

# RAB Special Situations Company Limited

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managed by RAB Capital plc

Report and Financial Statements 2008

## Contents

Investment Objective and Policy	1	Statement of Changes in Equity	14
Chairman's Statement	2	Balance Sheet	15
Performance	3	Cash Flow Statement	16
Investment Manager's Report	4	Notes to the Financial Statements	17
Directors	6	Risk Warning	27
Report of the Directors	7	Notice of Annual General Meeting	37
Independent Auditors' Report	12	Form of Proxy	39
Income Statement	13	Directors and Advisers	IBC

## Investment Objective and Policy

### INVESTMENT OBJECTIVE

The investment objective of RAB Special Situations Company Limited (the "Company") is to maximise its total return primarily through the capital appreciation of its investments.

### INVESTMENT POLICY

The Company seeks to achieve its investment objective by investing up to 100% of its assets directly in the shares of RAB Special Situations (Master) Fund Limited (the "Master Fund") and by investing (including taking short positions) any remaining assets directly in a wide range of securities and other instruments.

The Company and the Master Fund (collectively known as the "Funds") have conferred on the Investment Manager (RAB Capital plc) maximum flexibility to exploit a very wide range of investment opportunities as they arise. The Investment Manager will search throughout the global markets for investment opportunities, evaluate their risk and profit potential, and invest when it deems appropriate. There are no material limitations on the investment strategies that the Investment Manager may employ on behalf of the Funds or the instruments, markets or countries in which the Funds may invest or trade.

The Investment Manager believes that the investment and trading opportunities available to the Funds are varied and diverse. The Investment Manager has complete flexibility in selecting the investment and trading strategies implemented by the Funds and intends to make investments that, in its opinion, present the best opportunities. The Investment Manager is not limited to trading any specific instruments or pursuant to any specific investment or trading strategies.

Substantially all of the investment strategy's ongoing investment activity will be focused on natural resources. Furthermore the Manager does not intend to make any new investments in unlisted equity, except when it is necessary to protect the value of existing investments.

On 1 June 2009 the London Stock Exchange published new rules for investing companies admitted to trading on AIM ("New Rules"). In accordance with the requirements of the New Rules, the Company is reviewing compliance of its current investment strategy and policy with the New Rules governing investment policies. The Company will announce any changes to its investment policy that it proposes to make as soon as possible (but no later than 1 December 2009) and, as required under the New Rules, shareholders' approval will be sought for any such amendments that materially change the overall investment objective and risk profile of its existing strategy.

[www.rabspecialsituations.com](http://www.rabspecialsituations.com)

A closed-ended investment company, incorporated under The Companies (Guernsey) Law, 2008, as amended.

REGISTERED IN GUERNSEY No. 43060

## Chairman's Statement

I am pleased to present to Shareholders the Annual Report of RAB Special Situations Company Limited (the "Company") for the year-ended 31 December 2008.

During the year to 31 December 2008 the Company sought to achieve its investment objective (of maximising its total return primarily through the capital appreciation of its investments) by investing all of its assets directly in the shares of RAB Special Situations (Master) Fund Limited (the "Master Fund").

### Results

As predicted at 31 December 2007, the year to 31 December 2008 has been difficult, not only for the Company, but for world equity markets. During the year under review the net asset value ("NAV") of the Company decreased from 157.13p to 42.39p (31 December 2007: increase of 0.45p to 157.13p).

The turbulent market conditions and uncertainty in the economies around the world, particularly in the second half of the year to 31 December 2008, contributed to the share price falling by 85.33% to 19p, increasing the discount of the share price to NAV to 55.18% (31 December 2007: 17.58%). Since the year-end the share price has increased to 34.00p. The estimated NAV at 11 June 2009 was 43.45p, giving a discount to the NAV of 21.75%.

### Authority to buy back shares

Shareholders renewed the authority for the Company to buy back its own shares at the Company's Annual General Meeting held on 23 July 2008, and in accordance with the Admission Document, it is the Board's intention to seek the renewal of this authority each year as it believes it is beneficial for the Company to maintain flexibility in its capital structure.

Over the course of the year, the Board has continually monitored the discount of the share price to the NAV. The Board acknowledges that, although the discount has widened during the year, it would not be in the best interests of shareholders to use the resources of the Company to buy back Ordinary Shares. Therefore, as yet, the Company has not purchased any Ordinary Shares to be held in treasury nor have any Ordinary Shares been purchased for cancellation. The Board continues to review the situation closely and noted that, at 30 April 2009, the discount to the NAV had reduced significantly from 55.18% at the year-end to 25.36%.

### Redemptions

The Master Fund has recently entered into agreements with RAB Special Situations Fund (incorporated in The Cayman Islands) and RAB Special Sits LP (incorporated in Delaware), both being open-ended funds, to lock in their investment for a period of three years, in order that the Master Fund can re-establish its value, following the recent turbulent market conditions.

The Company has not entered into such agreements.

### Investments

The investment strategy of the Master Fund remains the same as previous years and the Master Fund continues to invest in what the Investment Manager deems to be assets of global significance. Further details can be found in the Investment Manager's Report.

In this difficult economic climate, much debate has ensued in relation to the valuation of investments in all companies across all sectors. Shareholders can take comfort in the knowledge that, following an independent investment review by PwC, and in consultation with Grant Thornton (auditors for the Master Fund), the investments of the Master Fund are thoroughly reviewed by the Master Fund's valuation committee on a quarterly basis.

### Outlook

Even though the last year has seen a decline in the net assets of the Company, the Board continues to believe that there is long-term value in the Master Fund and that the majority of underlying investments have significant inherent value. The Board is confident that the Master Fund's portfolio is well placed to perform favourably in what is expected to be an equally challenging and unpredictable year.

I look forward to welcoming Shareholders to our Annual General Meeting to be held at 10.30am on 23 July 2009 at the Company's registered office at No. 1 Le Truchot, St Peter Port, Guernsey, GY1 3JX.

**QUENTIN SPICER**

18 June 2009

## Performance

	<i>Basic NAV pence</i>	<i>Fully-diluted NAV<sup>(1)</sup> pence</i>	<i>Ordinary Share price (mid) pence</i>	<i>A Warrant price (mid) pence</i>	<i>B Warrant price (mid) pence</i>	<i>FTSE AIM Index</i>
31 May 2005 (launch) <sup>(2)</sup>	94.75 <sup>(3)</sup>	94.75 <sup>(3)</sup>	95.64	2.12	2.24	957.60
31 December 2005	123.77	123.77	106.50	3.75	8.63	1,046.10
30 June 2006	143.81	143.81	123.00	n/a <sup>(4)</sup>	18.00	1,080.40
31 December 2006	156.68	156.68	129.00	n/a	8.00	1,054.60
30 June 2007	170.37	170.37	152.75	n/a	n/a <sup>(5)</sup>	1,216.40
31 December 2007	157.13	157.13	129.50	n/a	n/a	1,049.10
30 June 2008	120.99	120.99	98.00	n/a	n/a	961.10
31 December 2008	42.39	42.39	19.00	n/a	n/a	394.32
11 June 2009	43.45	43.45	34.00	n/a	n/a	546.13
Percentage decrease in year-ended						
31 December 2008	-73.02%	-73.02%	-85.33%	n/a	n/a	-62.41%
Percentage decrease from launch to						
31 December 2008	-55.26%	-55.26%	-80.13%	n/a	n/a	-58.82%

<sup>(1)</sup> The dilution calculation is based on the share price (mid) of the Ordinary Shares.

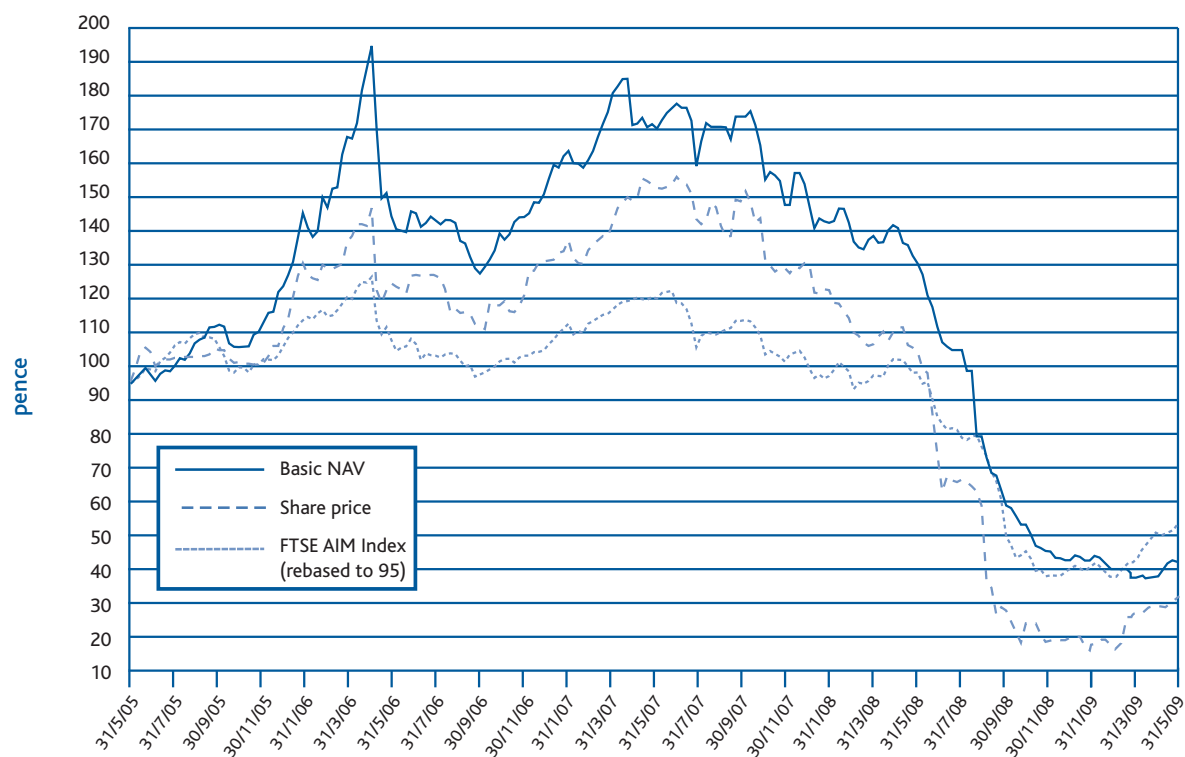
<sup>(2)</sup> The 100p launch price of the Ordinary Shares and Warrants was allocated in the ratio of the closing price of each on the day of admission to trading.

<sup>(3)</sup> Net of issue costs of £2,098,710.

<sup>(4)</sup> All A warrants were exercised on 26 May 2006, reducing the NAV by approximately 11.54p per Ordinary Share.

<sup>(5)</sup> All B warrants were exercised on 25 May 2007, reducing the NAV by approximately 13.77p per Ordinary Share.

## NAV/Share Price Performance



## Investment Manager's Report

RAB Special Situations Company Limited (the "Company") (ticker symbol RSS) is 100% invested in the RAB Special Situations (Master) Fund Limited (the "Master Fund").

Amidst far-reaching global financial upheaval in 2008, the Company regrettably experienced a very disappointing year, returning  $-73.02\%$ <sup>1</sup> (based on the Net Asset Value) as liquidity constraints impacted on markets in various ways. Deleveraging by market participants had a pronounced effect on smaller capitalisation equities and in the latter part of the year companies at the development stage found it virtually impossible to access financing.

As 2008 progressed, investor risk aversion reached unprecedented levels resulting in very significant redemption pressures. Meanwhile, the Master Fund was initially successful at sourcing liquidity across the portfolio as demonstrated by the realisation of total sales of US\$1.06 billion from January through to the end of July (against the assets of the Master Fund of US\$2.15 billion at the start of 2008) compared to sales of US\$163 million over the remainder of 2008. However, the liquidity profile of the fund dramatically worsened in August as the severity of the financial crisis continued to escalate and it quickly became apparent that sales would not be sufficient to continue to meet future redemptions and pay down debt owed to the Master Fund's Prime Broker. The resulting vote by investors in two feeder funds (the Cayman based RAB Special Situations Fund Limited and the Delaware based RAB Special Sits LP) for a three-year lock-up successfully stabilised the Master Fund. The lock-up now affords the Master Fund an opportunity to make back some of the significant losses once conditions improve.<sup>2</sup>

The decline in the value of the Master Fund over the course of 2008 was attributable between the listed and unlisted portfolio as 57% and 43%, respectively. The negative performance of the unlisted portfolio reflects the impact of an ongoing review and revaluation process, which follows the recommendations of the International Private Equity and Venture Capital Valuation Guidelines.

The Master Fund ended the year with net assets of US\$494.6 million. As of 31 December 2008, just over three quarters of the portfolio was invested in natural resources companies with a pre-production/development bias and the remainder was invested across a number of other sectors. As a performance benchmark, the Bloomberg World Mining Index was down 60.6% in 2008, while the AIM Basic Resources Index comprised of smaller capitalisation equities was down 79.8% (in US dollar terms) - the latter better illustrates the heavy losses incurred across the smaller holdings of the Master Fund.

After such a turbulent year for the portfolio in 2008, it is expected that 2009 will be a year of transition. The main goals for the year will be to reduce the debt of the Master Fund (equivalent to 6.3% of the net assets in the investment strategy at 31 December 2008) to zero, and to continue to source liquidity from the unlisted portion of the portfolio. If the cash position of the strategy permits, we will look to capitalise on many of the deep value opportunities that exist in the natural resources sector, but only with a focus on progressively improving the liquidity profile of the strategy. As such, it is anticipated that any new investments would be concentrated around mid-capitalisation listed equities. We do not intend to make any new investments in unlisted equity, except when it is necessary to protect the value of existing investments.

While we believe that markets remain a long way from normal conditions, there are positive signs emerging for natural resources. Typically, industrial metal prices precede an economic recovery and it is our view that this will be the case in the current downturn, aided by Chinese buying and aggressive supply cuts. However, in order for a sustained recovery in metal prices to positively impact on the portfolio, there needs to be a recovery in investor risk appetite and an increase in the valuations of large-capitalisation natural resources companies to historic mean levels - both unfortunately seem unlikely in the near-term.

We continue to believe that there is considerable potential value in the Master Fund's portfolio, and have often written about our belief that we are in a global commodity super-cycle driven by the twin factors of urbanisation and industrialisation in Brazil, China, Russia, India and other emerging economies, compounded by supply shortages stemming from decades of under-investment in both the mining and energy industries. We believe that the lock-up approved by investors in the two feeders in 2008 should enable the Master Fund to address its liquidity issues and recover value on the back of these longer-term trends.

### PHILIP RICHARDS

RAB Capital plc  
7 April 2009

<sup>1</sup>Past performance is not a guide to future returns.  
Performance is shown net of all fees and charges.

<sup>2</sup>Returns, or any performance, cannot be guaranteed.

Data Sources: Citi Hedge Fund Services (Ireland) Ltd, RAB Capital plc, Bloomberg L.P., Soc Gen Equity Research

## Directors

### Quentin Spicer (Chairman)

Mr Spicer joined the Board in May 2005. He qualified as a solicitor with Wedlake Bell in 1968 and became a partner in 1970. He moved to Guernsey in 1996 as senior partner in Wedlake Bell Guernsey, specialising in United Kingdom property transactions for non-United Kingdom resident entities. He is Chairman of the Guernsey Housing Association LBG, Atlas Estates Limited, and IRP Property Investments Limited and is also a non-executive director of several other funds.

### Peter Hodson

Mr Hodson joined the Board in May 2005. He qualified as a solicitor with Hyman Isaacs Lewis & Mills (now Beachcroft LLP) in 1975 and became a partner in Masons, Hong Kong in 1985. He is a qualified solicitor in Hong Kong, England and Wales and also an accredited mediator with the Centre for Effective Dispute Resolution ("CEDR") in London and with the Hong Kong International Arbitration Centre. He moved to Guernsey in 1998 where he is now based with Hodson & Company Limited. He has had twenty-three years' experience in fiduciary services, including senior executive roles with Standard Chartered Bank and Bank of Bermuda.

### Christopher Wetherhill

Mr Wetherhill joined the Board in May 2005. He founded and was chief executive officer of Hemisphere Management Limited (now renamed Citi), a financial services company located in Bermuda, from 1981 to 2002, when he chose to retire. Mr Wetherhill is a chartered accountant, a Fellow of the Institute of Chartered Accountants in England and Wales, a member of the Canadian and Bermudian Institutes of Chartered Accountants, a Fellow of the Institute of Directors and a Freeman of the City of London. He is a Bermudian resident and is a non-executive director of investment companies of several jurisdictions.

### Nicholas Wilson

Nick Wilson has over 30 years experience in alternative asset management. He has established and run offshore branch operations for MeesPierson Derivatives Limited, ADM Investor Services International Limited and several other international brokerage companies. He is non-executive chairman of Alternative Investment Strategies Limited, the longest running London-quoted fund of hedge funds and a constituent of the FTSE 250 Index. He is a director of Epicure Qatar Equity Opportunities Plc and sits on the boards of a number of other public companies. He is a resident of the Isle of Man.

## Report of the Directors

The Directors present their report and the audited financial statements for the year-ended 31 December 2008.

### Status and activities

The Company is a closed-ended investment company registered under the provisions of The Companies (Guernsey) Law, 2008, as amended.

The Company was incorporated in Guernsey on 18 April 2005. Its securities began trading on AIM, a market operated by the London Stock Exchange, on 31 May 2005 with the placing of 40,000,000 Ordinary Shares of 1p each, 20,000,000 A Warrants and 20,000,000 B Warrants.

On 23 May 2006 the holders of the 20,000,000 A Warrants exercised their rights to subscribe for Ordinary Shares of 1p each, bringing the total number of issued Ordinary Shares in the Company to 60,000,000. The additional 20,000,000 Ordinary Shares were admitted to trading on AIM on 26 May 2006.

On 23 May 2007 the holders of the 20,000,000 B Warrants exercised their rights to subscribe for Ordinary Shares of 1p each, bringing the total number of issued Ordinary Shares in the Company to 80,000,000. The additional 20,000,000 Ordinary Shares were admitted to trading on AIM on 25 May 2007.

The Company's investment objective is to maximise its total return primarily through the capital appreciation of its investments.

The Company seeks to achieve its investment objective by investing up to 100% of its assets directly in the shares of RAB Special Situations (Master) Fund Limited (the "Master Fund") and by investing (including taking short positions) any remaining assets directly in a wide range of securities and other instruments. At the year-end the Company's only investment was in the ordinary shares of the Master Fund.

### Results and dividends

The results attributable to Shareholders for the year and the transfer to reserves are shown on pages 13 and 14.

The Company made a revenue loss for the year of 0.50p (2007: 0.51p) per Ordinary Share and a capital loss of 114.24p (2007: gain of 8.42p) per Ordinary Share.

The Company did not pay any dividends during the year and the Directors do not propose a final dividend for the year (2007: nil).

From 1 July 2008, and pursuant to The Companies (Guernsey) Law, 2008, as amended, it is no longer necessary for a Company to maintain a share premium account as all reserves can be designated as distributable. Therefore at 31 December 2008, The Company transferred all of the share premium account (£50,242,000), to the special distributable reserve. However, in accordance with the Admission Document, the investment gains and losses, management fees and performance fees are charged or credited (as appropriate) to the capital reserve.

### Net Asset Value Per Ordinary Share

At the year-end the net assets of the Company were £33,913,649 (2007: £125,707,948) and the net asset value per Ordinary Share was 42.39p (2007: 157.13p).

### Investments at fair value through profit or loss

The Company's sole investment as at 31 December 2008 was in the Sterling class of the Master Fund. The fair value of the Company's investment as at 31 December 2008 was £33,851,740 (2007: £127,330,733), showing an unrealised loss at the year-end of £41,306,035 (2007: gain of £49,449,155) against book cost.

### Authority to buy back Ordinary Shares

Pursuant to the authority granted at the Annual General Meeting held on 23 July 2008, the Company has authority to utilise the distributable reserves to buy back up to 14.99% of the Ordinary Shares issued at the original placing for cancellation. No shares were purchased for cancellation during the year. The Company intends to seek to renew the necessary authorities to buy back Ordinary Shares at the forthcoming Annual General Meeting.

In addition, the Company has the authority to Purchase up to 10% of the Ordinary Shares in issue and hold them as Treasury Shares. No shares were purchased to be held as Treasury Shares during the year.

### Taxation

The Company has been granted exemption from Guernsey taxation under the terms of the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989, and is charged an annual exemption fee of £600. The Directors intend to conduct the Company's affairs such that it continues to remain eligible for exemption from Guernsey tax.

## Report of the Directors (continued)

### Investment Management

RAB Capital plc (the "Investment Manager") is entitled to an investment management fee, payable by the Company in arrears, of up to 1/12th of 2.0% per month of the net asset value of the Company and from which it may, at its discretion, pay to any person to which it has delegated any of the functions it is permitted to delegate. Elysium Fund Management Limited (the "Administrator") calculates the investment management fee. The Investment Manager is also entitled to reimbursement of certain expenses incurred by it in connection with its duties.

The Investment Manager may also be entitled to a performance fee calculated on an aggregate net asset value basis in respect of any financial year if the closing net asset value for that financial year exceeds the opening net asset value for the financial year or the high watermark net asset value (if higher). In such circumstances, the performance fee equates to 20.0% of the excess of the closing net asset value for that financial year over the opening net asset value for that financial year or the high watermark net asset value (as appropriate) less the proceeds of any issues since the beginning of the financial year or the date on which the high watermark net asset value occurred (as appropriate) plus the cost of any repurchases since the beginning of the financial year or the date on which the high watermark net asset value occurred (as appropriate). The Administrator calculates the performance fee, which is due to the Investment Manager within ten business days of the end of the financial year.

The Investment Manager has discretion to waive and rebate all or part of the performance fee payable in relation to the Company. The Investment Manager does not receive a management or performance fee in respect of its role as investment manager of the Master Fund in respect of the Company's shareholding in the Master Fund.

### Prime Broker and Custodian

The Company has appointed Credit Suisse First Boston (Europe) Limited ("CSFB") as its Prime Broker and Custodian pursuant to the prime brokerage agreement.

The services CSFB provide include execution, settlement, custody, customer reporting, securities lending and financing services. CSFB serves as a custodian of the Company's assets. CSFB may also act as the Company's clearing broker through which futures transactions may be executed and carried out for the Company.

CSFB charges the Company for prime brokerage services in accordance with its fee schedule, which may be revised by CSFB from time to time upon prior notice to the Company. Such fees are based upon a combination of transaction charges and interest costs.

### Material Contracts

The Company's material contracts are with Elysium Fund Management Limited ("Elysium"), which acts as Administrator for the Company, RAB Capital plc, which acts as Investment Manager, Capita Registrars (Guernsey) Limited, which acts as Registrar, CSFB, which acts as Prime Broker and Custodian and Bank of Scotland, the Company's principal bankers.

The Administrator is responsible for providing administration and secretarial services to the Company, including the calculation of the net asset value per Ordinary Share of the Company. The Administrator is paid an annual fee of 0.1% of the net asset value of the Company, subject to a minimum annual fee of £100,000.

### Appointment of the Investment Manager

The Directors believe that RAB Capital plc has performed creditably during the year-ended 31 December 2008. In the opinion of the Directors it is in the interests of Shareholders as a whole to retain the services of RAB Capital plc.

### Appointment of the Administrator

The Directors believe that Elysium Fund Management Limited performed creditably during the year-ended 31 December 2008. In the opinion of the Directors it is in the interests of Shareholders as a whole to retain the services of Elysium Fund Management Limited.

### Directors

The present members of the Board are listed on page 5. At 31 December 2008 the Directors' interests in the Ordinary Shares of the Company were as follows:

	<i>Ordinary Shares</i>
Quentin Spicer	50,000
Peter Hodson	–
Christopher Wetherhill	100,000
Nicholas Wilson	–

There were no changes in the interests of the Directors between 31 December 2008 and 18 June 2009.

## Report of the Directors (continued)

### Substantial Shareholdings

On 17 June 2009 the following interests in 5% or more of the issued Ordinary Shares had been notified to the Company.

	<i>Number of Ordinary Shares</i>	<i>Percentage of share capital</i>
<i>Funds managed by:</i>		
Kommernes Pensionsforsikring	11,800,000	14.75
AP Pension	11,050,000	13.81
Overseas Asset Management (Cayman) Limited	8,517,500	10.65
RAB Capital	7,450,000	9.31

### Going Concern

After making reasonable enquiries, and assessing all data relating to the Company's liquidity, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and do not consider there to be any threat to the going concern status of the Company, even in the difficult economic climate. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### Future Prospects

The Directors believe that the Company will overcome the difficult conditions that have affected global markets over the last 18 months and are expected to continue to affect global markets for the remainder of 2009. The Directors further believe that the Company's Investment Objective can be met in the long-term. Further details are given in the Investment Manager's Report.

### Litigation

The Company is not engaged in any litigation or claim of material importance, nor, so far as the Directors are aware, is any litigation or claim of material importance pending or threatened against the Company.

### Auditors

Grant Thornton Limited have expressed their willingness to act as auditors to the Company and a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

### Corporate Governance

As a Guernsey incorporated company and under the AIM rules for companies, the Company is not required to comply with The Combined Code on Corporate Governance published by the Financial Reporting Council (the "2006 FRC Code"). However, the Directors place a high degree of importance on ensuring that high standards of Corporate Governance are maintained and that the Company complies with the Guidance on Corporate Governance in the Finance Sector in Guernsey, issued by the Guernsey Financial Services Commission. As a result, many of the principles set out in the 2006 FRC Code have been adopted and these are summarised below, together with the areas of non-compliance.

The Company complied throughout the year with the provisions of the Combined Code Principles of Good Governance and Code of Best Practice, except in the following aspects:

- A.1.3 The non-executive Directors have not met separately, without the Chairman present, to appraise the Chairman's performance. The Board decided that this was not appropriate given the nature of the Company.
- A.3.3 The Chairman, Mr Spicer, is the senior non-executive Director. This is not in accordance with provision A3.3 of the 2006 FRC Code but is felt to be appropriate for the size and nature of the Company.
- A.4.4 The terms and conditions of appointment of the Directors are not available for inspection, as the Board did not deem it necessary to formalise the terms and conditions of appointment or to sign letters of appointment.

Since the Directors did not formalise letters of appointment and as the schedule of Board and committee meetings is subject to change according to the exigencies of the business, the Directors do not have fixed time commitments. All Directors are expected to demonstrate their commitment to the work of the Board on an ongoing basis.

- A.6.1 The Board did not undertake a formal appraisal of the Board, its committees or the individual Directors during the period. The Board decided that this was not appropriate given the nature of the Company.

## Report of the Directors (continued)

A.7.2 The Directors are not appointed for specific terms as this was not felt to be appropriate for the size and nature of the Company.

B.2.1 The Board has not established a remuneration committee as it does not have any executive directors and does not consider it to be appropriate for the size and composition of the Board.

### Board Responsibilities

The Board currently comprises four non-executive members, all of whom are independent non-executive Directors. Mr Wetherhill is the Chairman of the Valuation Committee for certain RAB Capital plc funds. At 31 December 2008 he was also a director of seven entities managed by the Investment Manager (see note 18). However, despite these relationships, the Board considers him to be independent. The Company has no executive directors. As all the Directors are non-executive, the Chairman (Mr Spicer) is the senior non-executive Director.

The Board has engaged external companies to undertake the investment management, administrative and custodial activities of the Company. Clear documented contractual arrangements are in place with these firms, which define the areas where the Board has delegated responsibility to them. The Company holds at least four Board meetings per year, at which the Directors review the Company's investments and all other important issues to ensure control is maintained over the Company's affairs.

### Board Meetings

All members of the Board are expected to attend each Board meeting and to arrange their schedules accordingly, although non-attendance is unavoidable in certain circumstances. Directors' attendance at Board and Committee meetings is set out below.

	<i>Board Meetings</i>	<i>Audit Committee Meetings</i>	<i>Nomination Committee Meetings</i>	<i>Management Engagement Committee Meetings</i>
Quentin Spicer	8/8	2/2	1/1	1/1
Peter Hodson	8/8	2/2	1/1	1/1
Christopher Wetherhill	6/8	2/2	1/1	1/1
Nicholas Wilson	6/8	2/2	1/1	1/1

Since all the Directors are non-executive, the Company is not required to state how it applied B.1 to B.3 of the 2006 FRC Code on directors' remuneration. However, the fee that was paid to each Director during the year is shown in note 7 to the financial statements.

### Board Committees

The Company uses a number of committees to control its operations. Each committee has formal written terms of reference, which clearly define their responsibilities.

#### *Audit Committee*

The Audit Committee comprises all the Directors of the Company and meets at least twice a year. Mr Wilson is Chairman of the Audit Committee. It provides a forum through which the Company's auditors report to the Board.

#### *Management Engagement Committee*

The Management Engagement Committee comprises all the Directors of the Company and meets at least once a year. Mr Wetherhill is Chairman of the Management Engagement Committee. The function of the Management Engagement Committee is to monitor the performance of the Company's Investment Manager and Administrator in the management of the Company's affairs.

#### *Nomination Committee*

The Nomination Committee comprises all the Directors of the Company and meets at least once a year. Mr Hodson is Chairman of the Nomination Committee. The function of the Nomination Committee is to consider the appointment and reappointment of Directors.

## Report of the Directors (continued)

### Dialogue with Shareholders

The Directors are always available to enter into dialogue with Shareholders. All Ordinary Shareholders have the opportunity, and indeed are encouraged, to attend and vote at the Annual General Meeting during which the Board and the Investment Manager will be available to discuss issues affecting the Company. The Board stays abreast of Shareholders' views via regular updates from the Investment Manager and Brokers as to meetings they may have held with Shareholders.

### Internal Control and Financial Reporting

The Board is responsible for establishing and maintaining the Company's system of internal control. Internal control systems are designed to meet the particular needs of the Company and the risks to which it is exposed, and, by their very nature, provide reasonable, but not absolute, assurance against material misstatement or loss. The key procedures which have been established to provide effective internal controls are as follows:

- Elysium is responsible for the provision of administration and company secretarial duties.
- The duties of investment management, accounting and the custody of assets are segregated. The procedures are designed to complement one another.
- The non-executive Directors of the Company clearly define the duties and responsibilities of their agents and advisers in the terms of their contracts.
- The Board reviews financial information produced by the Investment Manager and the Administrator on a regular basis; and
- On an ongoing basis, compliance reports are provided at each Board meeting by the Administrator.

The Company does not have an internal audit department. All of the Company's management 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.

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.

### Payment to Creditors

Amounts due to suppliers and service providers are settled promptly within the terms of the payment, except in cases of dispute. The Company does not have any trade creditors.

### Financial Risk Profile

The Company's financial instruments comprise investments, cash and various items such as payables and receivables that arise directly from the Company's operations. The main purpose of these instruments is the investment of Shareholders' funds.

The main risks are market risk, credit risk and liquidity risk. Further details are given in note 19 to the financial statements.

### Directors' Responsibilities

The Directors are responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the returns achieved by the Company for that year and are in accordance with applicable laws and regulations. In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether International Financial Reporting Standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.
- by way of a Solvency Test:
  - ensure that the company can pay its debts as and when they fall due; and
  - ensure that the value of the Company's assets is greater than the value of its liabilities.

The Directors confirm that the financial statements comply with the above requirements.

The Directors are also responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and to

## Report of the Directors (continued)

enable them to ensure that the financial statements comply 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.

The Directors are also responsible for the maintenance and integrity of the website on which these financial statements can be published.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. As required under the EU Transparency Directive, to the best of our knowledge and belief:

- the financial statements have been prepared in accordance with International Financial Reporting Standards and give a true and fair view of the assets, liabilities, financial position and loss of the Company;
- the Investment Manager's Report includes:
  - a fair view of the development, performance and position of the Company during the year; and
  - a statement of the principal risks and uncertainties that the Company faces.

### Disclosure of Information to Auditors

The Directors who held office at the date of approval of this Report of the Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Signed on behalf of the Board of Directors

QUENTIN SPICER  
Director

NICHOLAS WILSON  
Director

18 June 2009

18 June 2009

## Independent Auditors' Report to the Shareholders of RAB Special Situations Company Limited

We have audited the financial statements on pages 13 to 26. These financial statements have been prepared under the accounting policies set out herein.

This report is made solely to the Company's shareholders, as a body, in accordance with section 262 of The Companies (Guernsey) Law, 2008, as amended. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's 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 shareholders 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 preparing the Annual Report and the financial statements in accordance with applicable Guernsey Law and International Financial Reporting Standards ("IFRS") as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with the 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, as amended.

In addition, we report to you if, in our opinion, the Report of the Directors is inconsistent with the financial statements, if the Company has not kept proper accounting records, or if we failed to obtain all access, 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 the Chairman's Statement, the Investment Manager's Report and the Report of the Directors. 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 examination, 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 Company'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 affairs as at 31 December 2008 and of the Company's loss for the year then ended; and
- the financial statements have been properly prepared in accordance with The Companies (Guernsey) Law, 1994, as amended.

### GRANT THORNTON LIMITED

Guernsey Channel Islands

18 June 2009

## Income Statement

for the year-ended 31 December 2008

	Notes	Revenue 2008 £'000	Capital 2008 £'000	Total 2008 £'000	Revenue 2007 £'000	Capital 2007 £'000	Total 2007 £'000
(Losses)/gains on investments	3	–	(89,779)	(89,779)	–	10,283	10,283
Interest income	4	11	–	11	28	–	28
Investment Management fee	5	–	(1,616)	(1,616)	–	(2,539)	(2,539)
Performance fee	5	–	–	–	–	(1,676)	(1,676)
Administration fee	5	(105)	–	(105)	(124)	–	(124)
Other expenses	6	(305)	–	(305)	(274)	–	(274)
<b>Net (loss)/profit on ordinary activities for the year</b>		<b>(399)</b>	<b>(91,395)</b>	<b>(91,794)</b>	<b>(370)</b>	<b>6,068</b>	<b>5,698</b>
<b>(Loss)/profit on Ordinary Share: basic and fully-diluted</b>	9	<b>(0.50)p</b>	<b>(114.24)p</b>	<b>(114.74)p</b>	<b>(0.51)p</b>	<b>8.42p</b>	<b>7.91p</b>

*The revenue and capital columns represent supplementary information.*

*The total column of this statement represents the Income Statement of the Company.*

*All revenue and capital items in the above statement derive from continuing operations.*

*The accompanying notes on pages 17 to 26 form an integral part of the financial statements.*

## Statement of Changes in Equity

### For the year-ended 31 December 2008

	<i>Share capital</i> £'000	<i>Share premium</i> £'000	<i>Special distributable reserve</i> £'000	<i>Revenue reserve</i> £'000	<i>Capital reserve</i> £'000	<i>Total</i> £'000
At 1 January 2008	800	50,242	35,849	(835)	39,652	125,708
Re-designation of share premium account (note 14)	–	(50,242)	50,242	–	–	–
Loss for the year	–	–	–	(399)	(91,395)	(91,794)
At 31 December 2008	800	–	86,091	(1,234)	(51,743)	33,914

### For the year-ended 31 December 2007

	<i>Share capital</i> £'000	<i>Share premium</i> £'000	<i>Special distributable reserve</i> £'000	<i>B Warrant reserve</i> £'000	<i>Revenue reserve</i> £'000	<i>Capital reserve</i> £'000	<i>Total</i> £'000
At 1 January 2007	600	23,594	35,849	848	(465)	33,584	94,010
Warrant conversion	200	26,648	–	(848)	–	–	26,000
(Loss)/profit for the year	–	–	–	–	(370)	6,068	5,698
At 31 December 2007	800	50,242	35,849	–	(835)	39,652	125,708

*The accompanying notes on pages 17 to 26 form an integral part of the financial statements.*

## Balance Sheet

as at 31 December 2008

	<i>Notes</i>	<i>2008 £'000</i>	<i>2007 £'000</i>
<b>Non-current assets</b>			
Investments at fair value through profit or loss	10	33,852	127,331
<b>Current assets</b>			
Receivables and prepayments		14	16
Cash and cash equivalents	11	348	315
		362	331
<b>Total assets</b>		34,214	127,662
<b>Current liabilities</b>			
Payables and accruals	12	(300)	(1,954)
<b>Total liabilities</b>		(300)	(1,954)
<b>Net assets</b>	13	33,914	125,708
<b>Share capital and reserves</b>			
Called-up share capital	13	800	800
Share premium	14	–	50,242
Special distributable reserve	14	86,091	35,849
Revenue reserve		(1,234)	(835)
Capital reserve		(51,743)	39,652
<b>Total Equity Holders' funds</b>		33,914	125,708
<b>Net asset value per Ordinary Share: <i>basic and fully-diluted</i></b>	15	42.39p	157.13p

These financial statements on pages 13 to 26 were approved by the Board of Directors on 18 June 2009.

Signed on behalf of the Board

QUENTIN SPICER

Director

18 June 2009

NICHOLAS WILSON

Director

18 June 2009

*The accompanying notes on pages 17 to 26 form an integral part of the financial statements.*

## Cash Flow Statement

for the year-ended 31 December 2008

	<i>Notes</i>	<i>2008</i> <i>£'000</i>	<i>2007</i> <i>£'000</i>
<b>Net cash outflow from operating activities</b>	<i>16</i>	(3,837)	(8,224)
<b>Investing activities</b>			
Purchase of investments	<i>10</i>	–	(25,250)
Sale of investments	<i>10</i>	3,870	7,701
<b>Net cash inflow/(outflow) from investing activities</b>		3,870	(17,549)
<b>Financing activities</b>			
Proceeds from the conversion of B Warrants to Ordinary Shares		–	26,000
<b>Net cash inflow from financing activities</b>		–	26,000
<b>Increase in cash and cash equivalents</b>		33	227
Cash and cash equivalents at 1 January		315	88
Increase in cash and cash equivalents		33	227
<b>Cash and cash equivalents at 31 December</b>		348	315

*The accompanying notes on pages 17 to 26 form an integral part of the financial statements.*

## Notes to the Financial Statements

for the year-ended 31 December 2008

### 1. General Information

The Company is a closed-ended investment company domiciled and incorporated as a limited liability company under the laws of Guernsey.

The Company's objective is to maximise its total return primarily through the capital appreciation of its investments. The Company's investment activities are managed by RAB Capital plc, with the administration delegated to Elysium Fund Management Limited.

The Company's Ordinary Shares are traded on AIM, a market operated by the London Stock Exchange.

### 2. Significant accounting policies

#### a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and applicable legal and regulatory requirements of Guernsey Law and reflect the following policies, which have been adopted and applied consistently.

The financial statements were authorised for issuance on 18 June 2009.

#### b) Going concern

After making reasonable enquiries, and assessing all data relating to the Company's liquidity, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and do not consider there to be any threat to the going concern status of the Company, even in the difficult economic climate. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

#### c) Basis of preparation

The financial statements have been prepared on a historical cost basis except for the measurement of investments at fair value through profit or loss.

The functional currency of the Company is Sterling as this is the currency of the primary economic environment within which the Company operates, the equity was generated in Sterling and all receipts from operating activities are received in Sterling. The presentational currency of the Company is also Sterling and the financial statements have been rounded to the nearest thousand.

#### d) Segmental reporting

The Directors are of the opinion that the Company is engaged in a single economic segment of business, being investment in the Master Fund. As a result, no management information is provided internally to the Board for decision-making purposes, as this is unnecessary, given the nature of the investment.

#### e) Income recognition

Bank interest is accounted for on an accruals basis.

#### f) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the Income Statement to the revenue reserve except as follows:

- (i) transaction costs incurred on the acquisition of investments designated as fair value through profit or loss are charged through the Income Statement to the capital reserve;

## Notes to the Financial Statements (continued)

for the year-ended 31 December 2008

### 2. Accounting policies (continued)

#### f) Expenses (continued)

- (ii) 100% of the Company's management fee is charged through the Income Statement to the capital reserve in line with the Board's expected long-term split of returns between income and capital gains from the investment portfolio; and
- (iii) 100% of any performance fee is charged through the Income Statement to the capital reserve in line with the Board's expected long-term split of returns between income and capital gains from the investment portfolio.

#### g) Capital reserve

The following are credited/charged through the Income Statement to the capital reserve:

- (i) realised gains and losses on the realisation of investments;
- (ii) unrealised gains and losses on investments; and
- (iii) expenses charged through the Income Statement to the capital reserve in accordance with the above accounting policies.

The Company's Articles of Incorporation preclude it from distributing capital profits.

#### h) Investments

##### *Designation*

The Company invests in financial assets with a view to profiting from their total return primarily in the form of capital growth. The portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy. Information about the portfolio is provided internally to the Company's Board of Directors. Accordingly, upon initial recognition the investments are designated by the Company as "at fair value through profit or loss".

##### *Recognition*

The Company recognises financial assets held as fair value through profit or loss assets on the date it commits to purchase the instruments. From this date, any gains and losses arising from the changes in fair value of the assets are recognised.

##### *Measurement*

Fair value through profit or loss assets are initially recognised at cost, being the fair value of the consideration given, excluding transaction costs associated with the investment. Subsequent to initial recognition, all fair value through profit or loss assets are measured at fair value with changes in value being recognised through the Income Statement and taken to the capital reserve. Shares in the Master Fund are valued at the latest relevant valuation provided by the administrator of the Master Fund in accordance with the principles set out in the prospectus of the Master Fund.

##### *Derecognition*

A fair value through profit or loss asset is derecognised when the Company loses control over the contractual rights that comprise that asset. This occurs when rights are realised, expire or are surrendered. Realised gains and losses on fair value through profit or loss assets sold are calculated as the difference between the sales proceeds and costs. Fair value through profit or loss assets that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Company commits to sell the assets. The Company uses the weighted average method to determine realised gains and losses on derecognition.

## Notes to the Financial Statements (continued)

for the year-ended 31 December 2008

**2. Accounting policies (continued)****i) Cash and cash equivalents**

Cash comprises cash in hand and cash balances with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, they are subject to an insignificant risk of change in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purpose.

For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash in hand and deposits at banks.

**j) Net asset value per share and earnings per share**

The net asset value per share disclosed on the face of the Balance Sheet is calculated by dividing the net assets by the number of Ordinary Shares in issue at the year-end.

Earnings per share is calculated by dividing the net profit for the year by the weighted average number of Ordinary Shares in issue during the year.

**k) New standards and interpretations not applied**

The IASB and IFRIC have issued the following relevant standards and interpretations with an effective date after the date of these financial statements:

<i>International Accounting Standards (IAS/IFRS)</i>		<i>Effective date</i>
IAS 1 (revised)	Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (revised 2007 and 2008)	1 January 2009
IAS 32	Financial instruments: Presentation (revised 2008)	1 January 2009
IAS 36	Impairment of Assets (revised May 2008)	1 January 2009
IAS 39	Financial Instruments: Recognition and Measurement –Eligible Hedged Items (revised 2008)	1 July 2009
IFRS 7	Financial Instruments: Disclosures – Improving Disclosures About Financial Instruments	1 January 2009
IFRS 8	Operating Segments	1 January 2009

The Directors have chosen not to early adopt the above standards and interpretations and they do not anticipate that they would have a material impact on the Company's financial statements in the period of initial application.

**3. Gains and losses on investments**

	<i>2008</i> <i>£'000</i>	<i>2007</i> <i>£'000</i>
<i>Investments designated at fair value through profit or loss:</i>		
Realised gains (note 10)	976	3,312
Movement in unrealised (losses)/gains (note 10)	(90,755)	6,971
Net (losses)/gains on equity investments	(89,779)	10,283

**4. Interest income**

	<i>2008</i> <i>£'000</i>	<i>2007</i> <i>£'000</i>
<i>Interest income arises from:</i>		
Cash and cash equivalents	11	28

## Notes to the Financial Statements (continued)

for the year-ended 31 December 2008

### 5. Investment Management and Administration

#### *Investment Management*

RAB Capital plc (the "Investment Manager") is entitled to an investment management fee, payable by the Company in arrears, of up to 1/12th of 2.0% per month calculated on the net asset value of the Company and from which it may, at its discretion, pay to any person to which it has delegated any of the functions it is permitted to delegate. Elysium Fund Management Limited (the "Administrator") calculates the investment management fee. The Investment Manager is also entitled to reimbursement of certain expenses incurred by it in connection with its duties.

The Investment Manager may also be entitled to a performance fee calculated on an aggregate net asset value basis in respect of any financial year if the closing net asset value for that financial year exceeds the opening net asset value for the financial year or the high watermark net asset value (if higher). In such circumstances, the performance fee equates to 20.0% of the excess of the closing net asset value for that financial year over the opening net asset value for that financial year or the high watermark net asset value (as appropriate), less the proceeds of any issues since the beginning of the financial year or the date on which the high watermark net asset value occurred (as appropriate), plus the cost of any repurchases since the beginning of the financial year or the date on which the high watermark net asset value occurred (as appropriate). The Administrator calculates the performance fee and it is due to the Investment Manager within ten business days of the end of the financial year.

The performance fee is calculated based on the estimated net asset value at the year-end, not the actual net asset value stated in the Balance Sheet in the financial statements. This is due to the performance fee being payable within ten business days of the year-end (as per the Investment Management Agreement), before the final basic year-end net asset value becomes available. Whilst this may result in a higher performance fee in certain periods (as was the case for the year-ended 31 December 2007), it is equally likely that the performance fee may be underpaid (as was the case for the year-ended 31 December 2006 and 31 December 2005). The performance fee will not be amended for any overpayment or underpayment in a period due to the use of the estimated net asset value instead of the actual net asset value. However, the opening net asset value/high watermark of the subsequent period will be based on the estimated year-end net asset value as applied in the performance fee calculation at the previous year-end.

The Investment Manager has discretion to waive and rebate all or part of the performance fee payable in relation to the Company. The Investment Manager does not receive a management or performance fee for its role as investment manager of the Master Fund in respect of the Company's shareholding in the Master Fund. The Investment Management Agreement is terminable on 90 days' notice.

#### *Administration*

Elysium Fund Management Limited acts as Administrator for the Company. The Administrator is responsible for providing administration and secretarial services to the Company, including the calculation of the net asset value per Ordinary Share of the Company. The Administrator also serves as the Company's agent for the issue and repurchase of Ordinary Shares. The Administrator is paid an annual fee of 0.1% of the net asset value of the Company, subject to a minimum annual fee of £100,000. The Administration Agreement is terminable on 90 days' notice.

## Notes to the Financial Statements (continued)

for the year-ended 31 December 2008

**6. Other expenses**

	Revenue 2008 £'000	Capital 2008 £'000	Total 2008 £'000	Revenue 2007 £'000	Capital 2007 £'000	Total 2007 £'000
Directors' remuneration ( <i>note 7</i> )	148	–	148	122	–	122
Nominated broker's fees	50	–	50	55	–	55
Registrar fees	17	–	17	24	–	24
Auditors' remuneration	8	–	8	6	–	6
Other expenses	82	–	82	67	–	67
	305	–	305	274	–	274

**7. Directors' remuneration**

	2008 £'000	2007 £'000
Quentin Spicer	43	35
Peter Hodson	35	29
Christopher Wetherhill	35	29
Nicholas Wilson	35	29
	148	122

No bonus or pension contributions were paid or were payable on behalf of the Directors. Details of the Directors' interests in the share capital are set out in the Report of the Directors on page 7.

**8. Dividends in respect of equity shares**

No interim dividends were paid in respect of the year (2007: nil). The Directors do not propose the payment of a final dividend (2007: nil).

**9. Loss per Ordinary Share***Basic and fully-diluted*

The loss per Ordinary Share is based on a net loss of £91,794,299 (2007: gain of £5,697,425) and on a weighted average number of 80,000,000 (2007: 72,054,795) Ordinary Shares in issue throughout the year. The revenue loss per Ordinary Share is based on a net deficit of £399,340 (2007: £370,275) and on a weighted average number of 80,000,000 (2007: 72,054,795) Ordinary Shares in issue throughout the year. The capital loss per Ordinary Share is based on a net capital loss of £91,394,959 (2007: gain of £6,067,700) and on a weighted average number of 80,000,000 (2007: 72,054,795) Ordinary Shares in issue throughout the year.

## Notes to the Financial Statements (continued)

for the year-ended 31 December 2008

### 10. Investments at fair value through profit or loss

	2008 £'000	2007 £'000
Opening valuation	127,331	99,499
Purchases at cost	–	25,250
Sales – proceeds	(3,700)	(7,701)
– realised gain on sale of investment	976	3,312
Movement in unrealised (loss)/gain on investment	(90,755)	6,971
Closing valuation	33,852	127,331
Closing book cost	75,158	77,881
Closing unrealised (loss)/gain on investment	(41,306)	49,450
Closing valuation	33,852	127,331

The Company's only investment has been in the Sterling class of RAB Special Situations (Master) Fund Limited (the "Master Fund"). At the year-end the Company held all of the shares of the Sterling class of the Master Fund. At 31 December 2008 the Sterling class accounted for 9.84% (2007: 11.80%) of the net assets of the Master Fund.

The Master Fund is managed by the Investment Manager. As stated in note 5, the Investment Manager does not receive a management or performance fee for its role as investment manager of the Master Fund in respect of the Company's shareholding in the Master Fund.

### 11. Cash and cash equivalents

	2008 £'000	2007 £'000
Cash balances with banks	348	315
	348	315

The Company did not have any cash equivalents at the balance sheet date. Cash balances held with banks earn interest at prevailing bank interest rates.

### 12. Payables and accruals

	2008 £'000	2007 £'000
Investment management fee (note 18)	57	212
Performance fee (note 18)	–	1,676
Administration fee	8	10
Directors' fees	37	37
Other creditors	28	19
Funds received in advance of redemption of investment	170	–
	300	1,954

## Notes to the Financial Statements (continued)

for the year-ended 31 December 2008

**13. Share capital**

	2008 £'000	2007 £'000
<i>Authorised:</i>		
300,000,000 Ordinary Shares of 1p each	3,000	3,000
<i>Allotted, called up and fully paid at beginning of year:</i>		
80,000,000 (2007: 60,000,000) Ordinary Shares of 1p each	800	600
<i>Issued during the year:</i>		
nil (2007: 20,000,000) Ordinary Shares of 1p each	–	200
<i>Allotted, called up and fully paid at end of year:</i>		
80,000,000 (2007: 80,000,000) Ordinary Shares of 1p each	800	800

**14. Reserves**

The special distributable reserve was created on 31 May 2005 when, as stated in the Admission Document, the Company cancelled all of its share premium account (as approved in the Royal Court of Guernsey on 12 May 2005), transferring it to a distributable reserve to allow, amongst other things, the buy-back and cancellation of up to 14.99% of the Ordinary Shares.

The proceeds from the issue of the placing were split between the Ordinary Shares (share capital and share premium account), the A Warrant reserve and the B Warrant reserve based on the weighted average value of the Ordinary Shares and Warrants in issue at the close of business on the day of admission to trading. The weighted average value was calculated using the mid prices of the Ordinary Shares and Warrants as quoted on AIM at the close of business on the day of admission to trading.

From 1 July 2008, and pursuant to The Companies (Guernsey) Law, 2008, as amended, it is no longer necessary for a company to maintain a share premium account as all reserves can be designated as distributable. Therefore at 31 December 2008, the Company transferred all of the share premium account to the special distributable reserve. However, in accordance with the Admission Document, the investment gains and losses, management fees and performance fees are charged or credited (as appropriate) to the capital reserve.

**15. Net asset value per Ordinary Share***Basic and fully-diluted*

The net asset value per Ordinary Share is based on the net assets attributable to equity Shareholders of £33,913,649 (2007: £125,707,948) and on 80,000,000 (2007: 80,000,000) Ordinary Shares in issue at the end of the year.

*Net asset value reconciliation*

The difference between the estimated net asset value as at 31 December 2008 of 42.64p (2007: 157.47p) (announced on 8 January 2009) and the audited net asset value of 42.39p (2007: 157.13p) (as disclosed in the Balance Sheet) is due to the revaluation of the investment in the Master Fund from its estimated value to its actual value (once available).

## Notes to the Financial Statements (continued)

for the year-ended 31 December 2008

### 16. Reconciliation of net loss to net cash outflow from operating activities

	2008 £'000	2007 £'000
Net (loss)/gain before finance costs and taxation	(91,794)	5,698
Losses/(gains) on investments	89,779	(10,283)
Decrease in receivables and prepayments	2	6
Decrease in payables and accruals	(1,824)	(3,645)
Net cash outflow from operating activities	(3,837)	(8,224)

### 17. Capital commitments

There were no capital commitments as at 31 December 2008.

### 18. Related parties

Details of the relationship between the Company and RAB Capital plc is disclosed in the Report of the Directors and in note 5.

During the year £1,616,000 (2007: £2,539,000) was payable to RAB Capital plc in respect of investment management fees and £0 (2007: £1,676,000) in respect of performance fees.

As at 31 December 2008 the Company owed RAB Capital plc £57,000 (2007: £212,000) in respect of investment management fees and £0 (2007: £1,676,000) in respect of performance fees.

Mr Wetherhill is a non-executive Director of RAB Partners Limited, a wholly owned subsidiary of RAB Capital plc, and six other entities managed by RAB Capital plc; RAB Energy Fund Limited, RAB Octane Fund Limited, RAB Special Situations (Master Fund) Limited, RAB Global Mining & Resources Fund Limited, RAB Gold Fund Limited and RAB Innovations Fund Limited. Mr Wetherhill is also the Chairman of the Valuation Committee for certain RAB Capital funds.

At 31 December 2008, RAB Capital plc held no (2007: nil) Ordinary Shares in the Company. During March 2009, RAB Capital plc made five purchases of Ordinary Shares in the Company. At the date of this report the total number of shares held by RAB Capital Plc totalled 7,450,000 Ordinary Shares.

The Directors are not aware of any ultimate controlling party.

### 19. Risk profile of financial assets and liabilities

#### Financial Summary

The investment objective of the Company is to maximise its total return primarily through the capital appreciation of its investments by investing up to 100% of its assets directly in the shares of RAB Special Situations (Master) Fund Limited and by investing (including taking short positions) any remaining assets directly in a wide range of securities and other instruments.

The Company's only investment is 495,733.71 (2007: 513,699.65) shares in the Master Fund. In addition, the Company holds cash and liquid resources as well as having receivables and payables that arise directly from its operations. The Company's financial assets are all held at fair value.

As the Company invests the majority of its assets into the Master Fund, the Company is indirectly exposed to the risks of the Master Fund. The main risks that the Master Fund is exposed to are market risk, liquidity risk and credit risk.

The main risks arising from the Company's financial instruments are as follows:

## Notes to the Financial Statements (continued)

for the year-ended 31 December 2008

**19. Risk profile of financial assets and liabilities (continued)****Market risk***Currency risk*

The Company has no direct exposure to currency risk. However, as discussed above, the Company is indirectly exposed to currency risk as its sole investment is in the Sterling Class of the Master Fund.

*Interest rate risk*

The Company finances its operations through a mixture of Shareholders' capital and retained returns. With the exception of the cash and cash equivalents, which receive interest at a floating rate, all assets and liabilities of the Company are non-interest bearing.

Cash and cash equivalents of £348,000 (£2007: £315,000) are exposed to movements in interest rates, however, the income generated from cash and cash equivalents, £11,000 (2007: £28,000), is not considered material, therefore a movement in interest rates would not have a material financial impact on the Company.

*Other price risk*

The Company's exposure to other price risk consists mainly of movements in the value of the Company's investment. The Company's investment portfolio complies with the investment parameters as disclosed in its Admission Document. The Board manages the price risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the Investment Manager. The Board meets regularly and at each meeting reviews investment performance.

On the assumption that all things remain even, other than the movement in investments held at fair value through profit or loss, the increase/(decrease) in the market price of the Sterling Cell of the Master Fund will effect the net asset value per Ordinary Share as at the balance sheet date and the profit/loss of the Company for the year due to the change in unrealised gain/loss, as follows:

% Change in Master Fund	% change in net assets		% change in profit and loss	
	2008	2007	2008	2007
10	9.98	10.13	3.69	223.49
25	24.95	25.32	9.22	558.66
50	49.91	50.65	18.44	1,117.33
75	74.86	75.97	27.66	1,676.08

Details of the nature of the Company's investment portfolio at the balance sheet date are disclosed in note 10.

**Credit risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The carrying amounts of financial assets best represent the maximum credit risk exposure at the balance sheet date.

At the balance sheet date, the Company's financial assets exposed to credit risk amounted to the following:

	2008 £'000	2007 £'000
Cash and cash equivalents	348	315

All of the cash and cash equivalents held by the Company are with Bank of Scotland. Bankruptcy or insolvency by Bank of Scotland may cause the Company's rights with respect to the cash and cash equivalents held by Bank of Scotland to be delayed or limited. The Company monitors its risk, with the assistance of the Custodian, by reviewing the credit rating of Bank of Scotland at the time of setting up accounts and on an ad hoc basis. Moody's bank financial strength rating for Bank of Scotland is C-. The Board considers that the risk of holding cash and cash equivalents with Bank of Scotland is acceptable, given that it is part of the Lloyds Banking Group, of which 65.00% is owned by the Government.

## Notes to the Financial Statements (continued)

for the year-ended 31 December 2008

### 19. Risk profile of financial assets and liabilities (continued)

#### *Liquidity risk*

The Company's investment is realisable only on the monthly trading date. As stated in the Admission Document, the Board has permitted the Company to invest in a single holding, being the Sterling class of RAB Special Situations (Master) Fund Limited, an open-ended investment company.

The policy is that the Company should remain fully invested in normal market conditions and that shares in the investment should be sold to manage short-term cash requirements.

The contractual, undiscounted cash flows of the Company's financial liabilities, which are equal to the fair value of the Company's financial liabilities, are all payable within one month to the sum of £300,000 (2007: £1,954,000). The Company's cash flow requirements are monitored on a monthly basis by the Administrator to ensure all liabilities are met.

### 20. Capital management policy and procedures

The Company's capital management objectives are:

- to ensure that it will be able to continue as a going concern; and
- to maximise its total return primarily through the capital appreciation of its investments.

The Company's borrowing policy is that it should borrow no more than 20% of direct investments.

The Board, with the assistance of the Investment Manager, monitors and reviews the structure of the Company's capital on an *ad hoc* basis. This review includes:

- the current and future levels of gearing,
- the need to buy back equity shares for cancellation or to be held in treasury, which takes account of the difference between the net asset value per share and the share price; and
- the current and future dividend policy.

The Company's objectives, policies and processes for managing capital remain unchanged from the previous year.

As at 31 December 2008 the Company had no debt (2007: nil). As disclosed on the Balance sheet the total equity holders fund is £33,913,649 (2007: £125,708,000).

### 21. Events after the balance sheet date

There were no material events after the balance sheet date that require disclosure as at 18 June 2009.

## Risk Warning

No assurance can be given that Shareholders will realise a profit or will avoid a loss on their investment. The Ordinary Shares are suitable only for investors who understand, or who have been advised of, the potential risk of capital loss from an investment in the Ordinary Shares and that there may be limited liquidity in the Ordinary Shares and the underlying investments of the Company and the Master Fund (collectively known as the "Funds"), and for whom the investment in the Ordinary Shares is part of a diversified investment portfolio and who fully understand the risks involved with such an investment. The risks referred to below do not purport to be exhaustive and potential investors should consult their stockbroker, bank manager, solicitor, accountant or other independent financial adviser before making an investment.

### STRATEGY RISKS

#### *Investment Approach*

No guarantee or representation is made that the Funds will be successful. All investments of the Funds risk the loss of capital. As is true of any investment, there is a risk that an investment in the Company will be lost entirely or in part.

#### *Investment Fund Restrictions*

In an attempt to keep its expenses low and favour long-term investors, a family of funds or investment companies such as that managed by the Investment Manager may restrict or deny the ability of an investor from purchasing or redeeming its shares or from exchanging shares of one fund for another. In particular, the Company may not always be able to redeem its shares in the Master Fund. This may restrict the Funds' purchases, repurchases or exchanges and may prevent the Investment Manager from making other investments and as a result, the Funds may be locked into an unintended market position or the Funds' "capacity" may potentially be limited. Accordingly, the Funds face the risk that investment company families may restrict or limit the Funds' purchases, repurchases or exchanges of investment company shares, may involuntarily redeem the Funds' investments or require the Funds to pay additional fees or penalties, all of which could reduce the Funds' returns.

#### *Risks of Investing in Investment Entities*

Although the Investment Manager will attempt to monitor the performance of each investment company or other collective investment vehicle (collectively, "investment entities") that the Funds may invest in, the Funds will not receive perfect information regarding the actual investments made by the investment entities and must ultimately rely on:

- i.* The investment manager or sponsor of each investment entity to operate in accordance with the investment strategy or guidelines laid out by such investment manager or sponsor; and
- ii.* The accuracy of the information provided to the Funds by such investment manager or sponsor.

If the investment manager or sponsor of an investment entity does not operate in accordance with the investment strategy or guidelines specified for such entity, or if the information furnished by an investment entity is not accurate the Funds might sustain losses with respect to their investment in such investment entity despite the Investment Manager's attempts to monitor such entity. In addition, privately offered and closed ended investment entities often have restrictions in their partnership agreements, or other governing documents, that limit the Funds' ability to withdraw funds from, or invest in, the entity. The Funds' ability to withdraw funds from, or invest in, investment entities with such restrictions will be limited and such restrictions may limit the Investment Manager's flexibility to reallocate assets among other investments or restrict the liquidity of the Funds.

#### *Changes in Portfolio Strategy*

The Investment Manager is not limited to trading any specific instruments or pursuant to any specific investment or trading strategies. As a result, it is possible that the nature and character of the Funds' investment portfolios may change substantially from time to time based upon the Investment Manager's view of where opportunities exist in the global marketplace. Furthermore, as a result of the Funds' opportunistic investment strategy, the expenses, risks, volatility and returns to the Funds, could vary significantly, from time to time, depending upon the investment strategies utilised by the Funds at any particular time.

## Risk Warning (continued)

### *Trading Strategies*

There can be no assurance that the specific trading strategies utilised for the Funds will produce profitable results. Profitable trading is often dependent on anticipating trends or trading patterns. Markets are subject to random price fluctuations, rather than defined trends or patterns, and may generate a series of losing trades. There have been periods in the past when the markets have been subject to limited and ill-defined price movements, and such periods may recur. Any factor which may lessen major price trends (such as governmental controls affecting the markets) may reduce the prospect for future trading profitability. Any factor which could make it difficult to execute trades, such as reduced liquidity or extreme market developments resulting in limit moves, could also be detrimental to profits. The best trading strategy, whether based on fundamental or technical analysis, will not be profitable if there are no trends of the kind it seeks to follow. No assurance can be given that the techniques and strategies of the Investment Manager, or any other portfolio manager engaged by the Investment Manager, will be profitable in the future.

### *New Strategies*

While the Investment Manager might develop new investment strategies in the future, any such strategies may not be thoroughly tested before being employed and may not, in any event, be successful. Were the Investment Manager to attempt to implement new strategies, the risk/reward profile of the Funds could be shifted significantly towards increased levels of risk. The Funds can only be successful if the Investment Manager is able to trade and invest successfully, and there can be no assurance that this will be the case.

### *Undervalued Securities*

One of the objectives of the Funds is to invest in undervalued securities. The identification of investment opportunities in undervalued securities is a difficult task and there can be no assurance that such opportunities will be successfully recognised. While investments in undervalued securities offer opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the Funds' investments may not adequately compensate for the business and financial risks assumed.

The Funds may make certain speculative investments in securities which the Investment Manager believes to be undervalued; however, there can be no assurance that the securities purchased will in fact be undervalued. In addition, the Funds may be required to hold such securities for a substantial period of time before realising their anticipated value. During this period, a portion of the Funds' capital would be committed to the securities purchased, thus possibly preventing the Funds from investing in other opportunities. In addition, the Funds may finance such purchases with borrowed funds and thus will have to pay interest on such funds during such waiting period.

### *Directional Strategies*

Directional investing is subject to all of the risks inherent in incorrectly predicting future price movements. Often these price movements will be determined by unanticipated factors, and the Investment Manager's analysis of known factors may prove inaccurate, in each case potentially leading to substantial losses.

### *Use of Leverage*

The Funds may use leverage to enable them to make investments substantially in excess of their equity. The Funds reserve the right to use as much borrowing and leverage as permitted under applicable law and under the limits set by the Prime Broker and Custodian. Although such techniques increase the opportunity for a higher return on investment, they also increase the risk of loss.

The Investment Manager may, from time to time, adjust the Master Fund's leverage. Such adjustments may be in respect of certain markets or in respect of the Master Fund's overall investment portfolio. Factors which may affect the decision to adjust leverage include: ongoing research, volatility of individual markets, risk considerations, and the Investment Manager's subjective judgement and evaluation of general market conditions. Adjustments to leverage may result in greater profits or losses and increased brokerage costs. No assurance can be given that any leverage adjustment will be to the financial advantage of investors in the Funds.

## Risk Warning (continued)

### ***Business and Regulatory Risks of Hedge Funds***

Legal, tax and regulatory changes could occur that may adversely affect the Funds. The regulatory environment for hedge funds is evolving and changes in the regulation of hedge funds may adversely affect the value of investments held by the Funds and the ability of the Funds to obtain the leverage they may otherwise obtain or to pursue their investment strategies.

### ***No Formal Diversification Policies***

Although diversification is an integral part of the Investment Manager's overall portfolio risk management process, the Investment Manager is not restricted as to the percentage of the Funds' assets that may be invested in any particular instrument, market or asset class. The Funds have not adopted fixed guidelines for diversification of their investments among issuers, industries, instruments or markets and may be heavily concentrated, at any time, in a limited number of positions. In attempting to maximise the Funds' returns, the Investment Manager may concentrate the holdings of the Funds in those industries, companies, instruments or markets which, in the sole judgement of the Investment Manager, provide the best profit opportunity in view of the Funds' investment objectives.

### ***Illiquidity in Certain Markets***

The Funds will invest in illiquid or restricted securities for which there is no established resale market, including publicly traded or privately placed securities of small-capitalisation or financially troubled companies, illiquid over-the-counter securities, non-publicly traded securities, mortgage-backed securities, fixed-income securities and securities traded on non-US exchanges and emerging markets. Investors should note that, from time to time, such illiquid or restricted positions may represent a significant percentage of the Funds' capital. The Funds might only be able to liquidate these positions at disadvantageous prices, should the Investment Manager determine, or it become necessary to do so. For example, withdrawals from the Master Fund could require it to liquidate its positions more rapidly than otherwise desired in order to obtain the cash necessary to meet such withdrawals. Illiquidity in certain markets could make it difficult for the Funds to liquidate positions on favourable terms, thereby resulting in losses or a decrease in the NAV of the Funds. In addition, although many of the securities, which the Funds may acquire, may be traded on public exchanges, each exchange typically has the right to suspend or limit trading in all securities that it lists. Such a suspension could render it difficult or impossible for the Funds to liquidate their positions and would thereby expose the Funds to losses. The Funds therefore may be locked into an adverse price movement for several days or more, which may result in immediate and substantial loss to an investor.

### ***Distressed and High Yield Securities***

The Funds may invest in securities of issuers in weak financial condition, experiencing poor operating results, needing substantial capital investment, perhaps having negative net worth, facing special competitive or product obsolescence problems or involved in, or potentially facing, bankruptcy or reorganisation proceedings. Investments of this type may involve substantial financial and business risks that can result in significant or even total losses. Among the risks inherent in investments in financially troubled issuers is the fact that it is frequently difficult to obtain reliable information as to their true financial condition. The market prices of distressed and high yield securities are subject to abrupt and erratic market movements and excessive price volatility. The spread between the bid and ask prices of such securities may be abnormally large, and the markets for such securities illiquid.

### ***Changes in Portfolio Holdings and Liquidity of Interests***

The relative portfolio holdings of the Funds may be altered from time to time due to certain events such as significant repurchases of Ordinary Shares by the Company and/or withdrawals from the Master Fund. As a result, the illiquid portions of the Funds' portfolios may, at times, constitute a substantial portion of the Funds' overall holdings, and therefore, make liquidation of the Funds' holdings more difficult. Investors should note that the Company has the ability to defer repurchase requests in certain circumstances.

## Risk Warning (continued)

### *Participation on Creditors' Committees and Boards of Directors*

Although not presently contemplated, from time to time the Funds may participate in committees formed by creditors to negotiate with the management of financially troubled companies that may or may not be in bankruptcy. The Funds may also seek to negotiate directly with debtors with respect to restructuring issues. In the situation where the Funds choose to join a creditors' committee, the Funds would likely be only one of many participants, each of who would be interested in obtaining an outcome that is in its individual best interest. There can be no assurance that the Funds would be successful in obtaining results most favourable to them in such proceedings, although the Funds may incur significant legal fees and other expenses in attempting to do so. As a result of participation by the Funds on such committees, the Funds may be deemed to have duties to other creditors represented by the committees, which might thereby expose the Funds to liability to such other creditors who disagree with the Funds' actions.

Participation in restructuring activities frequently provides the participant with material non-public information that may restrict the Funds' ability to trade in a company's securities. Determination of whether information is material and non-public and how long knowledge of such information restricts trading is a matter of considerable uncertainty and judgement. While the Funds intend to comply with all applicable securities laws and to make judgements concerning restrictions on trading in good faith, the Funds may trade in a company's securities while engaged in restructuring activities relating to that company. Such trading creates a risk of litigation and liability that may cause the Funds to incur significant legal fees and potential losses.

In certain circumstances, it is possible that the Funds may be represented on the boards of some of the companies in which they make an investment. While such representation should enhance the Funds' abilities to manage their investments, it may also have the effect of impairing the ability of the Funds to sell the related securities when, and upon the terms, they might otherwise desire, including as a result of applicable securities laws. Such representation creates a risk of litigation and liability that may cause the Funds to incur significant legal fees and potential losses.

### *Interest of the Company and Reporting Obligations*

The Investment Manager may hold substantial interest in investments in relation to which the Company is subject to disclosure obligations. Failure to comply with these obligations may give rise to penalties.

### *Investments in Equity Securities*

Common stock and similar equity securities generally represent the most junior position in an issuer's capital structure and, as such, generally entitle holders to an interest in the assets of the issuer, if any, remaining after all more senior claims to such assets have been satisfied. Holders of common stock generally are entitled to dividends only if, and to the extent declared by, the governing body of the issuer out of income or other assets available after making interest, dividend and any other required payments on more senior securities of the issuer. Warrants and stock purchase rights are securities permitting, but not obligating, their holders to subscribe for other equity securities, and they do not represent any rights in the assets of the issuer. As a result, warrants and stock purchase rights may be considered more speculative than other types of equity investments.

### *Derivative Instruments*

The Funds may make extensive use of various derivative instruments, such as swaps, warrants, options and forward contracts. The use of derivative instruments involves a variety of material risks. These risks include the high degree of leverage which can be embedded in such instruments, a risk which can be materially increased by the limited liquidity which often characterises the derivative markets. The pricing relationships between derivatives and the underlying instruments on which they are based also may not conform to anticipated or historical correlation patterns, resulting in unanticipated losses. In addition, some of the derivatives traded by the Investment Manager may be over-the-counter instruments (contracts) between the Funds and third parties. The Funds may place collateral with certain of their counterparties in connection with their over-the-counter transactions. Although the Funds will principally engage in such transactions with money centre financial institutions, it is still subject to the risk of loss of such collateral as the risk of counterparty non-performance can be significantly greater in the case of these over-the-counter instruments (contracts) as opposed to exchange-traded derivative instruments. Furthermore, "bid-ask"

## Risk Warning (continued)

spreads may be unusually wide in the substantially unregulated over-the-counter markets. To the extent the Funds invest in derivatives of various mortgage-backed securities, the prepayment risks, credit risks, interest rate risks and hedging risks associated with such securities also may be substantially magnified.

### *Price Fluctuations*

Prices of derivative instruments are highly volatile. Prices are affected by a wide variety of complex and difficult-to-predict factors, such as supply of money, inflation, weather and climatic conditions, changing supply and demand relationships, governmental activities and regulations, political and economic events and prevailing psychological characteristics of the marketplace. These same factors also can affect the securities markets adversely.

### *Specific Commodity Futures Considerations*

#### *Volatility and leverage*

Commodity futures prices can be highly volatile. Because of the low margin deposits normally required in futures trading, an extremely high degree of leverage is typical of a futures trading account. As a result, a relatively small price movement in a futures contract may result in substantial losses to the investor. Like other leveraged investments, a futures transaction may result in losses in excess of the amount invested.

#### *Daily price fluctuation limits*

Commodity exchanges limit daily price fluctuations in certain commodity futures contracts. For contracts that have a price limit, no trades may be executed at prices beyond the "daily limit" during the trading day. Once the price of a futures contract for a particular commodity has increased or decreased by an amount equal to the daily limit, positions in the commodity can be neither initiated nor liquidated unless traders are willing to effect trades at or within the limit. Futures prices have occasionally moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Funds from promptly liquidating unfavourable positions and subject the Funds to substantial losses.

#### *Risk disclosure*

Commodity futures trading is speculative. Price movements of commodity futures contracts are influenced by, among other things, changing supply and demand relationships, governmental, agricultural and trade programs and policies, and national and international political and economic events. Changing crop prospects occasioned by unexpected weather or damages by insects and plant diseases make it difficult to forecast supplies of agricultural commodities. Similarly, demand is also difficult to forecast due to such factors as variable world production patterns, unexpected purchases and continued changes in demand. Financial instrument futures prices are influenced primarily by changes in interest rates. Currency futures prices are influenced by, among other things, changes in balance of payments and trade, domestic and international rates of inflation, international trade restrictions and currency devaluations and revaluations.

#### *Securities futures contracts*

The Funds may engage in the trading of security futures contracts listed on US or non-US markets. In the US, security futures contracts are defined as both a security and futures contract and the offer, sale and trading of security futures are subject to a complex regulatory structure under both the US securities and commodities laws. Non-US listed security futures are subject to the regulatory regime of the exchange on which the contract is traded and the foreign regulatory authority having jurisdiction over such exchange. Because security futures contracts are new in the US (trading did not begin until November 2002), there can be no assurance that the trading strategies used by the Investment Manager will be applicable to any particular security futures contract which it chooses to trade. Moreover, to date the markets for security futures contracts in the US have been characterised by very limited trading volume when compared to the US futures markets generally. As a result, the Investment Manager may at times find it difficult to buy or sell a security futures contract at a favourable price, which could result in losses to the Funds.

## Risk Warning (continued)

### *Forward trading*

The Funds may trade forward contracts in the US and in markets (including interbank markets) located outside the US. Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardised; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. In such a case, the Funds will be subject to the risk that a counterparty will be unable, or refuse, to perform with respect to such contracts. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market traded by the Funds due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward trading to less than that which the Investment Manager would otherwise recommend, to the possible detriment of the Funds. Market illiquidity or disruption could result in major losses to the Funds.

### *Short Sales*

The Funds may sell securities short as an aspect of their trading strategy. Since the borrowed securities sold short must later be replaced by market purchases, any appreciation in the prices of the borrowed securities results in a loss. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Furthermore, a short seller may be prematurely forced out of a position if the lender from which the short seller borrowed stock, in order to effect settlement of a short sale, recalls such stock under circumstances in which such stock cannot be borrowed from other sources.

### *Global Market Exposure*

The Funds invest on a global basis in both developed and emerging markets. In doing so, the Funds are subject to:

- i.* Currency exchange-rate risk;
- ii.* The possible imposition of withholding, income or excise taxes;
- iii.* The absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and little or potentially biased government supervision and regulation; and
- iv.* Economic and political risks, including expropriation, currency exchange control and potential restrictions on investment and repatriation of capital.

### *Swap Agreements*

The Funds may enter into swap agreements. Swap agreements can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease the Funds' exposure to long-term or short-term interest rates (in the US or abroad), foreign currency values, mortgage securities, corporate borrowing rates, or other factors such as security prices, baskets of equity securities, or inflation rates. Swap agreements can take many different forms and are known by a variety of names. The Funds are not limited to any particular form of swap agreement if the Investment Manager determines it is consistent with the Funds' investment objective, approach and strategies.

Swap agreements tend to shift the Funds' investment exposure from one type of investment to another. For example, if the Funds agree to exchange payments in US Dollars for payments in foreign currency, the swap agreement would tend to change the Funds' exposure to US interest rates and its exposure to foreign currency and interest rates. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the Funds' portfolio. The most significant factor in the performance of the swap agreements is the change in the specific interest rate, currency, individual equity values or other factors

## Risk Warning (continued)

that determine the amounts of the payments due to and from the Funds. If a swap agreement calls for payment by the Funds, the Funds must be prepared to make such payments when due. In addition, if a counterparty's creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses by the Funds.

Options may be cash settled, settled by physical delivery or by entering into a closing purchase transaction. In entering into a closing purchase transaction, the Funds may be subject to the risk of loss to the extent that the premium paid for entering into such closing purchase transaction exceeds the premium received when the option was written.

### *Repurchase and Reverse-Repurchase Agreements*

The Funds may use repurchase and reverse-repurchase agreements, which involve certain risks. For example, if the seller of securities under a repurchase agreement defaults in its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, the Funds will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganisation under applicable bankruptcy or other laws, the Funds' ability to dispose of the underlying securities may be restricted. Finally, it is possible that the Funds may not be able to substantiate their interest in the underlying securities. If the seller fails to repurchase the securities, the Funds may suffer a loss to the extent proceeds from the sale of the underlying securities are less than the repurchase price. Similar elements of risk arise in the event of the bankruptcy or insolvency of the buyer.

## OPERATING RISKS

### *Operating History*

The past performance of the Funds should not be taken to be indicative of their future results. Given that the Company may invest and engage in currency hedging activities independently of the Master Fund, the Company's performance may at times differ from that of the Master Fund.

### *Dependence Upon the Investment Manager*

The operations of the Funds are substantially dependent upon the skill, judgement and expertise of the Investment Manager and its principals, specifically Philip Richards, responsible on a day-to-day basis for investment of the Funds' assets. In the event of the death, disability or other unavailability of Philip Richards, the business of the Funds may be materially and adversely affected.

### *Lack of Right to Redeem*

A Shareholder may request the Company to repurchase all or part of its shareholding in the Company. The Company has absolute discretion whether to repurchase such holding and the terms on which it will do so. Any repurchase of shares by the Company will usually be at the prevailing market price. The Company will not repurchase shares at more than the net asset value per Ordinary Share.

### *Credit Risk*

The Funds are subject to the risk that the Prime Broker and counterparties with which, and the exchanges on which, they execute transactions or carry positions may default. The default by the Prime Broker in particular, an exchange, clearing house or counterparty (whether due to insolvency, bankruptcy or other causes) with or through which the Funds trade could result in material losses. Further details are set out in the paragraph below headed Prime Broker and Custodian.

### *Suspensions of Trading*

Each exchange typically has the right to suspend or limit trading in the securities it lists. Such a suspension could render it impossible for the Funds to liquidate their positions and thereby expose them to losses. In addition, there is no guarantee that non-exchange markets will remain liquid enough for the Funds to close out positions they hold on such markets.

## Risk Warning (continued)

### *Unregulated Markets and Jurisdictions*

The Funds may invest in securities of companies domiciled and operating in unregulated environments. This involves considerations and possible risks not typically involved in investing in securities of companies domiciled and operating in regulated securities markets. Unregulated markets are less liquid, more volatile and less subject to governmental supervision than in regulated environments.

### *Commissions and Expenses*

The Funds are obliged to pay brokerage commissions and related transaction fees and costs, which can be substantial, regardless of whether their trading activities are profitable. The Funds must also pay their own fees and operating and administrative expenses. It will be necessary for the Funds to achieve gains in excess of these aggregate fees and costs in order for Shareholders to realise an increase in the net asset value of the Ordinary Shares. There can be no assurance that the Funds will be able to achieve such, or any, appreciation of their assets.

### *Other Clients of the Investment Manager and its Affiliates*

The Investment Manager, its affiliates and their principals manage other accounts and other collective investment vehicles. These accounts may employ different or similar trading strategies, and could increase the level of competition for the same trades or positions that the Funds might otherwise make, including the priorities of order entry. This could make it difficult or impossible to take or liquidate a position of a particular security at a satisfactory price. Moreover, in such situations, the Funds may not be able to engage in as large a portion of a transaction as they otherwise would.

The Investment Manager and its affiliates may employ investment methods, policies and strategies for their clients that differ from those under which the Funds operate. Therefore, the results of the Funds' trading may differ from those of other accounts traded by the Investment Manager and its affiliates. Moreover, certain of the Investment Manager's principals also may invest for their own accounts.

### *Litigation*

The Funds' investment activities are subject to the normal risks of becoming involved in litigation by third parties. This risk is somewhat greater because the Funds will often hold substantial stakes in listed companies which could be considered to give rise to exercise of control or significant influence over a company's direction. Furthermore, many of the exchanges on which the Funds invest, impose reporting and other obligations which, if not met, could lead to fines and other sanctions against the Funds or the Investment Manager. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgements may have to be borne by the Funds. In addition, certain of the Funds' strategies may be subject to claims for the return of profits or the recovery of losses on the basis of certain statutory, regulatory or administrative entitlements or prohibitions.

### *Prime Broker and Custodian*

Cash held by the Prime Broker and Custodian will not be treated as client money subject to the protections conferred by the rules of the FSA and accordingly would not be segregated from the Prime Broker and Custodian's own money. Cash could be used by the Prime Broker and Custodian in the course of their investment business and the Funds would therefore rank as unsecured creditors of the Prime Broker and Custodian in relation thereto. In relation to the Funds' right to the return of assets equivalent to those of the Funds' investments which the Prime Broker and Custodian borrow, lend or otherwise use for their own purposes, the Funds will rank as their unsecured creditors and in the event of the insolvency of the Prime Broker and Custodian the Funds might not be able to recover such equivalent assets in full.

### *Market Price Considerations*

The market price of the Ordinary Shares is expected to fluctuate over time due to the performance of the Funds' investments as well as market considerations. A Shareholder may not fully recover his initial investment when he chooses to sell his Ordinary Shares.

## Risk Warning (continued)

### *Tax Considerations*

Where the Funds invest in securities that are not subject to withholding tax at the time of acquisition, there can be no assurance that tax may not be withheld in the future as a result of any change in applicable laws, treaties, rules or regulations or the interpretation thereof. Typically, the Funds will not be able to recover such withheld tax and so any change would have an adverse effect on the net asset value of the Ordinary Shares. Where the Funds sell securities short that are subject to withholding tax at the time of sale, the price obtained will reflect the withholding tax liability of the purchaser. In the event that in the future such securities cease to be subject to withholding tax, the benefit thereof will accrue to the purchaser and not to the Funds.

### *Performance Fee*

The performance fee is calculated based on the estimated net asset value at the year-end, not the actual net asset value stated in the Balance Sheet in the financial statements. This is due to the performance fee being payable within ten business days of the year-end (as per the Investment Management Agreement), before the final basic year-end net asset value becomes available. Whilst this may result in a higher performance fee in certain periods (as was the case for the year-ended 31 December 2007), it is equally likely that the performance fee may be underpaid (as was the case for the year-ended 31 December 2005 and 31 December 2006). The performance fee will not be amended for any overpayment or underpayment in a period due to the use of the estimated net asset value instead of the actual net asset value. However, the opening net asset value/high watermark of the subsequent period will be based on the estimated year-end net asset value as applied in the performance fee calculation at the previous year-end.

### *Profit Sharing*

In addition to receiving an investment management fee, the Investment Manager may also receive a performance fee based on the appreciation in the net asset value of the Company and accordingly the performance fee will increase with regard to unrealised appreciation, as well as realised gains. The performance fee may create an incentive for the Investment Manager to make investments for the Funds which are riskier than would be the case in the absence of a fee based on the management of the Funds.

### *Conflicts of Interest*

As a result of the Company having the opportunity to receive the investment management fee and the performance fee (as described above), the Investment Manager and its affiliates may have conflicts of interest in allocating investments among the Company and the other clients and in effecting transactions between the Company and other clients, including ones in which the Investment Manager and its affiliates may have a greater financial interest. Where appropriate, the Investment Manager and its affiliates may give advice or take action with respect to such other clients that differs from the advice given with respect to the Company.

The Investment Manager and its affiliates may be involved in other financial, investment or professional activities, which may on occasion give rise to conflicts of interest with the Company. In particular the Investment Manager may provide investment management, investment advice or other services in relation to a number of funds which may have similar investment policies to that of the Funds.

Each of these parties will have regard to its obligations under its agreement with the Company or otherwise to act in the best interest of the Company, so far as is practicable having regard to its obligations to other clients, when potential conflicts of interest arise. In the event of a conflict of interest arising involving the Investment Manager, the Investment Manager will resolve such conflict of interest fairly. In particular, the Investment Manager will use its reasonable efforts to ensure that the Company has the opportunity to participate in potential investments identified by the Investment Manager, which fall within the Company's investment objective and policy, on the best terms reasonably obtainable at the relevant time with the aim of ensuring that the principal of best execution is attained.

The Investment Manager and its affiliates may carry on investment activities for their own accounts, for the accounts of their employees (and their families) and for other accounts in which the Company has no interest. The Investment Manager and its

## Risk Warning (continued)

affiliates also provide investment management services to other clients, including other collective investment vehicles. The Investment Manager, and its affiliates may give advice and recommend securities to other managed accounts or investment funds which may differ from advice given to, or securities recommended or bought for, the Company, even though their investment programs may be the same or similar.

Certain inherent conflicts of interest arise from the fact that the Investment Manager and its affiliates generally carry on other investment activities in which the Company will have no interest. The Investment Management Agreement does not impose any specific obligations or requirements concerning the allocation of time, effort or investment opportunity by the Investment Manager to the Company. The Investment Manager and its members, officers and employees will devote as much of their time to the activities of the Company as they deem necessary and appropriate. The Investment Manager and its affiliates are not restricted from forming additional investment funds, from entering into other investment management or advisory relationships, or from engaging in other business activities, even though such activities may be in competition with the Company or any investee fund manager and/or may involve substantial time and resources of the Investment Manager. These activities could be viewed as creating a conflict of interest in that the time and effort of the members of the Investment Manager and its officers and employees will not be devoted exclusively to the business of the Company, but will be allocated between the business of the Company and the management of the monies of other clients of the Investment Manager.

The Company may, whether for the account of the Company or otherwise to the extent permitted by applicable law, engage in transactions with the Investment Manager or its affiliates. The Investment Manager may allocate a portion of the Company's assets to portfolio investments managed by the Investment Manager or its affiliates to the extent that the Investment Manager determines, in its sole discretion, that such investee funds represent an appropriate investment strategy for the Company. To the extent the Company invests in investee funds managed by the Investment Manager or its affiliates, all fees charged by the Investment Manager or its affiliates at the portfolio investment level will be waived or rebated to the Company.

## Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the fourth ANNUAL GENERAL MEETING of RAB SPECIAL SITUATIONS COMPANY LIMITED will be held at No.1 Le Truchot, St Peter Port, Guernsey GY1 3JX on 23 July 2009 at 10.30am for the following purposes:

### **Resolution on form of proxy**

#### ***As ordinary business:***

#### **Ordinary Resolution 1**

To receive and, if thought fit, to accept the reports of the Directors and Auditors and the audited financial statements for the year-ended 31 December 2008.

#### **Ordinary Resolution 2**

To appoint Grant Thornton Limited as Auditors and to authorise the Directors to agree their remuneration.

#### **Ordinary Resolution 3**

To re-elect Quentin Spicer, who offers himself for re-election, as a Director.

#### **Ordinary Resolution 4**

To re-elect Chris Wetherhill, who offers himself for re-election, as a Director.

*(continued on next page)*

## Notice of Annual General Meeting (continued)

### *As special business:*

#### **Ordinary Resolution 5**

That the Company be and is hereby generally and unconditionally authorised in accordance with Section 315 of The Companies (Guernsey) Law, 2008, as amended, to make market purchases, as defined in that Law, of and cancel its Ordinary Shares of 1p each, provided that:

- (i) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 11,992,000;
- (ii) the minimum price which may be paid for an Ordinary Share shall be 1p;
- (iii) the maximum price which may be paid for an Ordinary Share shall be an amount equal to 105% of the average of the middle market quotations for an Ordinary Share taken from and calculated by reference to the London Stock Exchange Alternative Investment Market Daily Official List for the five business days immediately preceding the date on which the Ordinary Share is purchased;
- (iv) the price paid per Ordinary Share shall be less than the net asset value per Ordinary Share;
- (v) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2010, unless the authority is renewed prior to such time; and
- (vi) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares pursuant to any such contract.

By order of the Board  
**ELYSIUM FUND MANAGEMENT LIMITED**  
Secretary  
18 June 2009

Registered office:  
No. 1 Le Truchot  
St Peter Port  
Guernsey, GY1 3JX

A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his or her stead. A proxy need not also be a member of the Company. To be effective, forms of proxy must be lodged with the Company's Secretary, Elysium Fund Management Limited, not less than 48 hours before the time appointed for holding the meeting. Lodgement of the form of proxy will not preclude a shareholder from attending the meeting and voting in person.

#### **Note:**

The following documents will be available for inspection at the registered office of the Company during usual business hours on any weekday (except Saturdays, Sundays and public holidays) until the date of the meeting and at the place of the meeting for a period of 15 minutes prior to and during the meeting:

- a) A statement of Directors' interests in the share capital of the Company; and
- b) The Articles of Incorporation.

**Form of Proxy**  
 For use at the ANNUAL GENERAL MEETING  
 (Block capitals please)

I/We, the undersigned, \_\_\_\_\_

of \_\_\_\_\_

being a member/members of RAB Special Situations Company Limited, hereby appoint the Chairman of the meeting/

\_\_\_\_\_

as my/our proxy to vote for me/us on my/our behalf at No.1 Le Truchot, St Peter Port, Guernsey, GY1 3JX on 23 July 2009 at 10.30am and at any adjournment thereof and at his discretion on any other matter arising at such meeting.

Signature \_\_\_\_\_

Dated \_\_\_\_\_

Please indicate with an X in the spaces below how you wish your votes to be cast.

	For	Against	Abstain
<b>Ordinary Resolution 1</b> To receive and, if thought fit, to adopt the reports of the Directors and Auditors and the audited financial statements for the year-ended 31 December 2008.			
<b>Ordinary Resolution 2</b> To appoint Grant Thornton Limited as Auditors and to authorise the Directors to agree their remuneration.			
<b>Ordinary Resolution 3</b> To re-elect Quentin Spicer, who offers himself for re-election as a Director.			
<b>Ordinary Resolution 4</b> To re-elect Chris Wetherhill, who offers himself for re-election as a Director.			
<b>Ordinary Resolution 5</b> To authorise the Company to buy back its own shares.			

**Notes**

1. A member may appoint a proxy of his or her own choice. If such an appointment is made, delete the words 'the Chairman of the meeting' and insert the name of the person appointed proxy in the space provided.
2. If the appointor is a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised in that behalf.
3. In the case of joint holders, the signature of any one holder will be sufficient, but the names of all joint holders should be stated.
4. If this form is returned without any indication as to how the person appointed proxy shall vote, he or she will exercise his or her discretion as to how he or she votes or whether he or she abstains from voting.
5. To be valid, this form must be completed and deposited at the office of the Company's Secretary not less than 48 hours before the time fixed for holding the meeting or adjourned meeting.



### *Directors*

Quentin Spicer (Chairman)  
Peter Hodson  
Christopher Wetherhill  
Nicholas Wilson

### *Investment Manager*

RAB Capital plc  
No. 1 Adam Street  
London  
England  
WC2N 6LE

### *Administrator*

Elysium Fund Management Limited  
PO Box 650  
No. 1 Le Truchot  
St Peter Port  
Guernsey  
GY1 3JX

### *Prime Broker and Custodian*

Credit Suisse First Boston (Europe) Limited  
One Cabot Square  
London  
England  
E14 4QA

### *Registrar*

Capita Registrars (Guernsey) Limited  
Longue Hougue House  
St Sampson  
Guernsey  
GY2 4JN

### *Banker*

Bank of Scotland  
4th Floor  
New Uberior House  
11 Earl Grey Street  
Edinburgh  
Scotland  
EH3 9BN

### *Registered Office*

No. 1 Le Truchot  
St Peter Port  
Guernsey  
GY1 3JX

### *Nominated Adviser and joint Broker*

KBC Peel Hunt Ltd  
111 Old Broad Street  
London  
England  
EC2N 1PH

### *Joint Broker*

Winterflood Securities Limited  
The Atrium Building  
Cannon Bridge  
25 Dowgate Hill  
London  
England  
EC4R 2GA

### *Auditors*

Grant Thornton Limited  
Island House  
Grand Rue  
St Martins  
Guernsey  
GY1 3TF

### *Legal Advisers to the Company*

#### *English Law*

Norton Rose  
Kempson House  
Camomile Street  
London  
England  
EC3A 7AN

#### *Guernsey Law*

Carey Olsen  
Carey House  
Les Banques  
St Peter Port  
Guernsey  
GY1 4BZ

