
RAB Special Situations Company Limited

managed by RAB Capital plc

Unaudited Interim Report and Financial Statements
for the period ended 30 June 2008

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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.

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

REGISTERED IN GUERNSEY No. 43060

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.

Chairman's Statement

I am pleased to present to Shareholders the unaudited Interim Report and Financial Statements of RAB Special Situations Company Limited (the "Company") for the period ended 30 June 2008.

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").

The investment strategy of the Master Fund remains the same as previous years and the Fund continues to invest in what the Investment Manager deems to be assets of global significance. Although this strategy led to investments in high profile companies, such as Northern Rock and Oakdene, these investments have always only been a small percentage of the portfolio. Further details can be found in the Investment Manager's Report.

The basic net asset value per Ordinary Share fell during the period by 36.14p to 120.99p, equating to a fall of 23.00%. Over the same period, the Ordinary Share price decreased by 31.50p to 98.00p, equating to a fall of 24.32% and resulting in a widening of the discount of the share price to net asset value from 17.58% at 31 December 2007 to 19.00% at 30 June 2008. This is compared to the FTSE AIM All Share Index which fell 8.39% during the period to 961.10.

Since 30 June 2008, the basic net asset value per Ordinary Share has fallen further to an estimated 104.78p as at 31 July 2008 and the share price has fallen to 66.25p, giving a discount of the share price to net asset value of 36.77%.

Due to the widening of the discount of the share price to net asset value during the period and more significantly from the period end to date, the Board has held discussions regarding the use of its powers to repurchase Ordinary Shares and hold them as treasury shares and its powers to repurchase Ordinary Shares for cancellation. The Board has also discussed this matter with the Company's advisers and continues to monitor the situation closely.

I am pleased to announce that at the Company's third Annual General Meeting held on 23 July 2008, all of the proposed resolutions were duly passed.

Although this has been a difficult period for the Company and economic markets generally, the Board, and the Investment Manager, are optimistic that the portfolio is well positioned to recover from the recent decline, and are confident that the good results of previous periods can be replicated in the future.

QUENTIN SPICER

20 August 2008

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 All-Share 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 June 2007	170.37	170.37	152.75	n/a	n/a ⁽⁵⁾	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 July 2008	104.78	104.78	66.25	n/a	n/a	823.40
Percentage increase in period	-23.00%	-23.00%	-24.32%	n/a	n/a	-8.39%
Percentage increase from launch to 30 June 2008	+27.69%	+27.69%	+2.47%	n/a	n/a	+0.37%

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

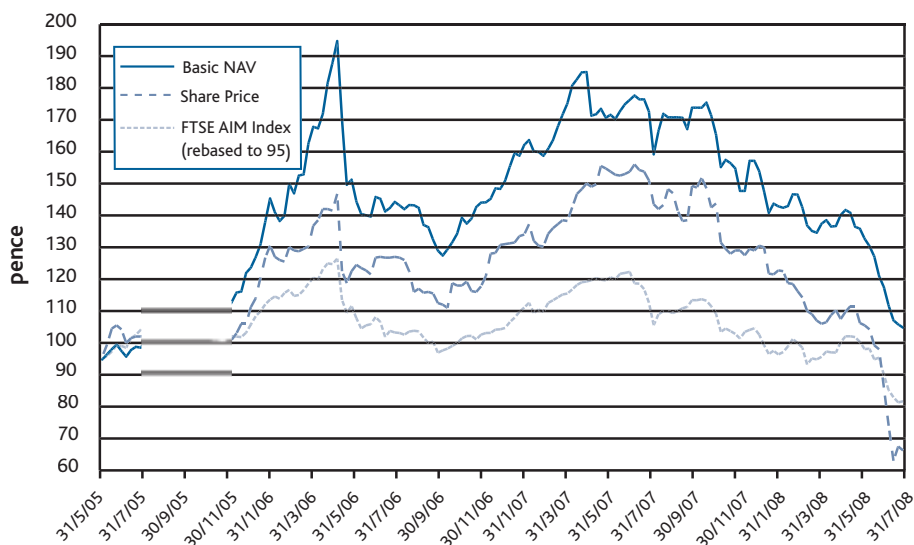
⁽²⁾ The 100p launch price of the Ordinary Shares and Warrants has been allocated in the ratio of the closing price of each on the day of admission to trading.

⁽³⁾ Net of issue costs of £2,098,710.

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

⁽⁵⁾ 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

The following text has been written for RAB Special Situations Company Limited (the "Company") and RAB Special Situations (Master) Fund Limited (the "Master Fund"), collectively known as (the "Strategy"), the Company is fully invested in the Master Fund.

In the first half of 2008 the performance of the Special Situations Strategy was down around 23%, a similar loss to that which the Strategy suffered in Q2 2005*. However, the current market sell-off is more protracted and more intense than that of 2005 and the Strategy has now lost money for three straight quarters, ever since the credit crunch spread from debt markets and began to hurt equity valuations, particularly amongst smaller cap stocks. Moreover, at the time of writing in early August, we have suffered a very negative July which has left us down an estimated 33%** for the year to date. This decline in value does include a very regrettable loss on our position in Northern Rock but even without that position we would still be 29% down for the year.

After the 2005 correction we enjoyed a performance uplift of 68%** over the next three quarters and it would be comforting to look for another strong rebound now. Will it happen? In our view the valuation of all mining and resources stocks is now compelling. In 2005 the SXPP (a large cap mining index) fell 15% over the period of our correction, while this time it is down 30% since mid-May and down 25% from its 2007 peak*. This fall has come at the time of huge earnings upgrades in the companies which comprise the index, reflecting strong commodity prices; Bloomberg consensus estimates now suggest many resource stocks are valued on EV/EBITDA multiples of around only 4x. These cheap

multiples must either reflect forced selling from fund redemptions in the sector, or extreme bearishness on future commodity price developments. The bearishness implied in the outlook for large resources companies is even more extreme in the case of small capitalisation development stocks. We believe this bearishness is hugely overdone, and that in general supply shortages will keep commodity prices high and cashflows strong; we also believe that share prices will eventually be driven higher by corporate activity and the recently announced \$10bn bid by Xstrata for Lonmin at a 42% premium to the equity market valuation encourages us in this belief.

So far this year our portfolio has been the beneficiary of a number of cash bids for smaller companies of which Oriel Resources and Pan African Mining were the two most important for the portfolio. In general these bids have been important in enabling us to raise liquidity, often at good prices, to reduce our leverage and to pay redemptions from the Master Fund. It is worth noting that these bids also mean that the average performance of the remaining stocks in the portfolio, both listed and unlisted, has been considerably worse than the fall of 33% we have suffered in aggregate. The valuations of our unlisted portfolio are reviewed quarterly by RAB Capital's Valuations Committee; about a third of the loss in the year to date arose from our unlisted positions, reflecting difficult financing conditions, although we believe many of these may still eventually recover to previous highs.

An observation worthy of note is that companies with share prices which have halved generally still own the same mining and energy projects as before the crunch. The RAB Special Situations Strategy

Investment Manager's Report (continued)

tends to focus on investing in natural resources companies at an early stage of development, but with significant sized deposits of various metals or energy. The persisting credit crunch has penalised these companies for their lower liquidity and ongoing need for capital to build their development projects. Nevertheless, the underlying value of metals or oil in the ground in any of these companies does not really vary with short term swings in the equity markets. We generally invest in development projects only if they can still make money if commodity prices halve from their all time highs. Consequently we still believe most of these projects will remain viable even with lower commodity prices. However, we actually believe in a twenty year super-cycle for commodities, driven by the twin factors of urbanisation and industrialisation in China, India and the Gulf amongst others, and which is compounded by supply shortages stemming from decades of under-investment in both the mining and energy industries. Our view therefore has to be that the deep value we see today in the battered share prices of the companies we own will be the basis of strong performance in the future. This may take longer to happen than the rebound in 2005 but we do believe it will happen. We are encouraged by signs of stabilisation in equity markets generally and in particular by recent rallies in the financial sector and in the US Dollar against most other currencies as possible precursors to the conditions necessary for such a rebound.

Finally, despite pressures on the portfolio we are being careful to hold on to a range of attractive assets at these very low prices. We hold companies with, for example, significant potential oilfields in the Caribbean and South Atlantic, oil shale in Madagascar and Sweden, major iron ore deposits in

Brazil and Africa, gold in Australia, Columbia and Central Asia, coal in China and Mongolia, uranium in Namibia and South Africa, which all rank among the projects which in our view offer huge upside. We believe we have achieved our aim of, for example, buying oil in the ground at under 10 cent per barrel and iron ore in the ground at below 10 cent per tonne. We have always represented to clients that we mainly invest in companies with development projects, with a view to a strongly increased value on a three to five year view. In recent years we have made returns more quickly than this, and we believe that we will be able to do so again as the world runs short of natural resources, but for the moment we are having to hold on in adversity before achieving this. Once again we thank our investors for continuing to invest with us for this long term value.

PHILIP RICHARDS and DAVID DATTELS

8 August 2008

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

***Performance is shown net of all fees and charges*

Sources: RAB Capital plc, Bloomberg.

Investment Manager's Report (continued)

Important Information

The Investment Manager's Report (the "Report") has been prepared and issued by RAB Capital plc ("RAB"), which is authorized and regulated by the Financial Services Authority ("FSA") and constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 and the FSA Rules. It refers to the RAB Special Situations Company Limited, an AIM listed, Guernsey registered closed ended feeder fund of the RAB Special Situations (Master) Fund Limited. The RAB Special Situations (Master) Fund Limited is an unregulated collective investment scheme for the purposes of the Financial Services and Markets Act and whose promotion is accordingly restricted by law. The investment programme of the Master Fund is speculative and entails substantial risks. Shares may be subject to sudden and large falls in value and there could be a loss on realisation equal to the amount invested. Changes in rates of exchange may have an adverse effect on the value of, or income from, the shares. References to future returns are not promises or even estimates of actual returns that an investor may achieve. The forecasts and material contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation. The information herein reflects prevailing conditions and RAB's judgement as at this date, all of which are subject to change. Past performance is not indicative of future performance. All performance data is shown net of 2% management fees, 20% performance fees and the fees and expenses relating to the fund's AIM listing. This information is being disclosed on a confidential basis.

Prospective investors should inform themselves and take advice as to the applicable legal requirements and any applicable taxation and exchange control regulations in their countries of citizenship, residence or domicile which might be relevant to the subscription, purchase, holding, exchange, redemption or disposal of any investments. This Report is not intended to constitute, and should not be construed as, investment advice. RAB and its affiliates neither provide investment advice to, nor receive or transmit orders from investors, neither do they carry on any other activities with or for investors that constitute "MiFID or equivalent third country business" for the purposes of the FSA Rules.

Directors' Responsibilities

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

- prepare the unaudited interim financial statements in accordance with International Accounting Standard 34: *Interim Financial Reporting* ("IAS 34");
- include a fair review of important events that have occurred during the period, and their impact on the unaudited interim financial statements, together with a description of the principal risks and uncertainties of the Company for the remaining six months of the financial year; 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 interim financial statements comply with the above requirements.

On behalf of the Board

QUENTIN SPICER
Director

20 August 2008

Income Statement

for the six months ended 30 June 2008 (unaudited)

	Notes	Six months ended 30 June 2008 (unaudited)			Six months ended 30 June 2007 (unaudited)	Year ended 31 December 2007 (audited)
		Revenue	Capital	Total	Total	Total
		£'000	£'000	£'000	£'000	£'000
Gains and (losses) on investments	3	–	(27,626)	(27,626)	21,870	10,283
Interest Income		8	–	8	22	28
Investment management fee	4	–	(1,097)	(1,097)	(1,152)	(2,539)
Performance fee	4	–	–	–	(4,266)	(1,676)
Administration fee	4	(55)	–	(55)	(57)	(124)
Other expenses	5	(146)	–	(146)	(132)	(274)
Net (loss)/return on ordinary activities for the period/year		(193)	(28,723)	(28,916)	16,285	5,698
(Loss)/return per Ordinary Share: basic and fully-diluted		(0.24)p	(35.90)p	(36.14)p	25.41p	7.91p

These interim 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 Income Statement of the Company.

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

The accompanying notes on pages 11 to 20 form an integral part of the unaudited interim financial statements.

Statement of Changes in Equity

Six months ended 30 June 2008 (unaudited)

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

Six months ended 30 June 2007 (unaudited)

	<i>Share capital</i> £'000	<i>Share premium</i> £'000	<i>Special distributable reserve</i> £'000	<i>B Warrant reserve</i> £'000	<i>Revenue reserve</i> £'000	<i>Capital reserve</i> £'000	<i>Total</i> £'000
At 1 January 2007	600	23,594	35,849	848	(465)	33,584	94,010
Warrant conversion	200	26,648	–	(848)	–	–	26,000
(Loss)/return for the period	–	–	–	–	(167)	16,452	16,285
At 30 June 2007	800	50,242	35,849	–	(632)	50,036	136,295

Year ended 31 December 2007 (audited)

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

These interim financial statements are unaudited and are not the Company's statutory financial statements.

The accompanying notes on pages 11 to 20 form an integral part of the unaudited interim financial statements.

Balance Sheet

as at 30 June 2008 (unaudited)

	Notes	30 June 2008 (unaudited) £'000	30 June 2007 (unaudited) £'000	31 December 2007 (audited) £'000
Non-current assets				
Investments at fair value through profit or loss	8	96,855	140,268	127,331
Current assets				
Receivables and prepayments		25	28	16
Cash and cash equivalents		153	557	315
		178	585	331
Total assets		97,033	140,853	127,662
Current liabilities				
Payables and accruals	9	(241)	(4,558)	(1,954)
Total liabilities		(241)	(4,558)	(1,954)
Net assets		96,792	136,295	125,708
Share capital and reserves				
Called-up share capital	10	800	800	800
Share premium	12	50,242	50,242	50,242
Special distributable reserve	12	35,849	35,849	35,849
Revenue reserve		(1,028)	(632)	(835)
Capital reserve		10,929	50,036	39,652
Total Equity Holders' funds		96,792	136,295	125,708
Net asset value per Ordinary Share:				
<i>basic and fully-diluted</i>	13	120.99p	170.37p	157.13p

These interim financial statements are unaudited and are not the Company's statutory financial statements.

The accompanying notes on pages 11 to 20 form an integral part of the unaudited interim financial statements.

Statement of Cash Flows

for the six months ended 30 June 2008 (unaudited)

		<i>Six months ended 30 June 2008 (unaudited) £'000</i>	<i>Six months ended 30 June 2007 (unaudited) £'000</i>	<i>Year ended 31 December 2007 (audited) £'000</i>
Net cash outflow from operating activities	14	(3,012)	(6,632)	(8,224)
Investing activities				
Purchase of investments				
at fair value through profit or loss	8	–	(25,250)	(25,250)
Sale of investments at fair value through profit or loss	8	2,850	6,351	7,701
Net cash inflow/(outflow) from investing activities		2,850	(18,899)	(17,549)
Financing activities				
Proceeds from issue of Ordinary Shares and Warrants		–	26,000	26,000
Net cash inflow from financing activities		–	26,000	26,000
(Decrease)/increase in cash and cash equivalents		(162)	469	227
Cash and cash equivalents brought forward		315	88	88
(Decrease)/increase in cash and cash equivalents		(162)	469	227
Cash and cash equivalents carried forward		153	557	315

These interim financial statements are unaudited and are not the Company's statutory financial statements.

The accompanying notes on pages 11 to 20 form an integral part of the unaudited interim financial statements.

Notes to the Unaudited Interim Financial Statements

for the six months ended 30 June 2008 (unaudited)

1. Significant accounting policies

a) Statement of compliance

These unaudited interim financial statements, which have not been reviewed by an independent auditor, have been prepared in accordance with International Accounting Standard 34: *Interim Financial Reporting* ("IAS 34"). These interim financial statements have adopted the same accounting policies as the last audited financial statements which were prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Interpretations Committee of the IASB ("IFRIC") and applicable legal and regulatory requirements of Guernsey Law and reflect the following policies, which have been adopted and applied consistently.

The interim financial statements were authorised for issuance on 20 August 2008.

b) Basis of preparation

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

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

c) Segmental reporting

The Directors are of the opinion that the Company is engaged in a single segment of business, being investment business through the investment of up to 100% of the Company's assets directly in the shares of the Master Fund. During the period to 30 June 2008, the Company's only investment was in the ordinary shares of the Master Fund which operates in one geographic segment, the Cayman Islands.

d) Income

Bank interest is accounted for on an accruals basis.

Notes to the Unaudited Interim Financial Statements (continued)

for the six months ended 30 June 2008 (unaudited)

1. Significant accounting policies (continued)

e) 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.

f) Capital reserve

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

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

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

g) 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.

h) Investments

Designation

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

Notes to the Unaudited Interim Financial Statements (continued)

for the six months ended 30 June 2008 (unaudited)

1. Significant accounting policies (continued)

h) Investments (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. 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.

i) Cash and cash equivalents

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

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

Notes to the Unaudited Interim Financial Statements (continued)

for the six months ended 30 June 2008 (unaudited)

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 and losses on investments

	<i>Six months ended 30 June 2008 (unaudited) £'000</i>	<i>Six months ended 30 June 2007 (unaudited) £'000</i>	<i>Year ended 31 December 2007 (audited) £'000</i>
<i>Designated at fair value through profit or loss:</i>			
Net gains and (losses) on equity investments	(27,626)	21,870	10,283
Realised gains on sales of investments	1,043	2,738	3,312
Movement in unrealised appreciation	(28,669)	19,132	6,971
	(27,626)	21,870	10,283

4. 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.

Notes to the Unaudited Interim Financial Statements (continued)

for the six months ended 30 June 2008 (unaudited)

4. Investment Management and Administration (continued)

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

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

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.

5. Other expenses

	Six months ended 30 June 2008 (unaudited)			Six months ended 30 June 2007 (unaudited)	Year ended 31 December 2007 (audited)
	Revenue £'000	Capital £'000	Total £'000	Total £'000	Total £'000
Registrar fees	9	–	9	14	24
Nominated broker's fees	25	–	25	30	55
Auditors' remuneration	5	–	5	3	6
Directors' remuneration (<i>note 6</i>)	74	–	74	47	122
Other expenses	33	–	33	38	67
	146	–	146	132	274

Notes to the Unaudited Interim Financial Statements (continued)

for the six months ended 30 June 2008 (unaudited)

6. Directors' remuneration

	<i>Six months ended 30 June 2008 (unaudited) £'000</i>	<i>Six months ended 30 June 2007 (unaudited) £'000</i>	<i>Year ended 31 December 2007 (audited) £'000</i>
Quentin Spicer	21	14	35
Peter Hodson	18	11	29
Christopher Wetherhill	18	11	29
Nicholas Wilson	17	11	29
	74	47	122

No bonus or pension contributions were paid or payable on behalf of the Directors.

7. Return per Ordinary Share

Basic and fully-diluted

The (loss)/return per Ordinary Share is based on a net loss of £28,916,386 (30 June 2007: net gain of £16,284,950; 31 December 2007: net gain of £5,697,425) and on a weighted average number of 80,000,000 (30 June 2007: 64,088,398; 31 December 2007: 72,054,795) Ordinary Shares in issue throughout the period. The revenue (loss)/return per Ordinary Share is based on a net loss of £193,511 (30 June 2007: loss of £166,841; 31 December 2007: loss of £370,275) and on a weighted average number of 80,000,000 (30 June 2007: 64,088,398; 31 December 2007: 72,054,795) Ordinary Shares in issue throughout the period. The capital (loss)/gain per Ordinary Share is based on the net capital loss of £28,722,875 (30 June 2007: net capital gain of £16,451,791; 31 December 2007: net capital gain of £6,067,700) and on a weighted average number of 80,000,000 (30 June 2007: 64,088,398; 31 December 2007: 72,054,795) Ordinary Shares in issue throughout the period.

Notes to the Unaudited Interim Financial Statements (continued)

for the six months ended 30 June 2008 (unaudited)

8. Investments at fair value through profit or loss

	<i>Six months ended 30 June 2008 (unaudited) £'000</i>	<i>Six months ended 30 June 2007 (unaudited) £'000</i>	<i>Year ended 31 December 2007 (audited) £'000</i>
Opening valuation	127,331	99,499	99,499
Purchases	–	25,250	25,250
Sales – proceeds	(2,850)	(6,351)	(7,701)
– realised gain on sale of investment	1,043	2,738	3,312
Movement in unrealised appreciation	(28,669)	19,132	6,971
Closing valuation	96,855	140,268	127,331
Closing book cost	76,074	78,657	77,881
Closing unrealised appreciation	20,781	61,611	49,450
Closing valuation	96,855	140,268	127,331

The Company's only investment has been in the Sterling class of 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 2008, the Sterling class accounted for 12.19% (30 June 2007: 12.41%; 31 December 2007: 11.80%) of the net assets of the Master Fund.

The Master Fund is managed by the Investment Manager. As stated in note 4, 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.

9. Payables and accruals

	<i>30 June 2008 (unaudited) £'000</i>	<i>30 June 2007 (unaudited) £'000</i>	<i>31 December 2007 (audited) £'000</i>
Investment management fee	163	236	212
Performance fee	–	4,266	1,676
Administration fee	9	11	10
Directors' fees	37	24	37
Other payables and accruals	32	21	19
	241	4,558	1,954

Notes to the Unaudited Interim Financial Statements (continued)

for the six months ended 30 June 2008 (unaudited)

10. Share capital

	<i>30 June 2008 (unaudited) £'000</i>	<i>30 June 2007 (unaudited) £'000</i>	<i>31 December 2007 (audited) £'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 at beginning of period:</i>			
80,000,000 (2007: 60,000,000) Ordinary Shares of 1p	800	600	600
<i>Issued during the period/year:</i>			
nil (2007: 20,000,000) Ordinary Shares of 1p	–	200	200
<i>Allotted, called up and fully paid at end of period/year:</i>			
80,000,000 (2007: 80,000,000) Ordinary Shares of 1p	800	800	800

11. 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	115.00	23 May 2006	20,000,000
B Warrants	130.00	23 May 2007	20,000,000

On 25 May 2007, all of the B Warrants were converted at the price of 130.00p per share, resulting in an additional 20,000,000 Ordinary Shares.

Following the conversion of the A and B Warrants, there are no longer any Warrants in issue for the Company.

12. 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.

Notes to the Unaudited Interim Financial Statements (continued)

for the six months ended 30 June 2008 (unaudited)

13. 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 £96,791,562 (30 June 2007: £136,295,473; 31 December 2007: £125,707,948) and on 80,000,000 (30 June 2007 and 31 December 2007: 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 2008 of 121.87p (announced on 4 July 2008) (30 June 2007: 170.42p; 31 December 2007: 157.47p) and the final net asset value of 120.99p (as disclosed in the Balance Sheet) (30 June 2007: 170.37p; 31 December 2007: 157.13p) is due to the revaluation of the investment in the Master Fund from its estimated value to its actual value (once available).

14. Reconciliation of net (loss)/return to net cash outflow from operating activities

	<i>Six months ended 30 June 2008 (unaudited) £'000</i>	<i>Six months ended 30 June 2007 (unaudited) £'000</i>	<i>Year ended 31 December 2007 (audited) £'000</i>
Net (loss)/return before finance costs and taxation	(28,916)	16,285	5,698
Losses/(gains) on investment	27,626	(21,870)	(10,283)
(Increase)/decrease in receivables and prepayments	(9)	(6)	6
Decrease in payables and accruals	(1,713)	(1,041)	(3,645)
Net cash outflow from operating activities	(3,012)	(6,632)	(8,224)

15. Capital Commitments

There were no contracted capital commitments as at 30 June 2008 that have not been disclosed in the interim financial statements.

16. Events After the Balance Sheet Date

There were no material events after the balance sheet date that require disclosure as at 20 August 2008.

Notes to the Unaudited Interim Financial Statements (continued)

for the six months ended 30 June 2008 (unaudited)

17. Related parties

Details of the relationship between the Company and RAB Capital plc is disclosed in note 4.

During the period £1,097,000 (30 June 2007: £1,152,000; 31 December 2007: £2,539,000) was payable to RAB Capital plc in respect of investment management fees and £nil (30 June 2007: £4,266,000; 31 December 2007: £1,676,000) in respect of performance fees.

As at 30 June 2008 the Company owed RAB Capital plc £163,000 (30 June 2007: £236,000; 31 December 2007: £212,000) in respect of investment management fees and £nil (30 June 2007: £4,266,000; 31 December 2007: £1,676,000) in respect of performance fees.

Mr Wetherhill is a non-executive director of RAB Partners Limited, a wholly owned subsidiary of RAB Capital plc, and six other entities; RAB Special Situations Fund Limited, RAB Global Mining & Resources Fund Limited, RAB Energy Fund Limited, RAB Octane Fund Limited, RAB Gold Fund Limited and RAB Innovations Fund Limited, managed by RAB Capital plc.

At 30 June 2008 RAB Capital plc held no (30 June 2007 and 31 December 2007: nil) Ordinary Shares.

The Directors are not aware of any ultimate controlling party.

18. 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 through the capital appreciation of its investments, together with providing income to its Shareholders.

The Board, with the assistance of the Manager and Investment Advisers, 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 Ordinary Shares for cancellation or to be held in treasury, which takes account of the difference between the net asset value per Ordinary Share and the Ordinary 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.

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 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.

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. Also, 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 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.

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 their initial investment when the Shareholder chooses to sell their 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 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 higher performance fee in certain periods (as was the case for the year ended 31 December 2007), it is equally likely that the performance fee may be underpaid (as was the case for the period ended 31 December 2005 and the year ended 31 December 2006). The performance fee will not be amended for any overpayment or underpayment in a period due to the use of the estimated net asset value instead of the actual net asset value. However, the opening net asset value/high watermark of the subsequent period will be based on the estimated year end net asset value as applied in the performance fee calculation at the previous year end.

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 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.

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

Quentin Spicer (Chairman)

Mr Spicer is aged 63 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 ISIS Property Trust 2 Limited and is also a non-executive director of several other funds.

Peter Hodson

Mr Hodson is aged 57 and joined the Board in May 2005. He qualified as a solicitor with Hyman Isaacs Lewis & Mills (now Beachcroft LLP) in 1975 and became a partner in Masons, Hong Kong in 1985. He is a qualified solicitor in Hong Kong, England and Wales and also an accredited mediator with the Centre for Effective Dispute Resolution ("CEDR") in London and with the Hong Kong International Arbitration Centre. He moved to Guernsey in 1998 where he is now based with Hodson & Company. 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 59 and 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 is aged 63 and joined the Board in May 2005. He 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.

Directors and Advisers

Directors

Quentin Spicer (Chairman)
Peter Hodson
Christopher Wetherhill
Nicholas Wilson

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