

FMG SPECIAL OPPORTUNITY FUND LTD.

Financial Statements
(With Auditors' Report Thereon)

March 31, 2011 and 2010

**KPMG**

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Independent Auditors' Report

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

We have audited the accompanying financial statements of FMG Special Opportunity Fund Ltd. (the "Fund") which comprise the statement of assets and liabilities, including the schedule of investments, as at March 31, 2011, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Bermuda and Canada, 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 auditing standards generally accepted in Bermuda and Canada. 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 our 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, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As explained in Note 7, the financial statements included an investment in an underlying investment company with a fair value of \$655,270 (9.60% of net assets) at March 31, 2010 which has been subsequently sold, whose fair value had been estimated by the Manager in the absence of readily ascertainable fair values. We obtained explanations from the Manager to support the estimation of the fair value and reviewed the underlying documentation made available to us. In our opinion, the explanations obtained and information reviewed were not sufficient to be able to provide a reliable estimate of the fair value of the underlying investment company throughout the fiscal year ended March 31, 2010 and until the dates that the investment company was disposed of. Accordingly, we were not able to determine whether any adjustments were necessary to the fair values of the investment as at March 31, 2010 through to the disposal dates, or to the net increase (decrease) in net assets resulting from operations, or to net assets attributable to redeemable preferred shares in determining the net increase (decrease) in net assets from capital share transactions during the years ended March 31, 2010 and 2011.



Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2011 and of its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

A handwritten signature of the KPMG firm, written in a cursive, stylized font.

Chartered Accountants
Hamilton, Bermuda
December 6, 2011

FMG SPECIAL OPPORTUNITY FUND LTD.

Statement of Assets and Liabilities

March 31, 2011

(Expressed in United States Dollars)

	<u>2011</u>	<u>2010</u>
Assets		
Investments in securities (cost - \$8,818,857; 2010 - \$5,465,830) (See Schedule of Investments) (Notes 5, 7 and 9)	\$ 10,434,834	\$ 2,956,125
Cash and cash equivalents (Note 5)	1,508,761	3,422,373
Receivable from investments sold	-	793,354
Unrealized gain on forward foreign exchange contracts (Notes 5, 7 and 9)	2,698	2,962
Other assets (Note 9)	<u>7,558</u>	<u>5,851</u>
Total assets	<u>11,953,851</u>	<u>7,180,665</u>
Liabilities		
Unrealized losses on forward foreign exchange contracts (Notes 5, 7 and 9)	687	2,193
Subscriptions received in advance	531,946	37,509
Redemptions payable	266,408	235,679
Management and incentive fees payable (Note 3)	113,420	37,335
Administration fees payable (Note 4)	9,850	13,920
Accounts payable and accrued expenses (Note 3)	<u>69,400</u>	<u>27,697</u>
Total liabilities	<u>991,711</u>	<u>354,333</u>
Net assets	10,962,140	6,826,332
Less: attributable to common shares (Note 6)	<u>(100)</u>	<u>(100)</u>
Net assets attributable to redeemable preference shares (Note 6)	<u>\$ 10,962,040</u>	<u>\$ 6,826,232</u>
Net assets attributable to 29,774 (2010 - 42,166) US Dollar Class A redeemable preference shares	<u>\$ 2,257,746</u>	<u>\$ 2,575,491</u>
Net asset value per US Dollar Class A redeemable preference share	<u>\$ 75.83</u>	<u>\$ 61.08</u>
Net assets attributable to 6,045 (2010 - 2,583) US Dollar Class A09 redeemable preference shares	<u>\$ 516,393</u>	<u>\$ 177,893</u>
Net asset value per US Dollar Class A09 redeemable preference share	<u>\$ 85.42</u>	<u>\$ 68.86</u>
Net assets attributable to 27,918 (2010 - nil) US Dollar Class A10 redeemable preference shares	<u>\$ 3,348,062</u>	<u>\$ -</u>
Net asset value per US Dollar Class A10 redeemable preference share	<u>\$ 119.92</u>	<u>\$ -</u>
Net assets attributable to 292,804 (2010 - 531,641) US Dollar Class B redeemable preference shares	<u>\$ 2,545,018</u>	<u>\$ 3,702,847</u>
Net asset value per US Dollar Class B redeemable preference share	<u>\$ 8.69</u>	<u>\$ 6.96</u>

See accompanying notes to financial statements

FMG SPECIAL OPPORTUNITY FUND LTD.

Statement of Assets and Liabilities (continued)

March 31, 2011

(Expressed in United States Dollars)

	<u>2011</u>	<u>2010</u>
Net assets attributable to nil (2010 - 10,361) US Dollar Class B09 redeemable preference shares	\$ <u>-</u>	\$ <u>72,282</u>
Net asset value per US Dollar Class B09 redeemable preference share	\$ <u>-</u>	\$ <u>6.96</u>
Net assets attributable to 185,904 (2010 - nil) US Dollar Class B10 redeemable preference shares	\$ <u>2,294,821</u>	\$ <u>-</u>
Net asset value per US Dollar Class B10 redeemable preference share	\$ <u>12.34</u>	\$ <u>-</u>
Net assets of \$nil (2010 - \$158,842) attributable to nil (2010 - 4,419) EUR Class A redeemable preference shares	€ <u>-</u>	€ <u>117,582</u>
Net asset value per EUR Class A redeemable preference share	€ <u>-</u>	€ <u>26.60</u>
Net assets of \$nil (2010 - \$61,318) attributable to nil (2010 - 614) EUR Class A09 redeemable preference shares	€ <u>-</u>	€ <u>45,431</u>
Net asset value per EUR Class A09 redeemable preference share	€ <u>-</u>	€ <u>73.97</u>
Net assets of \$nil (2010 - \$2,002) attributable to nil (2010 - 53) GBP Class A redeemable preference shares	£ <u>-</u>	£ <u>1,319</u>
Net asset value per GBP Class A redeemable preference share	£ <u>-</u>	£ <u>24.97</u>
Net assets of \$nil (2010 - \$75,557) attributable to nil (2010 - 643) GBP Class A09 redeemable preference shares	£ <u>-</u>	£ <u>49,825</u>
Net asset value per GBP Class A09 redeemable preference share	£ <u>-</u>	£ <u>77.51</u>

See accompanying notes to financial statements

Signed on behalf of the Board



Director



Director

FMG SPECIAL OPPORTUNITY FUND LTD.

Schedule of Investments

March 31, 2011

(Expressed in United States Dollars)

<u>Investments in securities</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>	<u>Redemption Frequency</u>
Other investment companies				
Babylon Fund Class B ¹	\$ 2,873,230	\$ 3,471,148	31.67%	Quarterly
Babylon Fund Class B series 1 ²	1,000,000	1,156,847	10.55%	Quarterly
Babylon Fund Class B series 2 ³	<u>700,000</u>	<u>732,231</u>	<u>6.68%</u>	Quarterly
Total investments in other investment companies	<u>4,573,230</u>	<u>5,360,226</u>	<u>48.90%</u>	
Equities				
Al-Mansour Bank	333,417	425,616	3.88%	
Babylon Bank	232,191	234,233	2.14%	
Baghdad Soft Drinks	468,064	582,112	5.31%	
Bank of Baghdad	372,165	736,827	6.72%	
Commercial Bank of Iraq	279,302	277,293	2.53%	
Commercial Bank of Iraq - Rights	108,058	108,058	0.98%	
Gulf Commercial Bank	532,205	549,843	5.02%	
Investment Bank of Iraq	556,949	543,827	4.96%	
Iraqi Land Transport	89,375	90,785	0.83%	
Iraqi Land Transport - Rights	6,382	6,382	0.06%	
Iraqi Middle East Investment Bank	529,072	681,697	6.22%	
Mansour Hotel	162,347	171,150	1.56%	
Mosul Bank For Development & Investment	230,373	329,806	3.01%	
North Bank	<u>345,727</u>	<u>336,979</u>	<u>3.07%</u>	
Total investments held in equities	<u>4,245,627</u>	<u>5,074,608</u>	<u>46.29%</u>	
Total investments in securities	<u>\$ 8,818,857</u>	<u>\$10,434,834</u>	<u>95.19%</u>	

¹ Investment is subject to lockup provisions which expire on April 30, 2011 otherwise redemptions are subject to a 15% early redemption fee.

² Investment is subject to lockup provisions which expire on September 30, 2011 otherwise redemptions are subject to a 15% early redemption fee.

³ Investment is subject to lockup provisions which expire on February 28, 2012 otherwise redemptions are subject to a 15% redemption fee.

See accompanying notes to financial statements

FMG SPECIAL OPPORTUNITY FUND LTD.

Schedule of Investments

March 31, 2010

(Expressed in United States Dollars)

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

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

Long equities	\$ 2,051,345	30.05%
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The Algebra Managed Account includes an investment in Qatar National Bank with a fair value of \$388,592 (being 5.69% of the net assets of the Fund).

See accompanying notes to financial statements

FMG SPECIAL OPPORTUNITY FUND LTD.

Statement of Operations

Year ended March 31, 2011

(Expressed in United States Dollars)

	<u>2011</u>	<u>2010</u>
Investment income		
Rebate income (Note 10)	\$ <u>636</u>	\$ <u>16,354</u>
Total income	<u>636</u>	<u>16,354</u>
Expenses		
Management fees (Note 3)	125,078	181,261
Incentive fees (Note 3)	87,130	1,846
Broker fees	67,890	—
Administration fees (Note 4)	39,638	59,680
Interest expense	589	1,786
Custodian fees (Note 5)	4,640	5,861
Audit fees	51,775	27,150
Directors' and secretarial fees	13,500	13,672
Bank charges	6,090	2,564
Miscellaneous	<u>16,403</u>	<u>18,445</u>
Total expenses	<u>412,733</u>	<u>312,265</u>
Net investment loss	<u>(412,097)</u>	<u>(295,911)</u>
Realized and unrealized gains and losses on investments		
Net realized losses on sale of investments	(2,061,930)	(11,030,269)
Net realized losses on forward foreign exchange contracts and foreign exchange	(16,151)	(244,320)
Net change in unrealized gains and losses on investments	4,125,682	9,118,933
Net change in unrealized gains on forward foreign exchange contracts	<u>1,242</u>	<u>202,001</u>
Net realized and unrealized gains (losses) on investments	<u>2,048,843</u>	<u>(1,953,655)</u>
Net increase (decrease) in net assets from operations	<u>\$ 1,636,746</u>	<u>\$ (2,249,566)</u>

See accompanying notes to financial statements

FMG SPECIAL OPPORTUNITY FUND LTD.

Statement of Changes in Net Assets

Year ended March 31, 2011

(Expressed in United States Dollars)

	<u>2011</u>	<u>2010</u>
From operations		
Net investment loss	\$ (412,097)	\$ (295,911)
Net realized losses on sale of investments	(2,061,930)	(11,030,269)
Net realized losses on forward foreign exchange contracts and foreign exchange	(16,151)	(244,320)
Net change in unrealized gains and losses on investments	4,125,682	9,118,933
Net change in unrealized gains on forward foreign exchange contracts	<u>1,242</u>	<u>202,001</u>
Net increase (decrease) in net assets from operations	<u>1,636,746</u>	<u>(2,249,566)</u>
From capital share transactions		
Proceeds from sale of 309 (2010 - nil) US Dollar Class A redeemable preference shares	18,880	—
Proceeds from sale of 4,148 (2010 - 3,445) US Dollar Class A09 redeemable preference shares	286,022	306,624
Proceeds from sale of 28,982 (2010 - nil) US Dollar Class A10 redeemable preference shares	3,201,950	—
Proceeds from sale of 85,163 (2010 - 269) US Dollar Class B redeemable preference shares	593,339	2,375
Proceeds from sale of nil (2010 - 10,361) US Dollar Class B09 redeemable preference shares	—	96,860
Proceeds from sale of 185,904 (2010 - nil) US Dollar Class B10 redeemable preference shares	2,102,083	—
Proceeds from sale of 61 (2010 - nil) EUR Class A redeemable preference shares	2,168	—
Proceeds from sale of 838 (2010 - 664) EUR Class A09 redeemable preference shares	75,731	71,290
Proceeds from sale of nil (2010 - 95,111) EUR Class B09 redeemable preference shares	—	1,389,150
Proceeds from sale of 117 (2010 - nil) GBP Class A redeemable preference shares	4,455	—
Proceeds from sale of nil (2010 - 8,644) GBP Class A09 redeemable preference shares	—	1,508,518
Payment on redemption of 12,701 (2010 - 10,298) US Dollar Class A redeemable preference shares	(806,200)	(736,133)
Payment on redemption of 686 (2010 - 1,100) US Dollar Class A09 redeemable preference shares	(46,633)	(80,293)
Payment on redemption of 1,064 (2010 - nil) US Dollar Class A10 redeemable preference shares	(119,127)	—
Payment on redemption of 324,000 (2010 - 206,294) US Dollar Class B redeemable preference shares	(2,312,154)	(1,669,422)
Payment on redemption of 10,361 (2010 - nil) US Dollar Class B09 redeemable preference shares	(73,368)	—
Payment on redemption of 4,480 (2010 - 875) EUR Class A redeemable preference shares	(172,133)	(39,770)
Payment on redemption of 1,452 (2010 - 50) EUR Class A09 redeemable preference shares	(164,237)	(5,124)

See accompanying notes to financial statements

FMG SPECIAL OPPORTUNITY FUND LTD.

Statement of Changes in Net Assets (continued)

Year ended March 31, 2011

(Expressed in United States Dollars)

	<u>2011</u>	<u>2010</u>
From capital share transactions (continued)		
Payment on redemption of nil (2010 - 12,510) EUR Class B redeemable preference shares	\$ —	\$ (72,313)
Payment on redemption of nil (2010 - 95,111) EUR Class B09 redeemable preference shares	—	(1,126,915)
Payment on redemption of 170 (2010 - 632) GBP Class A redeemable preference shares	(8,378)	(28,814)
Payment on redemption of 643 (2010 - 8,001) GBP Class A09 redeemable preference shares	<u>(83,336)</u>	<u>(1,152,414)</u>
Net increase (decrease) in net assets from capital share transactions	<u>2,499,062</u>	<u>(1,536,381)</u>
Net increase (decrease) in net assets attributable to redeemable preference shares	4,135,808	(3,785,947)
Net assets attributable to redeemable preference shares at beginning of year	<u>6,826,232</u>	<u>10,612,179</u>
Net assets attributable to redeemable preference shares at end of year	<u>\$ 10,962,040</u>	<u>\$ 6,826,232</u>

See accompanying notes to financial statements

FMG SPECIAL OPPORTUNITY FUND LTD.

Statement of Cash Flows

Year ended March 31, 2011

(Expressed in United States Dollars)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Net increase (decrease) in net assets from operations	\$ 1,636,746	\$ (2,249,566)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash (used in) provided by operating activities:		
Change in assets and liabilities:		
Net change in investments and derivative instruments	(7,479,951)	9,003,885
Receivable from investment sold	793,354	(723,872)
Other assets	(1,707)	13,686
Management and incentive fees payable	76,085	(33,875)
Administration fees payable	(4,070)	360
Accounts payable and accrued expenses	<u>41,703</u>	<u>(6,083)</u>
Net cash (used in) provided by operating activities	<u>(4,937,840)</u>	<u>6,004,535</u>
Cash flows from financing activities		
Proceeds from issue of redeemable preference shares	6,779,065	3,382,326
Payments on redemptions of redeemable preference shares	<u>(3,754,837)</u>	<u>(7,437,445)</u>
Net cash provided by (used in) financing activities	<u>3,024,228</u>	<u>(4,055,119)</u>
Net (decrease) increase in cash and cash equivalents	(1,913,612)	1,949,416
Cash and cash equivalents at beginning of year	<u>3,422,373</u>	<u>1,472,957</u>
Cash and cash equivalents at end of year	<u>\$ 1,508,761</u>	<u>\$ 3,422,373</u>
Supplementary cash flow information		
Interest paid	<u>\$ 589</u>	<u>\$ 1,786</u>

See accompanying notes to financial statements

FMG SPECIAL OPPORTUNITY FUND LTD.

Notes to Financial Statements

March 31, 2011

1. **Operations**

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

The Fund invests in equities and other open or closed-ended investment companies, limited partnerships and managed accounts managed by fund managers, primarily in emerging or frontier markets such as Iraq.

2. **Significant accounting policies**

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

(a) Investment transactions and valuation

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

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

The investment in equity securities within the managed accounts and those held directly are accounted for on a trade date basis and those that are traded on a national securities exchange are valued at the last reported bid price if held long and last reported ask price if held short on the valuation day. Bid and ask prices are not reported by the Iraq Stock Exchange, therefore the last traded price is used to value traded equities. The interest, dividend income and realized gains and losses arising from managed accounts are included in the relevant line items in the statement of operations. Similarly, cash attributable to the managed accounts are included within cash and cash equivalents in the statement of assets and liabilities.

FMG SPECIAL OPPORTUNITY FUND LTD.

Notes to Financial Statements

March 31, 2011

2. Significant accounting policies (continued)

(b) Forward foreign exchange contracts

The Fund purchases forward foreign exchange contracts in amounts approximating the net assets attributable to the Euro and GBP classes of redeemable preference shares and fair value of investments in other investment companies denominated in Euro to manage its exposure against changes in the US Dollar/Euro and US Dollar/GBP exchange rates. Forward foreign exchange contracts are recorded at fair value at the reporting date. The unrealized gain or loss on open forward foreign exchange contracts on each valuation date is the difference between the contract exchange rate and the forward exchange rate at the valuation date, as reported by published sources, applied to the face amount of the contract. The unrealized gain or loss at the reporting date is included in the statement of assets and liabilities. Realized and unrealized changes in the fair value of the contracts are included in the statement of operations in the period in which the change occurs and are attributed entirely to the classes of redeemable preference shares to which the individual contracts relate (Notes 2(c) and 9(e)).

(c) Allocation of profits and losses

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

(d) Foreign currency transactions

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

(e) Interest income and expense

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

(f) Rebate income

The Fund receives partial rebates with respect to the management and incentive fees charged on those investments in other companies that are also managed by the Manager (Note 10). If the amount and timing of such receipts can be estimated, they are accrued, otherwise rebate income is recorded on a cash basis.

(g) Cash and cash equivalents

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

FMG SPECIAL OPPORTUNITY FUND LTD.

Notes to Financial Statements

March 31, 2011

2. Significant accounting policies (continued)

(h) Use of estimates

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

(i) Future accounting standards

The Canadian Accounting Standards Board ("ASB") previously confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. In June 2010, the ASB issued an exposure draft "*Adoption of IFRSs by Investment Companies*", proposing that investment companies currently applying Accounting Guideline 18 ("AcG 18") "*Investment Companies*" issued by the Canadian Institute of Chartered Accountants ("CICA"), defer the adoption of IFRS by one year to fiscal years beginning on or after January 1, 2012. In September 2010, the ASB approved the optional one year deferral from IFRS adoption for investment companies applying AcG 18. Management has opted to defer the adoption of IFRS and is evaluating the impact of the adoption of IFRS.

3. Management, incentive and load fees

(a) Management fees

The Fund pays FMG Fund Managers Limited (the "Manager") a management fee at a rate of 2.0% per annum of the net assets attributable to the Class A Shares of the Fund and 1.5% per annum of the net assets attributable to the Class B Shares of the Fund, calculated on a monthly basis and payable quarterly. For the year ended March 31, 2011, this management fee was \$125,078 (2010 - \$179,699), of which \$43,849 (2010 - \$37,335) was payable at March 31, 2011.

The Fund also pays fees to the managers of the managed accounts. For the year ended March 31, 2011, the Fund incurred management fees of \$nil (2010 - \$1,562), of which \$nil (2010 - \$nil) was payable at March 31, 2011.

(b) Incentive fees

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

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

FMG SPECIAL OPPORTUNITY FUND LTD.

Notes to Financial Statements

March 31, 2011

3. Management, incentive and load fees (continued)

(b) *Incentive fees* (continued)

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

For the year ended March 31, 2011 the incentive fee was \$87,130 (2010 - \$1,846) of which \$69,571 (2010 - \$nil) was payable at March 31, 2011.

(c) *Load fees*

The Manager may charge load fees of up to 5% of the amount subscribed. When charged, these load fees will reduce the amount available to shareholders for the purchase of redeemable preference shares in the Fund. For the year ended March 31, 2011, load fees were \$60,017 (2010 - \$23,994) of which \$30,071 (2010 - \$3,078) were included within accounts payable and accrued expenses.

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

4. Administration fees

Apex Fund Services Limited (the "Administrator") acts as the administrator, registrar and transfer agent for the Fund. For administrative services provided, the Fund pays fees at the higher of \$3,000 per month for net assets up to \$10 million and \$4,000 per month for net assets exceeding \$10 million, or 15 basis points of the Fund's average net assets per annum.

Effective April 1, 2010, the minimum fee was reduced to \$2,500 per month for net assets up to \$10 million and \$3,500 per month for net assets exceeding \$10 million or 15 basis points of the net assets per annum. For the year ended March 31, 2011, administration fees were \$39,638 (2010 - \$59,680), of which \$9,850 (2010 - \$13,920) was payable at March 31, 2011.

The Administrator also charges a disbursement fee of 10% of the monthly administration, registrar and transfer agency fees.

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

5. Custodian fees

Effective August 14, 2009, Credit Suisse AG (the "Custodian") was appointed as custodian to the Fund. Fees for custody services are charged at 7 basis points per annum of the value of the net assets of the Fund under custody subject to an annual minimum of CHF 5,500. In addition, the Custodian is entitled to receive reimbursement for all reasonable disbursements and out-of-pocket expenses incurred by the Custodian.

FMG SPECIAL OPPORTUNITY FUND LTD.

Notes to Financial Statements

March 31, 2011

5. Custodian fees (continued)

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

Effective January 3, 2011, fees for custody services are charged at 0.075% per annum of the value of the net assets of the Fund under custody subject to less than \$500 million and 0.065% per annum of the value of the net assets of the Fund under custody in excess of \$500 million.

6. Share capital

The authorized share capital of the Fund is \$11,000, divided into 100 common shares of par value \$1 each and 10,900,000 redeemable preference shares (the "Shares"), issued in US Dollars, EUR and GBP with a par value of \$0.001 each. Redeemable preference shares are issued as Class A, Class A09 and Class A10 Shares (collectively the "Class A Shares") and Class B, Class B09 and Class B10 shares (collectively the "Class B Shares"). Effective February 2, 2009, Class A09 and Class B09 shares were offered for sale. Effective March 2, 2009, the existing Class A and Class B shares were closed for new subscriptions, except in situations where approved by the Board of Directors and the Manager. Effective May 20, 2010, two new classes of shares, Class A10 and Class B10 shares are available for subscription and the existing Class A09 and Class B09 shares were closed for new subscriptions, except in situations where approved by the Board of Directors and the Manager.

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

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

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

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

7. Fair value of financial instruments

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

FMG SPECIAL OPPORTUNITY FUND LTD.

Notes to Financial Statements

March 31, 2011

7. Fair value of financial instruments (continued)

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

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

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

The following is a summary of the inputs used as of March 31, 2011 in valuing the Fund's investments and derivatives carried at fair value:

<u>2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments in other investment companies	\$ -	\$ 3,471,148	\$ 1,889,078	\$ 5,360,226
Equities	<u>3,484,777</u>	<u>1,589,831</u>	<u>-</u>	<u>5,074,608</u>
Total investments	<u>\$ 3,484,777</u>	<u>\$ 5,060,979</u>	<u>\$ 1,889,078</u>	<u>\$ 10,434,834</u>
Derivative assets	\$	<u>2,698</u>	\$	<u>2,698</u>
Derivative liabilities	\$	<u>(687)</u>	\$	<u>(687)</u>
<u>2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments in other investment companies	\$ -	\$ -	\$ 904,780	\$ 904,780
Equities (held in managed accounts)	<u>2,010,903</u>	<u>-</u>	<u>40,442</u>	<u>2,051,345</u>
Total investments	<u>\$ 2,010,903</u>	<u>\$ -</u>	<u>\$ 945,222</u>	<u>\$ 2,956,125</u>
Derivative assets	\$	<u>2,962</u>	\$	<u>2,962</u>
Derivative liabilities	\$	<u>(2,193)</u>	\$	<u>(2,193)</u>

FMG SPECIAL OPPORTUNITY FUND LTD.

Notes to Financial Statements

March 31, 2011

7. Fair value of financial instruments (continued)

During the years ended March 31, 2011 and 2010, the reconciliation of the change in investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

<u>2011</u>	Investments in other investment companies	Common stock	Total
Beginning balance	\$ 904,780	\$ 40,442	\$ 945,222
Purchases	1,700,000	-	1,700,000
Sales	(1,426,799)	(45,699)	(1,472,498)
Realized gains and losses	(2,099,526)	5,257	(2,094,269)
Change in unrealized depreciation	2,810,623	-	2,810,623
Ending balance	\$ 1,889,078	\$ -	\$ 1,889,078
Total change in unrealized appreciation during the year for investments held at March 31, 2011	\$ 189,078	\$ -	\$ 189,078

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

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

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

Certain equity securities held were unavailable for trading at March 31, 2011 as they were in their capital raising period as required by Iraq Stock Exchange (ISX) law. The Fund has used the last trade price to value these investments and has classified them as Level 2 financial instruments.

FMG SPECIAL OPPORTUNITY FUND LTD.

Notes to Financial Statements

March 31, 2011

7. Fair value of financial instruments (continued)

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

The Fund had an investment in Central Asia Real Estate Fund Ltd. ("Central Asia") and Eurasian Financial Institutions Fund ("Eurasian") which had estimated fair values of \$159,579 and \$89,931, respectively, at March 31, 2010 representing 2.34% and 1.32%, respectively, of the net asset value of the Fund at that date.

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

Investment in Hudson River Russia Fund Limited

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

While the investment manager of Hudson River had continued to provide that fund's net asset value on a monthly basis, since October 2008 the investment manager had not permitted investors to redeem out of the fund at those reported net asset values. The Manager of the Fund had estimated the fair value of the Fund's investment in Hudson River at March 31, 2010 by applying a discount to the reported net asset value to reflect the lack of liquidity of the Fund's investment, and to reflect the type and location of the underlying investments held. A portion of the Hudson River investment was sold during August 2010 and the remaining position was disposed of in January 2011.

The fair value carried for Hudson River at March 31, 2010 was based on estimates made by the Fund's Manager. There was a significant amount of uncertainty as to the fair value of the investment at that date since the calculation of the NAV of Hudson River had been suspended. There could be significant differences between the realizable values of the investments upon their eventual sale and the fair value amounts estimated by the Fund's Manager at March 31, 2010, and such differences could be material to the Fund's financial statements.

8. Taxation

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

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

9. Financial instruments and risk management

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

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

FMG SPECIAL OPPORTUNITY FUND LTD.

Notes to Financial Statements

March 31, 2011

9. Financial instruments and risk management (continued)

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

(a) Liquidity risk

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

The schedule of investments summarizes the redemption frequencies of the Fund's investments in other investment companies as at March 31, 2011. The information has been obtained by the Manager from the offering memoranda or similar information provided by the manager of the underlying investment company.

The liabilities of the Fund are comprised of accrued expenses and redemptions payable and these fall due within 3 months of the date of the statement of assets and liabilities. Class A and B shares may be redeemed with 45 business days and 90 business days notice, respectively (see also Note 6).

(b) Interest rate risk

Interest rate risk arises when a fund invests in interest-bearing financial instruments. The Fund does not hold investments which are sensitive to interest rates but is indirectly exposed to the interest rate risk of the investments held by the investment companies in which the Fund invests. However, the Fund's risk is limited to the net asset value of its investment in those other investment companies.

(c) Credit risk

Credit risk arises from the potential inability of counterparties to perform under the terms of the contract. The Fund has cash and cash equivalents, derivative financial instruments and investments held in the custody of a major bank with a long-term credit rating of Aa2 issued by Moody's. As the Fund invests in other investment companies, the Fund is exposed to the credit risk of each of those underlying investment companies. The maximum amount of credit exposure is represented by the carrying amounts of the investments listed on the schedule of investments.

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

FMG SPECIAL OPPORTUNITY FUND LTD.

Notes to Financial Statements

March 31, 2011

9. Financial instruments and risk management (continued)

(d) Equity price risk

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

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

At March 31, 2011, if the price of the investments held increased by 5%, this would have increased the net assets attributable to holders of redeemable preference shares by \$521,742 (2010 - \$147,806); an equal change in the opposite direction would have decreased the net assets attributable to holders of redeemable preference shares by an equal amount.

(e) Currency risk

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

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

March 31, 2011	Monetary <u>Assets</u>	Monetary <u>Liabilities</u>	Net assets attributable to non-USD denominated <u>share classes</u>	Forward <u>FX contracts</u>	Net <u>Exposure</u>
EUR	\$ —	\$ —	\$ —	\$ 180,476	\$ 180,476
GBP	—	—	—	48,132	48,132
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 228,608</u>	<u>\$ 228,608</u>
March 31, 2010					
EUR	\$ 13,509	\$ —	\$ —	\$ (206,690)	\$ (193,181)
EUR	—	—	(220,160)	221,686	1,526
GBP	—	(7)	(77,601)	77,726	118
	<u>\$ 13,509</u>	<u>\$ (7)</u>	<u>\$ (297,761)</u>	<u>\$ 92,722</u>	<u>\$ (191,537)</u>

FMG SPECIAL OPPORTUNITY FUND LTD.

Notes to Financial Statements

March 31, 2011

9. Financial instruments and risk management (continued)*(e) Currency risk (continued)*

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

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

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

At March 31, 2011, had the US Dollar strengthened by 5% in relation to the other currencies, there would be an approximate net impact of \$nil (2010 - (\$9,659)) on the net increase in net assets from operations and the net assets of the Fund arising from the change in the carrying value of monetary assets, net of the effect of hedging instruments. There would also be an approximate net impact of \$11,430 (2010 - (\$83)) on the net increase in net assets from operations and on the net-assets attributable to the hedged non-USD denominated share classes. A 5% weakening of the US Dollar against the Euro would have resulted in an approximate equal but opposite effect.

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

At March 31, 2011, the Fund had the following open forward foreign exchange contracts:

	Currency to be <u>Bought</u>	Currency to be <u>Sold</u>	Contract due <u>Date</u>	<u>Fair Value</u>
EUR	129,383	USD 180,476	April 4, 2011	\$ 2,698
GBP	29,602	USD 48,132	April 4, 2011	(687)
				<u>\$ 2,011</u>

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

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

FMG SPECIAL OPPORTUNITY FUND LTD.

Notes to Financial Statements

March 31, 2011

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

(f) *Capital management*

The Fund's objectives in managing the redeemable preference shares are to ensure a stable base to maximize returns to all investors, and to manage liquidity risk arising from redemptions. The Fund's management of the liquidity risk arising from redeemable preference shares is discussed in note 9(a).

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

10. **Related party transactions**

FMG Combo Fund Ltd., a Fund that is also managed by the Manager, held 6.20% of the outstanding US Dollar Class B Shares at March 31, 2010.

For the year ended March 31, 2011, rebate income was \$636 (2010 - \$16,354), of which \$nil (2010 - \$3,353) was receivable at March 31, 2011.

11. **Subsequent events**

For the period from April 1, 2011 to October 31, 2011 there have been redemptions of \$1,611,596 and subscriptions of \$9,517,476.

Subsequent to year end, the Fund changed its name to FMG Iraq Fund Ltd.
