

RAB Special Situations Company

May 2010 Update

RAB Special Situations Company ("RSS") was up by 0.8% during May. This compares to the Bloomberg World Mining's monthly performance of -9.77%. The year-to-date performance of RSS as at the end of May was 1.7%. This compares with the Bloomberg World Mining's year-to-date performance of -9.59%.

May was an extremely challenging month across the financial markets. The trend in the markets reflected a general flight from risk: 10 year US Treasuries were up 2.79% for the month, with corresponding rallies in gold (up 3.14% and breaking all time highs) and the US Dollar (the Dollar Index Spot was up 5.77%). Equity market performance was very poor, with every major equity index down for the month (the Bloomberg World Index dropped by 9.62%). In previous months the manager has commented on the negative correlation between US Dollar strength and market sentiment on Eurozone sovereign credit worthiness, and how this affects base metal prices. This relationship has continued through May with copper down 6.56%, zinc down 15.48% and nickel down 18.93%. The concerns over the Euro were compounded by speculation that both fiscal and monetary tightening will effect a slow down in the global economic rebound, with particular focus on Chinese tightening.

The Chinese property market has received a great deal of attention in the press, with concerns as to whether the very substantial rise in prices represents a bubble. It is important to understand the fundamentals behind these price moves and put them in context. Asset bubbles are driven by speculation; but in China 78% of middle-class buyers are owner-occupiers. Property bubbles are typically fuelled by borrowing but whilst borrowing rates have been growing rapidly this has been from a very low base. In 2009 mortgage loans had reached 14.2% of GDP in China compared to over 75% for the US. This would imply that the increase in mortgages is sustainable and that there is room for further growth. Whilst it is clear that the Chinese government is making efforts to cool pricing, this does not necessarily translate through to a reduction in demand for raw materials. It has been reported that a key strategic objective of the Chinese government is to increase the availability of affordable housing and have pushed regional officials to build more. Whether this is to deflect popular discontent or smooth the way for further urbanization, the manager believes it certainly implies an ongoing demand for raw materials.

In the context of very challenging capital markets, the strategy performed well during May. The primary contributor to performance was Falkland Oil & Gas Ltd ("FOGL"). As expected, during the second half of May the Ocean Guardian rig was mobilised to the Toroa prospect, in which FOGL has a 49% interest. FOGL announced on 1 June that drilling had begun on this prospect and that the drilling operations were expected to take approximately 35 days to complete. The manager believes that the price movement is in anticipation of the outcome of this drilling.

The second largest contributor to strategy performance was Bellzone Mining Plc ("BZM"), which was up by 22.3% during the month. This West African iron ore junior having listed on London's AIM market in April, benefited from news of a binding MOU with China International Fund Limited ("CIF") for the development of their Kalia Iron Project. The MOU involves an investment of \$2.7bn by CIF to provide rail and port infrastructure. Since March, over \$6.9bn has been committed to the development of iron ore mines and their related infrastructure in Guinea; it is rapidly developing into one of the most exciting iron ore regions globally.

The strategy suffered further write downs in the unlisted portion of the portfolio during May with Ionic Water Technologies Inc. ("IWT") and WellGen Inc. ("WGI") being the two largest detractors (-0.41% and -0.30% respectively). Both companies are suffering from a lack of access to the capital needed for growth as the markets continue to punish early stage companies, especially those that do not have a listing.

The manager believes that the performance of the strategy during May demonstrates that the fundamental approach to investing is capable of delivering strong returns even in challenging markets. The manager thanks RSS investors for their patience in this regard.

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