FMG SPECIAL OPPORTUNITY FUND LTD.

Financial Statements
(With Auditors' Report Thereon)

March 31, 2010 and 2009

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AUDITORS' REPORT

To the Directors and Shareholders of
FMG Special Opportunity Fund Ltd.

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of FMG Special Opportunity Fund Ltd. (the "Fund") as at March 31, 2010, and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

As explained in Note 8, the financial statements include an investment in an underlying investment company with a value of $655,270 (9.60% of net assets) at March 31, 2010 whose fair value has been estimated by the Manager in the absence of readily ascertainable fair values. We have obtained explanations from the Manager to support the estimation of the fair value and have reviewed the underlying documentation made available to us. In our opinion, the explanations obtained and information reviewed are not sufficient to be able to provide a reliable estimate of the fair value of the underlying investment company throughout the year and as at March 31, 2010. Accordingly, we were not able to determine whether any adjustments are necessary to the fair values of the investment as at March 31, 2010, or to the net decrease in net assets resulting from operations, or to net assets attributable to redeemable preferred shares in determining the net decrease in net the from capital share transactions during the year then ended. As further explained in Note 8, there were investments in underlying investment companies and unquoted equity securities held during the year, whose fair values have been estimated by the Manager in the absence of readily ascertainable fair values. We have obtained explanations from the Manager to support the estimation of these fair values and have reviewed the underlying documentation made available to us. In our opinion, the explanations obtained and information reviewed were not sufficient to be able to provide a reliable estimate of the fair value of these investments throughout the year. Accordingly, we were not able to determine whether any adjustments were necessary to the fair value of the investments throughout the year or to net assets attributable to redeemable preference shares in determining the net decrease in net assets from capital share transactions during the year then ended.

In our opinion, except for the effect of adjustments, if any, related to the valuation of the investments described in the preceding paragraph, the financial statements referred to above present fairly in all material respects the financial position of FMG Special Opportunity Fund Ltd. as at March 31, 2010 and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in Bermuda and Canada.

As explained in Note 8, the financial statements include investments in underlying investment companies and investments in unquoted equity securities with a combined value of $2,662,197 (25.09% of net assets) at March 31, 2009, whose fair values have been estimated by the Manager in the absence of readily ascertainable fair values. We obtained explanations from the Manager to support the estimation of these fair values and have reviewed the underlying documentation made available to us. In our opinion the explanations obtained and information reviewed were not sufficient to be able to provide a reliable estimate of the fair value of the underlying investment companies and unquoted equity securities at March 31, 2009. Accordingly, we were not able to determine whether any adjustments are necessary to the fair values of these investments at March 31, 2009, or to the net decrease in net assets from operations, or to the net decrease in net assets from capital share transactions during the year then ended.

KPMG

Chartered Accountants
Hamilton, Bermuda
October 13, 2010

FMG SPECIAL OPPORTUNITY FUND LTD.

Statement of Assets and Liabilities

March 31, 2010
(Expressed in United States Dollars)

	2010	2009
Assets		
Investments in securities (cost - $5,465,830; 2009 - $23,790,649) (See Schedule of Investments) (Notes 5, 8, 10 and 12)	$ 2,956,125	$ 12,162,011
Cash and cash equivalents (Note 10)	3,422,373	1,472,957
Receivable from investments sold	793,354	69,482
Unrealized gain on forward foreign exchange contracts (Notes 8 and 10)	2,962	–
Other assets (Note 10)	5,851	19,537
Total assets	7,180,665	13,723,987
Liabilities		
Unrealized losses on forward foreign exchange contracts (Notes 8 and 10)	2,193	201,232
Subscriptions received in advance	37,509	30,000
Redemptions payable	235,679	2,761,926
Management and incentive fees payable (Note 3)	37,335	71,210
Administration fees payable (Note 4)	13,920	13,560
Accounts payable and accrued expenses (Note 3)	27,697	33,780
Total liabilities	354,333	3,111,708
Net assets	6,826,332	10,612,279
Less: attributable to common shares (Note 6)	(100)	(100)
Net assets attributable to redeemable preference shares (Note 6)	$ 6,826,232	$ 10,612,179
Net assets attributable to 42,166 (2009 - 52,464) US Dollar Class A redeemable preference shares	$ 2,575,491	$ 3,954,640
Net asset value per US Dollar Class A redeemable preference share	$ 61.08	$ 75.37
Net assets attributable to 2,583 (2009 - 238) US Dollar Class A09 redeemable preference shares	$ 177,893	$ 20,685
Net asset value per US Dollar Class A09 redeemable preference share	$ 68.86	$ 87.09
Net assets attributable to 531,641 (2009 - 737,666) US Dollar Class B redeemable preference shares	$ 3,702,847	$ 6,308,079
Net asset value per US Dollar Class B redeemable preference share	$ 6.96	$ 8.54

See accompanying notes to financial statements

(Expressed in United States Dollars)

	2010	2009
Net assets attributable to 10,361 (2009 - nil) US Dollar Class B09 redeemable preference shares	$ 72,282	$ –
Net asset value per US Dollar Class B09 redeemable preference share	$ 6.97	$ –
Net assets of $158,842 (2009 - $239,857) attributable to 4,419 (2009 - 5,294) EUR Class A redeemable preference shares	€ 117,582	€ 180,533
Net asset value per EUR Class A redeemable preference share	€ 26.60	€ 34.09
Net assets of $61,318 (2009 - $nil) attributable to 614 (2009 - nil) EUR Class A09 redeemable preference shares	€ 45,431	€ –
Net asset value per EUR Class A09 redeemable preference share	€ 73.97	€ –
Net assets of $nil (2009 - $57,972) attributable to nil (2009 - 12,510) EUR Class B redeemable preference shares	€ –	€ 43,634
Net asset value per EUR Class B redeemable preference share	€ –	€ 3.48
Net assets of $2,002 (2009 - $30,946) attributable to 53 (2009 - 685) GBP Class A redeemable preference shares	£ 1,319	£ 21,569
Net asset value per GBP Class A redeemable preference share	£ 24. 97	£ 31.47
Net assets of $75,557 (2009 - $nil) attributable to 643 (2009 - nil) GBP Class A09 redeemable preference shares	£ 49,825	£ –
Net asset value per GBP Class A09 redeemable preference share	£ 77.51	£ –

See accompanying notes to financial statements

Signed on behalf of the Board

______________________________ Director

______________________________ Director

FMG SPECIAL OPPORTUNITY FUND LTD.

Schedule of Investments

March 31, 2010
(Expressed in United States Dollars)

Investments in securities	Cost	Fair Value	% of Net Assets	Redemption Frequency
Other investment companies				
Central Asia Real Estate Fund Ltd. - Series 2	$ 1,000,000	$ 159,579	2.34%	Suspended
Eurasian Financial Institutions Fund, Class A Series 3	1,000,000	89,931	1.32%	Suspended
Hudson River Russia Fund Limited Class A Series 04/2006	1,355,760	655,270	9.60%	Suspended
Total investments in other investment companies	3,355,760	904,780	13.26%	
Managed accounts				
MAM Managed Account	199,999	40,442	0.59%	
Algebra Managed Account	1,910,071	2,010,903	29.46%	
Total investments held in managed accounts	2,110,070	2,051,345	30.05%	
Total investments in securities	$ 5,465,830	$ 2,956,125	43.31%	

As at March 31, 2010, holdings in the managed accounts were comprised as follows:

Long equities	$ 2,051,345	30.05%

The Algebra Managed Account includes an investment in Qatar National Bank with a fair value of $388,592 (being 5.69% of the net assets of the Fund).

See accompanying notes to financial statements

FMG SPECIAL OPPORTUNITY FUND LTD.

Schedule of Investments

March 31, 2009
(Expressed in United States Dollars)

Investments in securities	Cost	Fair Value	% of Net Assets	Redemption Frequency
Other investment companies				
Central Asia Real Estate Fund Ltd.	$ 1,000,000	$ 251,878	2.37%	Suspended
Efficacy Biotech Fund Ltd. (June 2008 Series)	1,340,870	988,104	9.31%	Quarterly
Efficacy Biotech Fund Ltd. (Feb 2009 Series)	3,736,891	2,570,058	24.22%	Quarterly
Eurasian Financial Institutions Fund, Class A Series 3	1,000,000	238,851	2.25%	Suspended
FMG (EU) New Balkans Fund Ltd., Class B	5,471,307	2,588,625	24.39%	Monthly
Hudson River Russia Fund Limited, Class A Series 04/2006	1,500,000	826,865	7.79%	Suspended
SYW Offshore Ltd Class B Series 0808	2,000,000	2,202,713	20.76%	Suspended
Total investments in other investment companies	16,049,068	9,667,094	91.09%	
Managed accounts				
Citic Securities Brokerage (HK) Ltd. Managed Account	999,868	439,010	4.14%	
Winnington Capital Ltd. Managed Account	2,268,328	1,053,441	9.93%	
Total investments held in managed accounts	3,268,196	1,492,451	14.07%	
Common equities				
Copeinca	3,637,448	839,833	7.91%	
Villa Organic AS	835,937	162,633	1.53%	
Total long positions held in common equities	4,473,385	1,002,466	9.44%	
Total investments in securities	$23,790,649	$12,162,011	114.60%	

As at March 31, 2009, holdings in the managed accounts were comprised as follows:

Long equities	$ 1,492,451	14.07%

The Winnington Capital Ltd. and Citic Securities Brokerage (HK) Ltd. managed accounts include an investment in Imagi International Holdings, with a fair value of $1,181,970 (being 11.14% of the net assets of the Fund).

See accompanying notes to financial statements

FMG SPECIAL OPPORTUNITY FUND LTD.

Statement of Operations

March 31, 2010
(Expressed in United States Dollars)

	2010	2009
Investment income		
Interest income	$ –	$ 326
Dividend income	–	99,722
Rebate income (Note 11)	16,354	114,881
Total income	16,354	214,929
Expenses		
Management fees (Note 3)	181,261	570,676
Incentive fees (Note 3)	1,846	-
Administration fees (Note 4)	59,680	77,450
Interest expense	1,786	17,326
Custodian fees (Note 5)	5,861	18,739
Audit fees	27,150	45,086
Directors' and secretarial fees	13,672	19,757
Bank charges	2,564	10,218
Miscellaneous	18,445	16,377
Total expenses	312,265	775,629
Net investment loss	(295,911)	(560,700)
Realized and unrealized gains and losses on investments		
Net realized losses on sale of investments	(11,030,269)	(13,538,610)
Net realized (losses) gains on forward foreign exchange contracts	(244,320)	95,541
Net change in unrealized losses on investments	9,118,933	(11,061,126)
Net change in unrealized gains and losses on forward foreign exchange contracts	202,001	(242,370)
Net realized and unrealized losses on investments	(1,953,655)	(24,746,565)
Net decrease in net assets from operations	$ (2,249,566)	$ (25,307,265)

See accompanying notes to financial statements

FMG SPECIAL OPPORTUNITY FUND LTD.

Statement of Changes in Net Assets

March 31, 2010
(Expressed in United States Dollars)

	2010	2009
From operations		
Net investment loss	$ (295,911)	$ (560,700)
Net realized losses on sale of investments	(11,030,269)	(13,538,610)
Net realized (losses) gains on forward foreign exchange contracts	(244,320)	95,541
Net change in unrealized losses on investments	9,118,933	(11,061,126)
Net change in unrealized gains and losses on forward foreign exchange contracts	202,001	(242,370)
Net decrease in net assets from operations	(2,249,566)	(25,307,265)
From capital share transactions		
Proceeds from sale of nil (2009 - 3,170) US Dollar Class A redeemable preference shares	–	511,127
Proceeds from sale of 3,445 (2009 - 238) US Dollar Class A09 redeemable preference shares	306,624	23,750
Proceeds from sale of 269 (2009 - 32,020) US Dollar Class B redeemable preference shares	2,375	603,838
Proceeds from sale of 10,361 (2009 - nil) US Dollar Class B09 redeemable preference shares	96,860	–
Proceeds from sale of nil (2009 - 2,744) EUR Class A redeemable preference shares	–	225,221
Proceeds from sale of 664 (2009 - nil) EUR Class A09 redeemable preference shares	71,290	–
Proceeds from sale of 95,111 (2009 - nil) EUR Class B09 redeemable preference shares	1,389,150	–
Proceeds from sale of 8,644 (2009 - nil) GBP Class A09 redeemable preference shares	1,508,518	–
Payment on redemption of 10,298 (2009 - 37,551) US Dollar Class A redeemable preference shares	(736,133)	(5,575,262)
Payment on redemption of 1,100 (2009 - nil) US Dollar Class A09 redeemable preference shares	(80,293)	–
Payment on redemption of 206,294 (2009 - 853,584) US Dollar Class B redeemable preference shares	(1,669,422)	(9,644,910)
Payment on redemption of 875 (2009 - 610) EUR Class A redeemable preference shares	(39,770)	(80,859)
Payment on redemption of 50 (2009 - nil) EUR Class A09 redeemable preference shares	(5,124)	–
Payment on redemption of 12,510 (2009 - 20,822) EUR Class B redeemable preference shares	(72,313)	(156,304)
Payment on redemption of 95,111 (2009 - nil) EUR Class B09 redeemable preference shares	(1,126,915)	–
Payment on redemption of 632 (2009 - nil) GBP Class A redeemable preference shares	(28,814)	–
Payment on redemption of 8,001 (2009 - nil) GBP Class A09 redeemable preference shares	(1,152,414)	–
Net decrease in net assets from capital share transactions	(1,536,381)	(14,093,399)

See accompanying notes to financial statements

FMG SPECIAL OPPORTUNITY FUND LTD.

Statement of Changes in Net Assets (continued)

March 31, 2010
(Expressed in United States Dollars)

Net decrease in net assets attributable to redeemable preference shares	$	(3,785,947)	$	(39,400,664)
Net assets attributable to redeemable preference shares at beginning of year		10,612,179		50,012,843
Net assets attributable to redeemable preference shares at end of year	$	6,826,232	$	10,612,179

See accompanying notes to financial statements

FMG SPECIAL OPPORTUNITY FUND LTD.

Statement of Cash Flows

March 31, 2010
(Expressed in United States Dollars)

	2010	2009
Cash flows from operating activities:		
Net decrease in net assets from operations	$ (2,249,566)	$ (25,307,265)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities:		
Change in assets and liabilities:		
Net change in investments and derivative instruments	9,003,885	39,121,903
Receivable from investment sold	(723,872)	(69,482)
Dividend receivable	–	79,563
Other assets	13,686	29,087
Management and incentive fees payable	(33,875)	(163,553)
Administration fees payable	360	(19,098)
Accounts payable and accrued expenses	(6,083)	(7,287)
Net cash provided by operating activities	6,004,535	13,663,868
Cash flows from financing activities		
Proceeds from issue of redeemable preference shares	3,382,326	1,224,522
Payments on redemptions of redeemable preference shares	(7,437,445)	(12,878,910)
Net cash used in financing activities	(4,055,119)	(11,654,388)
Net increase in cash and cash equivalents	1,949,416	2,009,480
Cash and cash equivalents (overdraft) at beginning of year	1,472,957	(536,523)
Cash and cash equivalents at end of year	$ 3,422,373	$ 1,472,957
Supplementary cash flow information		
Interest paid	$ 1,786	$ 17,326

See accompanying notes to financial statements

1. **Operations**

FMG Special Opportunity Fund Ltd. (the “Fund”) was incorporated in Bermuda on March 18, 2005 as an open-ended investment company, empowered by its bye-laws to issue, redeem and reissue its own shares at prices based on their net asset value.

The Fund invests in other open or closed-ended investment companies, limited partnerships and managed accounts managed by fund managers, primarily in emerging markets, with the objective of earning a return in excess of that earned on the MSCI World Index.

2. **Significant accounting policies**

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in Bermuda and Canada. The following are the significant accounting policies adopted by the Fund:

(a) Investment transactions and valuation

Investments in other investment companies are recorded on the trade date, and are valued at their net asset value Investments are categorized as held for trading in accordance with CICA Section 3855, *Financial Instruments – Recognition and Measurement* (“Section 3855”) and therefore are recorded at fair value. Investments in other investment companies are recorded on the effective date of the subscription and are valued at their net asset value as reported by the administrators of the other investment companies. Where net asset values are not reported on a timely basis, the Manager (Note 3) may estimate the net asset value based on information provided by the other investment companies. The other investment companies in which the Fund invests generally value securities traded on a national securities exchange or reported on a national market and securities traded in the over-the-counter market at the last reported bid price if held long and the last reported ask price if sold short on the valuation day. Realized gains or losses on sale of investments are determined on an average cost basis. Realized gains and losses and the net change in unrealized gains and losses are included in the statement of operations. Dividend income is recorded on the ex-dividend date and is disclosed net of withholding taxes.

The Fund may allocate its assets to an advisor by retaining the advisor to manage a managed account for the Fund rather than investing in the advisor's investment vehicle. Unlike an investment in a fund, the Fund will not receive shares or any other form of title, but will simply rank as a creditor of the advisor. There will be no investment capable of being held by the Fund’s custodian on behalf of the Fund and the Fund’s custodian will not be involved in providing custody for the assets held in the managed account. The advisor for the managed account will make separate custody arrangements for the investments held therein. Any loss arising as a result of an investment in a managed account will be borne by the shareholders.

The investment in equity securities within the managed accounts are accounted for on a trade date basis. The securities that are traded on a national securities exchange are valued at the last reported bid price on the valuation day. The interest, dividend income and realized gains and losses arising from managed accounts are included in the relevant line items in the statement of operations. Similarly, cash attributable to the managed accounts are included in the statement of assets and liabilities.

(b) Emerging markets

The Fund invests directly or indirectly in companies that are located in a variety of emerging markets. Investments in emerging markets involve risks, which do not typically exist in other markets. These markets continue to experience significant political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment.

2. **Significant accounting policies** (continued)

(b) Emerging markets (continued)

Such risks include, but are not limited to, the Fund's investments in companies which may prove difficult to sell in times of forced liquidity, risks involved in estimating the value of the underlying businesses, potential adverse changes to the legal, regulatory and taxation environments that could adversely affect the underlying businesses, currency fluctuations, changes in interest rates, institutional, settlement and custodial risks, and other risk generally associated with investing in immature emerging markets. These financial statements reflect management's assessment of the impact of the business environment on the operations and financial position of the Fund. The future business environment may differ from management's current assessment.

(c) Forward foreign exchange contracts

The Fund purchases forward foreign exchange contracts in amounts approximating the net assets attributable to the Euro and GBP classes of redeemable preference shares and fair value of investments in other investment companies denominated in Euro to manage its exposure against changes in the US Dollar/Euro and US Dollar/GBP exchange rates. Forward foreign exchange contracts are recorded at fair value at the reporting date. The unrealized gain or loss on open forward foreign exchange contracts on each valuation date is the difference between the contract exchange rate and the forward exchange rate at the valuation date, as reported by published sources, applied to the face amount of the contract. The unrealized gain or loss at the reporting date is included in the statement of assets and liabilities. Realized and unrealized changes in the fair value of the contracts are included in the statement of operations in the period in which the change occurs and are attributed entirely to the classes of redeemable preference shares to which the individual contracts relate (Notes 2(d) and 10).

(d) Allocation of profits and losses

The profit or loss of the Fund for each month, excluding realized and unrealized gains and losses on forward foreign exchange contracts used for hedging (Notes 2(c) and 10) and before management and incentive fees, is allocated at the end of each month between the US Dollar, Euro and GBP classes of redeemable preference shares (Note 6). The amount is allocated in proportion to the relative net assets of each class of redeemable preference shares on the first day of the month after adding subscriptions and deducting redemptions effective that day. All of the realized and unrealized gains and losses on forward foreign exchange contracts used for hedging net assets attributable to the Euro and GBP classes of redeemable preference shares are allocated to the appropriate class of redeemable preference shares. Management and incentive fees are calculated separately for each class of redeemable preference shares (Note 3).

(e) Foreign currency transactions

Foreign currency investments and balances that are monetary items are translated into US Dollars at the rate of exchange prevailing on the valuation date. Foreign currency transactions are translated at the rate in effect at the date of the transaction. Any realized or unrealized exchange adjustments are included in the related caption in the statement of operations.

(f) Interest income and expense

Interest income and expense are recognized on the accrual basis of accounting.

2. **Significant accounting policies** (continued)

(g) Rebate income

The Fund receives partial rebates with respect to the management and incentive fees charged on those investments in other companies that are also managed by the Manager (Note 11). If the amount and timing of such receipts can be estimated, they are accrued, otherwise rebate income is recorded on a cash basis.

(h) Cash and cash equivalents

Cash and cash equivalents include cash and money market funds held with an original maturity date of ninety days or less.

(i) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

(j) Changes in accounting policies

On April 1, 2008, the Fund adopted CICA Section 3862, Financial Instruments – Disclosures (“Section 3862”) and CICA Section 3863, Financial Instruments – Presentation (“Section 3863”), replacing Section 3861. Section 3862 requires enhanced disclosure of the nature and extent of the risks arising from financial instruments and how the Fund manages those risks. Section 3863 carries forward unchanged the presentation requirements of Section 3861 with respect of financial instruments.

3. **Management, incentive and load fees**

Management fees

The Fund pays FMG Fund Managers Limited (the “Manager”) a management fee at a rate of 2.0% per annum of the net assets attributable to the Class A Shares of the Fund and 1.5% per annum of the net assets attributable to the Class B Shares of the Fund, calculated on a monthly basis and payable quarterly. For the year ended March 31, 2010, this management fee was $179,699 (2009 - $563,805), of which $37,335 (2009 - $71,210) was payable at March 31, 2010.

The Fund also pays fees to the managers of the managed accounts. For the year ended March 31, 2010, the Fund incurred management fees of $1,562 (2009 - $6,871), of which $nil (2009 - $nil) was payable at March 31, 2010.

Incentive fees

The Class A Shares also incur a quarterly incentive fee equal to 20% of the Net Profits of the Fund, if any, during each calendar quarter (each a “Performance Period”) accrued with respect to each Class A Share of the Fund. The Net Profits are computed in a manner consistent with the principles applicable to the computation of the net assets of the Fund. If a redeemable preference share has a loss chargeable to it during any Performance Period, and during a subsequent Performance Period there is a profit allocable to such a share, there will be no incentive fee payable until the amount of the net loss previously allocated to such redeemable preference share has been recouped. Incentive fees are only paid when the net asset value of the shares increase above a previously established “high water mark” net asset value for those redeemable preference shares.

3. **Management, incentive and load fees** (continued)

Incentive fees (continued)

In the event of either a redemption being made at a date other than the end of a Performance Period or the Management Agreement is terminated at any time prior to the last day of a Performance Period, the incentive fee will be computed as though the termination date or Redemption Date, as applicable, was the last day of such Performance Period. Once earned, the incentive fee will be retained by the Manager regardless of the Fund's future results.

The Class B Shares also pay to the Manager an incentive fee of 10% of net profits attributable to each Class B Share calculated monthly and payable quarterly. Net profits are defined as the amount by which cumulative profits attributable to Class B Shares for the fiscal year before the incentive fee but after deduction of all transaction costs, management fees and expenses exceeds a hurdle rate equal to the amount that would have been earned in that fiscal period had the assets of the Fund been invested at the USD 12 month LIBOR rate at the beginning of the fiscal period. Net profits include both realized and unrealized gains less losses on investments. If the net profit for a month is negative it will be carried forward (“carry forward losses”). No incentive fee will be payable until the net profit amount in subsequent month(s) exceed carry forward losses and the hurdle as discussed above, together with any cumulative losses incurred in previous fiscal years, adjusted for redemptions. However, the net profits amount, upon which incentive fees are calculated, is not offset by actual losses incurred in previous fiscal years at the time the performance fees became payable. Once earned, the incentive fee is retained by the Manager regardless of the Fund’s future results.

For the year ended March 31, 2010 the incentive fee was $1,846 (2009 - $nil). There was no fee payable at March 31, 2010 (2009 - $nil).

Load fees

The Manager may charge load fees of up to 5% of the amount subscribed. When charged, these load fees will reduce the amount available to shareholders for the purchase of redeemable preference shares in the Fund. For the year ended March 31, 2010, load fees were $23,994 (2009 - $19,264) of which $3,078 (2009 - $6,276) were included within accounts payable and accrued expenses.

One of the directors of the Fund is also the Managing Director of the Investment Manager.

4. **Administration fees**

Apex Fund Services Limited (the “Administrator”) acts as the administrator, registrar and transfer agent for the Fund. For administration services provided, the Fund pays fees at the higher of $2,000 per month for net assets up to $10 million and $3,000 per month for net assets exceeding $10 million or twenty basis points of the Fund’s average net assets, calculated and payable monthly. Effective December 1, 2008, the fee was increased to $3,000 per month for net assets up to $10 million and $4,000 per month for net assets exceeding $10 million or fifteen basis points of the Fund’s average net assets. For the year ended March 31, 2010, administration fees were $59,680 (2009 - $77,450), of which $13,920 (2009 - $13,560) was payable at March 31, 2010.

One of the directors of the Fund is also the Managing Director of the Administrator.

5. Custodian fees

Effective August 14, 2009, Credit Suisse AG (the "Custodian") was appointed as custodian to the Fund. Fees for custody services are charged at 7 basis points per annum of the value of the net assets of the Fund under custody subject to an annual minimum of CHF 5,500. In addition, a set up fee of US$ 1,500 will be payable together with all reasonable disbursement and out-of-pocket expenses. Prior to August 14, 2009, HSBC Institutional Trust Services (Bermuda) Limited was the custodian for the Fund. Fees for custody services provided prior to August 14, 2009 were charged at the higher of $3,000 per annum or five basis points of the gross asset value of custodied investments (calculated monthly). In addition, custody transaction fees were chargeable on individual transactions on a sliding scale, depending on the market and type of security.

Effective August 25, 2009 the Fund granted the Custodian a right of lien against all currency accounts and investments in other investment companies held by the Custodian on the Fund's behalf. The purpose of the right of lien is to secure any and all claims of the Custodian against the Fund arising from any current or future agreements or contracts as well as claims on other legal grounds resulting from business operations with the Fund.

6. Share capital

The authorized share capital of the Fund is $11,000, divided into 100 common shares of par value $1 each and 10,900,000 redeemable preference shares (the "Shares"), issued in US Dollars, EUR and GBP with a par value of $0.001 each. Redeemable preference shares are issued as Class A and Class A09 Shares (collectively the "Class A Shares") and Class B and Class B09 shares (collectively the "Class B Shares"). Effective February 2, 2009, Class A09 and Class B09 shares are offered for sale. Effective March 2, 2009, the existing Class A and Class B shares were closed for new subscriptions, except in situations where approved by the Board of Directors and the Manager.

The holder of the common shares is not entitled to receive dividends, may not redeem their holding and is only entitled to be repaid the par value of the common shares upon a winding-up or distribution of capital. The common shares are entitled to one vote per share at a general meeting. All the common shares are owned by the Manager. Each redeemable preference share carries no preferential or pre-emptive rights upon the issue of new redeemable preference shares and have no voting rights at general meetings of the Fund.

Redeemable preference shares may be purchased and redeemed on a Dealing Day, which is generally the first business day of each calendar month. Redeemable preference shares may be purchased at the net asset value per redeemable preference share calculated at the immediately preceding Valuation Day, generally the last business day of the preceding month. Class A Shares may be redeemed with 45 business days written notice while Class B Shares may be redeemed with 90 business days written notice, at their net asset value per share, subject to certain restrictions as described in the Prospectus.

If on any Valuation Day, any shareholder wishes to redeem Shares totaling more than 5% of the issued capital of the Fund or several shareholders wish to redeem Shares totaling more than 15% of the issued capital of the Fund, the Directors may defer redemption of such Shares, and the calculation of the redemption price, to a subsequent Dealing Day being not later than the fifth Dealing Day following receipt of the application for redemption. In such cases, suspended subscription and redemption requests shall be carried out on the basis of the next Net Asset Value.

At March 31, 2010, 6.43% of the US Dollar Class B redeemable preference shares of the Fund were owned by other investment companies managed by the Manager. At March 31, 2009, 9.60% of the US Dollar Class B redeemable preference shares of the Fund were owned by the Manager and other investment companies also managed by the Manager.

7. **Overdraft facility**

During the year the Fund had an overdraft facility in the amount of $2,000,000 with HSBC Bank Bermuda Limited. Collateral for the overdraft facility is a fixed and floating charge over the investment portfolio and deposits held in the Fund's restricted account with the Bank. Aggregate drawings on the facility are limited to the lesser of $2,000,000 or 15% of the net asset value of the Fund. Borrowings bear interest at LIBOR plus 4% per annum which is payable monthly. On August 31, 2009 the Fund closed its custody account with the Bank which resulted in the termination of this facility.

8. **Fair value of financial instruments**

The methods used to determine the fair value of investments in other investment companies, securities, managed accounts and unrealized gains and losses on forward foreign exchange contracts are described in Notes 2(a) and 2(c). The fair value of the Fund's other financial assets and financial liabilities approximate their carrying amount due to their short term nature.

CICA 3862 establishes a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. The hierarchy of inputs is summarized below:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

The following is a summary of the inputs used as of March 31, 2010 in valuing the Fund's investments and derivatives carried at fair value:

	Level 1	Level 2	Level 3	Total
Investments in other investment companies	$ –	$ –	$ 904,780	$ 904,780
Common stock	2,010,903	–	40,442	2,051,345
Total investments	$ 2,010,903	$ –	$ 945,222	$ 2,956,125
Derivative assets		$ 2,962		$ 2,962
Derivative liabilities		$ (2,193)		$ (2,193)

8. **Fair value of financial instruments** (continued)

During the period ended March 31, 2010, the reconciliation of the change in investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

	Investments in other investment companies	Common stock	Total
Beginning balance	$ 1,317,594	$ –	$ 1,317,594
Purchases	–	846,286	846,286
Sales	(282,818)	(672,356)	(955,174)
Realized gains	138,578	26,069	164,647
Change in unrealized depreciation	(268,574)	(159,557)	(428,131)
Ending balance	$ 904,780	$ 40,442	$ 945,222
Total change in unrealized depreciation during the year for assets held at March 31, 2010	$ (203,844)	$ (159,557)	$ (363,401)

For investments in other investment companies, the Manager has estimated fair values by using the reported net asset value per share as provided by the administrators of the investment companies, if available, or other available information to arrive at fair value. The Fund has not identified any other reasonable possible alternatives for valuing its Level 3 financial instruments.

The common stock held in the Fund's Managed Accounts includes investments in public equities that are not actively traded. The Fund has applied a discount to the reported value of the portfolio to reflect the change in liquidity.

Investment in Central Asia Real Estate Fund Ltd. and Eurasian Financial Institutions Fund

The Fund has an investment in Central Asia Real Estate Fund Ltd. ("Central Asia") and Eurasian Financial Institutions Fund ("Eurasian") which have estimated fair values of $159,579 (2009 - $251,878) and $89,931 (2009 - $238,851), respectively, at March 31, 2010 representing 2.34% (2009 - 2.37%) and 1.32% (2009 - 2.25%), respectively, of the net asset value of the Fund at that date.

The investment managers of Central Asia and Eurasian suspended the calculation of net asset values in October 2008 and no official net asset value has been published since that date. The Manager of the Fund has estimated the fair value of the Fund's investment in Central Asia and Eurasian throughout the year and as at March 31, 2010 based upon the illiquidity of those investments and the overall movements in the investment markets where Central Asia and Eurasian's investments are located in the period from October 2008 to March 31, 2010.

Central Asia and Eurasian were sold subsequent to March 31, 2010, as described in Note 12.

8. **Fair value of financial instruments** (continued)

Investments in Imagi International Holdings and Villa Organic

The Fund had an investment in Villa Organic and an investment in Imagi International Holdings ("Imagi") held in the Winnington Capital Ltd. and Citic Securities Brokerage (HK) Ltd. managed accounts, which had an aggregate fair value of $1,344,603 at March 31, 2009, representing 12.67% of the net asset value of the Fund at that date. The securities ceased trading in January 2009. The fair value of the securities had been estimated by the Manager by applying a discount on the last traded price in the absence of observable transactions in the marketplace. Villa Organic and Imagi were sold during the year for proceeds of $27,291 and $1,269,032, respectively.

Investment in Hudson River Russia Fund Limited

The Fund has an investment in Hudson River Russia Fund Limited ("Hudson River") which has an estimated fair value of $655,270 (2009 - $826,865) at March 31, 2010, representing 9.60% (2009 - 7.79%) of the net asset value of the Fund at that date.

While the investment manager of Hudson River has continued to provide that fund's net asset value on a monthly basis, since October 2008 the investment manager has not permitted investors to redeem out of the fund at those reported net asset values. The Manager of the Fund has estimated the fair value of the Fund's investment in Hudson River at March 31, 2010 and 2009 by applying a discount to the reported net asset value to reflect the lack of liquidity of the Fund's investment, and to reflect the type and location of the underlying investments held. Hudson River was sold subsequent to March 31, 2010, as described in Note 12.

The fair values carried for Hudson River at March 31, 2010, and Central Asia, Eurasian, Hudson River, Villa Organic and Imagi at March 31, 2009 are based on estimates made by the Fund's Manager. There is a significant amount of uncertainty as to the fair value of the investments at those dates since the calculation of the NAV of Hudson River, Central Asia and Eurasian have been suspended and a ready market for the Villa Organic and Imagi securities does not exist. There could be significant differences between the realizable values of the investments upon their eventual sale and the fair value amounts estimated by the Fund's Manager at March 31, 2010 and 2009, and such differences could be material to the Fund's financial statements.

9. **Taxation**

Under current Bermuda laws, the Fund is not required to pay any taxes in Bermuda on either income or capital gains. The Fund has received an undertaking from the Minister of Finance in Bermuda exempting it from any such taxes at least until the year 2016.

It is management's belief that the Fund is not engaged in a United States trade or business and will not be subject to United States income or withholding taxes in respect of the profits and losses of the Fund other than the 30% withholding tax on U.S. source dividends. As a result, management has made no provisions for income taxes in these financial statements.

10. **Financial instruments and risk management**

The Fund's investment activities expose it to a variety of financial risks. The schedule of investments presents the investments held by the Fund as at the end of the year.

(a) Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund invests directly, through managed accounts and indirectly through other investment companies in securities that are located in a variety of emerging markets. These markets are volatile and have limited liquidity. As a result, the Fund may not be able to quickly liquidate its investments in other investment companies, managed accounts and common equity at their stated fair value in order to meet its liquidity requirements, including redemption requests from its shareholders. The Fund's exposure to liquidity risk is managed by the Manager.

The schedule of investments summarizes the redemption frequencies of the Fund's investments in other investment companies at March 31, 2010. The information has been obtained by the Manager from the offering memoranda or similar information provided by the manager of the underlying investment company.

The liabilities of the Fund are comprised of accrued expenses and redemptions payable and these fall due within 3 months of the date of the statement of assets and liabilities

(b) Interest rate risk

Interest rate risk arises when a fund invests in interest-bearing financial instruments. The Fund does not hold investments which are sensitive to interest rates but is indirectly exposed to the interest rate risk of the investments held by the investment companies and managed accounts in which the Fund invests. Funds obtained through borrowings issued at variable rates (Note 7) expose the Fund to interest rate risk.

(c) Credit risk

Credit risk arises from the potential inability of counterparties to perform under the terms of the contract. The Fund has cash and cash equivalents, derivative financial instruments and investments held in the custody of a major bank with a long term credit rating of Aa3 issued by Moody's. As the Fund invests in other investment companies, the Fund is exposed to the credit risk of each of those underlying investment companies. The maximum amount of credit exposure is represented by the carrying amounts of the investments listed on the schedule of investments.

Bankruptcy or insolvency of the Custodian may cause the Fund's rights to be delayed with respect to the cash and cash equivalents and investments held in the custodial relationship. The Manager monitors the credit quality and financial position of the Custodian and should it decline significantly, the Manager will move cash holdings and custodial relationships to another institution.

The Fund has investments with a fair value of $2,051,345 in managed accounts. Mac Asset Management and Algebra Capital act as the advisors for the managed accounts. Unlike an investment in an investment company, the Fund will not receive shares or any other form of title for its investments, but will simply rank as a creditor of the advisors.

The advisors for the managed accounts will make separate custody arrangements for the investments held therein. The amount of exposure to the advisor is represented by the carrying amount of the managed account.

10. **Financial instruments and risk management** (continued)

(d) Market risk

Market risk is the risk that the changes in interest rates, foreign exchange rates or securities prices will affect the fair value of the financial instruments held by the Fund. The Fund invests directly, through managed accounts and indirectly through other investment companies in securities that are located in a variety of emerging markets. These markets are volatile and difficult to predict and therefore expose the Fund to significant market risk. Maximum risk resulting from financial instruments is equivalent to their market values.

The Fund is indirectly exposed to the market risk of the investments held by the other investment companies in which the Fund invests. Some of those other investment companies may deal or trade derivative financial instruments as their principal investment activity or use these instruments as part of their investment strategy. This may result in market risk to those other investments companies in excess of the amount invested in these securities. However, the Fund's risk is limited to the net asset value of its investments in those other investment companies.

At March 31, 2010, if the price of the investments increased by 5%, this would have increased the net assets attributable to holders of redeemable preference shares by $147,806 (2009 - $608,101); an equal change in the opposite direction would have decreased the net assets attributable to holders of redeemable preference shares by an equal amount.

(e) Currency risk

The Fund may invest in securities and enter into transactions denominated in currencies other than the US Dollar. Consequently, the Fund is exposed to risks that the exchange rate of the US Dollar relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Fund's assets or liabilities denominated in currencies other than the US Dollar.

10. **Financial instruments and risk management** (continued)

(e) Currency risk (continued)

The following table sets out the Fund's total exposure to foreign currency risk split between monetary assets and liabilities, net assets attributable to non-USD denominated share classes, forward foreign exchange contracts and the resulting net exposure to foreign currencies:

March 31, 2010	Monetary Assets	Monetary Liabilities	Net assets attributable to non-USD denominated share classes	Forward FX contracts	Net Exposure
EUR	$ 13,509	$ –	$ –	$ (206,690)	$ (193,181)
EUR	–	–	(220,160)	221,686	1,526
GBP	–	(7)	(77,601)	77,726	118
	$ 13,509	$ (7)	$ (297,761)	$ 92,722	$ (191,537)
March 31, 2009					
EUR	$ 2,588,625	$ –	$ –	$ (3,736,472)	$ (1,147,847)
NOR	1,002,466	–	–	–	1,002,466
HKD	1,543,623	–	–	–	1,543,623
Other currencies	15,641	–	–	–	15,641
EUR	–	–	(297,829)	329,614	31,785
GBP	–	–	(30,946)	36,299	5,353
	$ 5,150,355	$ –	$ (328,775)	$ (3,370,559)	$ 1,451,021

The amounts in the above table are based on the carrying value of monetary assets and liabilities, net assets attributable to non-USD denominated share classes and the underlying notional amounts of forward foreign exchange contracts.

Forward foreign exchange contracts are entered in to by the Fund to hedge exposure to monetary assets and liabilities denominated in currencies other than USD and to hedge the exposure of certain share classes denominated in currencies other than USD.

The gains and losses on forward foreign exchange contracts entered into for the purpose of hedging the exposure to monetary assets and liabilities are recorded in gains and losses on forward foreign exchange contracts in the statement of operations. The gains and losses on contracts entered into for the purpose of hedging the exposure of share classes denominated in currencies other than USD are also recorded in gains and losses on forward foreign exchange contracts in the statement of operations, but are allocated specifically to the non-USD denominated share classes to which the hedging activities, and resultant gains and losses, relate.

10. **Financial instruments and risk management** (continued)

(e) Currency risk (continued)

At March 31, 2010, had the US Dollar strengthened by 5% in relation to the other currencies, there would be an approximate net impact of $9,659 (2009 - ($70,694)) on the net decrease in net assets from operations and the net assets of the Fund arising from the change in the carrying value of monetary assets, net of the effect of hedging instruments. There would also be an approximate net impact of ($83) (2009 - ($1,857)) on the net decrease in net assets from operations and on the net assets attributable to the hedged non-USD denominated share classes. A 5% weakening of the US Dollar against the Euro would have resulted in an approximate equal but opposite effect.

Actual results may differ from this sensitivity analysis and the difference could be material to the financial statements.

At March 31, 2010, the Fund had the following open forward foreign exchange contracts:

Currency to be Bought		Currency to be Sold		Contract due Date	Fair Value
EUR	162,478	USD	221,686	April 7, 2010	$ (2,193)
GBP	51,672	USD	77,726	April 7, 2010	677
USD	206,690	EUR	151,311	April 7, 2010	2,285
					$ 769

At March 31, 2009, the Fund had the following open forward foreign exchange contracts:

Currency to be Bought		Currency to be Sold		Contract due Date	Fair Value
EUR	262,808	USD	329,614	April 2, 2009	$ 19,553
GBP	25,904	USD	36,299	April 2, 2009	865
USD	3,736,472	EUR	2,979,168	April 2, 2009	(221,650)
					$ (201,232)

(f) Capital management

The Fund's objectives in managing the redeemable preference shares are to ensure a stable base to maximize returns to all investors, and to manage liquidity risk arising from redemptions. The Fund's management of the liquidity risk arising from redeemable preference shares is discussed in note 10(a).

The Fund is not subject to any externally imposed capital requirements.

11. Related party transactions

At March 31, 2010, the Fund held investments with a fair value of $nil (2009 - $2,588,625) in other investment companies that are also managed by the Manager or related to the Manager. In addition, FMG Combo Fund Ltd., a Fund that is also managed by the Manager, held 6.20% (2009 - nil) of the outstanding US Dollar Class B Shares at March 31, 2010.

For the year ended March 31, 2010, rebate income was $16,354 (2009 - $114,881), of which $3,353 (2009 - $14,315) was receivable at March 31, 2010.

12. Subsequent events

Subsequent to March 31, 2010, the investments in Hudson River, Central Asia and Eurasian were sold for proceeds of $1,148,034, $159,579 and $89,931, respectively.

Effective May 3, 2010 the Fund created two new share classes, being the US Dollar Class A10 and US Dollar Class B10 Shares. The Class A09 and B09 Shares are no longer offered for subscription.

For the period from March 31, 2010 to August 31, 2010 there have been net redemptions in the US Dollar Class A Shares of $520,577, the US Dollar Class A09 of $219,688, the Euro Class A of $83,591, the US Dollar Class B Shares of $1,784,822, the US Dollar class B09 of $73,368, and the GBP Class A09 of $33,607. There have been net subscriptions in the US Dollar Class A10 of $223,531, the Euro Class A09 of $5,069, and the US Dollar Class B10 of $430,312.