

**SNAEFELL ALTERNATIVE
INVESTMENT FUND LIMITED**

**Financial Statements and
Independent Auditors' Report**

December 31, 2010

**SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED
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**SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED
DIRECTORY**

**Registered Office: Butterfield Fulcrum Group (Bermuda) Limited, Rosebank Centre, 11
Bermudiana Road, Pembroke HM 08, Bermuda**

Directors

David Hunter
Richard Jarvis
Brian Sheppard (resigned on September 30, 2010)

Investment Manager

Thomas Miller Investment (Isle of Man) Limited
16/17 Mount Havelock
Douglas
Isle of Man
IM1 2QG

Administrator

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

Auditors

Deloitte & Touche Ltd.
Corner House
Church & Parliament Streets
Hamilton HM 11
Bermuda

Legal Counsel

Bermuda counsel:
Wakefield Quin
Victoria Place
31 Victoria Street
Hamilton HM 10
Bermuda

Company Secretary

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

Custodian

Butterfield Trust (Bermuda) Limited
65 Front Street
Hamilton HM 12
Bermuda

Listing Sponsor

Butterfield Securities (Bermuda) Limited
65 Front Street
Hamilton HM 12
Bermuda

**SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED
DIRECTORS' REPORT (UNAUDITED)**

The Directors present their annual report together with the audited financial statements of the Company for the year ended December 31, 2010.

Activities, Business Review and Future Prospects

The Company is an exempted company incorporated on July 8, 2002, with limited liability in Bermuda as a mutual fund company. A detailed review of the activities of the Company is set out on page 5 of this report.

Results and Dividends

The results for the year are shown in the Statement of Comprehensive Income on page 11. The Directors do not recommend the payment of a dividend.

Directors

The Directors of the Company are set out on page 3. All of the Directors were appointed on July 26, 2002.

Statement of Directors' Responsibilities

The Directors are responsible for the preparation of the financial statements. In preparing those financial statements, the Directors:

- Ensure that the financial statements comply with the Memorandum and Articles of Association and International Financial Reporting Standards, as published by the International Accounting Standards Board, subject to any material departures disclosed and explained in the Financial statements;
- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records and for managing the Company in accordance with the Prospectus and the Memorandum and Articles of Association. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud, error and non-compliance with law and regulations.

On behalf of the Directors

Director

Director

February 11, 2011

SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED
INVESTMENT MANAGER'S REPORT (UNAUDITED)

2010 was a year of two halves. The first half was dominated by sovereign debt issues in Europe, inflationary pressure within the emerging markets and economic slowdown in the USA. This resulted in increased levels of volatility for risk assets as investors looked for flight to quality. As a result, major equity markets declined, with the S&P 500 index down 6.65% by mid year. However, the second half was a different story. As economic growth in USA slowed down, speculation grew that the Federal Reserve will have initiate QE2 in order to stimulate the economy and stop the risk of falling back towards a recession. On this expectation risk assets rallied significantly during the second half of the year with the S&P 500 index rising 23.17% over the remaining 6 months of 2010. Emerging markets equities also followed a similar pattern for 2010 as the MSCI EM index returned 16% for the year. With the emerging economies there was concern about rising inflation and as a result this could force the central banks in these regions to initiate fiscal and monetary policies to reduce liquidity and thereby slowdown economic growth.

Hedge funds also had a mixed year with the HFR FoF index down as at the end of June. However, as risk assets rallied in the second half of the year the index finish up 5.73%. The DJ Credit Suisse index returned 10.95% for the year. The best performing strategies for the year were Global Macro and Event Driven which returned 13.47% and 12.63% respectively. Global Macro managers benefited from the several macro economic themes that occurred during the year. For Event Driven managers the increased level of activity within M&A and company restructurings provided these managers with good opportunities.

All but two of our invested strategies returned positive attribution to performance. The best performing strategies were the Event Driven strategies which benefited from increased company activity. Our Equity Long Short managers also performed well as increased level of dispersion within stock prices in the first half of the year and overall market rally in the second half allowed the strategy to perform well.

The weakest strategy for the fund was Global Macro. These managers given their strategy perform well during periods of rising volatility in the markets but as volatility declined to pre-Lehman levels and markets trended upwards throughout the second half of the year these managers suffered as a result. However, given our cautious outlook, these managers will provide protection to the portfolio in the event of increased market volatility whilst not adding to much downside to performance when the market is not beneficial for their respective strategies.

The fund returned 6.97% in 2010 compared with 5.7% from the HFRI FoF Index. This was mainly due to positive asset allocation and out performance from some of our invested managers. On the whole, our managers performed as expected given their strategies and financial market environment with some returning very encouraging returns. Our cautious outlook on global economic growth meant that we kept a higher than average cash balance in the fund during the second half of 2010. Over two years the fund has returned 26.02% and has outperformed the HFRI FoF Index by 8.8%.

Outlook

We believe that 'risk' assets will continue to perform well as global economic growth improves but that there will continue to be a number of headwinds going forward. These include the European Sovereign crisis. There are concerns that many more peripheral countries will require financial support from the EU. Also QE2 is due to end mid 2011 so concern will be whether the US economy will be able to continue growing at a steady pace or whether it will require further stimulus from the Federal Reserve.

**SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED
INVESTMENT MANAGER'S REPORT (UNAUDITED) (Cont'd)**

Emerging Markets have started to tighten monetary policy to try and control growth and inflation. As a result, we still remain cautious whilst continuing to focus on achieving absolute returns with low volatility.

We expect our current managers to perform well in both rising and volatile markets. We plan to invest further within Global Macro and Emerging Markets.

Thomas Miller Investment (Isle of Man) Limited
Investment Manager
February 11, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of
Snaefell Alternative Investment Fund Limited

Report on the financial statements

We have audited the accompanying financial statements of Snaefell Alternative Investment Fund Limited (the "Company"), which comprise the statement of financial position, including the schedule of investments, as at December 31, 2010, and the statement of comprehensive income, statement of changes in net assets attributable to holders of redeemable participating shares and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Snaefell Alternative Investment Fund Limited as at December 31, 2010, and the results of its operations, changes in its net assets attributable to holders of redeemable participating shares and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte Touche Ltd.

July 27, 2011

SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED
STATEMENT OF FINANCIAL POSITION

December 31, 2010

(expressed in United States dollars)

	2010	2009
ASSETS		
Cash and cash equivalents	\$ 9,692,649	\$ 10,608,805
Receivable for investments sold	2,907,851	311,273
Investment subscriptions made in advance	-	2,100,000
Investments at fair value through profit or loss	45,572,108	41,228,560
Sundry receivables and prepayments	1,995	-
	<u> </u>	<u> </u>
Total Assets	\$ 58,174,603	\$ 58,248,638
	<u> </u>	<u> </u>
LIABILITIES		
Sundry payables and accrued expenses	\$ 98,647	\$ 81,822
	<u> </u>	<u> </u>
Liabilities (excluding net assets attributable to holders of redeemable participating shares)	98,647	81,822
	<u> </u>	<u> </u>
Net assets attributable to holders of redeemable participating shares	\$ 58,075,956	\$ 54,166,816
	<u> </u>	<u> </u>

APPROVED BY THE BOARD:

Director

Director

See accompanying notes to the financial statements

SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED
SCHEDULE OF INVESTMENTS
December 31, 2010
(expressed in United States dollars)

Shares	Investment	Fair Value	% of Net Assets
337	Bay Harbour Partners Ltd. – Class IV – Side Pocket	\$ 163,792	0.28%
1,100	BHR Offshore Fund Ltd. – Class A Series Apr. 2010	1,317,823	2.27
1,910	BHR Offshore Fund Ltd. – Class A Series Nov. 2010	1,976,955	3.40
2,205	Castlerigg International ltd. – Class SC-1 Series 1	248,619	0.43
1,505	Conquest Macro Fund Ltd. Class 1 X Series 0909	1,374,792	2.37
1,200	Conquest Macro Fund Ltd. Class 1 X Series 0810	1,140,409	1.96
94	Drake Global Opportunities Fund Ltd. – Class C Series 1	83,282	0.14
834	ECF Value Fund International Ltd. – Class A Series 1	3,621,929	6.24
1,587	Force Capital Ltd. – Series 90/2/20/Initial	2,408,363	4.15
700	Force Capital Ltd. – Series 90/2/20/0410	702,215	1.21
14,000	Finisterre Sovereign Debt Fund – Class A Series 17	1,475,730	2.54
12,000	Finisterre Sovereign Debt Fund – Class A Series 21	1,197,901	2.06
4	Galleon Diversified Fund, Ltd.	-	0.00
2,100	Jana Nirvana Offshore Fund Ltd. – Class A Series 01 2010	2,311,361	3.98
750	Jana Nirvana Offshore Fund Ltd. – Class A Series 04 2010	787,511	1.36
14	Jana Offshore Partners Ltd. – Side Pocket B	16,831	0.03
11,973	Laurus Offshore Fund Ltd. – Class A	1,249,055	2.15
962	Linden International Ltd. – Class A Series 1	2,243,777	3.86
800	Linden International Ltd. – Class A Series 04/10	852,694	1.47
2,000	Longacre International II, Ltd. – Class A Series 03 08	1,936,901	3.34
1,000	Longacre International II, Ltd. – Class D Series 04 10	1,043,405	1.80
27,814	M Kingdon Offshore Ltd. – Class A Series 1	3,737,283	6.44
1,363	Pulsar Fund SPC – Class 1 E Series 07/10	1,283,144	2.21
13,172	Selectinvest ARV II Ltd. – Series C 09 10	1,410,261	2.43
1,749	Seneca Capital International SLV Ltd. – Class 1A	158,950	0.27
1,516	Seneca Capital International Ltd. – Class 3B	62,561	0.11
474	Suttonbrook Offshore Partners Ltd. – Class C S48	685,642	1.18
37,361	Titan Masters International Fund, Ltd. – Class L	5,471,330	9.42
22,000	Vardana International Ltd. – Class A S14	2,171,957	3.74
4,000	Vardana International Ltd. – Class A S17	392,679	0.68
579	York Investments Ltd.	4,044,956	6.96
	Total Investments at fair value	\$ 45,572,108	78.47%

See accompanying notes to the financial statements

SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED
SCHEDULE OF INVESTMENTS
December 31, 2009
(expressed in United States dollars)

Shares	Investment	Fair Value	% of Net Assets
	Africa Alpha Fund II Limited Partnership	\$ 464,377	0.86%
344	Bay Harbour Partners Ltd. – Class IV 03 08 SPV	241,778	0.45
1,310	Bay Harbour Partners Ltd. – Class IV 03 08 ND	1,297,569	2.40
337	Bay Harbour Partners Ltd. – Class IV 03 08 Side Pocket	82,730	0.15
14,953	Castlerigg International Limited – Class F Series 1	1,557,017	2.99
2,757	Castlerigg International Limited – Class SC-1 Series 1	308,741	0.45
132	The Drake Global Opportunities Fund, Ltd. – Class C Series 1	97,540	0.18
834	CF Vakue Fund International Ltd. – Class A Series 1	2,819,411	5.21
1,587	Force Capital Ltd. – Series 90/2/20	2,182,752	4.03
1,000	Frontpoint Offshore Multi-Strategy Fund Ltd. – Class A Series 03/2007 USD	1,178,987	2.18
3,750	Frontpoint Offshore Multi-Strategy Fund Ltd. – Class A Series 08/2009 USD	3,882,077	7.17
126	Galleon Diversified Fund, Ltd.	226,763	0.42
14	Jana Offshore Partners, Ltd. – Class B Series 01 02	8,675	0.02
11,973	Laurus Offshore Fund, Ltd. – Class A	1,452,362	2.68
1,960	Linden International Ltd. – Class A Series 1	3,680,404	6.79
2,000	Longacre International Ltd. – Class A Series 03 08	1,711,322	3.16
27,814	M Kingdon Offshore Ltd. – Class A Series 1	3,444,598	6.36
25,044	Selectinvest ARV II Ltd. – Series C 04 09	2,728,557	5.04
2,038	Seneca Capital International SLV Ltd. – Class 1A	186,041	0.34
1,445	Seneca Capital International Ltd. – Class 3B	26,294	0.05
247	Sivik Global Healthcare Offshore – Class A Sub Class 1 Series 01-01	388,978	0.72
1,576	SuttonBrook Offshore Partners Ltd. – Class C Series 1	2,111,133	3.90
37,867	Titan Masters International Fund Ltd.	5,173,553	9.55
46,378	York Credit Opportunities Unit Trust – Class B Series 1	2,209,194	4.08
579	York Investments Limited – Class D Series 1	3,767,707	6.96
	Total Investments at fair value	\$ 41,228,560	76.11%

See accompanying notes to the financial statements

SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED
STATEMENT OF COMPREHENSIVE INCOME
for the year ended December 31, 2010
(expressed in United States dollars)

	2010	2009
INCOME		
Interest income	\$ 30,066	\$ 145,069
Net realized gain (loss) on investments	2,627,303	(1,092,644)
Net change in unrealized gain on investments	1,412,153	9,272,580
	4,069,522	8,325,005
EXPENSES		
Custody and administration fees	94,838	88,422
Audit fees	43,929	30,000
Other expenses	21,615	16,583
	160,382	135,005
Net increase in net assets attributable to holders of redeemable participating shares	\$ 3,909,140	\$ 8,190,000

The Company had no other comprehensive income for the years ended December 31, 2010 and 2009.

See accompanying notes to the financial statements

SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF
REDEEMABLE PARTICIPATING SHARES

for the year ended December 31, 2010
(expressed in United States dollars)

	2010	2009
Net assets attributable to holders of redeemable participating shares at beginning of year	\$ 54,166,816	\$ 45,976,816
Net increase in net assets attributable to holders of redeemable participating shares from operations	<u>3,909,140</u>	<u>8,190,000</u>
Net assets attributable to holders of redeemable participating shares at end of year	<u>\$ 58,075,956</u>	<u>\$ 54,166,816</u>

See accompanying notes to the financial statements

SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED
STATEMENT OF CASH FLOWS
for the year ended December 31, 2010
(expressed in United States dollars)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase in net assets attributable to holders of redeemable participating shares from operations	\$ 3,909,140	\$ 8,190,000
Adjustments to reconcile net increase in assets attributable to holders of redeemable participating shares from operations to net cash provided by operating activities		
Net realized (gains) losses on investments	(2,627,303)	1,092,644
Net change in unrealized gains on investments	(1,412,153)	(9,272,580)
Cost of investments purchased	(29,458,868)	(21,059,726)
Proceeds from investments sold	28,658,198	24,814,378
Change in sundry receivables and prepayments	(1,995)	1,875
Change in sundry payables and accrued expenses	16,825	29,345
	<hr/>	<hr/>
Net cash provided by operating activities	(916,156)	3,795,936
	<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents	(916,156)	3,795,936
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,608,805	6,812,869
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 9,692,649	\$ 10,608,805
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to the financial statements

SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

(expressed in United States dollars)

1. GENERAL

Snaefell Alternative Investment Fund Limited (the “Company”) was incorporated in Bermuda on July 8, 2002, with limited liability and unlimited duration under the provisions of the Companies Act 1981 of Bermuda. The investment objective of the Company is to achieve annual returns of between 10% - 12% with low volatility. The Company will invest in a limited number of fund of funds and hedge funds (the “Underlying Funds”).

The Company is managed by Thomas Miller Investment (Isle of Man) Limited (the “Investment Manager”), a Bermuda exempted company, as appointed by the Directors. The Investment Manager is responsible, subject to the policies and controls of the Board of Directors, for the investment of the Company’s assets.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) adopted by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

The financial statements are expressed in United States dollars, which reflects the Company’s primary activity of investing in Underlying Funds denominated in United States dollars and is the Company’s functional and presentation currency. The financial statements have been prepared under the historical-cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

Effective January 1, 2009, the Company adopted amendments to International Accounting Standard 1 “Presentation of Financial Statements (2007)” (“IAS 1”), which introduces non-mandatory terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

IAS 1 requires that all items of income and expense be presented either: single statement (a ‘statement of comprehensive income’). The Company does not have separate components of other comprehensive income; therefore, comprehensive income is equal to the profit/(loss) reported for all periods presented.

The IASB issued amendments to IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising in Liquidations” in February 2008. The changes became effective on January 1, 2009.

SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

(expressed in United States dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Use of Estimates

The preparation of financial statements in accordance with IFRS 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 income and expenses in the financial statements and accompanying notes during the period.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision.

Valuation of investments

Investments in Underlying Funds are valued at fair value as determined by the Investment Manager, with the change in this value included in net unrealized gain or loss on investments in the Statement of Comprehensive Income. In determining fair value, the Investment Manager utilizes the net asset valuations of the Underlying Funds which are drawn from their most recent net asset value provided by the relevant fund administrator which value securities and other financial instruments at fair value. In cases where Underlying Funds are liquidating and no net asset value is being provided by the Underlying administrator, the Underlying Funds are valued by the Investment Manager at fair value.

However, some Underlying Funds may invest in non-marketable securities, such as non publicly traded securities, or investments in limited partnerships whose value is determined in good faith by the investment advisor of those funds. Appreciation or depreciation of investments in Underlying Funds is net of all fees paid to their investment managers.

Participating shares

The liability to shareholders is presented on the balance sheet as net assets attributable to holders of redeemable participating shares and is determined based on the residual assets of the Company after deducting the Company's other liabilities.

Cash and cash equivalents

Cash and cash equivalents include amounts held at bank and money market funds with daily liquidity.

Gains and losses

Investment transactions are recorded on a trade date basis. Realized gains or losses on investments are calculated on an average cost basis.

Income

Income earned is accounted for on an accruals basis and is shown gross of irrecoverable withholding taxes where applicable.

SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010
(expressed in United States dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Foreign currencies

Assets and liabilities in foreign currencies are translated into United States dollars, the reporting currency, at year end exchange rates. Foreign currency gains and losses are included in the Statement of Comprehensive Income. Transactions in foreign currencies which occurred during the year are translated into United States dollars at the rates prevailing on the transaction date.

Taxation

Under current Bermuda law, the Company is not obligated to pay taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda, pursuant to the provisions of the exempted undertaking Tax Protection Act 1966, which exempts the Company from any such Bermuda taxes until March 28, 2016.

In March 2011, the Bermuda Government enacted the Exempted Undertakings Tax Protection Amendment Act 2011, allowing the Minister of Finance to grant assurance up to March 31, 2035.

New and revised accounting pronouncements

The Company has applied *Improving Disclosures about Financial Instruments (Amendments to IFRS 7)*, issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorized as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefore, are required to be disclosed for each class of financial instruments.

Further, the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

3. FEES AND EXPENSES

Investment Management fees

On April 4, 2008, the Investment Management Fee structure was amended to have the management fee charged by the Investment Manager directly to the shareholders. The Investment Manager has decided not to charge any incentive fee during the years ended December 31, 2010 and 2009.

SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

(expressed in United States dollars)

3. FEES AND EXPENSES (cont'd)

Custodian and Administrator fees

The Company's administrator is Butterfield Fulcrum Group (Bermuda) Ltd. (the "Administrator"). Butterfield Trust (Bermuda) Limited (the "Custodian") is responsible for the custody of the Company's investments. The Custodian and Administrator are entitled to receive fees from the Company in accordance with specific agreements. The fees, which are accrued and are payable monthly in arrears, are based on the net asset value of the Company. In addition, the Custodian and Administrator are entitled to receive reasonable out of pocket expenses and the Custodian charges a custody transaction fee. Custodian and administration fees for the year ended December 31, 2010 was \$94,838 (2009: \$88,422), of which \$48,647 (2009: \$22,521) was payable at year end and included within sundry payables and accrued expenses.

Directors' fees

Directors are entitled to remuneration for their services. The Directors may also be reimbursed, inter alia, for traveling, hotel and other expenses properly incurred by them in attending meetings of the Directors or in connection with the business of the Company. Any director who devotes special attention to the business of the Company may be paid such extra remuneration as the Directors may determine. The fees for the year ended December 31, 2010 were \$Nil (2009: \$Nil).

4. SHARE CAPITAL

A new series of shares may be issued on each dealing day other than a dealing day which occurs on the first business day of a calendar year. Shares are issued in a series to ensure the equitable apportionment of incentive fees payable to the Investment Manager. The minimum initial subscription for shares by an investor is \$100,000. Generally, shares may be redeemed on each first business day of each month with 30 calendar day's prior written notice.

At each financial year end of the Company, each series of shares other than the initial series will be consolidated into the initial series unless, if at the financial year end either the Net Asset Value of such series is below its prior high Net Asset Value or the Net Asset value of the initial series is below its prior high Net Asset Value.

	2010	2009
	Number of	Number of
	shares	shares
The Company has the following authorized share capital:		
100 Manager shares at US\$1.00 par value	100	100
990,000 non-voting participating shares at US\$0.01 par value	9,900	9,900
	<hr/>	<hr/>
	10,000	10,000
	<hr/>	<hr/>

SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

(expressed in United States dollars)

4. SHARE CAPITAL (cont'd)

Movement in share capital during the year was as follows:

	2010 Number of shares	2009 Number of shares
Balance at January 1	42,684	42,684
Share conversion	-	-
Issue of redemption of shares	-	-
	<hr/>	<hr/>
Balance at December 31	<u>42,684</u>	<u>42,684</u>

5. COMPARATIVE NET ASSET VALUE TABLE

	Net Asset Value Total	Shares in Issue	Net Asset Value per share
As at December 31, 2010			
Initial Series	\$ 58,075,956	42,684	\$ 1,360.60
	<hr/>	<hr/>	<hr/>
As at December 31, 2009			
Initial Series	\$ 54,166,816	42,684	\$ 1,269.01
	<hr/>	<hr/>	<hr/>

6. RISK MANAGEMENT AND ASSOCIATED RISKS

The Company maintains positions in a variety of *non-derivative* financial instruments as dictated by its Investment Management strategy. The nature and extent of the financial instruments outstanding at the Statement of Position date and the risk management policies employed by the Company are discussed below.

Market risk

The Company's portfolio is subject to normal market fluctuations and the risk inherent in all investments and there can be no assurance that appreciation will occur. The Company invests in other Underlying Funds and as such is also indirectly exposed to any risks inherent in those Underlying Funds.

SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

(expressed in United States dollars)

6. RISK MANAGEMENT AND ASSOCIATED RISKS (cont'd)

Market risk represents the potential loss that can be caused by a change in the market value of a financial instrument. The Company's exposure to market risk is determined by a number of factors which may be affected by the investment strategies employed by the Underlying Funds. Market risk includes currency risk, interest rate risk and price risk.

Changes in currency exchange rates relative to the United States dollar will affect the United States dollar value of the Company's assets denominated in that currency and thereby impact upon the Company's total return on such assets and investments.

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting similar financial instruments traded in the market. The Company is exposed to price risk arising from its investments in Underlying Funds. However, the trading strategy of the Company means that there is no direct relationship between any established market indices, interest rates or foreign exchange rates and the expected performance of the Company.

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company may be exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Company is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or re-price in a given period. The Company is only exposed to interest rate risk through its cash and cash equivalents.

As the majority of the financial instruments are carried at fair value with fair value changes recognised in the statement of comprehensive income, all changes in market conditions will directly affect the Statement of comprehensive income.

At December 31, 2010, if the NAV per share of the Underlying Funds had been 5% higher with all other variables held constant, the increase in net assets attributable to holders of redeemable shares for the year would have been \$2,278,605 (2009: \$2,061,428) higher.

If the NAV per share of the Underlying Funds had been 5% lower with all other variables held constant, the decrease in net assets attributable to holders of redeemable shares for the year would have been \$2,278,605 (2009: \$2,061,428) lower.

SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED
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(expressed in United States dollars)

6. RISK MANAGEMENT AND ASSOCIATED RISKS (cont'd)

Liquidity risk

An investment in shares of Underlying Funds provides limited liquidity since shares are only freely transferable between Qualified Investors and generally share redemption is limited. Additionally, these investments in other Underlying Funds may not be readily realizable due to lock-up periods; portions of assets being held in sidepockets; extended withdrawal, notice or settlement periods; or in extraordinary cases periods in which redemptions are suspended due to adverse market conditions. There can be no assurance that the Company will have sufficient cash to satisfy redemption requests, or that it will be able to liquidate investments at the time of such redemption requests.

The Company offering memorandum provides for the monthly creation and cancellation of shares and it is therefore exposed to the liquidity risk of meeting shareholder redemptions at any time.

Shares of the Company are only redeemable on the terms and procedures set out in Note 4.

The Company's liabilities have maturities of less than 1 month.

At December 31, 2010, the Company has an investment in Laurus Offshore Fund, Ltd. ("Laurus"). Laurus was put into liquidation on December 3, 2008 and all redemption requests were suspended. The latest information received from Laurus regarding the value of the Company's investment is as of June 2009. The Company's management will continue to monitor the redemption process of the investment.

At December 31, 2010, the Company has an investment in Galleon Diversified Fund, Ltd. ("Galleon"). Galleon was put into liquidation on October 21, 2009 and all redemption requests were suspended. The latest information received from Galleon regarding the value of the Company's investment is as of December 2009. The Company's management will continue to monitor the redemption process of the investment.

Credit risk

Credit risk is the risk that an issuer or counterparty will be unable to meet a commitment that it has entered into with the Company.

The Company is exposed to credit risk related to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the counterparties. The Company monitors the credit rating and financial positions of the counterparties to further mitigate this risk. At December 31, 2010, all the Company's assets were exposed to credit risk.

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6. RISK MANAGEMENT AND ASSOCIATED RISKS (cont'd)

Credit risk (cont'd)

The carrying amounts of financial assets best represent the maximum credit risk exposure at the Statement of Financial Position date.

Substantially all of the cash held by the Company is held by The Bank of N.T Butterfield & Son Limited (the "Bank"). Bankruptcy or insolvency of the Bank may cause the Company's rights with respect to the cash held by the Bank to be delayed or limited. The Company monitors its risk by monitoring the credit quality and financial position of the Bank.

The Underlying Funds' managers analyse credit concentration based on the counterparty, industry and geographical location of the financial assets that they hold.

Off-balance sheet risk

Off-balance sheet risk refers to situations where the maximum potential loss on a particular investment is greater than the value of the asset or liability reflected in the statements of assets and liabilities. The risk to the Company for its investments in Underlying Funds is limited to the amount of the Company's related investment in the Underlying Fund.

Categorization of financial instruments

The Company has categorized its investments into three levels based upon the hierarchy defined in IFRS 7. Financial instruments are categorized by their inputs used to derive the fair value. Level 1 investments use inputs from unadjusted quoted prices from active markets. Level 2 investments reflect inputs other than quoted prices, but use observable market data, including the published prices of managed investment funds where those funds may be redeemed at that price. Level 3 investments are valued using unobservable inputs.

The Company invests in managed investment funds which are not quoted in active markets and may be subject to restrictions on redemptions such as lock-up periods, redemption gates and side pockets. Investments in these managed investment funds are valued based on the Net Asset Value per share as determined by the underlying fund administrators.

The investments that the Company is able to redeem at Net Asset Value as at the measurement date have been classified as Level 2 investments. Investments classified within Level 3 include funds with net asset values which may not be readily realizable in the near term due to lock-up periods, extended withdrawal, (not in the normal course of business of the underlying managed investment fund), or periods in which redemptions and/or net asset values of the underlying managed investment fund are suspended due to adverse market conditions.

SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

(expressed in United States dollars)

6. RISK MANAGEMENT AND ASSOCIATED RISKS (cont'd)

Categorization of financial instruments (cont'd)

Investments may be split between Level 2 and Level 3 if different share classes have different redemption terms.

The following table analyzes within the fair value hierarchy the Company's financial assets and liabilities (by class) measured at fair value at 31 December 2010:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Investments in underlying funds	-	35,182,746	10,389,362	45,572,108
Total investment at fair value through profit or loss	-	35,182,746	10,389,362	45,572,108

The changes in financial assets measured at fair value for which the Company has used Level 3 inputs to determine fair value are as follows:

	2010	2009
Opening balance	\$ 2,507,089	\$ 3,826,493
Transfers in	-	-
Transfers out	-	-
Purchases	10,470,886	1,073,237
Sales	(4,696,029)	(2,377,599)
Net realized and change in unrealized gain	2,081,122	(15,042)
Total investment at fair value through profit or loss	\$ 10,389,362	\$ 2,507,089

7. SUNDRY PAYABLES AND ACCRUED EXPENSES

	2010	2009
Audit fees	\$ 50,000	\$ 59,300
Administration fees	48,647	22,522
	<u>\$ 98,647</u>	<u>\$ 81,822</u>

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8. DISTRIBUTIONS

It is the intention of the Board not to make distributions of net income by way of dividends.

9. CASH AND CASH EQUIVALENTS

All cash balances are held with the Bank. Cash and cash equivalents also includes investments in Butterfield Money Market Fund Ltd and TMI Liquidity Fund PLC.

The Company and TMI Liquidity Fund PLC are related through common Investment Manager and one director. The Company has \$138,836 invested in TMI Liquidity Fund PLC as of December 31, 2010 (2009: \$7,609,498).

10. RELATED PARTY TRANSACTIONS

No Director has any interest in the shares of the Company. Brian Sheppard is Director of both the Company and the Investment Manager. David Hunter is a Director of Thomas Miller (Bermuda) Limited and Richard Jarvis is a Director of Thomas Miller Investment Limited, both companies being in the same group of companies as the Investment Manager.

11. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Directors on July 27, 2011.