CARITAS ROYALTIES FUND II (BERMUDA) LTD.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2008

CARITAS ROYALTIES FUND II (BERMUDA) LTD.

CONTENTS

Certified
Public
Accountants

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of
Caritas Royalties Fund II (Bermuda) Ltd.

We have audited the accompanying statement of assets and liabilities of Caritas Royalties Fund II (Bermuda) Ltd. (the "Fund"), including the schedule of investments, as of December 31, 2008, and the related statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the management of the Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Caritas Royalties Fund II (Bermuda) Ltd. as of December 31, 2008, and the results of its operations, changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Rothstein, Kass & Company, P.C.

Irvine, California
June 9, 2009

CARITAS ROYALTIES FUND II (BERMUDA) LTD.

STATEMENT OF ASSETS AND LIABILITIES
(Expressed in United States Dollars)

December 31, 2008

Assets	
Swap contract with affiliate, at fair value	$ 14,352,851
Note receivable from affiliate, at fair value	17,587,757
Cash	5,254,885
Other	12,020
Total assets	37,207,513
Liabilities	
Subscriptions received in advance	5,250,000
Redemptions payable	5,021,029
Performance fee payable	942,089
Accrued expenses	145,108
Management fee payable	71,594
Total liabilities	11,429,820
Net assets	25,777,693
Less: Attributable to Founder Shares	(12,000)
Net assets attributable to investor shares	$ 25,765,693

See accompanying notes to financial statements.

CARITAS ROYALTIES FUND II (BERMUDA) LTD.

STATEMENT OF OPERATIONS
(Expressed in United States Dollars)

Year Ended December 31, 2008

Investment income	
Interest income on note receivable	$ 453,634
Other interest income	107
Total investment income	453,741
Expenses	
Performance fee	1,275,858
Management fee	282,520
Administrative fees	152,654
Professional fees	110,999
Total expenses	1,822,031
Net investment loss	(1,368,290)
Realized and unrealized gain on investments	
Net realized gains on swap contract	1,543,438
Net unrealized gains on swap contract	4,645,764
Net gain on investments	6,189,202
Net change in net assets resulting from operations	$ 4,820,912

See accompanying notes to financial statements.

CARITAS ROYALTIES FUND II (BERMUDA) LTD.

STATEMENT OF CHANGES IN NET ASSETS

(Expressed in United States Dollars)

Year Ended December 31, 2008

Operations	
Net investment loss	$ (1,368,290)
Net realized gains on swap contract	1,543,438
Net unrealized gains on swap contract	4,645,764
Net change in net assets resulting from operations	4,820,912
Capital share transactions	
Issuance of shares	3,103,947
Redemption of shares	(7,022,756)
Net change in net assets resulting from capital share transactions	(3,918,809)
Net change in net assets	902,103
Net assets, beginning of year	24,875,590
Net assets, end of year	$ 25,777,693

See accompanying notes to financial statements.

CARITAS ROYALTIES FUND II (BERMUDA) LTD.

STATEMENT OF CASH FLOWS
(Expressed in United States Dollars)

Year Ended December 31, 2008	
Cash flows from operating activities	
Net change in net assets resulting from operations	$ 4,820,912
Adjustments to reconcile net change in net assets resulting from operations to net cash provided by operating activities:	
Net realized gains on swap contract	(1,543,438)
Net unrealized gains on swap contract	(4,645,764)
Interest income accrued on note receivable	(453,634)
Changes in operating assets and liabilities:	
Swap contract with affiliate, at fair value	2,670,001
Cost of investments in note receivable from affiliate, at fair value	(125,000)
Performance fee payable	443,725
Accrued expenses	100,496
Management fee payable	(57,378)
Net cash provided by operating activities	1,209,920
Cash flows from financing activities	
Proceeds from issuance of shares, net of change in subscriptions received in advance	5,453,947
Payments for redemption of shares, net of change in redemptions payable	(4,315,345)
Net cash provided by financing activities	1,138,602
Net change in cash	2,348,522
Cash, beginning of year	2,906,363
Cash, end of year	$ 5,254,885

See accompanying notes to financial statements.

CARITAS ROYALTIES FUND II (BERMUDA) LTD.

SCHEDULE OF INVESTMENTS
(Expressed in United States Dollars)

December 31, 2008

	Expiration Date	Number of Contracts	Percentage of Net Assets	Fair Value
Swap contract with affiliate, at fair value				
Total return swap				
United States				
Oil and Energy				
Cornerstone Acquisition & Management Company LLC	Sept. 2015	1	55.7 %	$ 14,352,851

	Principal Amount	Percentage of Net Assets	Fair Value
Note receivable from affiliate, at fair value			
United States			
Oil and Energy			
Cornerstone Acquisition & Management Company LLC (cost $15,463,000)	$ 15,463,000	68.2 %	$ 17,587,757

See accompanying notes to financial statements.

1. Nature of operations and summary of significant accounting policies

Nature of Operations

Caritas Royalties Fund II (Bermuda) Ltd. (the “Fund”) was incorporated in Bermuda as an open-ended mutual fund company on May 13, 2005. The shares of the Fund are listed on the Bermuda Stock Exchange. Refer to the Fund’s prospectus for more information.

The Fund entered into a total return swap agreement with Cornerstone Acquisition & Management Company LLC (“Cornerstone”) in order to receive profits based on Cornerstone’s investment in Royalty Repository II, LLC (“Royalty Repository”). Cornerstone’s investment in Royalty Repository was initially financed by the Fund through a registered note receivable between the Fund and Cornerstone dated September 2, 2005.

The Fund’s investment objective is to receive profits derived from royalty income from a diversified portfolio of United States oil and gas royalty interests (“Royalty Interests”) owned by Royalty Repository. Royalty Interests are contractual rights to receive a fixed percentage of production revenues from crude oil and natural gas properties which are owned and operated by third parties. The Fund derives profits from Royalty Repository’s investments in Royalty Interests through entering into the note receivable and total return swap agreement with Cornerstone.

Argent Financial Group (Bermuda) Ltd. is the Manager of the Fund (“Manager”) and a related party to Cornerstone. Cornerstone is the investment consultant to the Manager (“Investment Consultant”). Cornerstone is also the manager of Royalty Repository.

Basis of Presentation

The financial statements are expressed in United States dollars and have been prepared in conformity with accounting principles generally accepted in the United States of America.

Valuation of Note Receivable and Swap Contract at Fair Value - Definition and Hierarchy

The Fund adopted the provisions of SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”), effective January 1, 2008. Under SFAS No. 157, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Fund uses various valuation approaches. SFAS No. 157 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Fund. Unobservable inputs reflect the Fund’s assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

1. Nature of operations and summary of significant accounting policies (continued)

Valuation of Note Receivable and Swap Contract at Fair Value - Definition and Hierarchy (continued)

The fair value hierarchy is categorized into three levels based on the inputs as follows:

> *Level 1* - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 investments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these investments does not entail a significant degree of judgment.
>
> *Level 2* - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
>
> *Level 3* - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from investment to investment and is affected by a wide variety of factors including, the type of investment, whether the investment is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the investments existed. Accordingly, the degree of judgment exercised by the Fund in determining fair value is greatest for investments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls, is determined based on the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Fund's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Fund uses prices and inputs that are current as of the measurement date, including periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many investments. This condition could cause an investment to be reclassified to a lower level within the fair value hierarchy.

Valuation Techniques

Note Receivable

Fair value of the note receivable (the "Note") approximates the sum of the principal balance and interest receivable on the Note. The Note is a limited recourse note whereby Cornerstone's liability under the Note is limited to the value of Cornerstone's membership interest in Royalty Repository. Cornerstone's membership interest in Royalty Repository is valued utilizing the net asset valuation provided by Royalty Repository's management. The Note is categorized in Level 3 of the fair value hierarchy.

1. Nature of operations and summary of significant accounting policies (continued)

Valuation Techniques (continued)

Swap Contract

In the normal course of business, the Fund utilizes derivative financial instruments as part of its investment strategy. The total return swap contract is marked to fair value to reflect the net amount at which the swap contract would settle on the measurement date, since the contracts may be terminated at any time by either counterparty. The valuation is based on the cumulative return of Cornerstone's underlying investment in Royalty Repository net of redemptions by Cornerstone from Royalty Repository owed by Cornerstone to the Fund and a floating fee which is one month LIBOR plus 25 basis points of the notional value of the swap contract. The notional value of the swap contract approximates the cost of Cornerstone's investment in Royalty Repository. The swap contract is categorized in Level 3 of the fair value hierarchy. Realized and unrealized gains and losses on the swap contract are included in the Fund's statement of operations.

Investment Transactions and Related Investment Income

Interest income and expense are recognized on the accrual basis as earned or incurred. Investment transactions are accounted for on a trade-date basis.

Income Taxes

Under current laws of Bermuda, the Fund is not required to pay any taxes in Bermuda on either income or capital gains. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The Fund has received an undertaking from the Minister of Finance in Bermuda exempting it from any such taxes until the year 2016.

The Fund has adopted FASB Staff position FIN No. 48-3, which allows certain nonpublic entities to defer the effective date of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") until the annual financial statements for fiscal years beginning after December 15, 2008. The Fund has elected to apply the deferral and will adopt the provisions of FIN 48 effective for the annual financial statements for the year ending December 31, 2009. The Fund's accounting policy for evaluating uncertain tax positions during financial statements periods subject to the deferral of FIN 48 is based on the recognition and disclosure criteria for loss contingencies under SFAS No. 5, "Accounting for Contingencies."

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in determining 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 revenues and expenses during the reporting period. Such estimates include the measurement of fair value of the note receivable and swap contract. Actual results could differ from those estimates.

(Expressed in United States Dollars)

2. Fair value measurements

The Fund's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with SFAS No. 157. See Note 1 for a discussion of the Fund's fair value policies.

The following table presents information about the Fund's assets measured at fair value as of December 31, 2008:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2008
Assets				
Swap contract with affiliate, at fair value	$ -	$	$ 14,352,851	$ 14,352,851
Note receivable from affiliate, at fair value	-	-	17,587,757	17,587,757
	$ -	$ -	$ 31,940,608	$ 31,940,608

The following table presents additional information about Level 3 assets measured at fair value. There were no Level 3 liabilities during the year ended December 31, 2008. Both observable and unobservable inputs may be used to determine the fair value of positions that the Fund has classified within the Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category may include changes in fair value that were attributable to both observable and unobservable inputs.

Changes in Level 3 assets measured at fair value for the year ended December 31, 2008:

	LEVEL 3					
	Beginning Balance January 1, 2008	Realized & Unrealized Gains (Losses)	Purchases Sales and Settlements	Net Transfers In and/or (Out)	Ending Balance December 31, 2008	Change in Unrealized Gains (Losses) for Investments still held at December 31, 2008
Assets						
Swap contract with affiliate, at fair value	$ 10,833,650	$ 6,189,202	$ (2,670,001)	$ -	$ 14,352,851	$ 4,645,764
Note receivable from affiliate, at fair value	17,009,123	453,634	125,000	-	17,587,757	453,634
	$ 27,842,773	$ 6,642,836	$ (2,545,001)	$ -	$ 31,940,608	$ 5,099,398

2. Fair value measurements (continued)

Realized and unrealized gains of $1,543,438, $4,645,764, and $453,634 are included in net realized gains on swap contract, net unrealized gains on swap contract and interest income, respectively, in the statement of operations. The change in unrealized gains for the year ended December 31, 2008 for investments still held at December 31, 2008 of $4,645,764 and $453,634 are included in net unrealized gains from swap contract and interest income, respectively, in the statement of operations.

3. Swap contract with affiliate

The Fund entered into a total return swap contract with Cornerstone effective September 2, 2005 as part of its investment strategy. Generally, a swap contract is an agreement that obligates two parties to exchange a series of cash flows at specified intervals based upon or calculated by reference to changes in specified prices or rates for a specified notional amount of the underlying assets. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

During the term of the swap contracts, changes in value are recognized as unrealized gains or losses by marking the contracts to fair value. Additionally, the Fund records a realized gain (loss) when a swap contract is terminated and when periodic payments are received or made at the end of each measurement period, but prior to termination. Unrealized gains (losses), realized gains (losses) and periodic payments are reflected in net gain on investments in the statement of operations.

Total return swap contracts involve the exchange by the Fund and a counterparty, of their respective commitments to pay or receive a net amount based on the change in the fair value of a particular investment and a specified notional amount. The Fund's total return swap contract is scheduled to terminate in 2015.

The swap contract calls for Cornerstone and the Fund to pay the total return amount at preset periodic total return payment dates, from Cornerstone's investment in Royalty Repository. In the event the total return amount is a positive number, Cornerstone will pay this amount to the Fund. In the event the total return amount is a negative number, the Fund will pay Cornerstone this amount. Additionally, the Fund pays Cornerstone annually, commencing on January 1, 2006, interest based on USD LIBOR plus 25 basis points. The Fund has not paid any interest on the swap agreement from the commencement of the swap agreement through December 31, 2008. The interest payable on the swap agreement from commencement of the swap agreement through December 31, 2008 is $2,027,921 which is included in the fair value of the swap agreement on the statement of assets and liabilities.

The Fund has recorded a receivable for the proportionate share of total return that Cornerstone is entitled to since the inception of Royalty Repository, which commenced operations on June 13, 2005, which is netted with the amount payable to Cornerstone under the swap contract and reflected on a net basis as swap contract with affiliate, at fair value on the statement of assets and liabilities. The total return receivable includes the cumulative net increase in fair value of Cornerstone's investment in Royalty Repository. Cornerstone's investment in Royalty Repository approximates Cornerstone's proportionate share of the net asset value of Royalty Repository. At December 31, 2008, the fair value of the swap contract with affiliate includes a receivable from Cornerstone in the amount of $19,602,999, a payable to Cornerstone in the amount of $3,222,227 and interest payable on the swap in the amount of $2,027,921.

(Expressed in United States Dollars)

3. Swap contract with affiliate (continued)

Royalty Repository invests in oil and gas royalty interests. As part of its investment strategy to hedge against changes in crude oil and natural gas prices, Royalty Repository also invests in total return swap contracts with an institutional counterparty. Royalty Repository values its investments in royalty interests and swap contracts at fair value. The original cost of acquisition of oil and gas royalty interests is depleted using the units-of-production method. The cost and fair value of Royalty Repository's investments in royalty interests and swap contracts at December 31, 2008 and the net realized and unrealized gains on these investments for the year ended December 31, 2008 are as follows:

	Cost December 31, 2008	Fair Value December 31, 2008	Net realized and unrealized gains Year ended December 31, 2008
Royalty Repository's investments			
Investments in oil and gas royalty interests, at fair value	$ 42,259,095	$ 88,827,850	$ 3,422,020
Derivative contracts, at fair value		18,158,433	7,213,105
	$ 42,259,095	$106,986,283	$ 10,635,125

Royalty Repository's investments in oil and gas royalty interests and derivative contracts, all of which are in United States, approximate 109.1% and 22.3%, respectively, of Royalty Repository's members' capital as of December 31, 2008. Royalty Repository's derivative contracts consist of total return swaps in crude oil and natural gas which approximate 8% and 14.3%, respectively, of Royalty Repository's members' capital as of December 31, 2008 with expiration dates ranging from January 2009 to June 2012. During the year ended December 31, 2008, Royalty Repository earned royalty income of $13,445,823 and incurred depletion expense of $3,790,709. Royalty Repository's total return, calculated for its member class as a whole, for the year ended December 31, 2008 was 25.4%.

Risks may arise as a result of Cornerstone's failure to comply with the terms of the swap contract. The loss which may be incurred by the failure of Cornerstone is generally limited to the aggregate of the unrealized gain on the swap contracts in an unrealized gain position. Therefore, the Fund considers the creditworthiness of Cornerstone in evaluating potential credit risk. Additionally, risks may arise from unanticipated movements in the fair value of the underlying investments in Royalty Interests by Royalty Repository and the lack of market liquidity to unwind the Royalty Interest positions at current fair values.

4. Note receivable from affiliate

The Fund's registered note receivable (the "Note") from Cornerstone in the amount of $15,463,000 bears simple interest at an annual rate equal to USD LIBOR (1.9% at December 31, 2008) payable on the first day of January of each calendar year. No interest payments have been made under the Note. The unpaid principal balance of $15,463,000 together with the accrued interest of $2,124,757, totaling $17,587,757, is reflected on the statement of assets and liabilities. The Note is due on demand and is a limited recourse note whereby recourse is limited to Cornerstone's investment in Royalty Repository.

(Expressed in United States Dollars)

5. Concentration of credit risk

In the normal course of business, the Fund maintains cash balances in a U.S. based financial institution, which at times may exceed federally insured limits. U.S. cash accounts are guaranteed by the Federal Deposit Insurance Corporation up to $250,000 per institution. The Fund is subject to credit risk to the extent any financial institution with which it conducts business is unable to fulfill contractual obligations on its behalf. Management monitors the financial condition of such financial institutions and does not anticipate any losses from these counterparties.

The Fund has investments in a note receivable and a swap contract with Cornerstone which approximate 68.2% and 55.7%, respectively, of the total net asset value of the Fund. As of December 31, 2008, the sum of the note receivable together with accrued interest and fair value of the swap contract totaling $31,940,608 exceeded the fair value of Cornerstone's membership interest in Royalty Repository by $180,725. This amount is an unsecured receivable from Cornerstone.

6. Capital share transactions

The authorized share capital of the Fund is 3,012,000 shares, consisting of 12,000 Founder Shares and 3,000,000 redeemable shares of $1.00 par value each (“Investor shares”). There is only one class of shares, Class A. All of the Founder Shares have been issued to the Manager.

Investor shares are available for subscription and redemption on the first business day of each January and July at a price equal to the net asset value per share on the last business day of the preceding month. In the event that the Fund records a loss, the Fund will issue a separate series of shares on the first business day following that month to facilitate the performance fee computation. The new series of shares will convert into the original series, on the basis of their relative net asset values, when all losses allocated to the original series have been recovered.

Transactions in investor shares during the year ended December 31, 2008, and the investor shares outstanding and the net asset value (“NAV”) per share as of December 31, 2008 are as follows:

	Beginning Shares December 31, 2007	Share Transfers/ Conversions	Shares Issued	Shares Redeemed	Ending Shares December 31, 2008
Class A	132,998.49	-	16,599.63	(32,992.41)	116,605.71

	Amounts Issued	Amounts Redeemed	Ending Net Assets December 31, 2008	Ending NAV Per Share December 31, 2008
Class A	$ 3,103,947	$ 7,022,756	$ 25,765,693	$ 220.96

Shareholders have redemption rights which contain certain restrictions with respect to rights of redemption of shares as specified in the offering memorandum.

Redemptions payable represent amounts due to shareholders based on redemption requests effective through December 31, 2008.

7. Related party transactions

The Manager is entitled to a monthly management fee at the rate of 1/12 of 1% of the Fund's net assets as determined on the first day of each month. The Manager and the Investment Consultant share the management fee under terms of a separate agreement.

In addition, the Manager is entitled to a semi-annual performance fee equal to 20% of the Fund's semi-annual net income before management fees are deducted. No performance fee shall be earned or paid with respect to any shareholder of the Fund that has a net loss (exclusive of management fees) which has not been fully recouped. Losses carried forward are adjusted for redemptions. The Manager and the Investment Consultant share the performance fee under the terms of a separate agreement.

The Manager charges the Fund for accounting, operating and legal support. For the year ended December 31, 2008, the amount charged to the Fund was $104,445, which is included in the administrative fees on the statement of operations.

At December 31, 2008, the Fund had administrative fees payable to the Manager of $39,241, which is included in accrued expenses on the statement of assets and liabilities.

8. Administrator

Butterfield Fulcrum Group Ltd. (the "Administrator") serves as the Fund's Administrator and performs certain administrative and clerical services on behalf of the Fund. For the year ended December 31, 2008, the administration fee charged by the Administrator amounted to $31,127.

(Expressed in United States Dollars)

9. Financial highlights

Financial highlights for the year ended December 31, 2008 are as follows:

	Class A Shares
Per share operating performance	
Net asset value, beginning of year	$ 186.95
Income (loss) from investment operations:	
Net investment loss	(9.66)
Net gain on investments	43.67
Total from investment operations	34.01
Net asset value, end of year	$ 220.96
Total return	
Total return before performance and management fee	24.0 %
Performance fee	(4.8)
Management fee	(1.0)
Total return after performance and management fee	18.2 %
Ratio of expenses to average net assets	
Performance fee	4.4 %
Operating expenses, excluding performance fee	1.9
Total expenses	6.3 %
Net investment loss	(4.7) %

Financial highlights are calculated for the investor class as a whole. An individual shareholder's financial highlights may vary based on the timing of capital share transactions.

10. Subsequent events

From January 1, 2009 through June 4, 2009**,** the Fund accepted additional subscriptions of approximately $5,265,000 (of which approximately $5,250,000 is included in advance subscriptions).