

RAB Special Situations Company Limited

managed by RAB Capital plc

Report and Financial Statements 2006

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Shareholders, Warranholders, potential investors and other users of these financial statements should take note of the risk warning on pages 23 to 32.

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 will be 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.

A closed-ended investment company, incorporated under The Companies (Guernsey) Law, 1994.

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 2006.

During the year ended 31 December 2006 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").

On 26 May 2006, 20,000,000 A Warrants, being all of the A Warrants were converted into 20,000,000 Ordinary Shares at the exercise price of 115p per Warrant. This resulted in an estimated decrease in the net asset value of approximately 11.54p per Ordinary Share. There have been no conversions of B Warrants to date.

During the year under review the Company increased its net asset value per share by 32.91p to 156.68p, representing a return of 26.59% over the year. The share price increased by 21.13% to 129.00p during the year, resulting in a widening of the discount to net asset value (basic and fully-diluted) from 13.95% to 17.67%. Since 31 December 2006 the net asset value per share has continued to rise, reaching an estimated 180.31 pence per Ordinary Share at the end of April 2007. The fully-diluted net asset value per Ordinary Share at 30 April 2007 was 167.73p, giving the share price a discount to net asset value of 13.25%.

The Board has put in place powers to enable the Company to repurchase Ordinary Shares should the discount to net asset value be judged to be too large. To date, your Board has not felt it necessary or appropriate to make use of this power. Shareholders renewed the authority for the Company to buy back its own shares at the Company's first Annual General

Meeting on 12 July 2006 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 that it is beneficial for the Company to maintain flexibility in its capital structure. In addition, in order to enable the Company to take advantage of any discount of the share price to net asset value, a further resolution, enabling the Company to purchase up to 10% of the Ordinary Shares in issue and hold them as treasury shares, will be proposed at the forthcoming Annual General Meeting. The ability for Guernsey registered companies to make use of the treasury share facility has only become possible since May 2006, following the introduction of The Companies (Purchase of Own Shares) (Treasury Shares) Ordinance 2006. By proposing these measures your Board is expressing its desire to have the ability to exert a positive influence, as and when deemed appropriate, over the level of discount to net asset value, at which the Ordinary Shares trade. It is hoped that shareholders will support these proposals.

The 26.59% increase in the net asset value of the Company in the year to 31 December 2006 reflects the strong performance of the Master Fund. The Board is cautiously optimistic that this performance will continue in 2007.

I look forward to welcoming Shareholders to our Annual General Meeting to be held at 10.30am on 17 July 2007 at the Company's registered office at No. 1 Le Truchot, St Peter Port, Guernsey.

QUENTIN SPICER
8 May 2007

Performance

	Basic NAV pence	Fully-diluted NAV ⁽¹⁾ pence	Ordinary Share price (mid) pence	A Warrant price (mid) pence	B Warrant price (mid) pence	FTSE AIM Index
31 May 2005 (launch) ⁽²⁾	94.75 ⁽³⁾	94.75 ⁽³⁾	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 ⁽⁴⁾	18.00	1,080.40
31 December 2006	156.68	156.68	129.00	n/a	8.00	1,054.60
30 April 2007	180.31	167.73	145.50	n/a	14.25	1,181.20
Percentage increase/decrease in year to 31 December 2006	+26.59%	+26.59%	+21.13%	n/a	-7.30%	+0.08%
Percentage increase from launch to 31 December 2006	+65.36%	+65.36%	+34.88%	n/a	+257.14%	+10.13%

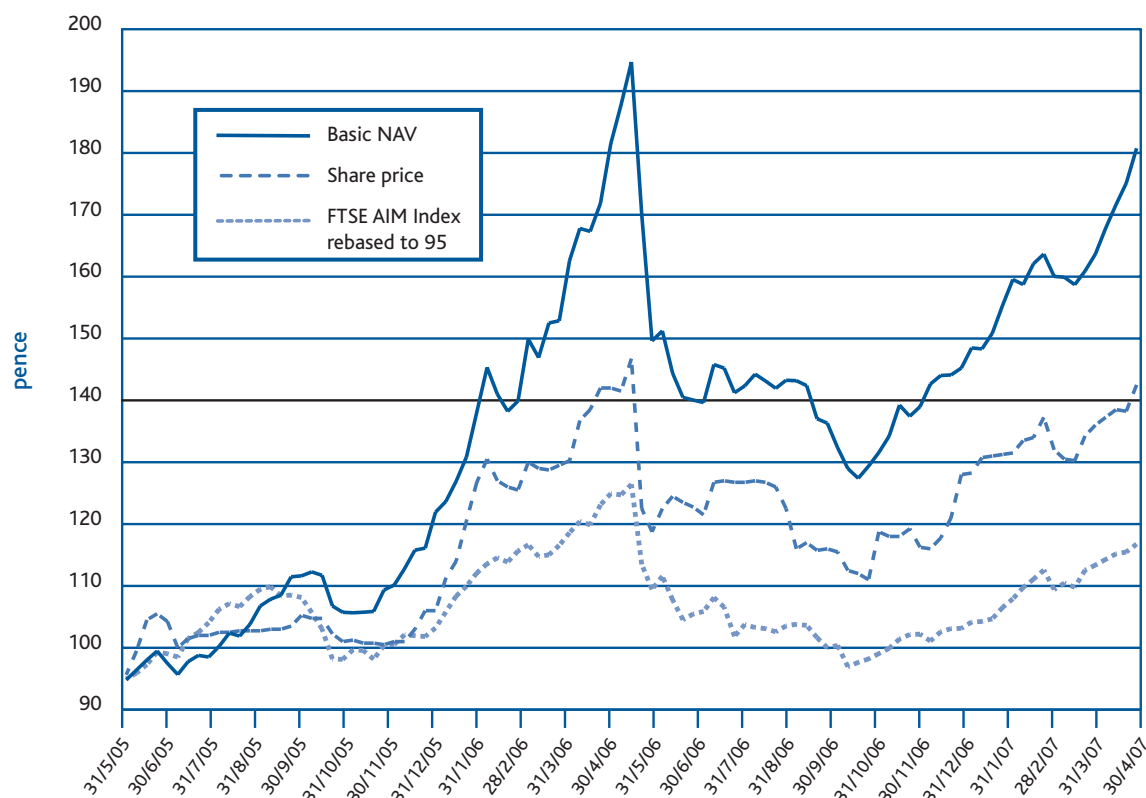
⁽¹⁾ The dilution calculation is based on the share price (mid) of the Ordinary Shares.

⁽²⁾ The 100p launch price of the Ordinary Shares and Warrants has been allocated in the ratio of the closing price of each on the day of admission to trading.

⁽³⁾ Net of issue costs of £2,098,710.

⁽⁴⁾ All A warrants were exercised on 23 May 2006, reducing the NAV by approximately 11.54p per Ordinary Share.

NAV/Share Price Performance



Investment Manager's Report

The RAB Special Situations Company Limited (the "Company") (ticker symbol RSS for the Ordinary Shares and RSSB for the warrant class) is quoted on the AIM market on the London Stock Exchange, allowing a broader spectrum of investors to gain exposure to the RAB Special Situations investment strategy. In its first full year on the AIM market, the net asset value of the Company returned +26.6% to 31 December 2006.

In the first quarter of 2006, the net asset value of the Company performed strongly as our unpopular view, that the rate of increase of metals prices would be better than that of energy prices, proved to be the case. Energy prices also returned to their highs. Profits on winning stocks outweighed losers in the portfolio by a factor of 7 to 1.

The correction experienced in global equity markets in the second quarter of the year was much more pronounced in natural resources shares than in other sectors. For example, from peak to trough the Gold Bugs Index (HUI) fell 31% from mid May to mid June, while leading copper producers such as Phelps Dodge fell 25% and Xstrata fell 32% at the worst point. The position of the RAB Special Situations Master Fund portfolio was in fact reasonably comfortable (in comparison to the market) and in total, profits of \$190m were made by winners, while losers cost us \$200m, although most of these losses were mark to market and not realized.

In the third quarter of 2006, the NAV experienced a moderate decline. In a replay of the summers of 2004 and 2005, a world wide conviction that commodity prices were about to experience heavy falls led to severe under performance of mining and energy shares, particularly among the smaller stocks in which the portfolio specialises. Even major shares such as BP, Rio Tinto, and BHP were down, despite record cashflows and metals prices still near their highs. Nevertheless, we believed the market to be too pessimistic and saw a buying opportunity for energy and especially metals shares.

After this challenging summer period, the net asset value of the Company recovered and performed well again in the final quarter, against some still negative moves in commodity markets. In particular copper fell 19% while the oil price was also notably soft. The portfolio's positions in uranium mining companies were significant contributors to performance in the fourth quarter, as flooding at Cameco's Cigar Lake project effectively removed the world's largest new source of uranium supply for 2008, while demand from the global utility companies continued to increase. For the year as a whole we were encouraged that we strongly outperformed the AIM 100 Index on which many of our investments are listed, this being down 8% against our +26.6% performance.

In total the team now numbers around 17 people, including six lawyers, five analysts and a trader with support. The increase in size of the Master Fund's capital has hugely improved our bargaining power when negotiating very cheap entries into our investments. Second only to actual investment selection, we believe that the most important way to generate Alpha is by buying cheaply, with associated structuring by our legal team, putting us ahead of the ordinary equity in the capital structure and gaining increased leverage through free warrants.

Profits for the Master Fund over the year totalled \$670m, while losses cost us \$238m, which is a ratio of 2.8 to 1. Sadly our two largest holdings, Oxus Gold and Global Coal Management (formerly Asia Energy) lost \$85m (or 12% of the Master Fund's starting NAV) between them due to extreme local political difficulties, which can be judged partly by the fact that people were shot in both locations. We have bought more of both stocks and believe we will make good returns in the future. We have also invested more in Falkland Oil & Gas and Falkland Gold & Minerals, both of which were large positions that also lost us money in the year. Without these few losers our win/loss ratio would have been nearly 5 to 1. In total 468 stocks made money against 181 stocks which lost. Clearly this was a year that fully justified our investment in such a broad portfolio. Furthermore, because AIM was so weak, we had fewer IPOs from our private equity portfolio than in previous years and these contributed only around a tenth of our total profits. Consequently we would hope for a greater contribution from the private equity portfolio, which is now 25% of the total, in 2007 and 2008.

Looking ahead to the long-term future, we believe that the external driving factors of the natural resources boom remain intact, as the twin themes of industrialisation and urbanisation in Asia will continue to drive demand. A good example of how urbanisation will inevitably lead to demand outstripping supply for metals is the staggering expansion of the Chinese railway system. The Chinese Government has estimated that they will spend \$80.4 billion on civil-engineering works, \$77.3 billion on rail infrastructure and \$32.1 billion on locomotives and rolling stock in the next five years alone. We intend to exploit these phenomena systematically in a Western company framework.

Over the first four months of 2007 the basic net asset value of the Company has made good progress, increasing by 15.08%. Our whole team thank both existing investors and new investors for their confidence in the Company.

PHILIP RICHARDS

RAB Capital plc
8 May 2007

Directors

Quentin Spicer (Chairman)

Mr Spicer is aged 62 and 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, European Value and Income Fund Limited, Atlas Estates Limited, South African Property Opportunities PLC and is also a non-executive director of several other funds.

Peter Hodson

Mr Hodson is aged 54 and joined the Board in May 2005. He qualified as a solicitor with Hyman Isaacs Lewis & Mills (now Beachcroft Starkys) 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. He has had almost twenty years' experience in fiduciary services, including roles with Standard Chartered Bank and Bank of Bermuda.

Christopher Wetherhill

Mr Wetherhill is aged 58 and joined the Board in May 2005. He founded and was chief executive officer of Hemisphere Management Limited (now renamed BISYS Hedge Fund Services Limited), 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 Bermudan Institutes of Chartered Accountants, a Fellow of the Institute of Directors and a Freeman of the City of London. He is a Bermudan resident and is a non-executive director of investment companies of several jurisdictions.

Nicholas Wilson

Mr Wilson is aged 61 and joined the Board in May 2005 and has over 30 years' experience in hedge funds and derivatives. He is non-executive chairman of Alternative Investment Strategies Limited, the longest running quoted fund of hedge funds and a constituent of the FTSE All Share Index. In addition, he sits on the boards of a number of other public companies. He is resident in the Isle of Man.

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 December 2006.

Status and activities

The Company is a closed-ended investment company registered under the provisions of the Companies (Guernsey) Law, 1994.

The Company was incorporated in Guernsey on 18 April 2005. Its securities began trading on the Alternative Investment Market ("AIM") of 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.

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 page 12. The Company made a revenue loss for the year of 0.56p (2005: 0.43p) per Ordinary Share and a capital gain of 41.89p (2005: 29.44p) 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 (2005: nil).

Net Asset Value Per Ordinary Share

At the year end the net assets of the Company were £94,010,523 (2005: £49,506,209) and the net asset value per Ordinary Share was 156.68p (2005:123.77p).

Fixed asset investments

The Company's sole investment as at 31 December 2006 was in the Sterling class of RAB Special Situations (Master) Fund Limited. The market value of the Company's investment as at 31 December 2006 was £99,499,076 (2005: £52,204,957), showing an unrealised gain at the year end of £42,478,623 (2005: £14,938,153) against book cost.

Authority to buy-back Ordinary Shares

Pursuant to the authority granted at the Annual General Meeting held on 12 July 2006, 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.

A further resolution enabling the Company to purchase up to 10% of the Ordinary Shares in issue and hold them as treasury shares will be proposed at the forthcoming Annual General Meeting. The ability for Guernsey registered companies to make use of the treasury share facility has only become possible since May 2006, following the introduction of The Companies (Purchase of Own Shares) (Treasury Shares) Ordinance 2006. By proposing these measures your Board is expressing its desire to have the ability to exert a positive influence, as and when deemed appropriate, over the level of discount to net asset value, at which the Ordinary Shares trade. It is hoped that shareholders will support these proposals.

Taxation

The Company has been granted exemption from Guernsey taxation under the terms of the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 so that the Company is exempt from Guernsey taxation on income arising outside Guernsey and bank interest receivable in Guernsey. The Company is therefore only liable to a fixed fee of £600 per annum.

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 (previously Collins Stewart Fund

Report of the Directors (continued)

Management Limited (see below)) (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 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.

Material Contracts

Originally the Company's material contracts were with Collins Stewart Fund Management Limited ("CSFM"), which acted as Administrator for the Company, RAB Capital plc, which acts as Investment Adviser, Collins Stewart (CI) Limited, which acts as Custodian, Capita Registrars (Guernsey) Limited (*formerly Capita IRG (CI) Limited*), which acts as Registrar and Bank of Scotland, the Company's principal bankers. However, during the year your Board was advised by Collins Stewart Tullett plc ("Collins Stewart") of its intention to withdraw from the provision in Guernsey of administration services and fund structures, and that it was negotiating to sell substantially all of the business of CSFM to a new fund management/administration business to be set up by the former management team of CSFM.

On 20 October 2006 Elysium Fund Management Limited ("Elysium") purchased substantially all of the business of CSFM. The former management team and staff of CSFM have transferred to Elysium and your Board has been informed that there will continue to be a close working arrangement between Collins Stewart and Elysium. On 30 November 2006 the Board agreed, in the interests of continuity and to minimise any disruption to the Company's activities, to novate the Administration Agreement previously held with CSFM. The terms of the Administration Agreement remain unchanged from those with CSFM. All of the previous fee arrangements for these services and the role of RAB Capital plc as Investment Manager remain unaffected by these changes.

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.

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 provides 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.

Appointment of the Investment Manager

The Directors believe that RAB Capital plc has performed creditably during the year ended 31 December 2006. In the opinion of the Directors it is in the interests of Shareholders as a whole to retain the services of RAB Capital plc.

Report of the Directors (continued)

Appointment of the Administrator

The Directors believe that Elysium Fund Management Limited performed creditably since its appointment and, 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 4. At 31 December 2006 the Directors' interests in the Ordinary Shares and Warrants of the Company were as follows:

	<i>Ordinary Shares</i>	<i>B Warrants</i>
Quentin Spicer	37,500	12,500
Peter Hodson	–	–
Christopher Wetherhill	75,000	25,000
Nicholas Wilson	–	–

Substantial Shareholdings

On 30 April 2007 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>		
AP Pension	11,050,000	18.42
Kommenernes Pensionsforsikring	9,200,000	15.33
Credit Suisse	3,885,000	6.48
JP Morgan	3,000,000	5.00

Going Concern

After making reasonable enquiries, 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. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Future Prospects

The Directors are reasonably confident that the good performance of the Company can be maintained over the coming year. Further details are given in the Chairman's Statement and 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

On 6 January 2006 RSM Robson Rhodes resigned as auditors and RSM Robson Rhodes (Jersey) Limited were appointed to fill the vacancy. Following the year end RSM Robson Rhodes (Jersey) Limited tendered their resignation and RSM Robson Rhodes (Guernsey) Limited were appointed to fill the vacancy. RSM Robson Rhodes (Guernsey) Limited have expressed their willingness to act as Auditors to the Company and a resolution for their appointment 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 new Combined Code published by the Financial Reporting Council (the "2005 FRC Code"). The Directors, however, 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 2005 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.

Report of the Directors continued

A.3.3 The Chairman, Mr Spicer, is the senior non-executive Director. This is not in accordance with provision A3.3 of the 2005 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.

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 a director of four entities managed by the Investment Manager (see note 19). 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.

Since all the Directors are non-executive, the Company is not required to state how it applied B.1 to B.3 of the 2005 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)

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	7/7	2/2	1/1	1/1
Peter Hodson	5/7	2/2	1/1	1/1
Christopher Wetherhill	3/7	1/1	1/1	1/1
Nicholas Wilson	6/7	2/2	1/1	1/1

Dialogue With Shareholders

The Directors are always available to enter into dialogue with shareholders. All Ordinary Shareholders will 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 as to meetings it 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 Fund Management Limited 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.

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.

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 debtors and creditors 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 price, interest rate and liquidity risks. Further details are given in note 20 to the financial statements.

Directors' Responsibilities

The Directors are responsible for preparing financial statements for each financial period which give a true and fair view of the state of affairs of the Company for that period and are in accordance with applicable laws. 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;

Report of the Directors continued

- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 1994. 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.

Signed on behalf of the Board of Directors

QUENTIN SPICER

Director

8 May 2007

NICHOLAS WILSON

Director

8 May 2007

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

We have audited the financial statements on pages 12 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's shareholders as a body, in accordance with Section 64 of the Companies (Guernsey) Law, 1994. Our audit work has been undertaken so that we might state to the Company's 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable Guernsey Law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Report of the Directors under the heading of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies (Guernsey) Law, 1994.

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 United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies (Guernsey) Law, 1994.

RSM ROBSON RHODES (GUERNSEY) LIMITED

Chartered Accountants
Guernsey, C.I.

8 May 2007

Income Statement

for the year ended 31 December 2006

	Notes	Revenue 2006 £'000	Capital 2006 £'000	Total 2006 £'000	Revenue 2005 (8 months) £'000	Capital 2005 (8 months) £'000	Total 2005 (8 months) £'000
Gains on investments	3	–	28,844	28,844	–	15,005	15,005
Income	4	15	–	15	4	–	4
Investment Management fee	5	–	(1,651)	(1,651)	–	(522)	(522)
Performance fee	5	–	(5,385)	(5,385)	–	(2,707)	(2,707)
Administration fee	5	(100)	–	(100)	(59)	–	(59)
Other expenses	6	(209)	–	(209)	(116)	–	(116)
Net return on ordinary activities for the year/period		(294)	21,808	21,514	(171)	11,776	11,605
Return per Ordinary Share: basic and fully-diluted	9	(0.56)p	41.89p	41.33p	(0.43)p	29.44p	29.01p

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.

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 2006

	Share capital £'000	Share premium £'000	Special distributable reserve £'000	A Warrant reserve £'000	B Warrant reserve £'000	Revenue reserve £'000	Capital reserve £'000	Total £'000
At 1 January 2006	400	–	35,849	804	848	(171)	11,776	49,506
Warrant conversion	200	23,594	–	(804)	–	–	–	22,990
Return for the year	–	–	–	–	–	(294)	21,808	21,514
At 31 December 2006	600	23,594	35,849	–	848	(465)	33,584	94,010

For period from 18 April 2005 to 31 December 2005

	Share capital £'000	Share premium £'000	Special distributable reserve £'000	A Warrant reserve £'000	B Warrant reserve £'000	Revenue reserve £'000	Capital reserve £'000	Total £'000
At 18 April 2005	–	–	–	–	–	–	–	–
Net proceeds of placing	400	35,849	–	804	848	–	–	37,901
Cancellation of share premium	–	(35,849)	35,849	–	–	–	–	–
Return for the period	–	–	–	–	–	(171)	11,776	11,605
At 31 December 2005	400	–	35,849	804	848	(171)	11,776	49,506

The accompanying notes on pages 15 to 22 form an integral part of the financial statements.

Balance Sheet

as at 31 December 2006

	Notes	2006 £'000	2005 £'000
Fixed assets			
Investments at fair value through profit or loss	10	99,499	52,205
Current assets			
Prepayments		22	18
Cash at bank	17	88	118
		110	136
Creditors – amounts falling due within one year			
Creditors	11	(5,599)	(2,835)
Net current liabilities			
		(5,489)	(2,699)
Net assets			
		94,010	49,506
Share capital and reserves			
Called-up share capital	12	600	400
Share premium	14	23,594	–
Special distributable reserve	14	35,849	35,849
A Warrant reserve	14	–	804
B Warrant reserve	14	848	848
Revenue reserve		(465)	(171)
Capital reserve		33,584	11,776
Total shareholders' funds attributable to equity interests			
		94,010	49,506
Net asset value per Ordinary Share: <i>basic and fully-diluted</i>			
	15	156.68p	123.77p

These financial statements on pages 12 to 22 were approved by the Board of Directors on 8 May 2007.

Signed on behalf of the Board

QUENTIN SPICER

Director

8 May 2007

NICHOLAS WILSON

Director

8 May 2007

The accompanying notes on pages 15 to 22 form an integral part of the financial statements.

Cash Flow Statement

for the year ended 31 December 2006

	<i>Notes</i>	2006 £'000	2005 (8 months) £'000
Net cash outflow from operating activities	16	(4,570)	(583)
Servicing of finance		–	–
Investing activities			
Purchase of investments	<i>10</i>	(22,400)	(37,500)
Sale of investments	<i>10</i>	3,950	300
Net cash outflow from investing activities		(18,450)	(37,200)
Equity dividends paid		–	–
Cash outflow before financing		(23,020)	(37,783)
Financing activities			
Proceeds from issue of Ordinary Shares and Warrants		23,000	40,000
Formation expenses and listing fees paid		(10)	(2,099)
Net cash inflow from financing		22,990	37,901
Decrease/increase in cash in the year/period	17	(30)	118

The accompanying notes on pages 15 to 22 form an integral part of the financial statements.

Notes to the Financial Statements

for the year ended 31 December 2006

1. Accounting policies

The accounting policies, all of which have been applied consistently throughout the year in the preparation of the Company's financial statements, are set out below:

a) Accounting convention

The financial statements have been prepared under the historical cost convention, as modified by the inclusion of investments at fair value, and in accordance with applicable United Kingdom accounting standards and the revised Statement of Recommended Practice ("SORP"), for Financial Statements of Investment Trust Companies, issued in December 2005.

b) Income

Bank interest is accounted for on an accruals basis.

c) 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) expenses which are incidental to the acquisition or disposal of an investment are charged through the Income Statement to the capital reserve;
- (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.

d) Capital reserve

The following are 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 Association preclude it from distributing capital profits.

e) Transaction costs

Transaction costs incurred on the acquisition or disposal of an investment are charged through the Income Statement to the capital reserve in the period in which they are incurred.

f) Investments

Classification

The Company's business is investing 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".

Notes to the Financial Statements (continued)

for the year ended 31 December 2006

1. Accounting policies (continued)

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 (see note 1e). Subsequent to initial recognition, all fair value through profit or loss assets are measured at fair value with changes in value being recognised in 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.

g) Functional and presentational currency

The currency of the primary economic environment in which the Company operates (the functional currency) is pounds sterling ("Sterling"), which is also its presentational currency.

2. Taxation

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

3. Gains on investments

	2006	2005 (8 months)
	£'000	£'000
Realised gains on sales of investments	1,304	67
Movement in unrealised appreciation	27,540	14,938
	28,844	15,005

4. Income

	2006	2005 (8 months)
	£'000	£'000
Bank interest	15	4

Notes to the Financial Statements (continued)

for the year ended 31 December 2006

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 lower performance fee in certain periods (as was the case for the year ended 31 December 2006 and the period ended 31 December 2005), it is equally likely that the performance fee may be overpaid. 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 in respect of 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 after two years of its commencement.

Administration

Originally Collins Stewart Fund Management Limited ("CSFM") acted as Administrator for the Company. However, during the year your Board was advised by Collins Stewart Tullett plc ("Collins Stewart") of its intention to withdraw from the provision in Guernsey of administration services and fund structures, and that it was negotiating to sell substantially all of the business of CSFM to a new fund management/administration business to be set up by the former management team of CSFM.

On 20 October 2006 Elysium Fund Management Limited ("Elysium") purchased substantially all of the business of CSFM. The former management team and staff of CSFM have transferred to Elysium and your Board has been informed that there will continue to be a close working arrangement between Collins Stewart and Elysium. On 30 November 2006 the Board agreed, in the interests of continuity and to minimise any disruption to the Company's activities, to novate the Administration Agreement previously held with CSFM. The terms of the Administration Agreement remain unchanged from those with CSFM. All of the previous fee arrangements for these services and the role of RAB Capital plc as Investment Manager remain unaffected by these changes.

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 2006

6 Other expenses

	Revenue 2006	Capital 2006	Total 2006	Revenue 2005 (8 months)	Capital 2005 (8 months)	Total 2005 (8 months)
	£'000	£'000	£'000	£'000	£'000	£'000
Registrar fees	20	–	20	6	–	6
Nominated broker's fees	35	–	35	20	–	20
Auditors' remuneration	8	–	8	5	–	5
Directors' remuneration (note 7)	80	–	80	47	–	47
Other expenses	66	–	66	38	–	38
	209	–	209	116	–	116

7 Directors' remuneration

	2006	2005 (8 months)
	£'000	£'000
Quentin Spicer	23	14
Peter Hodson	19	11
Christopher Wetherhill	19	11
Nicholas Wilson	19	11
	80	47

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 (2005: nil). The Directors do not propose the payment of a final dividend (2005: nil).

9 Return per Ordinary Share

Basic

The basic return per Ordinary Share is based on a net gain of £21,513,793 (2005: £11,604,919) and on a weighted average number of 52,054,795 (2005: 40,000,000) Ordinary Shares in issue throughout the year. The revenue return per Ordinary Share is based on a net deficit of £293,533 (2005: £171,185) and on a weighted average number of 52,054,795 (2005: 40,000,000) Ordinary Shares in issue throughout the year. The capital gain per Ordinary Share is based on the net capital gain of £21,807,326 (2005: £11,776,104) and on a weighted average number of 52,054,795 (2005: 40,000,000) Ordinary Shares in issue throughout the year.

Fully-diluted

At 31 December 2006 the price of the Ordinary Shares was 129.00p (2005: 106.50p). Although in the year to 31 December 2006 the share price exceeded the exercise price of B Warrants, none were converted to Ordinary shares. As the average price of the Ordinary Shares during the year was less than the exercise price of the B Warrants there was no dilution in the return per Ordinary Share.

Notes to the Financial Statements (continued)

for the year ended 31 December 2006

10. Investments at fair value through profit or loss

	2006	2005 (8 months)
	£'000	£'000
Opening valuation	52,205	–
Purchases at cost	22,400	37,500
Sales – proceeds	(3,950)	(300)
– realised gain on sale of investment	1,304	67
Movement in unrealised appreciation	27,540	14,938
Closing valuation	99,499	52,205
Closing book cost	57,020	37,267
Closing unrealised appreciation	42,479	14,938
Closing valuation	99,499	52,205

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 2006 the Sterling class accounted for 11.64% (2005: 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 in respect of its role as investment manager of the Master Fund in respect of the Company's shareholding in the Master Fund.

11. Creditors – amounts falling due within one year

	2006	2005
	£'000	£'000
Investment management fee	165	86
Performance fee	5,385	2,707
Administration fee	8	8
Directors' fees	24	16
Other creditors	17	18
	5,599	2,835

12. Share capital

	2006	2005
	£'000	£'000
<i>Authorised:</i>		
300,000,000 Ordinary Shares of 1p	3,000	3,000
<i>Allotted, called up and fully paid 1 January 2006:</i>		
40,000,000 Ordinary Shares of 1p	400	400
<i>Issued during the year:</i>		
20,000,000 Ordinary Shares of 1p	200	–
<i>Allotted, called up and fully paid 31 December 2006:</i>		
60,000,000 Ordinary Shares of 1p	600	400

On 23 May 2006 trading on AIM was temporarily suspended prior to A Warrant holders exercising their rights to subscribe for Ordinary Shares of 1p each. All 20,000,000 A Warrants were fully exercised at 115p per share raising £23,000,000 (see note 13).

Notes to the Financial Statements (continued)

for the year ended 31 December 2006

13. Warrants

At the placing on 31 May 2005, for each Ordinary Share received the subscriber also received one half A Warrant and one half B Warrant.

	<i>Exercise price pence</i>	<i>End of subscription period</i>	<i>Allotted</i>
A Warrants	115.0	23 May 2006	20,000,000
B Warrants	130.0	23 May 2007	20,000,000

Accelerated Call Feature

If the mid-market price on AIM as shown by Bloomberg is 170p or more, in the case of the B Warrants, for any 20 or more trading days out of a period of 30 consecutive trading days, the Company shall become entitled, at the close of AIM on the thirtieth consecutive trading day, to give notice to the relevant holders of B Warrants (the "Call Notice").

The Call Notice must be sent in writing by the Company to the relevant holders within two trading days of the thirtieth consecutive trading day, stating that the Company is giving the holder 21 days from the date of the Call Notice to exercise the call feature under the relevant Warrants at the subscription price. If a holder fails to respond (an election to exercise the option accompanied by the relevant remittance) to the Company within 21 days from the date of the Call Notice, all rights of the holder under those Warrants will lapse.

Each Warrant is entitled on exercise, to one Ordinary Share of the Company at the relevant exercise price. However, this may be adjusted, from time to time.

At no time prior to the expiry period of the A Warrants (23 May 2006) did the mid-market price on AIM as shown by Bloomberg reach 150.00p. At no time during the year to 31 December 2006 did the mid-market price on AIM as shown by Bloomberg reach 170.00p

During the year all 20,000,000 A Warrants were fully exercised at 115.0p per Share, raising £23,000,000. Following the expiry of the A Warrants on 23 May 2006 warrant holders exercised their rights to subscribe for a total of 18,295,787 Ordinary Shares of 1p each. A total of 1,704,213 A Warrants remained unexercised following the final subscription date of 23 May 2006 and, in accordance with the warrant instrument, The Law Debenture Trust Corporation plc were appointed to act as warrant trustee in respect of the remaining A Warrants.

For full details of the rights of the Warrants, please see the Admission Document or contact the Administrator.

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.

Notes to the Financial Statements (continued)

for the year ended 31 December 2006

15. Net asset value per Ordinary Share*Basic*

The net asset value per Ordinary Share is based on the net assets attributable to equity Shareholders of £94,010,523 (2005: £49,506,209) and on 60,000,000 (2005: 40,000,000) Ordinary Shares in issue at the end of the year.

Fully-diluted

As the average price of the Ordinary Shares 124.34p (2005: 106.50p) was below the exercise price of the B Warrants (exercise price of 130.0p) there was no dilution in the net asset value per Ordinary Share.

The Association of Investment Companies ("AIC") suggest that dilution is calculated when the net asset value of the share rises above the exercise price. However, as the average share price was 5.66p (2005: 8.5p) below the exercise price it would have been extremely unlikely that any warrant would have been exercised as it would have been cheaper to purchase an Ordinary Share in the market. Consequently, in these financial statements the dilution has been based on the share price per Ordinary Share and not the net asset value.

Net asset value reconciliation

The difference between the estimated net asset value as at 31 December 2006 of 155.45p (2005: 121.93p) (announced on 4 January 2007) and the audited net asset value of 156.68p (2005: 123.77p) (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).

16. Reconciliation of net return to net cash inflow from operating activities

	2006 £'000	2005 (8 months) £'000
Net revenue return before finance costs and taxation	21,514	11,605
Gains on investments	(28,844)	(15,005)
Increase in prepayments	(4)	(18)
Increase in other creditors and accruals	2,764	2,835
Net cash outflow from operating activities	(4,570)	(583)

17. Reconciliation of net cash flow to net debt

	At 1 January 2006 £'000	Cash Flow £'000	At 31 December 2006 £'000
Cash at bank and in hand	118	(30)	88
Total	118	(30)	88

18. Capital commitments

All contracted capital commitments have been provided for.

Notes to the Financial Statements (continued)

for the year ended 31 December 2006

19. Related parties

Details of the relationship between the Company, RAB Capital plc, Elysium Fund Management Limited and Collins Stewart Europe Limited are disclosed in the Report of the Directors.

Details of the investment management, performance and administration fees are disclosed in note 5. In addition, up to 5 April 2007, Collins Stewart Europe Limited was paid an annual fee of £35,000 to act as Nominated Adviser and broker to the Company. The Company appointed KBC Peel Hunt Limited ("KBC") as Nominated Advisor and KBC and Winterflood Securities Limited as joint brokers with effect from 5 April 2007.

Mr Wetherhill is a non-executive director of RAB Partners Limited, a wholly owned subsidiary of RAB Capital plc, and three other entities (RAB Europe Fund Limited, RAB European High Yield Fund Limited and RAB Special Situations Fund Limited) managed by RAB Capital plc.

At 31 December 2006 RAB Capital plc held 1,206,213 (2005: 2,704,000) Ordinary Shares, 0 (2005: 5,400,000) A Warrants and 0 (2005: 5,400,000) B Warrants.

The Directors are not aware of any ultimate controlling party.

20. 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 (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's only investment is 454,914.24 (2005: 372,668.04) units in the Master Fund. In addition, the Company holds cash and liquid resources as well as having debtors and creditors that arise directly from its operations. The Company's financial assets are all held at fair value.

The main risks arising from the Company's financial instruments are market price risk, interest rate risk, liquidity risk.

Market price risk

The Company's exposure to market 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 market 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.

A 10% increase/decrease in the market price of the Sterling Cell of the Master Fund would have resulted in a 10.58% (2005:10.55%) increase/decrease in the net asset value per Ordinary Share as at the balance sheet date.

Interest rate risk

The Company finances its operations through a mixture of shareholders' capital and retained returns. With the exception of the cash at bank, which receives interest at a floating rate, all assets and liabilities of the Company are non-interest bearing. No further interest rate risk disclosure has been provided as all the material amounts, with the exception of the cash at bank, are non-interest bearing.

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. 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.

Risk Warning

No assurance can be given that Shareholders will realise a profit or will avoid a loss on their investment. The Ordinary Shares and Warrants 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 Warrants and that there may be limited liquidity in both the Ordinary Shares and the Warrants 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 and the Warrants 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") 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 subject to random price fluctuations, rather than defined trends or patterns, 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 which 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 whom 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,

Risk Warning (continued)

"bid-ask" 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. Finally, 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 NAV 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, would not 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 and Warrants 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 or Warrants.

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 NAV 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 lower performance fee in certain periods (as was the case for the period ended 31 December 2005 and the year ended 31 December 2006 and the period ended 31 December 2005), it is equally likely that the performance fee may be overpaid. 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 NAV 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 Manger 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.

Risk Warning (continued)

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 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 second ANNUAL GENERAL MEETING of RAB SPECIAL SITUATIONS COMPANY LIMITED will be held at No.1 Le Truchot, St Peter Port, Guernsey GY1 3JX on 17 July 2007 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 2006.

Ordinary Resolution 2

To appoint RSM Robson Rhodes (Guernsey) Limited as Auditors and to authorise the Directors to agree their remuneration.

Ordinary Resolution 3

To re-elect Nicholas Wilson, who offers himself for re-election, as a Director.

As special business:

Ordinary Resolution 4

That the Company be and is hereby generally and unconditionally authorised in accordance with The Companies (Purchase of Own Shares) Ordinance 1998 to make market purchases, as defined in that Ordinance, 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 8,994,000;
- (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 2008, 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.

Ordinary Resolution 5

That the aggregate remuneration of all Directors be increased from £100,000 to £200,000 per annum.

Special Resolution 1

That Article 4 of the Company's Articles of Association be amended to include:

4.19 The Company may hold any shares purchased by it as treasury shares in accordance with The Companies (Purchase of Own Shares) (Treasury Shares) Ordinance, 2006, as amended from time to time.

By order of the Board
ELYSIUM FUND MANAGEMENT LIMITED
Secretary
8 May 2007

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 Association.

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 17 July 2007 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
Ordinary Resolution 1 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 2006.			
Ordinary Resolution 2 To appoint RSM Robson Rhodes (Guernsey) Limited as Auditors and to authorise the Directors to agree remuneration.			
Ordinary Resolution 3 To re-elect Nicholas Wilson, who offers himself for re-election as a Director.			
Ordinary Resolution 4 To authorise the Company to buy back its own shares.			
Ordinary Resolution 5 That the aggregate remuneration of all Directors be increased from £100,000 to £200,000 per annum.			
Special Resolution 1 To amend the Company's Articles of Association to allow it to hold treasury 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
P O 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
Landes du Marché Chambers
Vale
Guernsey
GY1 3TY

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 Limited
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

RSM Robson Rhodes (Guernsey) Limited
Anson Court
La Route des Camps
St Martin
Guernsey
GY1 3TF

Legal Advisers to the Company

English Law

Norton Rose
Kempson House
Camomile Street
London
England
EC3A 7AN

Guernsey Law

Carey Olsen
7 New Street
St Peter Port
Guernsey
GY1 4BZ

