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# RAB

Special Situations  
Company Limited

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Unaudited Half-Yearly Report and Financial Statements  
for the period ended 30 June 2009

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

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

REGISTERED IN GUERNSEY No. 43060

## 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"). Although the Investment Policy, as stated in the AIM Admission Document, provides for investing (including taking short positions) any remaining assets directly in a wide range of securities and other instruments, the Company has not done so in the past and is unlikely to do so to any significant extent in the immediate future.

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

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

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

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

## Chairman's Statement

I am pleased to present to Shareholders the unaudited Half-Yearly Report and Financial Statements of RAB Special Situations Company Limited (the "Company") for the six months ended 30 June 2009.

During the period, 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 the RAB Special Situations (Master) Fund Limited (the "Master Fund").

### Investment

The investment strategy of the Master Fund remains the same as for previous years and the Master Fund continues to invest in assets of global significance, as determined by the Investment Manager. The focus of investment has been investing in natural resources and there has been no further investment in unlisted equity.

In this difficult economic environment, valuation of the Master Fund's unlisted investments has been particularly challenging. With this in mind, the quarterly valuations meetings undertaken by the Valuation Committee of the Master Fund have been increased to monthly, with impairment reviews of investments being aggressively managed.

### Results and Share Price

Although the first half of this year has not been without difficulty, the basic net asset value ("NAV") per Ordinary Share fell by only 2.55p during the period to 39.84p, equating to a fall of 6.02%.

Over the same period, the Ordinary Share price increased by 12.25p to 31.25p, an impressive recovery of 64.47% from 31 December 2008, resulting in a narrowing of the discount of the share price to net asset value from 55.18% at 31 December 2008 to 21.56% at 30 June 2009. This share price performance is significantly better than the FTSE AIM All Share Index, which grew by 34.47% during the six-month period to 30 June 2009, and was undoubtedly assisted by the purchase of shares by RAB Capital plc.

Since 30 June 2009, the basic net asset value per Ordinary Share has risen to an estimated 42.60p as at 13 August 2009. However the share price has fallen to 27.00p, giving a discount of the share price to net asset value of 36.62% at 13 August 2009.

### Internal Review

As part of the continual monitoring of the Company's costs, the Board has re-examined the contracts agreed with a number of service providers to identify if any significant savings can be made without a reduction to the level of service that the Board expect.

### Outlook

Although market forecasters are divided as to what the remainder of 2009 has in store, I am hopeful that the aggressive write-downs of investment values in the Master Fund to date will limit any falls in the Company's NAV in the second half of 2009.

**QUENTIN SPICER**

20 August 2009

## Performance

|  | Basic<br>NAV<br>pence | Fully-diluted<br>NAV <sup>(1)</sup><br>pence | Ordinary<br>Share price<br>(mid)<br>pence | A Warrant<br>price (mid)<br>pence | B Warrant<br>price (mid)<br>pence | FTSE AIM<br>All-Share<br>Index |
|--|-----------------------|--|---|-----------------------------------|-----------------------------------|--------------------------------|
| 31 May 2005 (launch) <sup>(2)</sup>                | 94.75 <sup>(3)</sup>  | 94.75 <sup>(3)</sup>                         | 95.64                                     | 2.12                              | 2.24                              | 957.60                         |
| 31 December 2005                                   | 123.77                | 123.77                                       | 106.50                                    | 3.75                              | 8.63                              | 1,046.10                       |
| 30 June 2006                                       | 143.81                | 143.81                                       | 123.00                                    | n/a <sup>(4)</sup>                | 18.00                             | 1,080.40                       |
| 31 December 2006                                   | 156.68                | 156.68                                       | 129.00                                    | n/a                               | 8.00                              | 1,054.60                       |
| 30 June 2007                                       | 170.37                | 170.37                                       | 152.75                                    | n/a                               | n/a <sup>(5)</sup>                | 1,216.40                       |
| 31 December 2007                                   | 157.13                | 157.13                                       | 129.50                                    | n/a                               | n/a                               | 1,049.10                       |
| 30 June 2008                                       | 120.99                | 120.99                                       | 98.00                                     | n/a                               | n/a                               | 961.10                         |
| 31 December 2008                                   | 42.39                 | 42.39  | 19.00                                     | n/a                               | n/a                               | 394.32                         |
| 30 June 2009                                       | 39.84                 | 39.84  | 31.25                                     | n/a                               | n/a                               | 530.23                         |
| 31 July 2009                                       | 41.47                 | 41.47  | 28.00                                     | n/a                               | n/a                               | 542.04                         |
| Percentage decrease/increase<br>in the period      | -6.02%                | -6.02%                                       | 64.47%                                    | n/a                               | n/a                               | 34.47%                         |
| Percentage increase from<br>launch to 30 June 2009 | -57.95%               | -57.95%                                      | -67.33%                                   | n/a                               | n/a                               | -44.63%                        |

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

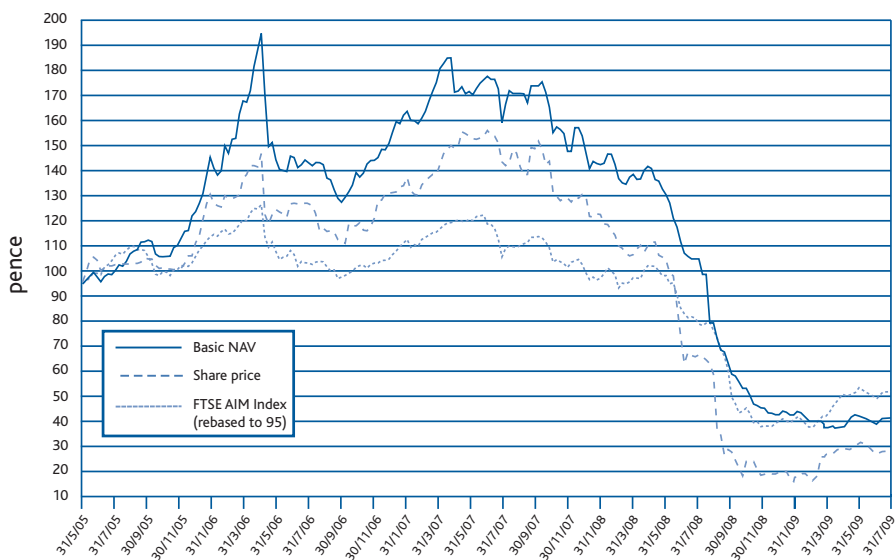
<sup>(2)</sup> The 100p launch price of the Ordinary Shares and Warrants was allocated in the ratio of the closing price of each on the day of admission to trading.

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

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

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

## NAV/Share Price Performance



## Investment Manager's Report to 30 June 2009

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

In the first six months of 2009 the Company returned -5.9%, based on the published net asset value per share. Global financial markets enjoyed an extended rally from the lows of March and the Bloomberg World Mining Index returned 40.6% over the same period. However, the general improvement in sentiment had little impact on many of the smaller capitalisation and private equity investments held by the Master Fund.

In spite of this, the Master Fund capitalised on the stability provided by the lock-up of two feeder funds late last year by improving the liquidity profile of the Master Fund. As at 30 June, publicly listed investments accounted for 54% of the gross asset value of the Master Fund and unlisted investments 51%. These compare with 35% and 71% respectively at the start of 2009. This change is reflected in the performance of the two sub-portfolios. Since the beginning of the year the unlisted portfolio has contributed -25.63%, whereas the listed portfolio has contributed +23.76% of the gross return of the Master Fund exclusive of foreign exchange effects.

The Master Fund has also focused on managing its debt position and has worked to reduce its exposure from \$31.4 million at the beginning of the year to \$23.3 million as of 30 June. This represents a leverage reduction from 6.3% of gross asset value to 4.9%. Indeed the Master Fund's debt position would be further reduced if the US dollar hadn't fallen away against the other major currencies given that the Master Fund holds most of its debt in Sterling and the Canadian dollar in order to match its assets.

As of 30 June 2009 approximately three quarters of the portfolio consisted of natural resources companies with a pre-production development bias and the remainder comprised investments in development opportunities across a number of other sectors.

The Chinese stimulus-fuelled recovery, which has breathed fresh life into the share prices of the larger global resources companies in the first half, continued to gain momentum with strong government fixed asset investment and domestic credit expansion offsetting declines in private investment and external demand. There was also evidence near the end of the first half that ex-China, restocking was having some impact. The West will be constrained by high debt for the foreseeable future and although China alone cannot drive a sustainable recovery in industrial metal prices, Asia probably can, supported by supply shortages in the mid-to-long term.

## Investment Manager's Report to 30 June 2009 (continued)

The Manager is of the opinion that global recovery will be a long and drawn out affair. The improved market mood in the first half holds out the prospect for the Master Fund that M&A activity may revive in the mining and resources sector and eventually, as liquidity trickles down to junior markets, such as AIM, the IPO window will reopen. Potential exit routes such as these are an important means of extracting additional return for the Master Fund's portfolio of early stage companies.

On balance, with the proviso that patience will be needed, the opportunity set for the Master Fund and the recovery of latent value in its holdings, is starting to expand.

PHILIP RICHARDS

RAB Capital plc

22 July 2009

*Past performance is not a guide to future returns.*

*Returns, or any performance, cannot be guaranteed.*

## Directors' Responsibilities

The Directors are responsible for preparing these unaudited half-yearly financial statements, which have not been reviewed by an independent auditor, and are required to:

- prepare the unaudited half-yearly financial statements in accordance with International Accounting Standard 34: *Interim Financial Reporting*;
- include a fair review of important events that have occurred during the period and their impact on the unaudited half-yearly financial statements, together with a description of the principal risks and uncertainties of the Company for the remaining six months of the financial year as detailed in the Chairman's Statement; and
- include a fair review of related party transactions that have taken place during the period which have had a material effect on the financial position or performance of the Company, together with disclosure of any changes in related party transactions in the last annual financial statements which have had a material effect on the financial position or performance of the Company in the current period.

The Directors confirm that the unaudited half-yearly financial statements comply with the above requirements.

On behalf of the Board

QUENTIN SPICER  
Director

20 August 2009

## Directors

### Quentin Spicer (*Chairman*)

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

### Peter Hodson

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

### Christopher Wetherhill

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

### Nicholas Wilson

Mr Wilson joined the Board in May 2005 and has over 30 years experience in alternative asset management. He has established and run offshore branch operations for MeesPierson Derivatives Limited, ADM Investor Services International Limited and several other international brokerage companies. He is non-executive chairman of Alternative Investment Strategies Limited, the longest running London-quoted fund of hedge funds and a constituent of the FTSE All Share Index. He is a director of Epicure Qatar Equity Opportunities Plc and sits on the boards of a number of other public companies. He is a resident of the Isle of Man.

## Statement of Comprehensive Income

for the six months ended 30 June 2009 (unaudited)

|   | Notes | Six months ended 30 June 2009<br>(unaudited) |                  |                | Six months<br>ended<br>30 June<br>2008<br>(unaudited) | Year<br>ended<br>31 December<br>2008<br>(audited) |
|---|-------|--|------------------|----------------|---|---|
|   |       | Revenue<br>£'000                             | Capital<br>£'000 | Total<br>£'000 | Total<br>£'000  | Total<br>£'000                                    |
| <b>Profit and loss</b>                                      |       |  |                  |                |   |   |
| Losses on investments                                       | 5     | –  | (1,533)          | (1,533)        | (27,626)  | (89,779)  |
| Interest income   |       | –  | –                | –              | 8   | 11  |
| Investment management fee                                   | 6     | –  | (318)            | (318)          | (1,097)   | (1,616)   |
| Administration fee  | 6     | (50)   | –                | (50)           | (55)  | (105)   |
| Other expenses  | 7     | (140)  | –                | (140)          | (146)   | (305)   |
| <b>Net comprehensive loss for<br/>the period/year</b>       |       | <b>(190)</b>                                 | <b>(1,851)</b>   | <b>(2,041)</b> | <b>(28,916)</b>                                       | <b>(91,794)</b>                                   |
| <b>Loss per Ordinary Share:<br/>basic and fully-diluted</b> | 8     | <b>(0.24)p</b>                               | <b>(2.31)p</b>   | <b>(2.55)p</b> | <b>(36.14)p</b>                                       | <b>(114.74)p</b>                                  |

*These half-yearly financial statements are unaudited and are not the Company's statutory financial statements.*

*The revenue and capital columns represent supplementary information.*

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

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

*The accompanying notes on pages 12 to 18 form an integral part of the unaudited half-yearly financial statements.*

## Statement of Changes in Equity

for the six months ended 30 June 2009 (unaudited)

|  | Share<br>capital<br>£'000 | Share<br>premium<br>£'000 | Special<br>distributable<br>reserve<br>£'000 | Revenue<br>reserve<br>£'000 | Capital<br>reserve<br>£'000 | Total<br>£'000 |
|--|---------------------------|---------------------------|--|-----------------------------|-----------------------------|----------------|
| At 1 January 2009                        | 800                       | –                         | 86,091                                       | (1,234)                     | (51,743)                    | 33,914         |
| Net comprehensive loss<br>for the period | –                         | –                         | –  | (190)                       | (1,851)                     | (2,041)        |
| At 30 June 2009                          | 800                       | –                         | 86,091                                       | (1,424)                     | (53,594)                    | 31,873         |

for the six months ended 30 June 2008 (unaudited)

|  | Share<br>capital<br>£'000 | Share<br>premium<br>£'000 | Special<br>distributable<br>reserve<br>£'000 | Revenue<br>reserve<br>£'000 | Capital<br>reserve<br>£'000 | Total<br>£'000 |
|--|---------------------------|---------------------------|--|-----------------------------|-----------------------------|----------------|
| At 1 January 2008                        | 800                       | 50,242                    | 35,849                                       | (835)                       | 39,652                      | 125,708        |
| Net comprehensive loss<br>for the period | –                         | –                         | –  | (193)                       | (28,723)                    | (28,916)       |
| At 30 June 2008                          | 800                       | 50,242                    | 35,849                                       | (1,028)                     | 10,929                      | 96,792         |

for the year ended 31 December 2008 (audited)

|  | Share<br>capital<br>£'000 | Share<br>premium<br>£'000 | Special<br>distributable<br>reserve<br>£'000 | Revenue<br>reserve<br>£'000 | Capital<br>reserve<br>£'000 | Total<br>£'000 |
|--|---------------------------|---------------------------|--|-----------------------------|-----------------------------|----------------|
| At 1 January 2008                                    | 800                       | 50,242                    | 35,849                                       | (835)                       | 39,652                      | 125,708        |
| Re-designation of share<br>premium account (note 13) | –                         | (50,242)                  | 50,242                                       | –                           | –                           | –              |
| Net comprehensive loss<br>for the year               | –                         | –                         | –  | (399)                       | (91,395)                    | (91,794)       |
| At 31 December 2008                                  | 800                       | –                         | 86,091                                       | (1,234)                     | (51,743)                    | 33,914         |

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*The accompanying notes on pages 12 to 18 form an integral part of the unaudited half-yearly financial statements.*

## Statement of Financial Position

as at 30 June 2009 (unaudited)

|  | Notes | 30 June<br>2009<br>(unaudited)<br>£'000 | 30 June<br>2008<br>(unaudited)<br>£'000 | 31 December<br>2008<br>(audited)<br>£'000 |
|--|-------|---|---|---|
| <b>Non-current assets</b>  |       |   |   |   |
| Investments at fair value through profit or loss                             | 10    | 31,149                                  | 96,855                                  | 33,852                                    |
| <b>Current assets</b>  |       |   |   |   |
| Other receivables  |       | 34                                      | 25                                      | 14  |
| Cash and cash equivalents  |       | 811                                     | 153                                     | 348                                       |
|  |       | 845                                     | 178                                     | 362                                       |
| <b>Total assets</b>  |       | 31,994                                  | 97,033                                  | 34,214                                    |
| <b>Current liabilities</b>   |       |   |   |   |
| Other payables   | 11    | (121)                                   | (241)                                   | (300)                                     |
| <b>Total liabilities</b>   |       | (121)                                   | (241)                                   | (300)                                     |
| <b>Net assets</b>  |       | 31,873                                  | 96,792                                  | 33,914                                    |
| <b>Share capital and reserves</b>  |       |   |   |   |
| Called-up share capital  | 12    | 800                                     | 800                                     | 800                                       |
| Share premium  | 13    | –                                       | 50,242                                  | –   |
| Special distributable reserve  | 13    | 86,091                                  | 35,849                                  | 86,091                                    |
| Revenue reserve  | 13    | (1,424)                                 | (1,028)                                 | (1,234)                                   |
| Capital reserve  | 13    | (53,594)                                | 10,929                                  | (51,743)                                  |
| <b>Total Equity Holders' funds</b>   |       | 31,873                                  | 96,792                                  | 33,914                                    |
| <b>Net asset value per Ordinary Share:</b><br><i>basic and fully-diluted</i> | 14    | 39.84p                                  | 120.99p                                 | 42.39p                                    |

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*The accompanying notes on pages 12 to 18 form an integral part of the unaudited half-yearly financial statements.*

## Statement of Cash Flows

for the six months ended 30 June 2009 (unaudited)

|   |                 | <i>Six months<br/>ended<br/>30 June 2009<br/>(unaudited)<br/>£'000</i> | <i>Six months<br/>ended<br/>30 June 2008<br/>(unaudited)<br/>£'000</i> | <i>Year ended<br/>31 December<br/>2008<br/>(audited)<br/>£'000</i> |
|---|-----------------|--|--|--|
| <b>Net cash outflow from operating activities</b>       | <i>Notes</i> 15 | (537)  | (3,012)  | (3,837)  |
| <b>Investing activities</b>                             |                 |  |  |  |
| Proceeds received from sale of investments              | 10              | 1,000  | 2,850  | 3,870  |
| <b>Net cash inflow from investing activities</b>        |                 | 1,000  | 2,850  | 3,870  |
| <b>Increase/(decrease) in cash and cash equivalents</b> |                 | 463  | (162)  | 33   |
| Cash and cash equivalents brought forward               |                 | 348  | 315  | 315  |
| Increase/(decrease) in cash and cash equivalents        |                 | 463  | (162)  | 33   |
| <b>Cash and cash equivalents carried forward</b>        |                 | 811  | 153  | 348  |

*These half-yearly financial statements are unaudited and are not the Company's statutory financial statements.*

*The accompanying notes on pages 12 to 18 form an integral part of the unaudited half-yearly financial statements.*

## Notes to the Unaudited Half-Yearly Financial Statements

for the six months ended 30 June 2009 (unaudited)

### 1. General Information

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

The Company has elected to be an "authorised" closed-ended investment scheme under The Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended.

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

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

### 2. Statement of compliance

These unaudited half-yearly financial statements, which have not been reviewed by an independent auditor, have been prepared in accordance with International Accounting Standard 34: *Interim Financial Reporting*. They do not include all of the required information for full financial statements and should be read in conjunction with the Company's financial statements for the year-ended 31 December 2008.

The half-yearly financial statements were authorised for issuance by the Board of Directors on 20 August 2009.

### 3. Significant accounting policies

Except where detailed below these half-yearly financial statements have adopted the same accounting policies as the last audited financial statements which were prepared in accordance with International Financial Reporting Standards, issued by the International Accounting Standards Board, interpretations issued by the International Financial Reporting Interpretations Committee and applicable legal and regulatory requirements of Guernsey Law and reflect those policies, which have been adopted and applied consistently.

For periods beginning on or after 1 January 2009, the amendments to International Accounting Standard 1: *Presentation of Financial Statements* became mandatory for all entities preparing accounts under IFRS. Although the adoption of this amended standard has altered the appearance of the primary financial statements, there has been no impact on the substance of the financial statements.

### 4. Segmental reporting

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

## Notes to the Unaudited Half-Yearly Financial Statements (continued)

for the six months ended 30 June 2009 (unaudited)

### 5. Gains and losses on investments

|   | <i>Six months<br/>ended<br/>30 June<br/>2009<br/>(unaudited)<br/>£'000</i> | <i>Six months<br/>ended<br/>30 June<br/>2008<br/>(unaudited)<br/>£'000</i> | <i>Year<br/>ended<br/>31 December<br/>2008<br/>(audited)<br/>£'000</i> |
|---|--|--|--|
| <i>Investments designated at fair value through profit or loss:</i> |  |  |  |
| Realised (losses)/gains (note 10)                                   | (1,694)  | 1,043  | 976  |
| Movement in unrealised gains/(losses) (note 10)                     | 161  | (28,669)   | (90,755)   |
| Net losses on equity investments                                    | (1,533)  | (27,626)   | (89,779)   |

### 6. 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 2.00% 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 20.00% 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 Statement of Financial Position in the financial statements. This is due to the performance fee being payable within ten business days of the year-end (as per the Investment Management Agreement), before the final basic year-end net asset value becomes available. Whilst this may result in a higher performance fee in certain periods (as was the case for the year-ended 31 December 2007), it is equally likely that the performance fee may be underpaid (as was the case for

## Notes to the Unaudited Half-Yearly Financial Statements (continued)

for the six months ended 30 June 2009 (unaudited)

### 6. Investment Management and Administration (continued)

the year-ended 31 December 2006 and 31 December 2005). The performance fee will not be amended for any overpayment or underpayment in a period due to the use of the estimated net asset value instead of the actual net asset value. However, the opening net asset value/high watermark of the subsequent period will be based on the estimated year-end net asset value as applied in the performance fee calculation at the previous year-end.

The Investment Manager has discretion to waive and rebate all or part of the performance fee payable in relation to the Company. The Investment Manager does not receive a management or performance fee 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 by either party.

#### Administration

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

### 7. Other expenses

|                                     | Six months ended 30 June 2009<br>(unaudited) |                  |                | Six months<br>ended<br>30 June<br>2008<br>(unaudited) | Year<br>ended<br>31 December<br>2008<br>(audited) |
|-------------------------------------|--|------------------|----------------|---|---|
|                                     | Revenue<br>£'000                             | Capital<br>£'000 | Total<br>£'000 | Total<br>£'000  | Total<br>£'000                                    |
| Directors' remuneration             | 74   | –                | 74             | 74  | 148   |
| Nominated adviser and broker's fees | 25   | –                | 25             | 25  | 50  |
| Registrar fees                      | 6  | –                | 6              | 9   | 17  |
| Auditors' remuneration              | 6  | –                | 6              | 5   | 8   |
| Other expenses                      | 29   | –                | 29             | 33  | 82  |
|                                     | 140  | –                | 140            | 146   | 305   |

## Notes to the Unaudited Half-Yearly Financial Statements (continued)

for the six months ended 30 June 2009 (unaudited)

### 8. Loss per Ordinary Share

#### *Basic and fully-diluted*

The loss per Ordinary Share is based on a net loss of £2,040,784 (30 June 2008: loss of £28,916,386; 31 December 2008: loss of £91,794,299) and on a weighted average number of 80,000,000 (30 June 2008 and 31 December 2008: 80,000,000) Ordinary Shares in issue throughout the period. The revenue loss per Ordinary Share is based on a net loss of £190,041 (30 June 2008: loss of £193,511; 31 December 2008: loss of £399,340) and on a weighted average number of 80,000,000 (30 June 2008 and 31 December 2008: 80,000,000) Ordinary Shares in issue throughout the period. The capital loss per Ordinary Share is based on the net capital loss of £1,850,743 (30 June 2008: £28,722,875; 31 December 2008: £91,394,959) and on a weighted average number of 80,000,000 (30 June 2008 and 31 December 2008: 80,000,000) Ordinary Shares in issue throughout the period.

### 9. Dividends in respect of equity shares

No dividends were paid in the period (30 June 2008 and 31 December 2008: nil).

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

|  | <i>Six months<br/>ended<br/>30 June<br/>2009<br/>(unaudited)<br/>£'000</i> | <i>Six months<br/>ended<br/>30 June<br/>2008<br/>(unaudited)<br/>£'000</i> | <i>Year<br/>ended<br/>31 December<br/>2008<br/>(audited)<br/>£'000</i> |
|--|--|--|--|
| Opening valuation                                | 33,852   | 127,331  | 127,331  |
| Sales – proceeds                                 | (1,170)  | (2,850)  | (3,700)  |
| – realised (loss)/gain on sale of investment     | (1,694)  | 1,043  | 976  |
| Movement in unrealised gain/(loss) on investment | 161  | (28,669)   | (90,755)   |
| Closing valuation                                | 31,149   | 96,855   | 33,852   |
| Closing book cost                                | 72,294   | 76,074   | 75,158   |
| Closing unrealised (loss)/gain                   | (41,145)   | 20,781   | (41,306)   |
| Closing valuation                                | 31,149   | 96,855   | 33,852   |

The Company's only investment has been in the Sterling class of the RAB Special Situations (Master) Fund Limited (the "Master Fund"). At the period end the Company held all of the shares of the Sterling class of the Master Fund. At 30 June 2009, the Sterling class accounted for 10.77% (30 June 2008: 12.19%; 31 December 2008: 9.84%) of the net assets of the Master Fund.

The Master Fund is managed by the Investment Manager. As stated in note 6, 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.

## Notes to the Unaudited Half-Yearly Financial Statements (continued)

for the six months ended 30 June 2009 (unaudited)

### 11. Other payables

|   | <i>30 June<br/>2009<br/>(unaudited)<br/>£'000</i> | <i>30 June<br/>2008<br/>(unaudited)<br/>£'000</i> | <i>31 December<br/>2008<br/>(audited)<br/>£'000</i> |
|---|---|---|---|
| Investment management fee                             | 53  | 163   | 57  |
| Administration fee                                    | 8   | 9   | 8   |
| Directors' fees                                       | 37  | 37  | 37  |
| Other payables and accruals                           | 23  | 32  | 28  |
| Funds received in advance of redemption of investment | –   | –   | 170   |
|   | <b>121</b>  | <b>241</b>  | <b>300</b>  |

### 12. Share capital

|  | <i>30 June<br/>2009<br/>(unaudited)<br/>£'000</i> | <i>30 June<br/>2008<br/>(unaudited)<br/>£'000</i> | <i>31 December<br/>2008<br/>(audited)<br/>£'000</i> |
|--|---|---|---|
| <i>Authorised:</i>                         |   |   |   |
| 300,000,000 Ordinary Shares of 1p          | 3,000   | 3,000   | 3,000   |
| <i>Allotted, called up and fully paid:</i> |   |   |   |
| 80,000,000 Ordinary Shares of 1p           | 800   | 800   | 800   |

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

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

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

## Notes to the Unaudited Half-Yearly Financial Statements (continued)

for the six months ended 30 June 2009 (unaudited)

### 14. Net asset value per Ordinary Share

#### *Basic and fully-diluted*

The net asset value per Ordinary Share is based on the net assets attributable to equity Shareholders of £31,872,865 (30 June 2008: £96,791,562; 31 December 2008: £33,913,649) and on 80,000,000 (30 June 2008 and 31 December 2008: 80,000,000) Ordinary Shares in issue at the end of the period.

#### *Net asset value reconciliation*

The difference between the estimated net asset value as at 30 June 2009 of 39.88p (announced on 6 July 2009) (30 June 2008: 121.87p; 31 December 2008: 42.64p) and the final net asset value of 39.84p (as disclosed in the Statement of Financial Position) (30 June 2008: 120.99p; 31 December 2008: 42.39p) is due to the revaluation of the investment in the Master Fund from its estimated value to its actual value (once available).

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

|   | <i>Six months<br/>ended<br/>30 June<br/>2009<br/>(unaudited)<br/>£'000</i> | <i>Six months<br/>ended<br/>30 June<br/>2008<br/>(unaudited)<br/>£'000</i> | <i>Year<br/>ended<br/>31 December<br/>2008<br/>(audited)<br/>£'000</i> |
|---|--|--|--|
| Net comprehensive loss on ordinary activities for the period/year | (2,041)  | (28,916)   | (91,794)   |
| Losses on investments   | 1,533  | 27,626   | 89,779   |
| (Increase)/decrease in other receivables                          | (21)   | (9)  | 2  |
| Decrease in other payables  | (8)  | (1,713)  | (1,824)  |
| Net cash outflow from operating activities                        | (537)  | (3,012)  | (3,837)  |

### 16. Capital Commitments

There were no contracted capital commitments as at 30 June 2009 that have not been disclosed in the half-yearly financial statements.

### 17. Events After the Reporting Date

There were no material events after 30 June 2009 that require disclosure as at 20 August 2009.

## Notes to the Unaudited Half-Yearly Financial Statements (continued)

for the six months ended 30 June 2009 (unaudited)

### 18. Related parties

Details of the relationship between the Company and RAB Capital plc are disclosed in note 6.

During the period, £318,000 (30 June 2008: £1,097,000; 31 December 2008: £57,000) was payable to RAB Capital plc in respect of investment management fees and nil (30 June 2008 and 31 December 2008: nil) in respect of performance fees.

As at 30 June 2009 the Company owed RAB Capital plc £53,000 (30 June 2008: £163,000; 31 December 2008: £57,000) in respect of investment management fees and nil (30 June 2008 and 31 December 2008: nil) in respect of performance fees.

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

At 30 June 2009 RAB Capital plc held 7,450,000 (30 June 2008 and 31 December 2008: nil) Ordinary Shares in the Company.

The Directors are not aware of any ultimate controlling party.

### 19. Capital Management Policy and Procedures

The Company's capital management objectives are:

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

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

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

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

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

As at 30 June 2009 the Company had no debt (30 June 2008 and 31 December 2008: nil). As disclosed on the Statement of Financial Position, at 30 June 2009, the total equity holders funds were £31,872,865 (30 June 2008: £96,791,562; 31 December 2008: £33,913,649).

## Risk Warning

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

### STRATEGY RISKS

#### *Investment Approach*

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

#### *Investment Fund Restrictions*

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

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

Although the Investment Manager will attempt to monitor the performance of each investment company or other collective investment vehicle (collectively, "investment entities") 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.

## Risk Warning (continued)

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 may 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.

### *Trading Strategies*

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

### *New Strategies*

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

## Risk Warning (continued)

### *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.

### *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.

## Risk Warning (continued)

### *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.

## Risk Warning (continued)

### *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.

### *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.

## Risk Warning (continued)

### *Investments in Equity Securities*

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

### *Derivative Instruments*

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

## Risk Warning (continued)

### *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.

## Risk Warning (continued)

### *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 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.

## Risk Warning (continued)

### OPERATING RISKS

#### *Operating History*

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

#### *Dependence Upon the Investment Manager*

The operations of the Funds are substantially dependent upon the skill, judgement and expertise of the Investment Manager and its principals, specifically Philip Richards, who is 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.

#### *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.

## Risk Warning (continued)

### *Commissions and Expenses*

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

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

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

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

### *Litigation*

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

## Risk Warning (continued)

### *Prime Broker and Custodian*

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

### *Market Price Considerations*

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

### *Tax Considerations*

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

### *Performance Fee*

The performance fee is calculated based on the estimated net asset value at the year end, not the actual net asset value stated in the Balance Sheet in the financial statements. This is due to the performance fee being payable within ten business days of the year end (as per the Investment Management Agreement), before the final basic year end net asset value becomes available. Whilst this may result in a higher performance fee in certain periods, it is equally likely that the performance fee may be underpaid. 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.

## Risk Warning (continued)

### *Profit Sharing*

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

### *Conflicts of Interest*

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

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

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

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

## Risk Warning (continued)

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.

### *US Persons*

The Company's Ordinary Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "US Securities Act") or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, any US Person as that term is defined in Regulation S under the US Securities Act. The Company has not been registered and will not register under the United States Investment Company Act of 1940, as amended (the "US Investment Company Act").

The Company may force a shareholder to sell or may repurchase any Securities sold in contravention of any of the prohibitions. In addition, the Company may force a shareholder to sell or may repurchase the Securities of any investor at any time if, at the Director's discretion (a) they believe such sale or repurchase would be appropriate to protect the Company from a requirement to register as an Investment Company under the US Investment Company Act, from adverse tax consequences or from other adverse legal or regulatory consequences or (b) such sale or repurchase would be appropriate to avoid the Investment Managers being required to register as an Investment Adviser under the US Investment Advisers Act or (c) for purposes of the Investment Managers retaining the applicable exemption from certain disclosure, record keeping and reporting obligations claimed under the US Commodity Exchange Act. The Company also may refuse to register a transfer of Securities on the foregoing grounds. The Company also may require information from any investor.

## Directors and Advisers

### *Directors*

Quentin Spicer (*Chairman*)  
Peter Hodson  
Christopher Wetherhill  
Nicholas Wilson

### *Investment Manager*

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### *Administrator*

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Guernsey  
GY1 3JX

### *Prime Broker and Custodian*

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E14 4QA

### *Registrar*

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St Sampson  
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### *Registered Office*

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### *Nominated Adviser and Joint Broker*

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### *Joint Broker*

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The Atrium Building  
Cannon Bridge  
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### *Auditor*

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### *Legal Advisers to the Company*

#### *English Law*

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#### *Guernsey Law*

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