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14 August 2018

Phaunos Timber Fund Limited (“Phaunos” or the “Company”)

Rejection of Stafford’s Offer, Publication of Response Circular and Updated Asset Realisation Range

Further to the Company’s announcement on 3 July 2018, the board of Phaunos (the “**Board**”) announces that it is today publishing its response circular (the “**Response Circular**”) in connection with the unsolicited cash offer made by Stafford Capital Partners Limited (“**Stafford**”) to acquire the entire issued and to be issued share capital of the Company (the “**Offer**”).

The Board of Phaunos is also today publishing an Updated Asset Realisation Range of US\$0.54 – 0.60 per Share.

In light of the Indicative Bids received, the Board expects the sale of all the assets which are subject to a sale process under the Asset Realisation Process to complete within 6 to 9 months, which would cover the sale of assets comprising 92% of the Portfolio Value.

The Board of Phaunos reiterates that it is committed to returning all sales proceeds from the Asset Realisation Process as they are received, after allowing for cash reserves to wind-down the Company

A letter from the Chairman of Phaunos to Phaunos Shareholders, as set out in the Response Circular, has been extracted below.

Letter to Phaunos Shareholders from the Chairman of Phaunos

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14 August 2018

Dear Shareholder,

Thank you for taking the time to read this document. It contains important information with regards to your shareholding in Phaunos. As you are aware, on 3 July 2018 Stafford made an unsolicited cash offer for Phaunos which values the Company at US\$0.49 per Share. It is the Board’s belief that this Offer is inadequate and not in the best interests of Shareholders. This document explains why.

Stafford’s Offer undervalues Phaunos: There is significant upside from the Asset Realisation Process compared to Stafford’s Offer

Since August 2017, the Company has been focused on the Asset Realisation Process, which was formally launched earlier this year. Indicative Bids were received in late June 2018 from various parties for each of the assets included in the sale process within the Asset Realisation Process and were subsequently confirmed in late July and early August this year.

The Board of Phaunos is pleased with the progress made to date with its Asset Realisation Process and is today publishing an Updated Asset Realisation Range of US\$0.54 – 0.60 per Share¹. This Updated Asset Realisation Range, based on Indicative Bids received in US dollars, represents a 10% to 22% upside to Stafford's Offer.

The Updated Asset Realisation Range is primarily based on the outcome of Indicative Bids received for all assets which are subject to a sale process under the Asset Realisation Process:

- All bidders have been provided with preliminary information including information memoranda, appraisal reports and other relevant forestry and financial information
- All bidders are highly credible and well-capitalised international investors in timber assets
- Takes into account the nature of the bids received, the current performance of the assets in the portfolio and other ongoing discussions forming part of the Asset Realisation Process initiated in August 2017

The Board's strategy from hereon is to seek to execute binding purchase and sale agreements with those parties that have provided Indicative Bids which, when taken together, comprise the top end of the Updated Asset Realisation Range. The lower end of the Updated Asset Realisation Range should therefore be regarded as reflecting the risk that it does not prove possible to complete transactions with the "high" bidders at or above the price set out in their Indicative Bids.

Phaunos is also publishing today an Updated Going Concern NAV of US\$0.58 per Share². Reported on a break-up basis, taking into account adjustments for discounts applied to asset values, provisions for selling costs and other costs for completion of the liquidation process, the Updated Break-Up NAV is US\$0.51 per Share². For the avoidance of doubt, neither the Updated Going Concern NAV nor the Updated Break-Up NAV take into account the Indicative Bids received for assets which are subject to a sale process under the Asset Realisation Process. Even then, Stafford's Offer of US\$0.49 per Share represents a discount to both the Updated Break-Up NAV and Updated Going Concern NAV.

In light of the Indicative Bids received, the Board expects the sale of all the assets which are subject to a sale process under the Asset Realisation Process to complete within 6 to 9 months, which would cover the sale of assets comprising 92% of the Portfolio Value.

The Company is currently in discussions with Aurora Forestal's majority shareholder to negotiate a possible disposal of its equity interest in Aurora Forestal (5% of the Portfolio Value) and has exercised its rights to initiate a voluntary exit pursuant to the Aurora Forestal shareholder agreement.

Moreover, the Board is pleased to announce that, on 27 July 2018, the Company's interest in NTP was realised at marginally above its reported NAV as at 31 December 2017. The disposal of the Company's interest in GTFF (4% of the Portfolio Value) is subject to a separate liquidation procedure.

The Board of Phaunos reiterates that it is committed to returning all sales proceeds from the Asset Realisation Process as they are received, after allowing for cash reserves to wind-down the Company.

Stafford's Offer is not Shareholder friendly and appears to be aimed at disrupting the Asset Realisation Process and taking advantage of the UK Takeover Code timetable

Stafford's approach has not been made with the best interests of Shareholders in mind. Stafford was given the opportunity to participate in the Asset Realisation Process but declined to do so, opting instead to pre-empt that process with an Offer that undervalues Phaunos and would, were Stafford to succeed, deprive Shareholders of the benefits of a competitive process designed to maximise value.

The timing of Stafford's Possible Offer, made voluntarily, was four weeks before the end of June – or the 28 days a PUSU period would last – which is the date at which the Board said it anticipated receiving Indicative Bids in the Asset Realisation Process.

You should note that the Board has been advised by its New Zealand legal counsel that there is no guarantee that the OIO Ministers would be able to issue their decision with respect to Stafford's Offer within the timetable required under the UK Takeover Code. You should also note that the OIO process would only be applicable to non-New Zealand based parties.

The Board has worked hard to minimise the disruption caused by Stafford's Offer and is greatly encouraged by the pricing and executability of the Indicative Bids received to date.

THE BOARD'S RECOMMENDATION: TAKE NO ACTION

Your Board strongly believes that Stafford's Offer does not provide an attractive exit opportunity for Shareholders and that the Asset Realisation Process is the best strategy for maximising shareholder value over a reasonable timeframe.

Accordingly, and subject to the matters set out above, the Board, which has been so advised by Evercore, strongly believes that Stafford's Offer significantly undervalues Phaunos and recommends that you should take no action in relation to Stafford's Offer and that you should not sign any document which Stafford or its advisers send to you. In providing advice to the Board, Evercore has taken into account the Board's commercial assessments. Evercore is providing independent financial advice to the Phaunos Directors for the purposes of Rule 3 of the UK Takeover Code.

We will write to you again during the course of the Offer to keep you informed of any further developments.

Yours sincerely,

Richard Boléat
Chairman of Phaunos Timber Fund Limited

Notes:

All capitalised terms shall have the meaning ascribed to them in the Response Circular.

- 1. See Appendix I of the Response Circular for further details on how the Updated Asset Realisation Range has been computed as well as the level of conditionality associated with the Indicative Bids*
- 2. See Appendix II of the Response Circular for a pro forma statement of net assets of Phaunos and Matariki Forestry Group including further details on the Updated Going Concern NAV and Updated Break-Up NAV*

In accordance with Rule 25.1(c)(ii) of the UK Takeover Code, a copy of the Response Circular will shortly be made available on Phaunos's website at <http://www.phaunostimber.com/offer-from-stafford/>. A copy of the Response Circular has been submitted to the National Storage Mechanism and will shortly be made available for inspection at www.morningstar.co.uk/uk/NSM/.

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Rule 26.1 Disclosures

In accordance with Rule 26.1 of the UK Takeover Code, a copy of this announcement will, subject to certain restrictions relating to persons resident in restricted jurisdictions, be available on Phaunos's website at <http://www.phaunostimber.com/offer-from-stafford/> by no later than 12 noon (London time) on the business day following the release of this announcement. The content of the website referred to in this announcement is not incorporated into and does not form part of this announcement. The person responsible for arranging for the release of this announcement on behalf of Phaunos is JTC Fund Solutions (Guernsey) (acting as Company Secretary).

Important Notices

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