

SPITFIRE RAPID RECOVERY FUND
ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS FOR THE PERIOD
FROM 1 JANUARY 2011 TO 30 SEPTEMBER 2011

SPITFIRE RAPID RECOVERY FUND

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SPITFIRE RAPID RECOVERY FUND

General Information

Fund Registered Office

20 Reid Street
3rd Floor, Williams House
P.O. Box 2460 HMJX
Hamilton HM11
Bermuda

Directors

Alan Tennant Johnson
Philip Peter Scales
Peter Hughes

Administrator

Apex Fund Services Ltd
20 Reid Street
3rd Floor, Williams House
P.O. Box 2460 HMJX
Hamilton HM11
Bermuda

Custodian

Kleinwort Benson Trustees (Isle of Man) Ltd
(Formerly Close Trustees (Isle of Man) Ltd)
St. George's Court
Upper Church Street
Douglas
Isle of Man IM1 1JE

Legal Advisors

Conyers Dill & Pearman
Clarendon House
2 Church Street
Hamilton, HM 11
Bermuda

Investment Manager

Spitfire Asset Managers (Bermuda) Ltd
Clarendon House
2 Church Street
Hamilton
HM 12
Bermuda

Listing and On-going Sponsor

Apex Fund Services Ltd
20 Reid Street
3rd Floor, Williams House
P.O. Box 2460 HMJX
Hamilton HM11
Bermuda

Auditor

Deloitte LLP
The Old Courthouse
Athol Street
Douglas
Isle of Man IM 99 1XJ

Currency Hedge / Investment Advisor

Canaccord Genuity Wealth (International) Ltd
(Formerly Collins Stewart Wealth Management Ltd)
(Formerly Corazon Capital Ltd)
PO Box 45,
The Grange, St. Peter Port,
Guernsey, GY1 4AX

SPITFIRE RAPID RECOVERY FUND

Directors' Report for the period from 1 January 2011 to 30 September 2011

The directors present herewith their report and audited financial statements for the period from 1 January 2011 to 30 September 2011. The comparative information presented covers the year ended 31 December 2010.

Date of incorporation

Spitfire Funds (Bermuda) Ltd (the "Company"), a Bermuda Exempted Mutual Fund Segregated Account Company number 42429, was incorporated in Bermuda on the 19 September 2008 under the Segregated Accounts Companies Act 2000.

The Spitfire Rapid Recovery Fund (the "Fund") is a segregated account of the Company, under the Bermuda Companies Act 1981 which commenced operations on 1 March 2009.

Principal activity

The Company is an exempted company and was incorporated on 19 September 2008 as an open-ended investment company with limited liability in Bermuda and has been authorised as a standard fund under the Investment Funds Act 2006 ("IFA") and, as such, has power to issue and redeem shares. The Fund's primary investment objective is to generate attractive levels of return well in excess of the return that can be achieved from global equity markets by investing in a range of asset types and asset classes which should benefit at any time from repricing and recovery in discounted or distressed assets and from global economic growth. The non-voting redeemable shares "Spitfire Rapid Recovery Fund Class A Shares" issued by the Fund were admitted on 12 November 2009 to the Official List of the Bermuda Stock Exchange (BSX) but were delisted on 28 December 2011 following the decision to liquidate the fund (see below for further detail). The Fund's investment portfolio is in compliance with Section IV of the BSX listing rules. The Fund was classified as open marketing under Section IV of the BSX listing rules.

The Fund can issue Spitfire Rapid Recovery Fund Class A USD Shares, Spitfire Rapid Recovery Fund Class A Euro Shares and Spitfire Rapid Recovery Fund Class A Sterling Shares (collectively the "Shares"). Other classes of shares may be created and issued at the discretion by the directors of the Company. See Note 6 of the financial statements for further disclosures regarding these share classes.

Investment policy

It should be noted that the investment policy of the Fund, which includes investment in underlying funds, will result in multiple layers of fees or a duplication of certain costs that will be charged to the underlying funds by their service providers, as well as to the Fund by the service providers of the Fund. Such costs will include, but are not limited to, formation expenses, custodian, domiciliary, management fees, audit expenses and other associated costs.

In investing in the Fund, which in turn may invest through underlying funds, a shareholder, in effect, incurs the cost of the management fee, performance fees and any commissions paid to the Investment Managers as well as the advisory fees, incentive fees and other fees paid to the investment advisors of an underlying fund.

By investing in an underlying fund, the Fund incurs its proportionate share of the operating costs and expenses of the underlying fund, including, but not limited to, custody and brokerage commissions, interest charges, legal and accounting fees and disbursements, in addition to the operating costs and expenses detailed in the relevant offering Memorandum. As a result, the operating expenses of the Fund may constitute a higher percentage of the Net Asset Value of the Fund than would be found in other investment schemes. Also, the purchase of an investment in an underlying fund may involve payment by the Fund of substantial subscription fees or premiums.

Accounting Standards

The directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The significant accounting policies adopted have been mentioned in Note 2 of the financial statements.

Result for the period

The loss for the period is set out in the profit and loss account on page 10 of the financial statements.

SPITFIRE RAPID RECOVERY FUND

Directors' Report for the period from 1 January 2011 to 30 September 2011 (continued)

Going concern

Post period ended, on 2 November 2011, the directors agreed that the Fund should not remain economically viable and would enter liquidation on completion of the 30 September 2011 Net Asset Value calculation, and therefore made an offer to shareholders to redeem their holdings in full. As required by FRS 18, the financial statements have been prepared on the basis that the entity is no longer a going concern. The financial statements do not include any provision for the future costs of terminating the business of the entity except to the extent that such costs were committed at the end of the reporting period. No material adjustments arose as a result of ceasing to apply the going concern basis.

List of Investments

As of 30 September 2011, the Fund held the following investments:

Security	Underlying CCY	Quantity	Book Cost	Market Value	Percentage of Total Portfolio
			USD	USD	
CQS Conv&Quantitative Feeder Class A USD	USD	132	296,885	351,752	26.28%
Fidelity Funds - South East Asia A Dis NAV	USD	17,139	100,000	93,460	6.98%
Oceanic Hedge Fund B USD	USD	68	199,825	212,541	15.88%
Sprott Offshore Fund II Ltd Class A Series 1 Oct 07	USD	1,855	200,000	286,662	21.42%
ISHARES FTSE EPRA NAREIT ASIA PRO	GBP	5,068	107,774	96,403	7.20%
iShares MSCI Emerging Markets Shs	GBP	1,998	75,339	68,149	5.09%
iShares MSCI Far East EX-JAP (GBP)	GBP	1,970	70,556	71,471	5.34%
Other investments	USD	1,930	156,973	158,106	11.81%
At 30 September 2011			1,207,353	1,338,544	100.00%

No provision for diminution in value of investments was taken; financial assets are held at fair value through profit or loss.

Dividend

No dividend was proposed or paid during the period.

Directors

The directors of the Company holding office during the period and through to the date of this report are:

Alan Tennant Johnson appointed on 28 October 2008.

Philip Peter Scales appointed on 28 October 2008.

Peter Hughes appointed on 28 October 2008.

Directors' Interest

The directors receive fees from the fund which are set out in the Profit and Loss account of the financial statements. Related party transactions where directors are involved are detailed in Note 11 of the financial statements. None of the directors own shares in the Fund.

Secretary

The secretary of the Company holding office during the period and through to the date of this report was Sharon Ward who was appointed on 28 October 2008.

SPITFIRE RAPID RECOVERY FUND

Directors' Report for the period from 1 January 2011 to 30 September 2011 (continued)

Auditor

Deloitte LLP were appointed as independent auditor to the Fund on 9 November 2009 and, being eligible, have indicated their willingness to continue in office in accordance with Section 89(1) of the Companies Act 1981.

Subsidiaries

The Fund has no subsidiaries.

Ownership of shares

The directors, the investment manager and the investment advisors do not own participating shares and have no right to receive distributions from the fund. The investment manager owns the management share and is entitled to exercise voting rights in connection with this share as disclosed in Note 6 of the financial statements. The participating shares have no voting rights and are redeemable.

Fees

The fund incurred charges of USD 18,848 and USD 3,750 (2010: USD 36,463 and USD 26,590) respectively for investment management fees and performance fees in favour of the investment manager for the period from 1 January 2011 to 30 September 2011. The director fees amounted to USD 13,614 (2010: USD 23,709) for the same period.

No rebates (2010: NIL) were provided by the fund manager towards the operating expenses during the period.

Net Asset Value as per the Financial Statements and the Published Net Asset Value

The Net Asset Value ("NAV") as per the financial statements differed from the published NAV for the following reason:

- The NAV published is calculated based on the fund supplement. As per the supplement, the organisational cost is amortised over a period of 5 years. In the financial statements, this expense was fully expensed in the first accounting period in accordance with the requirements of United Kingdom Generally Accepted Accounting Practice. The net difference in the financial statement is a reduction in the loss of USD23,548 (2010: USD (14,777)) and nil reduction in the Net Asset Value (2010: USD(23,548)).
- The published NAV per share and the NAV per share per the financial statements are as follows:

Share Class	2011		2010	
	Published NAV per Share	NAV per Share per the Financial Statements	Published NAV per Share	NAV per Share per the Financial Statements
	USD	USD	USD	USD
USD Class	90.06	90.06	119.75	117.96

SPITFIRE RAPID RECOVERY FUND

Directors' Report for the period from 1 January 2011 to 30 September 2011 (continued)

Results and assets and liabilities of the Fund

	2011 USD	2010 USD	2009 USD
Assets			
Financial assets at fair value through profit or loss	1,338,544	1,755,284	2,156,529
Dividends receivable	-	676	786
Debtors	19,880	19,845	28,990
Cash and cash equivalents	40,488	97,461	67,598
Total assets	1,398,912	1,873,266	2,253,903
Creditors: amounts falling due within one year	438,582	324,261	91,769
Total liabilities: (excluding net assets attributable to holders of redeemable shares)	438,582	324,261	91,769
Net assets attributable to holders of redeemable shares	960,330	1,549,005	2,162,134
Profit/(Loss) for the period	(292,856)	91,050	162,134

Liquidation

After the reporting period, the board of directors through a resolution dated 2 November 2011 agreed to close the Fund as at 30 September 2011. This decision was taken due to the diminutive size of the Fund which made it uneconomical to operate and maintain. The letter informing the shareholders was issued on 25 October 2011. The final redemption payment was paid in cash and in specie on 19 April 2012 to the investors.

	USD Class USD
Grange Nominees Ltd	150,493

Security transferred to The Frontier Fund	Underlying CCY	Quantity
Blue Crest Cap Intl Ltd Class F USD	USD	343.3005
CQS Conv&Quantitative Feeder Class A USD	USD	131.806
Fidelity Funds - South East Asia A Dis NAV	USD	7,889.28
Oceanic Hedge Fund B USD	USD	67.5378
Proshares Trust II Ultra DJ-UBS Commodity	USD	1,050.00
Proshares Trust PSHS Ultra Financials New	USD	445
Proshares Trust PSHS Ultra S&P 500	USD	765
Sprott Offshore Fund II Ltd Class A Series 1 Oct 07	USD	1,855.05
ISHARES FTSE EPRA NAREIT ASIA PRO	GBP	2,328.00
iShares MSCI Emerging Markets Shs	GBP	918
iShares MSCI Far East EX-JAP (GBP)	GBP	900

SPITFIRE RAPID RECOVERY FUND

Directors' responsibilities statement

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

The Companies Act 1981 requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they present fairly, in all material aspects, the state of affairs of the Fund and of the profit or loss of the Fund for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Fund will continue in business.

The directors are responsible for keeping proper records of account that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund and enable them to ensure that the financial statements comply with the Companies Act 1981. They are also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Fund's website. Legislation in Bermuda governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



30 / 12 2013

SPITFIRE RAPID RECOVERY FUND

Independent Auditor's Report to the Members of Spitfire Rapid Recovery Fund

We have audited the financial statements of Spitfire Rapid Recovery Fund (the "Fund") for the period from 1 January 2011 to 30 September 2011 which comprise the Profit and loss account, the Balance sheet, the Cash flow statement with related notes a) and b) and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Fund's members, as a body, in accordance with Section 90(2) of the Companies Act 1981. Our audit work has been undertaken so that we might state to the Fund's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they present fairly, in all material aspects, the state of affairs of the Fund and of the profit or loss of the Fund for that period. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- Present fairly, in all material aspects, the state of the Fund's affairs as at 30 September 2011 and of its loss for the period then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Emphasis of matter – Financial statements prepared other than on a going concern basis

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements, which explains that the financial statements have been prepared on a basis other than that of a going concern.

Deloitte LLP

Deloitte LLP
Chartered Accountants
Isle of Man

31st December 2013

SPITFIRE RAPID RECOVERY FUND

Profit and loss account for the period from 1 January 2011 to 30 September 2011

	Note	<u>For the period from 1 January 2011 to 30 September 2011</u> USD	<u>For the year ended 31 December 2010</u> USD
Income from discontinued operations			
Dividend income		6,275	13,698
Custodian fees refund		3,586	-
Total Income		9,861	13,698
Expenses			
Administrator's fees	12	967	1,871
Audit fees		14,422	14,801
Bank and broker charges		1,314	1,915
Custodian fees	12	-	6,648
Directors' fees		13,614	23,709
Investment advisory fees	12	2,940	6,093
Investment management fees	12	18,848	36,463
Performance fees	12	3,750	26,590
Sundry expenses		39,935	42,214
Total expenses		95,790	160,304
Net loss before investment gains/(losses)		(85,929)	(146,606)
Net realised gains on financial assets and liabilities held at fair value through profit or loss	3	54,193	73,574
Net change in unrealised gains/(losses) on financial assets and liabilities held at fair value through profit or loss	3	(261,169)	158,849
Net gain/(loss) on foreign exchange forwards		-	(1,535)
Net gains on exchange differences	13	49	6,767
Retained (loss)/profit for the period/year before and after taxation attributable to holders of participating redeemable shares		(292,856)	91,049

The Fund has no recognised gains or losses other than those included in the profit and loss account above and therefore no separate statement of total recognised gains and losses has been presented.

All transactions are derived from discontinued operations

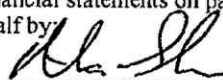
The notes on pages 13 to 25 form an integral part of these audited financial statements.

SPITFIRE RAPID RECOVERY FUND

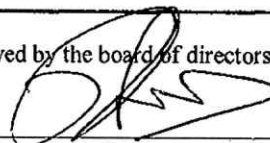
Balance Sheet as at 30 September 2011

	Note	2011 USD	2010 USD
Assets			
Financial assets at fair value through profit or loss	3	1,338,544	1,755,284
Dividends receivable		-	676
Debtors	4	19,880	19,845
Cash and cash equivalents		40,488	97,461
Total assets		1,398,912	1,873,266
Liabilities:			
Creditors: amounts falling due within one year	5	438,582	324,261
Liabilities: (excluding net assets attributable to holders of redeemable shares)		438,582	324,261
Net assets attributable to holders of participating redeemable shares	8	960,330	1,549,005

The financial statements on page 10 to 25 were approved by the board of directors on 30/12/11 and signed on its behalf by:



Director



Director

The notes on pages 13 to 25 form an integral part of these audited financial statements.

SPITFIRE RAPID RECOVERY FUND

Cash flow statement for the period from 1 January 2011 to 30 September 2011

	Note	<u>For the period from 1 January 2011 to 30 September 2011</u>	<u>For the year ended 31 December 2010</u>
		<u>USD</u>	<u>USD</u>
Net cash inflow/(outflow) from operating activities	(b)	22,131	83,438
Return on investment and servicing of finance			
Dividend received		6,951	13,808
Financial investments			
Purchase of investments		-	(738,727)
Sale of investments		209,765	1,372,395
Forward currency contracts settlement		-	3,129
Financing			
Redemption in participating shares		(295,820)	(704,180)
Increase in cash	(a)	(56,973)	29,863

Notes to the cash flow statement

(a) Analysis of changes in cash during the year/period	<u>For the period from 1 January 2011 to 30 September 2011</u>	<u>For the year ended 31 December 2010</u>
	<u>USD</u>	<u>USD</u>
Balance at 1 January	97,461	67,598
Net cash inflow	(56,973)	29,863
Balance at period/year end	40,488	97,461

(b) Reconciliation of operating profit/(loss) to net cash outflow from operating activities

	Note	<u>For the period from 1 January 2011 to 30 September 2011</u>	<u>For the year ended 31 December 2010</u>
		<u>USD</u>	<u>USD</u>
Operating profit/(loss)		(292,856)	91,049
(Increase)/decrease in debtors		(35)	4,482
Increase in creditors		114,321	232,493
Net unrealised loss/(gains) on investments	3	261,169	(158,849)
Net realised (gains) on investments	3	(54,193)	(73,574)
Net loss on foreign exchange forwards		-	1,535
Dividend income		(6,275)	(13,698)
Net cash inflow/(outflow) from operating activities		22,131	83,438

The notes on pages 13 to 25 form an integral part of these audited financial statements.

SPITFIRE RAPID RECOVERY FUND

Notes to the Financial Statements for the period from 1 January 2011 to 30 September 2011

1. Organization

The Spitfire Rapid Recovery Fund (the "Fund") is a segregated account of the Spitfire Funds (Bermuda) Ltd (the "Company"), a company incorporated under the laws of Bermuda on 19 September 2008 as a Segregated Accounts Company. The Fund commenced operations on 1 March 2009.

The investment objective of the Fund is to generate attractive levels of return well in excess of the return that can be achieved from global equity markets by investing in a range of asset types and asset classes which should benefit at any time from repricing and recovery in discounted or distressed assets and from global economic growth.

The base currency of the Fund is US Dollars. The Shares are offered in US dollars in respect of Class A USD Shares, in Euros in respect of Class A Euro Shares and Sterling in respect of Class A Sterling Shares.

2. Significant Accounting Policies

The financial statements are prepared in accordance with applicable law and United Kingdom Accounting Standards using the historical cost convention modified by the revaluation of investments and derivatives. The significant accounting policies adopted by the Fund are as follows:

Going concern

Post year end, on 2 November 2011 the directors agreed that the Fund would not remain economically viable and should enter liquidation on completion of the 30 September 2011 Net Asset Value ("NAV") calculation, and therefore made an offer to the shareholders to redeem their holdings in full. As required by FRS 18, the financial statements have been prepared on the basis that the entity is no longer a going concern. The financial statements do not include any provision for the future costs of terminating the business of the entity except to the extent that such costs were committed at the end of the reporting period. No material adjustments arose as a result of ceasing to apply the going concern basis.

Financials assets at fair value through profit or loss

Investments are stated at the Bid or NAV on 31 December 2009, provided by the relevant Investment Managers for the securities. Appreciation or depreciation thus arising is recorded in the profit and loss account.

The NAVs reported by the Investment Manager or Administrator of the funds and used by the directors as at 30 September 2011 may not be audited and may differ from the amounts that would have been realised from a redemption of the investments in the relevant underlying fund as at 30 September 2011. The directors have no reason to believe the valuations are unreasonable.

Redeemable shares

In accordance with Financial Reporting Standard 25, Financial Instruments: Disclosure and presentation, non management share classes and accordingly the total value of shareholders' funds, are deemed to be in the nature of non-equity interests and are therefore classified as financial liabilities.

Note 6 and 7 disclose the amount of share capital and share premium arising in relation to the redeemable shares. As the shares are financial liabilities rather than equity, these balances are revalued at the year end exchange rate with exchange gains/losses arising.

Classification

The Fund designates its financial assets and liabilities into the categories below in accordance with Financial Reporting Standard 26 Financial instruments: Recognition and measurement.

SPITFIRE RAPID RECOVERY FUND

Notes to the Financial Statements for the period from 1 January 2011 to 30 September 2011

2. Significant Accounting Policies (continued)

Classification

(i) Financial assets and liabilities at fair value through profit or loss

The Fund holds positions in other investment funds which are financial assets designated at fair value through profit or loss upon initial recognition. These financial instruments are designated on the basis that their fair value can be reliably measured and their performance has been evaluated on a fair value basis in accordance with the risk management and/or investment strategy as set out in the Fund's offering document.

(ii) Initial Measurement

Purchases and sales of financial instruments are accounted for at trade date.

Financial instruments categorised at fair value through profit or loss, are measured initially at fair value, with transaction costs for such instruments being recognised directly in the profit and loss account.

(iii) Subsequent measurement

After initial measurement, the Fund measures financial instruments, which are classified as at fair value, through profit or loss at their fair values. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Investments in other investment funds are subsequently re-measured at market value, which is the price notified by the administrator of each respective underlying fund. In the opinion of the directors this represents the fair value of each investment. Subsequent changes in the fair value of financial instruments are recognised in the profit and loss account.

Functional currency

The functional currency of the Fund i.e. the currency of the primary economic environment in which the entity operates is US Dollars (USD). The presentation currency of the Fund is also US Dollars.

Foreign currency translation

Transactions denominated in other currencies which occurred during the period have been translated at the rate of exchange prevailing at the date of the transaction. Assets and liabilities in other currencies are translated to US Dollars at the rates of exchange prevailing at the balance sheet date. The resulting profits or losses are reflected in the profit and loss account.

Forward foreign currency exchange contracts

The Fund may enter into forward foreign currency exchange contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date. Risks may arise upon entering these contracts from the potential inability of counterparties to meet the terms of the contracts and from unanticipated movements in the value of the underlying assets. The Fund may enter into such contracts for hedging purposes as well as speculative purposes. The values of the contracts are adjusted daily in accordance with movements in the value of each underlying asset or liability and any appreciation or depreciation is recorded periodically for financial statement purposes as unrealised until the contract settlement date. Realised and unrealised gains and losses are included in the profit and loss account.

Income

Bank interest income is recognised on a time-proportionate basis using the effective interest method. Dividend income is recognised on an accruals basis.

Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months.

SPITFIRE RAPID RECOVERY FUND

Notes to the Financial Statements for the period from 1 January 2011 to 30 September 2011

2. Significant Accounting Policies (continued)

Loans and Receivables

Interest bearing loans, overdrafts and receivables are initially measured at fair value (which is equal to net proceeds at inception), and are subsequently measured at amortised cost, using the effective interest rate method less any allowance for estimated impairments. A provision is established for impairments when there is objective evidence that the Company will not be able to collect all amounts due under the original terms of the loan. Interest income, together with losses when the loans are impaired are recognised on an effective interest basis in the profit and loss account.

3. Financial assets at fair value through profit or loss

Financial assets are analysed as follows:

Security	Underlying CCY	2011	2011	2011	2011
		Quantity	Book Cost	Market Value	Percentage of Total Portfolio
			USD	USD	
CQS Conv&Quantitative Feeder Class A USD	USD	132	296,885	351,752	26.28%
Fidelity Funds - South East Asia A Dis NAV	USD	17,139	100,000	93,460	6.98%
Oceanic Hedge Fund B USD	USD	68	199,825	212,541	15.88%
Proshares Trust II Ultra DJ-UBS Commodity	USD	2,280	59,029	58,528	4.37%
Proshares Trust PSHS Ultra Financials New	USD	975	46,605	35,978	2.69%
Proshares Trust PSHS Ultra S&P 500	USD	1,675	51,339	63,600	4.75%
Sprott Offshore Fund II Ltd ClassA Series 1 Oct 07	USD	1,855	200,000	286,662	21.42%
ISHARES FTSE EPRA NAREIT ASIA PRO	GBP	5,068	107,774	96,403	7.20%
iShares MSCI Emerging Markets Shs	GBP	1,998	75,339	68,149	5.09%
iShares MSCI Far East EX-JAP (GBP)	GBP	1,970	70,556	71,471	5.34%
At 30 September 2011			1,207,353	1,338,544	100.00%

SPITFIRE RAPID RECOVERY FUND

Notes to the Financial Statements for the period from 1 January 2011 to 30 September 2011

3. Financial assets at fair value through profit or loss (continued)

Security	Underlying CCY	2011	2011	2011	2011
		Quantity	Book Cost	Market Value	Percentage of Total Portfolio
			USD	USD	
CQS Conv&Quantitative Feeder Class A USD	USD	132	296,885	360,359	20.53%
Fidelity Funds - South East Asia A Dis NAV	USD	17,132	100,000	120,884	6.89%
Nevsky Fund Ltd	USD	21	155,572	207,033	11.79%
Oceanic Hedge Fund B USD	USD	68	199,825	201,681	11.49%
Proshares Trust II Ultra DJ-UBS Commodity	USD	2,280	59,029	82,696	4.71%
Proshares Trust PSHS Ultra Financials New	USD	975	46,605	64,721	3.69%
Proshares Trust PSHS Ultra S&P 500	USD	1,675	51,339	80,484	4.59%
Sprott Offshore Fund II Ltd Class A Series 1 Oct 07	USD	1,855	200,000	327,153	18.64%
ISHARES FTSE EPRA NAREIT ASIA PRO	GBP	5,068	107,774	127,322	7.25%
iShares MSCI Emerging Markets Shs	GBP	1,998	75,339	90,946	5.18%
iShares MSCI Far East EX-JAP (GBP)	GBP	1,970	70,556	92,005	5.24%
At 31 December 2010			1,362,925	1,755,284	100.00%

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1 to 3 based on the degree to which fair value is observable as at 30 September 2011 and 31 December 2010.

- Level 1* Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2* Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly;
- Level 3* Prices or valuations that require input that is both significant to the fair value measurement and unobservable.

Fair value hierarchy table

2011	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Investments				
Investments in Property Funds	394,129	944,415	-	1,338,544
Total Investments	394,129	944,415	-	1,338,544
2010				
Investments				
Investments in Property Funds	538,174	1,217,110	-	1,755,284
Total Investments	538,174	1,217,110	-	1,755,284

No financial instruments were classified as level 3 at 30 September 2011 and 31 December 2010.

SPITFIRE RAPID RECOVERY FUND

Notes to the Financial Statements for the period from 1 January 2011 to 30 September 2011

3. Financial assets at fair value through profit or loss (continued)

Net gains and losses on financial assets at fair value through profit or loss were:

	2011	2010
	USD	USD
Net realised (loss)/gains on financial assets at fair value through profit or loss		
- designated as fair value through profit or loss	<u>54,193</u>	<u>73,574</u>
Net change in unrealised gains/(loss) on financial assets at fair value through profit or loss		
- designated as fair value through profit or loss	<u>(261,169)</u>	<u>158,849</u>

4. Debtors: amounts receivable within one year

	2011	2010
	USD	USD
Rebates receivable from Fund Manager	19,880	19,845
	<u>19,880</u>	<u>19,845</u>

5. Creditors: amounts falling due within one year

	2011	2010
	USD	USD
Investment management fees	26,856	8,008
Performance fees	30,340	26,590
Administration and secretarial fees	494	961
Custodian fees	137	6,617
Audit fees	42,077	27,136
Investment advisory fees	906	2,795
Redemptions payable	290,588	243,852
Other creditors & accruals	47,184	8,302
	<u>438,582</u>	<u>324,261</u>

6. Share Capital

The Spitfire Funds (Bermuda) Ltd (“the Company”) has been authorized to issue 1 manager share of par value US\$1.00 and up to 11,999,000 redeemable shares of par value US\$0.001 each. The Fund can issue Spitfire Rapid Recovery Class A USD Shares, the Spitfire Rapid Recovery Class A Euro Shares and the Spitfire Rapid Recovery Class A Sterling Shares (collectively the “Shares”). Other classes of shares may be created and issued at the discretion of the directors of the Company. The Manager shareholder shall be entitled to vote and not entitled to any dividends. There were no Class A EUR and GBP shares issued during the period. The Class A shares are non-voting redeemable shares, and are redeemable at the option of the holder of the shares.

Class Funds

Each share class in the Fund has a Class Fund established in accordance with the offering memorandum. The Fund currently has Class Funds established as follows:

- Class A USD redeemable shares
- There were no Class A EUR and Class A GBP redeemable shares issued during the period
- The proceeds from the allotment and issue of each class of shares are applied to the relevant share class. Investment gains and losses on assets allocated to each Class Fund are applied to the relevant class. In the case of any asset, liability, income or expense which the directors do not consider attributable to a particular Class Fund, the directors have the discretion to determine the basis on which the asset, liability income or expense is allocated between the Class Funds. The directors have based such allocations on the proportion of the Net Asset Value of the Fund each Class Fund comprises.

SPITFIRE RAPID RECOVERY FUND

Notes to the Financial Statements for the period from 1 January 2011 to 30 September 2011

6. Share Capital (continued)

Issued and fully paid:	2011		2010	
	No. of Shares	USD	No. of Shares	USD
Participating shares of USD0.001 each				
At the start of the period/year	13,132	14	19,794	20
Issued during the period/year	-	-	-	-
Redeemed during the period/year	(2,469)	(2)	(6,662)	(6)
At the end of period/year	10,663	12	13,132	14

7. Share Premium Account

	2011	2010
	USD	USD
Participating shares of USD0.001 each		
At the start of the period/year	1,295,807	1,999,980
Issued during the period/year	-	-
Redeemed during the period/year	(295,817)	(704,173)
At the end of the period/year	999,990	1,295,807

8. Net assets attributable to holders of participating redeemable shares

	Share	Share Premium	Retained	Total USD
	Capital		Earnings USD	
	USD	USD	USD	
Balance at 1 January 2011	14	1,295,807	253,184	1,549,005
Loss on ordinary activities	-	-	(292,856)	(292,856)
Issue of USD 0.001 shares	-	-	-	-
Redemption of USD 0.001 shares	(2)	(295,817)	-	(295,819)
Balance at 30 September 2011	12	999,990	(39,672)	960,330

	Share	Share Premium	Retained	Total USD
	Capital		Earnings USD	
	USD	USD	USD	
Balance at 1 January 2010	20	1,999,980	162,134	2,162,134
Gain on ordinary activities	-	-	91,050	91,050
Issue of USD 0.001 shares	-	-	-	-
Redemption of USD 0.001 shares	(6)	(704,173)	-	(704,179)
Balance at 31 December 2010	14	1,295,807	253,184	1,549,005

Share Class	2011		2010	
	NAV/Share	NAV	NAV/Share	NAV
USD Class	90.06	960,330	117.96	1,549,005
		960,330		1,549,005

SPITFIRE RAPID RECOVERY FUND

Notes to the Financial Statements for the period from 1 January 2011 to 30 September 2011

9. Taxation

The Fund is incorporated in Bermuda, a jurisdiction with no corporate taxes. Accordingly, no provision for liability to income tax has been included in these financial statements. The Fund may be subject to foreign withholding taxes on certain interest, dividends and capital gains.

10. Related party transactions

Alan Tennant Johnson is the Chairman of The Spitfire Funds (Bermuda) Ltd.

Alan Tennant Johnson, Philip Peter Scales and Peter Hughes are the directors of The Spitfire Funds (Bermuda) Ltd and the Fund.

Peter Hughes is a director and principal owner of the Administrator. Details of the fees payable to the Administrator are shown in note 11.

The Spitfire Asset Managers (Bermuda) Ltd is the Fund's Investment Manager where Alan Tennant Johnson is a director. The fees charged by the Investment Manager were:

	2011 USD	2010 USD
Investment management fees	18,848	36,463
Performance fees	3,750	26,590
	<u>22,598</u>	<u>63,053</u>

Further details of the fees incurred are also included in Note 11.

No director of the Fund held a beneficial interest in any of the participating shares of the Fund during the period.

Spitfire Asset Managers (Bermuda) Ltd is the owner of the manager share in the Company.

11. Fees and expenses

Basis of calculating fees

All agreements with service providers/third parties are entered into and records of the agreement are in place with the relevant parties.

Administrator

The Administrator charges a fee of 0.1% of the monthly Net Asset Value, which accrues monthly and is payable quarterly in arrears. The Administrator charges USD 15 per shareholder transaction and an additional corporate secretarial service at USD 5,000 per annum (pro-rated amongst segregated accounts of the Company).

During the period from 1 January 2011 to 30 September 2011 a charge of USD 967 (2010: USD 1,871) was incurred with regards to the administration fees and USD 706 (2010: USD 787) for the corporate secretarial fees. Administration services and corporate secretarial services payable amounted to USD 286 and USD 208, respectively as at 30 September 2011 and USD 694 and USD 266, respectively as at 31 December 2010.

SPITFIRE RAPID RECOVERY FUND

Notes to the Financial Statements for the period from 1 January 2011 to 30 September 2011

11. Fees and expenses (continued)

Custodian fees

The Custodian is paid a fee of 0.05% of the aggregate Net Asset Value subject to a minimum annual fee of GBP 6,000 which accrues monthly and is payable monthly in arrears on the last Business Day of each month. Additionally, the Custodian is paid a transaction fee of GBP 100 per trade plus full recovery of all counter-party charges and reimbursement of all out of pocket expenses. During the period from 1 January 2011 to 30 September 2011 a refund of USD 3,586 (2010: charge of USD 6,648) was given (2010: charged) by the Custodian and USD 137 and USD 6,617 was payable as at 30 September 2011 and 31 December 2010, respectively.

Investment management fees

The Investment Manager is paid a minimum fee equal to the aggregate of 1.95% per annum of the Net Asset Value which is paid monthly in arrears on the last Business Day of each month. During the period from 1 January 2011 to 30 September 2011 USD 18,848 (2010: USD 36,463) management fees were incurred and USD 26,856 and USD 8,008 was payable as at 30 September 2011 and 31 December 2010, respectively. The fund manager rebated the fund in year ending 2009 only. The rebates receivable from the fund manager were USD 19,880 and USD 19,845 as at 30 September 2011 and 31 December 2010, respectively.

Performance fees

The Investment Manager is paid a performance fee equal to 20% per annum of the appreciation in the net asset value per share, above the appreciation had the assets been invested in the market at the 3-month LIBOR rate as quoted on the first day of each calendar quarter, in the net asset value per share above the base net asset value per share. The base net asset value per share represents the highest net asset value per share achieved. The performance fee is paid quarterly in arrears on the last Business Day of each calendar quarter. During the period from 1 January 2011 to 30 September 2011 a performance fee was incurred of USD 3,750 (2010: USD 26,590) and USD 30,340 and USD 26,590 was payable as at 30 September 2011 and 31 December 2010, respectively, to the Investment Manager.

Deferred sales charge

The Fund reserves the right to pay an initial fee to introducers by way of commission. Such costs of acquiring and procuring subscriptions are limited to a maximum of 5% of the amount subscribed and these costs are expensed as they are incurred. During the period and the prior year, no subscriptions were received, therefore no deferred sales charge has been incurred.

Early redemption fees

Redemptions are subject to an early redemption fee of a percentage of the value of the redemption proceeds between 5% and nil, calculated on a pro rata basis over a period of 50 months from the date of subscription subject to the Directors discretion. In the period, no redemption fees were charged to investors and no income recognised.

Investment Advisor fees

The Investment Advisor is paid a fee equal to 0.324% of the Net Asset Value up to USD 200 million, 0.20% for the next USD 200 million and 0.1% thereafter. Fees are based on the monthly NAVs and are calculated monthly and payable quarterly. During the period from 1 January 2011 to 30 September 2011 USD 2,940 (2010: USD 6,093) investment advisory fees were incurred and USD 906 and USD 2,795 was payable to the Investment Advisor as at 30 September 2011 and 31 December 2010, respectively.

All fees and charges are consistent with the articles of the Company and offering memorandum of the Company and Fund.

Notes to the Financial Statements for the period from 1 January 2011 to 30 September 2011

12. Risk associated with financial instruments

The Fund is exposed to capital risk management, market risk, interest rate risk, credit risk and liquidity risk arising from the financial instruments it holds. The nature and extent of the financial instruments outstanding at the reporting date and the risk management policies employed by the fund to manage these risks are discussed below.

Capital risk management

Capital is represented by the net assets attributable to the holders of redeemable shares.

Capital is managed in line with the investment parameters of the Fund seeking to generate returns for shareholders whilst seeking to minimize risk.

The Fund was incorporated as an open-ended Investment Fund in Bermuda to seek opportunities for capital growth resulting from investing in the Commercial Property Market and the listed shares of property related companies, by investing in a range of underlying funds.

Strategy in using financial instruments

The Fund's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Fund's financial performance.

Market price risk

Market price risk is the potential for losses to be made due to investment in financial assets which suffer a diminution in value over the period that they are invested in.

Market price risk is dependent on the underlying investments of the Fund which are shown in note 3.

All security investments present a risk of loss of capital. The directors' policy to minimise price risk is to maintain a diverse portfolio of investments in accordance with the respective investment objectives, which is managed by a professional investment advisor. The Fund's overall market positions are monitored daily by the Investment Advisor.

The Investment Advisor uses their discretion to select investments that aim to deliver the investment objective. Considerations are given to the macroeconomic environment, relative valuation levels, the political environment, liquidity and technical analysis. Depending on the differing economic and market conditions the overall asset allocation will shift in time.

Due to the volatile market conditions currently experienced globally, the directors have assessed market risk sensitivity relating to all fund investments at a potential loss of 10% and gain of 5%.

The following table illustrates the sensitivity of the profit or loss for the period and the net asset value of the Fund to a 5% increase or 10% decrease in the market value of financial assets, assuming all other factors remain the same.

SPITFIRE RAPID RECOVERY FUND

Notes to the Financial Statements for the period from 1 January 2011 to 30 September 2011

12. Risk associated with financial instruments (continued)

Market price risk (continued)

	2011		2010	
	<u>Increase in Market value (5%)</u>	<u>Decrease in Market value (10%)</u>	<u>Increase in Market value (5%)</u>	<u>Decrease in Market value (10%)</u>
	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>
At 30 September / 31 December				
Net profit	66,927	(133,854)	87,764	(175,528)
Net asset value	6.97%	(13.94)%	5.67%	(11.33)%

Credit risk

The Fund takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It is the Fund's policy only to enter into financial instruments with reputable counterparties. Therefore, the Fund does not expect to incur material credit losses on its financial instruments.

The Fund is also exposed to risk from default by brokers who carry out trading in financial assets. The Fund mitigates this risk by employing reputable custodians and trading in low to medium risk markets and countries.

As at 30 September 2011 and 31 December 2010, the value of assets subject to credit risk was as follows:

	2011 USD	2010 USD
Cash and cash equivalents	40,488	97,461

Interest rate risk

The majority of the Fund's financial assets are non interest bearing. As a result, the Fund is not subject to significant risk due to fluctuations in the prevailing levels of market interest rates. As such a sensitivity analysis of the effect has not been prepared.

The underlying investment assets of the Fund may be exposed to interest rate risk; however it is not possible to quantify this indirect interest rate risk of the Fund.

The table on the next page summarises the Fund's exposure to interest rate risk:

SPITFIRE RAPID RECOVERY FUND

Notes to the Financial Statements for the period from 1 January 2011 to 30 September 2011

12. Risk associated with financial instruments (continued)

Interest rate risk (continued)

At 30 September 2011	Fixed	Less than one month	Non-interest bearing	Total USD
Assets				
Financial assets at fair value through profit or loss	-	-	1,338,544	1,338,544
Dividend	-	-	-	-
Other receivables	-	-	19,880	19,880
Cash and cash equivalents	-	40,488	-	40,488
Total assets	-	40,488	1,358,424	1,398,912
Liabilities				
Accounts payable	-	-	438,582	438,582
Net assets attributable to holders of redeemable participating preference shares	-	-	960,330	960,330
Total liabilities	-	-	1,398,912	1,398,912
At 31 December 2010				
Assets				
Financial assets at fair value through profit or loss	-	-	1,755,284	1,755,284
Dividend	-	-	676	676
Other receivables	-	-	19,845	19,845
Cash and cash equivalents	-	97,461	-	97,461
Total assets	-	97,461	1,775,805	1,873,266
Liabilities				
Accounts payable	-	-	324,261	324,261
Net assets attributable to holders of redeemable participating preference shares	-	-	1,549,005	1,549,005
Total liabilities	-	-	1,873,266	1,873,266

Liquidity risk

It is the Fund's policy to invest into an investment portfolio of regulated schemes which deal on a regular basis and are considered generally readily realisable. The Fund's liquidity risk is managed through diversification of the investment portfolios and by maintaining a portion of its assets as cash.

The Fund's portfolio of financial assets includes hedge funds. The Fund invests in hedge funds that are more illiquid and require the directors to instruct redemption to raise cash between one and three months in advance of cash being received.

In accordance with the Fund's policy, the Investment Manager monitors the Fund's liquidity position on a daily basis, and the Board of Directors reviews it on a regular basis.

SPITFIRE RAPID RECOVERY FUND

Notes to the Financial Statements for the period from 1 January 2011 to 30 September 2011

12. Risk associated with financial instruments (continued)

Liquidity risk (continued)

All amounts included in creditors at the balance sheet date are payable within three months.

As described in Note 6 to the financial statements, the Fund's redeemable shares are redeemable at the shareholder's option for cash equal to a proportionate share of the Fund's net asset value. The Fund is therefore potentially exposed to monthly redemptions by its shareholders.

The number of shares of the Fund which can be redeemed in any month is limited to 5% of the total net asset value of the Fund.

Currency risk

The Fund is exposed to currency risk through allowing investment via currency classes which are not denominated in the base currency of the Fund. The Fund is also permitted to invest in underlying assets which may be denominated in currencies which are different from the base currency of the Fund.

The underlying investments assets of the Fund may be exposed to currency risk; however it is not possible to quantify this indirect currency risk exposure of the Fund.

In order to mitigate currency risk the directors have appointed the Investment Advisor who ensures that the currency classes and any non-base currency assets are fully hedged on a monthly basis. This is achieved by the taking out of monthly forward foreign currency contracts which mirror the value of the non-base currency assets thus mitigating the risk from currency movements.

The currency exposure of the Fund in respect of the Fund's foreign currency denominated assets and liabilities at the reporting date was as follows:

	Currency	2011		2010	
		in foreign currency	in USD	in foreign currency	in USD
<i>Financial assets</i>					
Financial assets at fair value through profit or loss	EUR	-	-	139,924	218,268
Financial assets at fair value through profit or loss	GBP	151,451	235,932	198,906	310,274
			<u>235,932</u>		<u>528,542</u>

The following table illustrates the sensitivity of the profit or loss for the period and the net asset value of the Fund to a 5% increase in exchange rates between foreign currency (GBP) and USD, assuming all other factors remain the same.

2011					
Impact of 5% Increase in FX Rate					
Currency	Financial Assets	Cash and Cash Equivalents	Other Assets and Liabilities	Effect on Profit	% Change in NAV
GBP	11,801	-	-	11,801	1.23%
Total	11,801	-	-	11,801	1.23%

SPITFIRE RAPID RECOVERY FUND

Notes to the Financial Statements for the period from 1 January 2011 to 30 September 2011

12. Risk associated with financial instruments (continued)

Currency risk (continued)

2010						
Impact of 5% Increase in FX Rate						
Currency	Financial Assets	Cash and Cash Equivalents	Other Assets and Liabilities	Effect on Profit	% Change in NAV	
GBP	10,913	-	-	10,913	0.70%	
EUR	13,304	-	-	13,304	0.86%	
Total	24,217	-	-	24,217	1.56%	

The foreign exchange gain on revaluation of assets and liabilities (other than investments at fair value through profit and loss) during the year is USD 49 (2010: USD 6,768).

13. Subsequent Events

After the reporting period, the board of directors through a resolution dated 2 November 2011 agreed to close the Fund as at 30 September 2011. This decision was taken due to the diminutive size of the Fund which made it uneconomical to operate and maintain. The letter informing the shareholders was issued on 25 October 2011. The final redemption payment was paid in cash and in specie on 19 April 2012 to the investors.

	USD Class
	USD
Grange Nominees Ltd	150,493

Security transferred to The Frontier Fund	Underlying CCY	Quantity
Blue Crest Cap Intl Ltd Class F USD	USD	343.3005
CQS Conv&Quantitative Feeder Class A USD	USD	131.806
Fidelity Funds - South East Asia A Dis NAV	USD	7,889.28
Oceanic Hedge Fund B USD	USD	67.5378
Proshares Trust II Ultra DJ-UBS Commodity	USD	1,050.00
Proshares Trust PSHS Ultra Financials New	USD	445
Proshares Trust PSHS Ultra S&P 500	USD	765
Sprott Offshore Fund II Ltd ClassA Series 1 Oct 07	USD	1,855.05
ISHARES FTSE EPRA NAREIT ASIA PRO	GBP	2,328.00
iShares MSCI Emerging Markets Shs	GBP	918
iShares MSCI Far East EX-JAP (GBP)	GBP	900

Following the decision to liquidate the Fund, the Fund requested the delisting of its shares from the Official List of the BSX. This request was granted with effective date 28 December 2011.

The Net Asset Value per share as of 30 September 2011 is as follows:

Share Class	30-Sep-11
	USD
USD Class	90.06