf of the Group by UCG. The share-based payments will be in the form of Ordinary Shares of Caldrey SA and the maximum payments will total 50% of the share capital of Caldrey SA.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

(a) Fair value of financial instruments

The directors use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Given the nature of the Group's investments and the fact that they have been recently acquired, the directors consider the fair value to be equal to cost for most of the investments. The investments in National Timber Partners Timber Fund LP and Masarang have been recorded at carrying value as this is considered to be a reasonable approximation of fair value.

3. SEGMENTAL ANALYSIS

Geographical segments

The Group's operations are located in the US, South America and Asia. The following is an analysis of various items analysed bt geographical area in which the assets are located:

	USA USD	South America USD	Asia USD	Unallocated USD	Total USD
Net gains on financial assets designated at fair value through profit or loss	(3,388)	–	92,670	–	89,282
Operating income	–	–	–	15,351,262	15,351,262
Net gain for the period attributable to shareholders	–	–	–	9,620,055	9,620,055
Total equity	–	–	–	478,599,632	478,599,632
Total assets	28,279,810	19,123,350	2,918,000	428,466,564	478,787,724
Plant, equipment and intangible assets expenditure	–	123,350	–	–	123,350

4. Operating Income

	Company 31 Dec 2007 USD	Group 31 Dec 2007 USD
Investment income	134,461	134,461
Bank interest	15,199,106	15,216,801
	15,333,567	**15,351,262**

5. Operating Expenses

	Company 31 Dec 2007 USD	Group 31 Dec 2007 USD
Investment managers fees	4,835,483	4,835,483
Directors' remuneration	267,017	267,017
Directors expenses	4,432	4,432
Directors & Officers insurance	40,487	40,487
Directors & Officers insurance (Phaunos US Inc)	58,648	58,648
Employee compensation and benefits	–	66,293
Employee training	–	6,000
Audit fees	81,786	81,786
Regulatory fees	15,952	15,952
Administration fees	95,658	95,658
Registration fees	24,181	24,181
Nominated Advisor Fees	99,881	99,881
Legal and professional fees	68,976	98,813
Foreign exchange revaluations	17,916	17,916
Rentals	–	6,621
Other taxes	–	56,800
Other operating expenses	38,532	44,521
	5,648,949	**5,820,489**

6. Directors' Remuneration

Each Director receives a fee of £20,000 per annum from the Company, except for the Chairman, who receives £40,000 per annum. Liane Luke and Kimberly Tara have waived their entitlement to receive a fee. On 31 December 2007, a further amount of $75,000 was received by the Chairman in the form of share based remuneration.

	Company 31 Dec 2007 USD	Group 31 Dec 2007 USD
Fees	192,017	192,017
Share-based awards	75,000	75,000
	267,017	**267,017**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7. Earnings per Share

Earnings per share is based on the net gain for the period attributable to shareholders of Group $9,620,055 and Company $9,773,900 and on 271,719,465 Shares, being the weighted average number of shares in issue during the period. There are no dilutive instruments and therefore basic and diluted earnings per share are identical.

8. Other Intangible Assets

GROUP	USD
Cost:	
Cost at 28 September 2006	–
Additions	2,087
Cost at 31 December 2007	2,087
Amortisation:	
Amortisation at 28 September 2006	–
Charge for the period	–
Amortisation at 31 December 2007	–
Net book value:	
At 31 December 2007	2,087
At 28 September 2006	–

9. Plant and Equipment

GROUP	USD
Cost:	
Cost at 28 September 2006	–
Additions	121,263
Cost at 31 December 2007	121,263
Depreciation:	
Depreciation at 28 September 2006	–
Charge for the period	–
Depreciation at 31 December 2007	–
Net book value:	
At 31 December 2007	121,263
At 28 September 2006	–

10. Investments in Subsidiaries

Investments in subsidiaries consist of investments in the following wholly owned Group companies:

Company	Place of Incorporation	Percentage of shares	31 Dec 2007 USD
Phaunos US Incorporated	USA	100%	24,451,429
Caldrey	Uruguay	100%	4,800,000
			29,251,429

Phaunos Timber Fund Limited owns 100% of the issued share capital of the above companies. The value of the investments in subsidiaries is stated at cost. Following advice from FourWinds, the Directors consider that there has been no diminution in the value of the investment

11. Investments

GROUP UNQUOTED FINANCIAL ASSETS DESIGNATED THROUGH PROFIT OR LOSS AT FAIR VALUE	31 Dec 2007 USD
Opening portfolio cost	–
Additions at cost	50,108,528
Unrealised appreciation on valuation brought forward	–
Unrealised appreciation/(depreciation) on valuation for the period	(3,388)
Unrealised foreign exchange movement brought forward	–
Unrealised foreign exchange movement for the period	92,670
Unrealised appreciation/(depreciation) and foreign exchange movement on valuation carried forward	89,282
Closing valuation	**50,197,810**

COMPANY UNQUOTED FINANCIAL ASSETS DESIGNATED THROUGH PROFIT OR LOSS AS FAIR VALUE	31 Dec 2007 USD
Opening portfolio cost	–
Additions at cost	25,679,956
Unrealised appreciation on valuation brought forward	
Unrealised appreciation/(depreciation) on valuation for the period	(3,388)
Unrealised foreign exchange movement brought forward	–
Unrealised foreign exchange movement for the period	92,670
Unrealised appreciation/(depreciation) and foreign exchange movement on valuation carried forward	89,282
Closing valuation	**25,769,238**

Investments are shown at fair value. In the directors' opinion the cost of investments approximates fair value.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12. Cash and Cash Equivalents

	Company 31 Dec 2007 USD	Group 31 Dec 2007 USD
Cash at bank	203,332	3,964,046
Money market fund	421,899,849	421,899,849
	422,103,181	**425,863,895**

In the directors' opinion, the risk of changes in market value of the money market fund are insignificant.

13. Debtors

	Company 31 Dec 2007 USD	Group 31 Dec 2007 USD
Prepayments	36,557	884,545
Accrued income	1,607,042	1,607,042
Sundry debtors	76,467	111,082
	1,720,066	**2,602,669**

14. Creditors

(amounts falling due within one year)

	Company 31 Dec 2007 USD	Group 31 Dec 2007 USD
Accrued audit fees	61,046	61,046
Accrued administration fees	19,664	19,664
Accrued registration fees	1,985	1,985
Other accrued expenses	7,742	7,742
Sundry creditors	–	97,655
	90,437	**188,092**

15. Share Capital

Authorised, issued and fully paid	31 Dec 2007 USD
Unlimited Ordinary Shares of no par value	–

The issues of Ordinary Shares took place as follows:

Date of issue	Number of shares	Price per share USD	Amount received USD
20 December 2006	115,150,000	1.00	115,150,000
05 June 2007	355,769,230	1.04	370,000,000
	470,919,230		**485,150,000**

As the company has only one class of shares, the holders of its shares will under general law be entitled to participate in any surplus assets in a winding-up in proportion to their shareholdings.

16. Share Premium

COMPANY AND GROUP	31 Dec 2007 USD
Share premium as at 28 September 2006	–
Share premium on initial raising 20 December 2006	115,150,000
Share premium on second raising 5 June 2007	370,000,000
Less: Share issue costs	(16,170,423)
Transfer to distributable reserves	(110,418,595)
Share premium	**358,560,982**

17. Retained Earnings

	Company 31 Dec 2007 USD	Group 31 Dec 2007 USD
Balance as at 28 September 2006	–	–
Net gain for the period attributable to shareholders	9,773,900	9,620,055
Balance as at 31 December 2007	**9,773,900**	**9,620,055**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18. Distributable Reserves

	Company 31 Dec 2007 USD	Group 31 Dec 2007 USD
Balance as at 28 September 2006	–	–
Transferred from share premium	110,418,595	110,418,595
Balance as at 31 December 2007	**110,418,595**	**110,418,595**

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

19. Financial Instruments

The Company's main financial instruments comprise:

(a) Cash and cash equivalents that arise directly from the Company's operations; and

(b) Investments in unlisted entities.

20. Financial Risk Management Objectives and Policies

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

(a) Market Price Risk

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

There is also a further risk due to the small number of large investments made by the Company. Such a concentration of investments subjects the Company to increased exposure to significant declines in the value of one investment. The investment manager actively monitors the appropriateness of the investments held.

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

Details of the Company's Investment Objective and Policy are given on page 1.

Physical risks associated with Timber

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

20. Financial Risk Management Objectives and Policies (continued)

(a) Market Price Risk (continued)

Economic risks associated with Timber

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

The demand for timber is a derived demand, based on the demand for products such as paper and paperboard, lumber, panels and energy. Changes in the demand for those products will affect the demand for timber and the Group's revenues. The demand for paper and paperboard (and through them the demand for pulpwood) is related to the general level of economic activity. Low economic growth rates may lead to a lessening of demand for pulpwood and lower prices. The demand for lumber and panels (and through it the demand for saw logs, veneer logs and pulpwood used in manufacturing panels) is related to construction and remodelling activity. A reduction in such activity may lead to a lessening of demand for logs. The demand for energy (and through it the demand for logging and mill residues, chips and fuelwood) is related to the general level of economic activity and the price of oil. Decreases in oil prices may lead to a decrease in demand for wood-based energy.

Political risks associated with Timber

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

Risk concentrations

Management measures the geographical and species concentrations of the investment portfolio. The risk exposures are:

	Group % of total investments	Company % of total investments
Geographical analysis		
USA	56.3	88.7
South America	37.9	0.0
Asia	5.8	11.3
Species analysis		
Financial assets (loans)	5.8	11.3
Teak	7.7	14.9
Poplar	48.7	0.0
Pine	37.9	73.7

Price sensitivity

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

At 31 December 2007, if market prices had been 5% higher with all the other variables held constant, the net gain attributable to shareholders for the period would have been $2,363,991 – Group ($1,142,562 – Company) greater, due to the increase in the fair value of financial assets at fair value through profit or loss. This would represent an increase in Total Assets of 0.49% – Group (0.24% – Company).

If market prices had been 5% lower with all the other variables held constant, net gain attributable to shareholders for the period would have been $2,363,991 – Group ($1,142,562 – Company) lower, due to the decrease in the fair value of financial assets at fair value through profit or loss. This would represent a decrease in Total Assets of 0.49% – Group (0.24% – Company).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20. Financial Risk Management Objectives and Policies (continued)

(b) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in realising assets or otherwise raising funds to meet financial commitments.

Since not all of the Company's investments will be income generating the Company retains a proportion of its liquid assets in cash or near-cash investments for working capital purposes.

The following illustrates the maturity analysis of the Company's financial assets and liabilities as at the period end:

GROUP	Due on demand	Due between 3 and 12 months	Due >5 years	Total
Assets				
Investments designated at fair value	–	–	50,197,810	50,197,810
Other non-current assets	–	–	123,350	123,350
Trade and other receivables	–	2,602,669	–	2,602,669
Cash and cash equivalents	425,863,895	–	–	425,863,895
Total assets	**425,863,895**	**2,602,669**	**50,321,160**	**478,787,724**
Liabilities				
Trade and other payables	–	188,092	–	188,092
Total liabilities	**–**	**188,092**	**–**	**188,092**

COMPANY	Due on demand	Due between 3 and 12 months	Due >5 years	Total
Assets				
Investments designated at fair value	–	–	25,769,238	25,769,238
Investments in subsidiaries	–	–	29,251,429	29,251,429
Trade and other receivables	–	1,720,066	–	1,720,066
Cash and cash equivalents	422,103,181	–	–	422,103,181
Total assets	**422,103,181**	**1,720,066**	**55,020,667**	**478,843,914**
Liabilities				
Trade and other payables	–	90,437	–	90,437
Total liabilities	**–**	**90,437**	**–**	**90,437**

20. Financial Risk Management Objectives and Policies (continued)

(c) Interest Rate Risk

The Company holds cash in a money market fund, the return on which is subject to fluctuations in market interest rates.

The weighted average effective interest rate for cash and bank balances as at 31 December 2007 was 5.22%.

With the exception of the Masarang EMTN which earns interest at a fixed rate of 12% per annum, none of the other assets or liabilities of the Company attract or incur interest.

Interest rate sensitivity

If interest rates had been 25 basis points higher and all other variables were held constant, the Group's net gain attributable to shareholders for the period ended 31 December 2007 would have increased by approximately $1,064,700 or 0.22 % of Total Assets due to an increase in the amount of interest receivable on the bank balances.

If interest rates had been 25 basis points lower and all other variables were held constant, the Group's net gain attributable to shareholders for the period ended 31 December 2007 would have decreased by approximately $1,064,700 or 0.22 % of Total Assets due to a decrease in the amount of interest receivable on the bank balances.

If interest rates had been 25 basis points higher and all other variables were held constant, the Company's net gain attributable to shareholders for the period ended 31 December 2007 would have increased by approximately $1,055,300 or 0.22 % of Total Assets due to an increase in the amount of interest receivable on the bank balances.

If interest rates had been 25 basis points lower and all other variables were held constant, the Company's net gain attributable to shareholders for the period ended 31 December 2007 would have decreased by approximately $1,055,300 or 0.22 % of Total Assets due to a decrease in the amount of interest receivable on the bank balances.

(d) Credit Risk

There is a credit risk relating to the Company's investments in joint ventures and other non-wholly owned operations, where the Company has limited control over its investment. There is a further credit risk (although extremely remote) relating to the significant amount invested in the Royal Bank of Scotland Global Treasury Fund ("the GTF"), and the risk of the GTF not honouring the full amount. The Board attempt to minimise such risks by ensuring that due diligence is undertaken prior to any investment and by obtaining regular performance information regarding these investments. It also monitors credit ratings to ensure that cash at bank balances are maintained with an institution holding at least an Aa1 credit rating.

The Company has entered into a 5 year Zero Coupon note with a maturity rate of 15% compounded annually.

Under the terms of the Termsheet dated 4 September 2007 entered into between the Company and Masarang Foundation, the Foundation has pledged 300 hectares of Cempaka and Wasian plantation on the Masarang Foundation property in the North Sulawesi Province of Indonesia as security against the European Medium Term Note ("EMTN"). However, no independent valuation is available for this security.

The Gross Credit exposure to the Company was $2,918,000 as at the period end.

(e) Foreign Exchange Risk

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed by minimising the amount of foreign currency held at any one time.

The carrying amounts of the Group's foreign currency denominated monetary assets at the reporting date are as follows:

	Group Assets USD	Company Assets USD
GBP	7,686	7,687
Euro	2,825,330	2,825,330

Foreign exchange sensitivity

The Group's exposure to the Euro is mainly through holding an EMTN.

If USD rates against the Euro had been 5% higher and all other variables were held constant, the Group's net gain attributable to shareholders for the period ended 31 December 2007 would have increased by approximately $145,900 due to an increase in the value of the Masarang bond.

If USD rates against the Euro had been 5% lower and all other variables were held constant, the Group's net gain attributable to shareholders for the period ended 31 December 2007 would have reduced by approximately $145,900 due to a decrease in the value of the Masarang bond.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20. Financial Risk Management Objectives and Policies (continued)

(e) Capital Management

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

As the Company's Ordinary Shares are traded on AIM, the Ordinary Shares may trade at a discount to their Net Asset Value per Share on occasion. However, in structuring the Company, the Directors have given detailed consideration to the discount risk and how this may be managed.

Upon Admission, the Directors were granted authority to buy back up to 14.99 per cent. of the Ordinary Shares in issue following Admission. The Company's authority to make purchases of its own issued Ordinary Shares will expire at the conclusion of the first annual general meeting of the Company. A renewal of such authority to make purchases of Ordinary Shares will be sought from Shareholders at each annual general meeting of the Company. The timing of any purchases will be decided by the Board.

The Directors intend that purchases will only be made pursuant to this authority through the market, for cash, at prices below the prevailing Net Asset Value per Share where the Directors believe such purchases will result in an increase in the Net Asset Value per Share of the remaining Ordinary Shares and to assist in narrowing any discount to Net Asset Value per Share at which the Ordinary Shares may trade. Any Ordinary Shares bought back by the Company will either be held by the Company in treasury (and which may be reissued) or forthwith be cancelled.

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

The Company's authorised share capital is such that either further issues of new Ordinary Shares or reissues of Ordinary Shares held in treasury could be made. Subject to prevailing market conditions, the Board may decide to make one or more further such issues or reissues of Ordinary Shares for cash from time to time. Any further issues of new Ordinary Shares or reissues of Ordinary Shares held in treasury will rank pari passu with Ordinary Shares in issue. There are no provisions of the Companies Laws or the Articles of Association of the Company providing pre-emption rights for existing Shareholders on the allotment of equity securities for cash or on the reissue of equity securities out of treasury. As at the period end, the Company was proposing to increase Share Capital by issuing up to US$1.6 billion C Shares.

Unless authorised by Shareholders, the Company will not issue further Ordinary Shares or reissue Ordinary Shares out of treasury for cash at a price below the prevailing Net Asset Value per Share unless they are first offered pro rata to existing Shareholders.

The Group and Company monitors capital on the basis of the carrying amount of equity as presented on the face of the balance sheet. Capital for the reporting periods under review is summarised as follows:

	Group USD	Company USD
Share premium	358,560,982	358,560,982
Retained earnings	9,620,055	9,773,900
Distributable reserves	110,418,595	110,418,595
Total	**478,599,632**	**478,753,477**

21. Capital Commitments

At the year end, the Company has made further commitments totalling US$350 million into two new ventures. These investments will be made in Eastern Europe and China.

The Company has also made further commitments to provide funding of around US$8.5 million into investments existing at 31 December 2007.

All of the above commitments are committed to be paid within one year.

22. Related Parties

Anson Fund Managers Limited is the Company's Administrator and Secretary, Anson Registrars Limited is the Company's Registrar, Transfer Agent and Paying Agent and Anson Administration (UK) Limited is the UK Transfer Agent. John R Le Prevost is a director of Anson Fund Managers Limited, Anson Registrars Limited and Anson Administration (UK) Limited. $119,839 of costs were incurred by the Company with these related parties in the period, of which $21,649 was due to these related parties as at 31 December 2007.

FourWinds Capital Management is the Company's Investment Manager. Liane Luke and Kimberly Tara are both senior employees of FourWinds Capital Management.$4,835,483 of costs were incurred by the Company with this related party in the period, of which $nil was due to this related party as at 31 December 2007.

Directors' remuneration is disclosed in Note 5.

The Company has an agreement with Fanerey, the Manager of Caldrey SA (Note 9), under which up to 50% of Caldrey SA's shares will be transferred to the Manager based on performance over an extended period.

SCHEDULE OF INVESTMENTS
AS AT 31 DECEMBER 2007

GROUP	Nature of investment	VALUATION USD	TOTAL NET ASSETS %
Name of investment			
GreenWood Tree Farm Fund	Timber operation	24,428,572	5.11%
Balerio – Aurora Forestal	Timber operation	19,000,000	3.98%
5 Year EMTN linked to Timber Assets of the Masarang Foundation	Loan	2,918,000	0.62%
National Timber Partners Timber Fund LP	Financial instrument	3,851,238	0.81%
		50,197,810	**10.50%**

COMPANY	Nature of investment	VALUATION USD	TOTAL NET ASSETS %
Name of investment			
Balerio – Aurora Forestal	Timber operation	19,000,000	3.98%
5 Year EMTN linked to Timber Assets of the Masarang Foundation	Loan	2,918,000	0.62%
National Timber Partners Timber Fund LP	Financial instrument	3,851,238	0.81%
		25,769,238	**5.39%**

	COST USD	TOTAL NET ASSETS %
Name of subsidiary		
Phaunos US Incorporated	24,451,429	5.12%
Caldrey SA	4,800,000	1.01%
	29,251,429	**6.12%**

SHAREHOLDER INFORMATION

The Company's Ordinary Shares are capable of being traded on AIM and the Channel Islands Stock Exchange.

The Shares may be dealt in directly through a stockbroker or professional adviser acting on an investor's behalf. The buying and selling of Shares may be settled through CREST.
The ISIN, SEDOL and the London Stock Exchange mnemonic of the company's Ordinary Shares are:

ISIN	SEDOL	LSE mnemonic
GG00B1G3RS66	B1G3RS6	PTF

Shareholder Enquiries

The Company's CREST compliant registrar is Anson Registrars Limited in Guernsey who maintains the Company's register of shareholders. They may be contacted by telephone on: +(44) 01481 711301.

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

For information about investing in the Company contact Kimberley Tara of FourWinds Capital Management, the Company's Investment Manager, on: Switzerland 00 33 685 75 38 41.

DIRECTORS AND SERVICE PROVIDERS

Directors
Keith Oates
John Le Prevost
Liane Luke
Peter Niven
Kimberly Tara

Auditor
Ernst & Young LLP
PO Box 9
14 New Street
St Peter Port
Guernsey
GY1 4AF

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

Investment Manager
FourWinds Capital Management
29 Rue de la Rotisserie
CH-1204
Geneva
Switzerland

Registrar, Paying Agent and Transfer Agent
Anson Registrars Limited
PO Box 426
Anson Place
Mill Court
La Charroterie
St Peter Port
Guernsey
GY1 3WX

Stockbroker for AIM
Shore Capital Stockbrokers Limited
The Corn Exchange
Fenwick Street
Liverpool
England
L2 7RB

Sponsor to CISX Listing
Ozannes
PO Box 186
1 Le Marchant Street
St Peter Port
Guernsey
GY1 4HP

FourWinds Capital Management
Scotiabank Building
P.O. Box 268GT
George Town
Grand Cayman
Cayman Islands

Nominated Adviser for AIM
Shore Capital & Corporate Limited
Bond Street House
14 Clifford Street
London
England
W1S 4JU

Registered Office of the Company
Anson Place
Mill Court
La Charroterie
St Peter Port
Guernsey
GY1 1EJ
Telephone +44 (0)1481 722260

Administrator and Company Secretary
Anson Fund Managers Limited
PO Box 405
Anson Place
Mill Court
La Charroterie
St Peter Port
Guernsey
GY1 3GF

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the annual general meeting of the Company will be held at Anson Place, Mill Court, La Charroterie, St. Peter Port, Guernsey GY1 1EJ on Friday 23 May 2008 at 10am to consider and, if thought fit, to pass the following resolutions, proposed as ordinary resolutions:

Special Business:

1. To resolve as an Ordinary Resolution that the Company be authorised, in accordance with section 5 of The Companies (Purchase of Own Shares) Ordinance 1998 (the "Ordinance"), to make market purchases (within the meaning of section 18 of the Ordinance) of shares of no par value each ("Shares"), provided that:

   (a) the maximum number of Shares hereby authorised to be purchased shall be 14.99 per cent of Shares in issue on the date on which this resolution is passed;

   (b) the maximum price which may be paid for a Share shall be not more than 105 per cent of the average of the middle market quotation for a Share of the relevant class for the five business days immediately preceding the day on which the Shares are purchased; and

   (c) unless previously varied, revoked or renewed, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2009, save that the Company may, prior to such expiry, enter into a contract to purchase Shares under such authority and may make a purchase of Shares pursuant to any such contract.

2. To re-approve the Company's investment objective as the following:

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

Ordinary Business:

1. To reappoint Ernst & Young LLP as Auditor to the Company, to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting, and to authorise the Directors to determine their remuneration.
2. To re-elect Keith Oates as a director of the Company.
3. To re-elect John Le Prevost as a director of the Company.
4. To re-elect Liane Luke as a director of the Company.
5. To re-elect Peter Niven as a director of the Company.
6. To re-elect Kimberly Tara as a director of the Company.
7. To receive the report and audited financial statements of the Company for the period ended 31 December 2007.

By order of the Board
Phaunos Timber Fund Limited
24 April 2008

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Notes:

(i) Ordinary resolutions: these resolutions require a simple majority of the votes cast by those shareholders voting in person or by proxy at the Annual General Meeting (excluding any votes which are withheld) to be voted in favour of the resolution.

(ii) The Company has specified that only those persons registered on the register of shareholders of the Company as holding shares directly in certificated form as at 10:00 a.m. (Guernsey time) on 21 May 2008 or, if the AGM is adjourned, as at 48 hours before the time of any adjourned AGM shall be entitled to attend or vote at that time. Changes to entries on the register of shareholders after 10:00 a.m. (Guernsey time) on 21 May 2008, or if the AGM is adjourned, changes to entries on the register of shareholders of the Company less than 48 hours before the time of any adjourned AGM shall be disregarded in determining the rights of any persons to attend or vote at the AGM or any adjourned AGM.

(iii) Any shareholder entitled to attend and vote at the AGM may appoint one or more proxies to attend and, on a poll, to vote on his/her behalf. A proxy need not be a shareholder of the Company. A Form of Proxy is enclosed for this purpose. If you have any queries relating to the completion of the form of proxy, please contact the Company's registrar, Anson Registrars Limited on + 44 (0)1481 711301. Anson Registrars Limited can only provide information regarding the completion of the form of proxy and cannot provide you with investment or tax advice.

(iv) To be valid the Form of Proxy, together with any power of attorney or other authority (if any) under which it is executed (or a notarially certified copy of such power of attorney or authority) must be deposited with the Company's registrar, Anson Registrars Limited, PO Box 426, Anson Place, Mill Court, La Charroterie, St Peter Port, Guernsey GY1 3WX not less than 48 hours before the time of the AGM or the adjourned AGM, or such later time as the Directors may allow.

(v) Completion and return of the Form of Proxy will not preclude a shareholder holding shares directly in certificated form from subsequently attending and voting at the AGM should he/she wish.

(vi) By attending the AGM a shareholder expressly agrees he/she is requesting and willing to receive any communications made at the AGM.

(vii) None of the Company's directors has a contract of service with the Company.

Designed and produced by: www.wisetiger.co.uk Printed by: Sussex Litho

Registered Office:
Anson Place, Mill Court,
La Charroterie, St Peter Port,
Guernsey, GY1 1EJ

Tel: +44 (0)1481 722260

www.phaunostimber.com