

**SNAEFELL ALTERNATIVE  
INVESTMENT FUND LIMITED**

**Financial Statements and  
Independent Auditors' Report**

**December 31, 2011**

**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 (resigned on May 18, 2011)  
Brian Sheppard (resigned on September 30, 2010)  
Henry Hunt (appointed on May 18, 2011)  
Sue Preskey (appointed on May 18, 2011)

**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, 2011.

**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.

**Results and Dividends**

The results for the year are shown in the Statement of Comprehensive Income on page 9. The Directors do not recommend the payment of a dividend.

**Directors**

The Directors of the Company are set out on page 3.

**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

29 June 2012

Director

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Snaefell Alternative Investment Fund Limited, which comprise the statement of financial position and schedule of investments as of December 31, 2011 and the statement of comprehensive income, the statement of changes in net assets attributable to holders of redeemable participating shares and the statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the financial statements

Management is responsible for the preparation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### 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 about 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 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.

## Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Snaefell Alternative Investment Fund Limited, as of December 31, 2011, 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.**

June 29, 2012


**SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED**  
**STATEMENT OF FINANCIAL POSITION**

December 31, 2011

*(expressed in United States dollars)*

	2011	2010
<b>ASSETS</b>		
Cash and cash equivalents	\$ 852,259	\$ 9,692,649
Receivable for investments sold	7,798,889	2,907,851
Investment subscriptions made in advance	3,850,000	-
Investments at fair value through profit or loss	43,038,442	45,572,108
Sundry receivables and prepayments	4,451	1,995
	<hr/>	<hr/>
Total assets	\$ 55,544,041	\$ 58,174,603
	<hr/> <hr/>	<hr/> <hr/>
<b>LIABILITIES</b>		
Sundry payables and accrued expenses	60,856	98,647
	<hr/>	<hr/>
Total liabilities	60,856	98,647
	<hr/> <hr/>	<hr/> <hr/>
<b>EQUITY</b>		
Manager shares 100 (2010: 100 shares)	-	-
Net assets attributable to holders of redeemable participating shares	55,483,185	58,075,956
	<hr/>	<hr/>
Total liabilities and equity	\$ 55,544,041	\$ 58,174,603
	<hr/> <hr/>	<hr/> <hr/>

APPROVED BY THE BOARD:


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**Director** 27 June, 2012

*See accompanying notes to the financial statements*

**SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED**  
**SCHEDULE OF INVESTMENTS**

December 31, 2011

*(expressed in United States dollars)*

Shares	Investment	Fair Value	Percentage of Net Assets
2,529	BHR Offshore Fund Ltd. - Class A, Series Jan 2010-3	\$ 2,501,744	4.51%
248	BHR Offshore Fund Ltd. - Class A, Series SP Aug 2011	248,467	0.45
389	Castlerigg International Ltd. - Side Pocket, Series 1	34,083	0.06
1,505	Conquest Macro Fund Ltd. – Class 1 X, Series 0909	1,299,871	2.35
1,200	Conquest Macro Fund Ltd. – Class 1X, Series 0810	1,078,262	1.94
14,296	Contrarian Emerging Markets Off Fund Ltd. – Class A, Series 4 2011	1,539,431	2.77
111	Cyril Systematic D Fund – Class USD	1,664,363	3.00
42	Drake Global Opportunities Fund – Class C, Series 1	39,255	0.07
834	ECF Value Fund International Ltd. – Series 1	3,699,409	6.67
107	ECF Value Fund International Ltd. – Series 7	470,657	0.85
6,441	Finisterre Sovereign Debt Fund – Class A, Initial Series 1	1,628,260	2.93
12,000	Finisterre Sovereign Debt Fund – Class A, Series 21	1,322,135	2.38
2,050	Force Capital Ltd. – Initial Series	2,925,360	5.28
1,034	Force Capital II Ltd.	1,008,719	1.82
421	Forum Global Opportunities Fund – Class A, Series 1(04/11)	1,818,642	3.28
318	Forum Global Opportunities Fund – Class A, Series 1(07/11)	1,371,133	2.47
3	Galleon Diversified Sub-Trust	7,338	0.01
1,000	Harvey Offshore Fund Ltd. – Class A1, Series 7/11	906,396	1.63
1,750	Harvey SMidCap Offshore Fund Ltd. – Class A, Series 1-4/11	1,612,725	2.91
688	Jana Nirvana Offshore Fund Ltd. – Class A, Series 01 2010	730,440	1.32
1,300	Jana Nirvana Offshore Fund Ltd. – Class A, Series 02 2011	1,208,930	2.18
750	Jana Nirvana Offshore Fund Ltd. – Class A, Series 04 2010	759,937	1.37
13	Jana Offshore Partners Ltd. – Side Pocket B	25,418	0.05
11,973	Laurus Offshore Fund Ltd. – Class A, Benchmark 2	921,303	1.66
1,328	Linden International Ltd. – Class A, Series 8/04	2,853,274	5.14
1,100	Linden International Ltd. – Class A Series 2/11	965,169	1.74
70	Longacre International II, Ltd. – Class A, Series 0308	64,813	0.12
40	Longacre International II, Ltd. – Class D, Series 0410	121,404	0.22
27,814	M Kingdon Offshore Ltd. – Class A1	3,063,442	5.52
4,446	M Kingdon Offshore Ltd. – Class A2	489,150	0.88
989	P/E Funds Limited - The Global Aggressive Fund – Class F2	1,271,483	2.29
9,307	Select Invest ARV II Ltd. – Series C 2009 RR	1,000,901	1.80
1,250	Seneca Capital International Ltd. – Class 1, Series A	105,404	0.19
182	Seneca Capital International Ltd – Class 3, Series B	12,325	0.02
3,448	The Mulvaney Global Markets Fund, Ltd. – 1XL Sub Fund	1,656,088	2.98
22,000	Vardana International Limited – Class A, S14	2,212,302	3.99
4,000	Vardana International Limited – Class A, S17	400,409	0.72
	Total investments at fair value through profit or loss	<u>\$ 43,038,442</u>	<u>77.57%</u>



**SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED**  
**SCHEDULE OF INVESTMENTS**

December 31, 2010

*(expressed in United States dollars)*

Shares	Investment	Fair Value	Percentage 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 Apri2010	1,317,823	2.27
1,910	BHR Offshore Fund Ltd. – Class A, Series Nov2010	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 90/2/0210	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 Masers 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 through profit or loss	<u>\$ 45,572,108</u>	<u>78.48%</u>

*See accompanying notes to the financial statements*

**SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
for the year ended December 31, 2011  
*(expressed in United States dollars)*

	2011	2010
<b>INCOME</b>		
Interest income	\$ 408	\$ 30,066
Net realized gain on investments	849,671	2,627,303
Net change in unrealized (loss) gain on investments	(3,299,462)	1,412,153
	(2,449,383)	4,069,522
<b>EXPENSES</b>		
Custody and administration fees	94,973	94,838
Audit fees	30,662	43,929
Other expenses	17,753	21,615
	143,388	160,382
Net (decrease) increase in net assets attributable to holders of redeemable participating shares	\$ (2,592,771)	\$ 3,909,140

The Company had no other comprehensive income for the years ended December 31, 2011 and 2010.

*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, 2011

*(expressed in United States dollars)*

	2011	2010
Net assets attributable to holders of redeemable participating shares at beginning of year	\$ 58,075,956	\$ 54,166,816
Net (decrease) increase in net assets attributable to holders of redeemable participating shares from operations	<u>(2,592,771)</u>	<u>3,909,140</u>
Net assets attributable to holders of redeemable participating shares at end of year	<u>\$ 55,483,185</u>	<u>\$ 58,075,956</u>

*See accompanying notes to the financial statements*

**SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED**  
**STATEMENT OF CASH FLOWS**  
for the year ended December 31, 2011  
*(expressed in United States dollars)*

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (decrease) increase in net assets attributable to holders of redeemable participating shares from operations	\$ (2,592,771)	\$ 3,909,140
Adjustments to reconcile net (decrease) increase in assets attributable to holders of redeemable participating shares from operations to net cash used in operating activities		
Net realized (gains) losses on investments	(849,671)	(2,627,303)
Net change in unrealized gains on investments	3,299,462	(1,412,153)
Payments for investments purchased	(21,022,647)	(29,458,868)
Proceeds from investments sold	12,365,484	28,658,198
Change in sundry receivables and prepayments	(2,456)	(1,995)
Change in sundry payables and accrued expenses	(37,791)	16,825
	(8,840,390)	(916,156)
Net cash used in operating activities	(8,840,390)	(916,156)
Net decrease in cash and cash equivalents	(8,840,390)	(916,156)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	9,692,649	10,608,805
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 852,259	\$ 9,692,649

*See accompanying notes to the financial statements*

**SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2011

*(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 company incorporated in the Isle of Man, 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.

**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 year.

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.

**SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2011

*(expressed in United States dollars)*

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**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.

**Redeemable participating shares**

Redeemable participating shares are redeemable at the shareholder's option and are classified as equity in accordance with International Accounting Standard ("IAS") 32: Financial Instruments "Presentation". The redeemable participating shares are carried at the redemption amount that is payable at the date of the statement of financial position if the shareholder exercised its right to put the shares back to the Company.

**Cash and cash equivalents**

Cash and cash equivalents include amounts held at bank, overdrafts 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.

**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.

**SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2011

*(expressed in United States dollars)*

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**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, 2035.

**New and revised accounting pronouncements**

In 2009, IFRS 9 Financial Instruments was published by the IASB as part of phase I of the IASB's comprehensive project to replace IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 Financial Instruments ("IFRS 9") introduces new requirements for the classification and measurement of financial assets and is effective from January 1, 2015 with early adoption permitted. All recognized financial assets that are currently in the scope of IAS 39 Financial Instruments: "Recognition and Measurement" will be measured at either amortized cost or fair value. Under IFRS 9, most financial instruments are expected to be measured at fair value through profit or loss except for debt instruments that satisfy both a "business model test" and a "contractual cash flow characteristics test", as defined by the standard, and if an entity irrevocably designates an equity instrument as a fair value through other comprehensive income. This new standard is not expected to have a significant impact on the current measurement basis for investments held by the Company.

IFRS 13 Fair Value Measurements ("IFRS 13") replaces existing guidance on fair value measurement in different IFRSs and is effective from January 1, 2013 with early adoption permitted. IFRS 13 creates a single definition of fair value, a framework for measuring fair values and disclosures about fair value measurements. The Company is currently evaluating the potential impact that the adoption of this amendment will have on the presentation of its financial statements; however, the new standard is not expected to have a material impact to the current measurement basis for investments held by the Company.

IAS 32 Financial Instruments: Presentation ("IAS 32") and IFRS 7: Disclosures ("IFRS 7") were amended with respect to off-setting financial assets and financial liabilities to clarify when positions can be presented net and disclosure requirements when there is a master netting agreement in place. The amendments are effective from January 1, 2013. The Company is currently evaluating the impact of these amendments.

At the date of authorization of these financial statements, a number of Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective. Management considered these and anticipates that the adoption of these Standards and Interpretations will have no material impact on the financial statements of the Company.

**SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2011

*(expressed in United States dollars)*

**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, 2011 and 2010.

**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.

**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. There were no directors fees charged for the years ended December 31, 2011 and 2010.

**4. SHARE CAPITAL**

The authorized share capital of the Company is \$10,000 divided into 100 Manager Shares of a par value of \$100 each and 990,000 non-voting shares of a par value of \$0.01 each.

A new series of shares may be issued on the first business day of each month 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.

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.

Shares may be redeemed on the First Business day of each month upon 30 days prior written notice.

There was no movement in share capital for the years ended December 31, 2011 and 2010. The number of redeemable participating shares outstanding is 42,684.



**SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2011

*(expressed in United States dollars)*

**5. COMPARATIVE NET ASSET VALUE TABLE**

<b>As at December 31, 2011</b>	<b>Net Asset Value Total</b>	<b>Shares in Issue</b>	<b>Net Asset Value per share</b>
Initial Series	\$ 55,483,185	42,684	\$ 1,299.86
<b>As at December 31, 2010</b>	<b>Net Asset Value Total</b>	<b>Shares in Issue</b>	<b>Net Asset Value per share</b>
Initial Series	\$ 58,075,956	42,684	\$ 1,360.60

**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.

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.

**SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2011

*(expressed in United States dollars)*

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

*Market risk (cont'd)*

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 recognized in the statement of comprehensive income, all changes in market conditions will directly affect the Statement of comprehensive income.

At December 31, 2011, 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 \$2,151,922 (2010: \$2,278,605) 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 \$2,151,922 (2011: \$2,278,605) lower.

*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.

**SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2011

*(expressed in United States dollars)*

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

*Liquidity risk (cont'd)*

At December 31, 2011, the Company has an investment in Drake Global Opportunity Fund, Ltd (“Drake”). Drake was put into liquidation on March 12, 2008 and all redemption requests were suspended. The latest information received from Galleon regarding the value of the Company’s investment is as of December 2011. The Company’s management will continue to monitor the redemption process of the investment

At December 31, 2011, 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 December 31, 2011. The Company’s management will continue to monitor the redemption process of the investment.

At December 31, 2011, 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 2011. The Company’s management will continue to monitor the redemption process of the investment.

At December 31, 2011, the Company has an investment in Longacre International II Ltd (“Longacre”). Lonacre was put into liquidation on October 11, 2011 and all redemption requests were suspended. The latest information received from Galleon regarding the value of the Company’s investment is as of December 2011. 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, 2011, all the Company’s assets were exposed to credit risk.

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

**SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2011

*(expressed in United States dollars)*

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

*Credit risk (cont'd)*

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.

**SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2011

*(expressed in United States dollars)*

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

*Categorization of financial instruments (cont'd)*

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, funds with redemption fees, withdrawal periods greater than quarterly, or periods in which redemptions and/or net asset values of the underlying managed investment fund are suspended due to adverse market conditions.

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 year end:

	2011			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Investments in underlying funds	-	35,482,153	7,556,289	43,038,442
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	2010			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Investments in underlying funds	-	35,182,746	10,389,362	45,572,108
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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:

	2011	2010
Opening balance	\$ 10,389,362	\$ 2,507,089
Purchases	2,654,065	10,497,180
Sales	(5,388,786)	(4,696,029)
Net realized and change in unrealized loss	(98,352)	2,081,122
<b>Total investment at fair value through profit or loss</b>	<b><u>\$ 7,556,289</u></b>	<b><u>\$ 10,389,362</u></b>
Change in unrealized gain (loss) related to investments still held at year end	<u>\$ (2,648,000)</u>	<u>\$ (1,902,682)</u>

There were no transfers between levels during the year.

**SNAEFELL ALTERNATIVE INVESTMENT FUND LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2011  
*(expressed in United States dollars)*

**7. SUNDRY PAYABLES AND ACCRUED EXPENSES**

	<b>2011</b>	<b>2010</b>
Audit fees	\$ 30,000	\$ 50,000
Administration fees	30,106	48,647
Listing fees	750	-
	\$ 60,856	\$ 98,647
	\$ 60,856	\$ 98,647

**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 \$139,244 invested in TMI Liquidity Fund PLC as of December 31, 2011 (2010: \$138,836).

**10. RELATED PARTY TRANSACTIONS**

No Director has any interest in the shares of the Company. Susan Preskey is Director of both the Company and the Investment Manager. David Hunter is a Director of Thomas Miller (Bermuda) Limited and Henry Hunt 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 June 29, 2012.