



ARK ROYAL

Ark Discovery Fund (Offshore) Ltd.

(A British Virgins Islands limited Liability Company)

CONFIDENTIAL INFORMATION MEMORANDUM

Relating to the sale of redeemable non-voting
Class A USD Shares, Class B EUR Shares and Class C CHF Shares in
Ark Discovery Fund (Offshore) Limited

Minimum Investment: \$250,000

**Ark Discovery Fund (Offshore) Ltd.
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15 February 2008

EXHIBIT I

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MUTUAL FUNDS LAW DISCLOSURE

Ark Discovery Fund (Offshore) Limited (the "Fund") is a "Professional Fund" within the meaning of the British Virgin Islands Mutual Funds Act 1996 (as amended) (the "Act") and accordingly its Shares may only be issued to persons who are "Professional Investors" within the meaning of the Act and on the basis that the initial investment in the Fund by each of a majority of its shareholders is not less than US\$ 100,000. As a Professional Fund, the Fund is recognised under the Act. The Fund pays an annual recognition fee of US\$ 350. Such recognition does not involve an examination of the merits of an investment in the Fund and does not necessarily entail supervision of the investment performance or portfolio constitution of the Fund by the British Virgin Islands Government or the Financial Services Commission in the British Virgin Islands. There is no financial obligation or compensation scheme imposed on or by the Government of the British Virgin Islands in favor of or available to the investors in the Fund.

A Professional Investor is any person: (a) whose ordinary business involves, whether for his own account or the accounts of others, the acquisition or disposal of property of the same kind as the property, or a substantial part of the property, of the Fund; or (b) who has signed a declaration that he, whether individually or jointly with his spouse, has a net worth in excess of one million dollars in United States currency or its equivalent in any other currency and that he consents to being treated as a Professional Investor.

As an entity regulated under the Act, the Fund will be subject to the supervision of the Financial Services Commission in the British Virgin Islands, who is authorised by the Act to direct the Fund to furnish information or provide access to any records, books or other documents which it deems necessary to ascertain compliance with the Act or any regulations made under the Act. The Act provides that any information, material or document furnished to or filed with the Financial Services Commission is privileged from disclosure, except by order of a court of competent jurisdiction in criminal proceedings and in certain other cases.

The Act provides that the Fund's Certificate of Recognition may be cancelled or made subject to conditions if, *inter alia*, the Fund has breached the Act or any subsidiary legislation or conditions of its certificate, has been convicted of an offence, is carrying on business in a manner detrimental to its investors or to the public interest, or is declared bankrupt or is being wound-up or dissolved.

Recognition under the Act should not be taken to imply that the Fund has been approved by any regulatory authority in any country such as the United States, the United Kingdom, or any jurisdiction other than the British Virgin Islands. It is intended that any potential shareholders of the Fund participate on the basis that they can afford to lose all, or a substantial portion of, their investment.

The Fund is not a recognised collective investment scheme for the purposes of Section 264 of the Financial Services and Markets Act of 2000 of the United Kingdom. The promotion of the Fund and the distribution of this Memorandum in the United Kingdom are accordingly restricted by law.

ANTI-MONEY LAUNDERING

As part of the Fund's responsibility for the prevention of money laundering, the Fund and the Administrator may require a detailed verification of a prospective investor's identity (and if applicable its owners' identity) and the source of the payment before a subscription or redemption can be processed. For example, an individual may be required to produce a certified or notarised copy of a passport or driver's license and evidence of his or her address, such as a utility bill or bank statement, and date of birth. In the case of a corporate subscriber, the Administrator may require production of a certified copy of the certificate or articles of incorporation (and any change of name), certificate of corporate good standing (or the equivalent), and the name, occupation, date of birth and residential and business address of each shareholder, director and officer of the subscriber. Trusts, partnerships, limited liability companies and other entities that subscribe for shares may be required to provide organisational documents that verify the existence of the entities and the authority of the signatories who sign their subscription agreements, as well as similar information about trustees, beneficiaries, partners, members and managers.

The Administrator reserves the right to request any information that it considers necessary under such laws, rules, regulations, treaties and other restrictions. If the subscriber delays or fails to produce any such information, the Administrator may refuse to accept the subscription and the subscription funds or may refuse to allow a redemption until complete information is provided.

If the Fund or any functionary which is subject to the jurisdiction of the Financial Services Commission has a suspicion or belief that a payment to the Fund (by way of subscription or otherwise) is derived from or represents the proceeds of criminal conduct, that person is compelled under applicable legislation to report such suspicion to the Financial Investigations Unit of the Royal Virgin Islands Police and the Financial Services Commission of the British Virgin Islands.

ARK DISCOVERY FUND (OFFSHORE) LIMITED

Preface

Prospective Shareholders should carefully read this Offering Memorandum. However, the contents of this Offering Memorandum should not be considered to be legal or tax advice and each Prospective Shareholder should consult with his or its own counsel and advisors as to all matters concerning an investment in Ark Discovery Fund (Offshore) Limited (the "Fund"). Prospective investors should inform themselves as to the legal requirements and tax consequences within the countries of their citizenship, residence, domicile and place of business with respect to the acquisition, holding or disposal of shares, and any foreign exchange restrictions that may be relevant.

Shares will be issued only on the basis of the information and representations contained in this Offering Memorandum, and no other information or representation has been authorised. Any purchase made by any person on the basis of statements or representations inconsistent with information herein shall be solely at the risk of the purchaser. Neither delivery of this Offering Memorandum nor anything stated herein should be taken to imply that any information herein is correct as of any time subsequent to the date hereof.

The distribution of this Offering Memorandum and the offering or purchase of the Shares may be restricted in certain jurisdictions. No persons receiving a copy of this Offering Memorandum or the Subscription Agreement (attached as Appendix A) in any such jurisdiction may treat this Offering Memorandum or Subscription Agreement as constituting an invitation to them to subscribe for Shares, nor should they in any event use the Subscription Agreement, unless in the relevant jurisdiction such an invitation could lawfully be made to them and such Subscription Agreement could lawfully be used without compliance with any registration or other legal requirements. Accordingly, this Offering Memorandum does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not lawful or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make such offer or solicitation. It is the responsibility of any persons in possession of this Offering Memorandum and any persons wishing to apply for Shares pursuant to this Offering Memorandum to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for Shares should inform themselves as to the legal requirements applying and in particular as to any applicable exchange control regulations and tax laws in the jurisdictions of their respective citizenship, residence or domicile. Shares acquired by persons not entitled to hold such Shares in accordance with the provisions contained herein will be redeemed.

Neither the Shares, nor transactions relating thereto have been registered under the United States Securities Act of 1933, as amended, and the Fund has not been and will not be registered under the United States Investment Fund Act of 1940, as amended. The Fund is not subject to the reporting requirements under the Securities Exchange Act 1934. However, the Shares may be offered, sold or transferred directly or indirectly, to a limited number of US persons. The Shares may not be offered to US persons from within the United States and no offers or solicitations for the purchase of Shares may take place in the United States.

The Fund is required to exercise its right of mandatory redemption of any such Shares, which, in the judgment of the Board of Directors of the Fund, may have been sold or transferred in contravention of the foregoing prohibition.

In considering whether to invest in the Shares, a prospective purchaser should be aware that the Shares are speculative securities and involve a substantial risk of loss. Prospective investors should therefore carefully consider whether an investment in the Fund is suitable for them and should regard an investment in the Fund as a medium to long-term investment.

If you are in any doubt about the contents of this Offering Memorandum, you should consult your stockbroker, bank manager, counsel and attorney, accountant or other financial adviser. The price of Shares may go down as well as up. The directors of the Fund accept responsibility for the information contained in this Offering Memorandum as being accurate as at the date of publication.

I. SUMMARY OF TERMS

The following summary briefly describes the offering material of Shares in Ark Discovery Fund (Offshore) Limited (the “**Fund**”), and is qualified in its entirety by the detailed information appearing elsewhere in this Offering Memorandum.

Investment Offer: The Fund is offering, through this Offering Memorandum, Class A USD Shares, Class B EUR Shares and Class C CHF Shares (the “Shares”) at an initial offering price of US\$ 100 per Share, and thereafter at a price per share based on the Net Asset Value per Share. The offer will be made to persons who are Eligible Investors.

Investment: The minimum initial investment is US\$ 250,000 (“the Minimum Investment”) subject to change at the discretion of the Board of Directors of the Fund. The minimum additional investment is US\$ 100,000 which can be reduced or increased at the discretion of the Investment Advisor. All subscriptions for Shares must be made by submitting a duly completed “Subscription Agreement” attached as Appendix “A”. Investments may be made on the first business day of any month (each a “Dealing Date”) provided that a properly completed Subscription Agreement (attached as Appendix “A”) is received by the Transfer Agent no later than FOUR BUSINESS DAYS prior to the relevant Dealing Date.

To facilitate equitable allocation of the Incentive Fee payable to the Investment Advisor, Shares will be issued in a different Series at each Dealing Date. The initial Series will be designated Series One and each subsequently issued Series will be numbered sequentially. As an internal accounting matter, the Board of Directors will establish in relation to each Series a “*Series Account*” to which the subscription monies received from the issue of Shares of that Series will be allocated, together with investments and income, gains and losses derived therefrom. Fund liabilities will generally be allocated among the Series proportionately and debited to the various Series Accounts. However, liabilities specifically attributable to a particular Series of Shares (including Incentive Fees payable to the Investment Advisor as to that Series) will be debited to the Series Account for that Series. The Fund’s Articles of Association permit the Fund to consolidate different Series of Shares into a single Series at any time provided that the consolidation will have no impact on the Incentive Fees payable as to any Shareholders. For administrative convenience, the Fund anticipates that, at the beginning of each fiscal year, it will consolidate all Series as to which the “high water mark” used in determining whether or not an Incentive Fee may be paid is the same.

The Fund: The Fund was registered as a British Virgin Islands company on 25 February 2004. The Fund's registered office is located at Nemours Chambers, Road Town, Tortola, British Virgin Islands.

Investment Objective: The Fund's principal investment objective is to seek consistent and reliable investment returns while minimizing the risk of permanent impairment to capital. The Investment Advisor seeks to achieve the investment objective by investing the Fund's assets primarily but not exclusively in secured asset-based loans ("Loans").

The Loans to be made by the Fund may include bridge loans, acquisition financing, other secured and unsecured financings (including the financing of natural resource and commodity trading companies), discounted block purchases of securities, or the purchase and sale of illiquid or restricted securities. These may include the purchase and sale of interests in insurance receivables or securities relating thereto at discounts to underlying market prices, fixed income and cash flow driven opportunities, and direct and indirect debt investments in real estate. In addition to the foregoing, the Fund may make loans to other investment funds carrying on similar or related businesses.

Initially, it is anticipated that the sole asset of the Fund will be Loan(s) to Ark Discovery II LP; and Ark Discovery LP; Delaware limited liability partnerships; ("the Onshore Funds"). Ark Discovery II LLC is the General Partner of the Onshore Funds (the "General Partner"). Ark Discovery II LLC is an affiliate of the investment Advisor.

In addition to the foregoing, the Fund may take advantage of opportunities presented by the development of new financing techniques or instruments; or other existing lending and financial investment strategies to the extent such techniques, instruments or strategies are in the opinion of the Investment Advisor consistent with the Fund's investment objectives.

Capitalisation: The Fund is authorized to issue 5,000,000 shares divided into:

- (a) Class A (USD) Shares with a par value of US\$ 0.01 per share ("Class A USD Shares")
- (b) Class B (EUR) Shares with a par value of US\$ 0.01 per share ("Class B EUR Shares");
- (c) Class C (CHF) Shares with a par value of US\$ 0.01 per share ("Class C CHF Shares");

(d) Class D Shares with a par value of US\$ 0.01 per share ("**Class D Shares**");

(e) Sponsor Shares with a par value of US\$ 0.01 per share ("**Sponsor Shares**").

The Fund has the power insofar as permitted by law, to redeem or purchase any of the Shares and to increase or reduce the said capital pursuant to the Articles of Association.

The Shares may be purchased on each Dealing Date, or at such other times as the Board of Directors, in its sole discretion, may allow. The Investment Advisor subject to overall supervision of the Board of Directors has the right, to accept or reject any subscription. Shares will be initially offered at US\$ 100 per Share and subsequently at a purchase price equal to the net asset value per Share (the "Net Asset Value") calculated as the close of business on the last business day of each month (the "Valuation Date"). See "Net Asset Valuation."

The net proceeds from the sale of Shares are invested by the Fund as described herein. The Fund pays the expenses of offering the Shares. See "Expenses."

Investment Advisor:

The Investment Advisor (the "Investment Advisor") of the Fund is Ark Royal Asset Management Ltd a company organised under the laws of Bermuda on 25 April 1997 (referred to as the Investment Advisor or "**Ark Royal**"). The Investment Advisor and the Fund have entered into an investment advisory agreement (the "Investment Advisory Agreement") pursuant to which the Investment Advisor is responsible for the investment decisions relating to the Fund's assets, subject to the policies and control of the Board of Directors. See "Investment Program -- Investment Advisor."

Management Fees:

Class A USD Shares, Class B EUR Shares and Class C CHF Shares (together, individually the "**Fee Paying Share**" and collectively the "**Fee Paying Shares**") shall be subject to a monthly management fee, not exceeding two percent (2.0%) per annum (0.166% per month) of the net assets of each Series of a Fee Paying Share Class on the first business day of each month, after giving effect to subscriptions and redemptions accepted as of such first business day (the "Management Fee").

Class D Shares shall not be subject to a Management Fee or an Incentive Fee.

Incentive Fees:

The Investment Advisor will also be entitled to receive an incentive fee calculated and payable for each calendar quarter with respect to each Series of a Fee Paying Share Class outstanding during such calendar quarter (the "Incentive Fee"). The Incentive Fee will be based upon an aggregate amount not exceeding twenty percent (20) % of the appreciation in the Net Asset Value of each Series of a Fee Paying Share Class in excess of the High Water Mark for such calendar quarter before giving effect to the Incentive Fee.

The Incentive Fee is subject to what is commonly referred to as a "high water mark" pursuant to which such fees are only paid on new appreciation in the Net Asset Value of each Series of Fee Paying Shares. Once payable, an incentive fee will not be reduced by losses incurred in later periods. Shares of a Series that are either purchased or redeemed during a calendar quarter shall be subject to the payment of an incentive fee only for the portion of the calendar quarter during which such Shares of that Series were outstanding. The incentive fees will only be paid on the "new appreciation" in the Fund's Net Asset Value per Share of that Series.

The Investment Advisor may elect to reduce, waive or defer payment of all or any part of its the management fees and the incentive fees payable to it.

Administration:

The Fund has entered into an administration agreement with Beacon Management Limited (the "Administrator"). For services rendered by the Administrator hereunder, the Fund shall pay to the Administrator: for the provision of all accounting and administrative services including, but not limited to, acting as Registrar & Transfer Agent, a fee payable monthly in arrears, at the annualized rate of 12 basis points on the value of the net assets of the Fund up to US \$50 Million and 10 basis points on the value of the net assets between US \$50 Million and US \$100 Million and 8 basis points above US \$100 Million subject to a minimum monthly amount of US\$ 1,000.

In addition, the Administrator will be reimbursed for all out-of-pocket expenses.

Custodian:

In keeping with the Fund's policy that the Assets of the Fund be held in safekeeping by internationally recognised financial institutions. The Fund has entered into a custody agreement ("Custody Agreement") with Butterfield Trust (Bermuda) Limited pursuant to which the bank has agreed to act as primary custodian to the Fund. The Investment Advisor may remove any custodian where in the opinion of the Investment Advisor it would be in the

best interests of the Fund to do so, provided always that the Fund will adhere to its investment policy outlined in this Offering Memorandum. Custody fees will be paid as agreed upon under the terms of the Custody Agreement.

Placement Agents Solicitations for subscriptions will be made through the Manager or through the assistance of one or more affiliated or unaffiliated placement agents (the "**Placement Agent(s)**").

Placement Agent Fees The Placement Agents generally charge a subscription fee in the region of up to five percent (5%) of the gross subscription proceeds corresponding to each investment in the Fund made through the Placement Agent(s) (the "**Placement Agent's Fee**"). The Placement Agent's Fee shall be paid by the prospective investors and not by the Fund or the Manager.

Expenses: The Investment Advisor will be responsible for developing, executing and monitoring the Fund's investment strategy. The Fund will not be responsible for the payment of any of the Investment Advisor's overhead expenses associated with rendering its services, including the salaries of its employees, rent and all general overhead expenses. The Fund will pay all other expenses of the Fund, including the fees paid to the Administrator, accounting, audit and legal expenses, organisational expenses; restructuring expenses investment expenses such as commissions, research fees and expenses (including research-related travel fees and expenses); interest on margin accounts and other indebtedness; borrowing charges on securities sold short; custodial fees; and any other expenses reasonably related to the purchase, sale or transmittal of Fund's assets. Organisational expenses of the Fund have been paid.

Risk Factors: The investment program of the Fund involves significant risks. Shares in the Fund are not considered liquid investments as they may only be redeemed monthly upon one hundred and twenty days (120) days notice. In addition, the Fund has granted the Investment Advisor authority to waive (at its absolute discretion) such notice period. The exercise of such waiver could result in an effective liquidity preference being given to an investor. It is not anticipated that a market will arise in the Shares. There are restrictions on the transfer of Shares. Leverage may be employed. Any investment in securities entails a risk of loss of capital. See "Risk Factors."

Conflicts of Interest: Certain conflicts of interest arise from the fact that the Investment Advisor generally carries on investment activities for other clients. Conflicts also may arise from the fact that the Investment Advisor and/or its personnel carries on substantial investment

activities for other investment funds which have investment objectives and methodologies similar to the Fund. Conflicts may also arise in that affiliates of the Investment Advisor may hold acquire or obtain equity or other interests in borrowers from the Fund or any investment advisor, affiliate or subsidiary of such borrower in consideration of the Fund making any loan or investment. The Investment Advisor devotes as much of its time as is necessary or appropriate in connection with the Fund's activities. Future investment activities by the Investment Advisor and its affiliates may give rise to additional conflicts of interest. The Investment Advisor, its principals and its employees are not obligated to resolve any conflicts in favor of the Fund. See "Risk Factors -- Conflicts of Interest."

Redemptions:

Any holder of Shares has the right, in accordance with and subject to the applicable provisions of the Articles of Association of the Fund and the laws of the British Virgin Islands, to have all or a portion of his shares redeemed as of the last business day of each calendar month (the "Redemption Date") pursuant to written notice which must be received by the Fund at least one hundred and twenty (120) days (or such shorter notice period as the Fund's Directors shall, in their discretion, permit) prior to such Redemption Date. The redemption price shall be equal to the Net Asset Value of the Shares being redeemed calculated on the Valuation Date (as defined below). Notwithstanding the foregoing, the Fund reserves the right to restrict aggregate redemptions to twenty percent (20%) of total net assets of the Fund on any one Redemption Date ("Gate"). Subject to the Gate and any other restrictions provided herein or in the Fund's Memorandum and Articles of Association payment of ninety percent (90%) of the redemption proceeds will normally be paid within sixty days (60) days of the Redemption Date. The ten percent (10%) balance will normally be paid within thirty (30) days of completion of the Fund audit. The Shares redeemed must have a minimum value of US\$ 100,000 subject to the discretion of the Fund. Any amount payable to a member will be generally settled in the issuing currency and remitted by wire transfer to an account designated by the member (which generally must be the account from which the member's original subscription amount was transferred). If the disposition of portfolio securities is not practicable or would cause undue hardship to the remaining members, the Company may elect to distribute assets in kind having a value equal to the redemption value of shares redeemed. If redemption would cause the value of the Shares held by a Shareholder to fall below US\$ 100,000, then the Board has the right to compel redemptions of a portion of or all of the Shares held by such Shareholder.

It is contemplated that substantially all of the Fund's assets (including amounts borrowed by the Fund) will be fully invested. As a result, the satisfaction of any redemption request may require the liquidation of Fund investments. Under certain circumstances, the Fund may be unable to liquidate sufficient investments to satisfy the redemption requests as of a given date or the Fund, in its discretion, may determine that liquidation of such investments would not be in the best interests of the Fund. If, for example, the Fund believes that it would be necessary to liquidate an investment at a loss in order to honor a redemption request, it may, in its discretion, determine not to liquidate such investment. Similarly, even if the Fund believes it could liquidate an investment without a loss, or at a profit, it may decline to liquidate the investment if it believes that the liquidation might adversely affect the Fund's overall investment portfolio and strategy. **ACCORDINGLY, NO ASSURANCE CAN BE GIVEN THAT THE FUND WILL BE ABLE OR WILLING TO LIQUIDATE INVESTMENTS SUFFICIENT TO SATISFY ANY OR ALL REDEMPTION REQUESTS MADE IN RESPECT OF ANY REDEMPTION DATE. PAYMENT OF REDEMPTION PROCEEDS MAY THEREFORE BE DELAYED OR REDEMPTION REQUESTS SUSPENDED AT THE DISCRETION OF THE BOARD OF DIRECTORS**

Notice of any suspension will be given to any Shareholder who has tendered his Shares for redemption and to whom full payment of the redemption proceeds has not yet been remitted. If a redemption request is not withdrawn by a Shareholder following notification of a suspension, the redemption will be completed on the next redemption date in which such suspension is ended on the basis of the Net Asset Value at that time. Subject to the foregoing, in any period that redemptions or the payment of redemption proceeds have been suspended, the Fund intend to distribute payments from such funds as are available for distribution, if any, pro rata based on the amounts to be redeemed. Any deferred redemption requests will be given priority over later submitted redemption requests.

In addition, the Board of Directors may, in their absolute discretion, on giving not less than twenty (20) business days notice to any shareholder, effect the compulsory redemption of all (but not some) of the Shares held by such shareholder. See "Suspension of Redemptions" and "Net Asset Valuation."

Eligible Investors:

An investment in the Fund may only be made by investors who represent and warrant in the Subscription Agreement that: (i) they are Professional Investors as defined under the Act; and (ii) they

are not U.S. Persons, as defined below, except is otherwise agreed by the Board of Directors.

A Professional Investor is any person: (i) whose ordinary business involves, whether for his account or the accounts of others, the acquisition or disposal of property of the same kind as the property, or a substantial part of the property, of the Fund; or (ii) who has signed a declaration that he, whether individually or jointly with his spouse has a net worth in excess of US\$ 1 million in United States currency or its equivalent in any other currency and that he consents to being treated as a Professional Investor.

A U.S. Person is any natural person resident in the United States, any partnership or corporation organised or incorporated under the laws of the United States, any estate in which an executor or administrator is a U.S. person, any trust in which any trustee is a U.S. person, any agency or branch of a foreign entity located in the United States, any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. person, any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organised, incorporated, or (if an individual) resident in the United States, any partnership or corporation if organised or incorporated under the laws of any foreign jurisdiction and formed by a U.S. person principally for the purpose of investing in securities not registered under the Securities Act of 1933, as amended (the "Securities Act"), unless it is organised or incorporated, and owned, by accredited investors (as defined under the Securities Act) who are not natural persons, estates or trusts, or any other person or entity falling under the definition of U.S. Person as such term is defined under Regulation S of the Securities Act.

Reports:

The Fund's financial year ends on 31st December in each year. A report with annual audited financials of the Fund will be sent to Shareholders at the earliest feasible time. A monthly investment report will be sent to Shareholders.

Taxes:

Based upon the Fund's organisational structure and features as described herein, the Fund should generally not be subject to U.S. federal income tax on gains from trading in securities. In addition, interest from U.S. sources earned on bank deposits, "portfolio interest" under the Internal Revenue Code, certain short-term obligations and payments made under certain swap transactions are not subject to withholding. However, income from other interest from U.S. sources and dividend income is subject to 30% withholding.

Under British Virgin Islands law, neither the Fund nor its Shareholders (provided they are not subject in their individual capacities) are subject to British Virgin Islands income, capital gains or withholding tax.

There can be no assurance that U.S. or British Virgin Islands tax laws will not be changed adversely with respect to the Fund and its Shareholders or the Fund's income tax status will not be successfully challenged by such authorities. Potential Shareholders should consult their own advisors regarding tax treatment by the jurisdiction applicable to them. Shareholders should rely only upon advice received from their own tax advisors based upon their own individual circumstances and the tax laws applicable to them. For additional information see "Taxation and Exchange Control" below.

DIRECTORY

Investment Advisor: **Ark Royal Asset Management Ltd.**
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Email: Info@arkroyalfunds.com

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65 Front Street
Hamilton HM 11 AX Bermuda

Legal Advisors: **Ogier**
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Road Town, Tortola, British Virgin Islands

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Administrators: **Beacon Management Limited**

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II. THE FUND

The Fund is a British Virgin Islands company whose objective is to provide investors access to asset based investment opportunities in the U.S. and elsewhere. The Fund was incorporated with limited liability on 25 February 2004. The Fund's registered office is located at Nemours Chambers, Road Town, Tortola, British Virgin Islands.

III. THE INVESTMENT PROGRAM

Investment Objectives

The Fund's principal investment objective is to seek consistent and reliable investment returns while minimizing the risk of permanent impairment to capital. The Investment Advisor seeks to achieve the investment objective by investing the Fund's assets primarily but not exclusively in secured asset-based loans ("Loans").

The Loans to be made by the Fund may include bridge loans, acquisition financing, other secured and unsecured financings (including the financing of natural resource and commodity trading companies), discounted block purchases of securities, or the purchase and sale of illiquid or restricted securities. These may include the purchase and sale of interests in insurance receivables or securities relating thereto at discounts to underlying market prices, fixed income and cash flow driven opportunities, and direct and indirect debt investments in real estate. In addition to the foregoing, the Fund may make loans to other investment funds carrying on similar or related businesses.

Initially, it is anticipated that the sole asset of the Fund will be Loan(s) to Ark Discovery II LP; and Ark Discovery LP; Delaware limited liability partnerships; ("the Onshore Funds"). Ark Discovery II LLC is the General Partner of the Onshore Funds (the "General Partner"). Ark Discovery II LLC is an affiliate of the investment Advisor.

The Onshore Funds principal investment objective is to seek consistent and reliable investment returns while minimizing the risk of permanent impairment to capital. The General Partner seeks to achieve the investment objective by investing the Fund's assets primarily in secured asset-based loans ("Loans"), which may include short-term trade finance notes ("Notes"). Initially, it is anticipated that the assets of the Onshore Funds will be comprised solely of Notes even though they represent only one type of Loan permitted by the Onshore Funds.

The Notes to be invested in by the Onshore Funds, will evidence Loans made to one or more independently-controlled special purpose vehicles (the "SPVs") that engage in the business of acquiring goods from a manufacturer or distributor (the "Vendor") and selling them to major "big box" retailers ("Retailers"). The SPV will use the proceeds from the Notes to finance the acquisition of those goods (the "Underlying Goods"). In a typical transaction, the Vendor and the Retailer have agreed upon the terms of the sale of the Underlying Goods, but the Retailer does not want to take delivery for approximately four months. The SPV provides cash flow to the Vendor by purchasing the Underlying Goods, storing them, and delivering them when required by the Retailer. The Retailer then makes payment for the Underlying Goods directly to

the SPV. In most cases, the only creditors of an SPV will be the holders of Notes issued by the SPV. As further security for the Notes, the Onshore Funds receive a security interest and continuing lien in the Underlying Goods and the bank accounts used by the SPV in connection with the transactions between the Vendor and the Retailers. All funds from each transaction, whether in the form of the SPV's portion of each purchase payment, the loan made by the Fund or the payment of the purchase price from the Retailer, flow through the SPV's bank accounts. Pursuant to the documents evidencing the Fund's security interest and continuing lien, the Fund directs the distribution of the funds deposited into the bank accounts, including the note repayments made to the Fund and the balance remaining to the SPV from each transaction. The Notes generally are expected to have a maturity of less than 180 days, although the onshore Funds reserve the right, in their sole discretion, to enter into Notes with longer maturities

In addition to the Fund acting as a Lender to the Onshore Funds the Fund may elect to acquire Notes from the Onshore Funds (or acquire participations in such Notes).

In addition to the foregoing, the Fund may take advantage of opportunities presented by the development of new financing techniques or instruments or other existing lending and financial investment strategies to the extent such techniques, instruments or strategies are in the opinion of the investment Advisor consistent with the Fund's investment objectives.

The Fund may sell securities short and trade in derivatives for the purposes of hedging its investments. The Fund also may invest in commercial paper or other cash-equivalent investments. The Fund may also enter into insurance contracts for the purposes of hedging any credit risk associated with its investment strategies deployed.

Any Loans made by the Fund to the Onshore Funds may, be subordinated to any lending third party loans obtained by the Onshore Funds or third party commercial loans obtained by the Fund. For this reason any investment in the fund should be viewed as a highly leveraged asset with a commensurate increase in risk. See Section V. "Risk Factors"

The Fund may invest up to 100% of its assets according to the investment strategies described above. The Fund may invest its excess funds, if any, in cash or cash-equivalent investments, including commercial paper, U.S. Government securities, money market funds, certificates of deposit and bankers' acceptances. Except in the limited hedging circumstances described above, the Fund does not intend to use derivatives.

The above discussion is general and is not intended to be exhaustive. The General Partner may vary its investment strategy for the Fund, although the General Partner does not anticipate that any strategy will vary significantly from that described above.

THE FUND IS DESIGNED FOR PERSONS WHO CAN WITHSTAND A HIGH DEGREE OF INVESTMENT RISK. THERE IS NO GUARANTEE THAT ANY OF THE RETURNS INDICATED WILL BE ACHIEVED AND INVESTORS ARE SPECIFICALLY REMINDED THAT AN INVESTMENT OF THE TYPE BEING EFFECTED BY THE FUND ARE HIGHLY SPECULATIVE AND INVESTORS COULD LOSE ALL OR A SIGNIFICANT PROPORTION OF THEIR CAPITAL INVESTED. PLEASE SEE SECTION V RISK FACTORS.

Investment Restrictions

The Fund does not observe any rigid policies requiring a specific level of portfolio diversification or restricting the extent of concentration of investment, industry or any single issuer. Although the Fund does not expect to make investments in companies for the purpose of exercising control over their management, there are no restrictions regarding the percentage or amount of voting securities of an issuer which the Fund is permitted to acquire.

The Fund is not subject to any material concentration or diversification restrictions, and may hold a limited number of investment positions. Although the Fund may achieve some diversification of its returns through the use of several strategies across several markets, there is no guarantee that such a diversification will be achieved.

IV. THE INVESTMENT ADVISOR

The Investment Advisor of the Fund is currently Ark Royal Asset Management Ltd a company organised under the laws of Bermuda on 25 April 1997 ("**Ark Royal**"). The Investment Advisor has a special expertise in evaluating private investment funds and partnerships. The Investment Advisor shall advise the Fund pursuant to an investment advisory agreement entered into between the Fund and the Investment Advisor. Under that agreement, the Investment Advisor has sole discretion for the Fund and will make all investment decisions affecting the Fund's assets under the general supervision of the Board of Directors in accordance with the Fund's stated investment objective and policies.

Portfolio Team

Jim Granat: - Jim is a supply chain management and logistics, and distribution specialist. For four years preceding his joining Ark Royal Asset Management, Jim provided supply chain management and logistics consultancy services through his own company "The People's Champion Inc." Jim has over twelve years of executive management experience in sales, operations, logistics management and distribution for large and small companies alike. In conjunction with his consulting practice, Jim is the Chairman of the Board for Keane Chemical and Distribution, which exports metal plating chemicals to Asia. Previously, Jim owned Active Screw & Fastener, a private supply-chain distributor, from 1996 to 2004, where he served as President. Under his leadership Active Screw & Fastener grew from a regional distributor of screws, nuts, bolts and related products to a national supply chain integrator. Active Screw & Fastener tripled in annual sales under his leadership, and became a fully automated distribution provider. Mr. Granat started his business career working for Cantor Associates, a merger and acquisition firm, from 1995 to 1996. He also played professional golf on many of the major professional tours. He received a degree in finance and accounting from Arizona State University where he played collegiate golf for the Sun Devils.

Steven Vestbirk – Steven founded Ark Royal Asset Management in 2001. Steven has over 20 years experience in investment management and finance, principally corporate finance and private equity transactions. Steven has held senior appointments in the investment management and banking sector most recently as discretionary equity portfolio manager with Sentinel Real Estate Corporation New York (a U.S. institutional manager with over US\$5 billion under management) where he was responsible for international equity and real estate investment. Steven began his career as a lawyer in the city of London where he spent over 6 years specializing in corporate and structured finance. Steven also has extensive experience and expertise in the field of cross-border tax structuring techniques. Steven is a Solicitor of the Supreme Court of England and Wales and holds an honours degree in Law.

Jeff Balliet - Jeff is a partner of Ark Royal Asset Management. Jeff and Steven share responsibility for all investment management activities of the firm. Jeff has more than 25 years experience in public accounting in the U.S., principally as a senior tax partner of the former firm of Arthur Andersen in Houston Texas. Jeff has considerable experience in the corporate finance, and tax arena and during the course of his long career in has advised numerous multinational corporations in structuring cross border transactions, corporate mergers and acquisitions and tax minimization. This has included a considerable amount of work in the oil and gas production industry. Immediately prior to joining Ark Royal Jeff was a partner of Valhalla LLC, based in Houston a specialist tax advisory firm. Jeff is based in Houston, Texas where the Ark Royal Group has a principle office in addition to New York. Jeff holds a Bachelors and Masters degree in Accounting from the University of Florida and is a Certified Public Accountant.

Directors of Investment Advisor

Steven Vestbirk

Jeff Balliet

Robert Stewart – Chairman (Independent)

Robert Stewart is Chairman of the board of Ark Royal Asset Management. Born in Scotland in 1938, Robert has had a distinguished career in industry, investment management and public service. In addition to his position with the Advisor, Robert is a Director of Fidelity International Limited and a Director and Vice-Chairman of the Bank of N.T. Butterfield. Robert also sits as trustee of the bank's pension fund. Robert is chairman of several mutual funds operated by the bank the largest of which is the Butterfield Money Market Fund with assets exceeding US\$ 3 billion and the Butterfield Liquid Reserve Fund with assets exceeding US\$ 400 million. Robert also sits as a Director of the Royal Dutch Shell Group Bermuda where he was Chief Executive until 1998. In 1999 Robert was appointed President of Old Mutual Asset Managers (Bermuda) limited which managed more than US\$ 4 billion in assets. Robert left Old Mutual on January 1st 2002. From 1969 until his retirement in 1998 Robert worked for the Royal Dutch Shell Group. During a long career in senior management Robert was variously involved in the global management activities of the Royal Dutch Shell Group and the group's investment management activities. Robert culminated his career with Shell as Chief Executive of Shell's Bermuda companies where he directed the group's in-house investment management, pension fund and insurance activities with assets of approximately US\$ 4 billion under management,

Robert has held numerous public positions including, Director of the Bermuda Monetary Authority, Chairman of the Broadcasting and Telecommunications Commissions, and Trustee of the Hotel Pension plan to name but a few.

Prior to joining Shell in 1969, Robert taught Economics in London for two years. Robert holds two degrees from London University, Economics (B.Sc Econ – 1967) and Law (LL.B – 1977). Robert remains a prolific writer on economic matters and has been published internationally through the Ludwig von Mises Institute in the United States and is also the author of “Bermuda – An Economy that Works”.

Directors of the Fund

Robert Stewart

David Thompson

David Thompson is a qualified accountant and has worked in Bermuda for 20 years servicing the needs of international business. Mr. Thompson worked for Bermuda Commercial Bank before forming AMS Limited, a Bermuda exempted company. AMS Limited provides services to a wide range of corporations and individuals that require specialist knowledge and administrative assistance in connection with the structuring and operation of offshore enterprises and investments.

V. RISK FACTORS

Prospective investors should give careful consideration to the following factors in evaluating the merits and suitability of an investment in the Shares. All security investing risks the loss of capital. No guarantee or representation is made that the Fund's investment program will succeed.

The Fund has been recently formed and there is no long term operating history to evaluate its likely performance. The strategy that will be followed relating to subscriptions for Shares is newly formulated and has not been tested.

1. **General Economic and Market Conditions:** The Fund's investments will be affected by general economic conditions. Economic conditions could affect interest rates, both for any investments the Fund makes and for any borrowing by the Fund, the extent and timing of the Fund's investment activities, the availability of investments and the rate of default, delinquency, foreclosure, bankruptcy, reorganization and liquidation related to Fund investments. Economic conditions could negatively impact the Fund's ability to carry out its business or cause it to incur losses.
2. **Loss of Capital:** Investors in the Fund could lose all or substantially all of their investment. While the Fund believes that holding collateral for loans in which the Fund invests should lessen the risk of loss, no guarantee or representation is made that the Fund will achieve its investment objective or that it will not incur loss of principal. In addition, certain investment strategies that the Fund may pursue, such as engaging in short sales, using leverage, acquiring options, warrants and other derivatives, and

investing in securities with limited diversification and/or liquidity, may increase the Fund's risk of loss, as discussed below.

3. **Competition for Investments:** The Fund will compete for investments with a large number of banks, finance companies, investors and other companies, some of which may have substantially greater resources than the Fund. Competition for investments with other companies, investors, banks and finance companies could reduce the Fund's opportunity for profit by reducing the variety and opportunity for investments by the Fund.
4. **Institutional Risk:** Institutions such as brokerage firms and banks will have custody of the Fund's assets. These assets may not be registered in the name of the Fund. Bankruptcy or fraud at one of these institutions could impair the Fund's ability to carry out its objective and cause the Fund to incur losses.
5. **Distressed Investments:** Certain loans and other similar investments the Fund intends to make could go into delinquency, default or foreclosure. In addition, certain companies to which loans are made could go into bankruptcy, reorganization and liquidation. Moreover, the Fund may acquire loans and other similar investments which are already in delinquency, default or foreclosure. Although these circumstances may present an opportunity for the Fund to achieve significant returns on an investment, they also involve a substantial degree of risk. Under such circumstances, the Fund could lose its entire investment or may be required to look to the collateral on the investment to recoup its investment, which could be costly, time consuming and ultimately unsuccessful.
6. **Illiquid Investments:** The Fund will invest in privately placed, illiquid and restricted instruments and securities. Liquidation of these investments may be difficult, impossible and/or at disadvantageous prices. The Fund, in consultation with the Fund's accountants, will make all valuations of privately placed and illiquid instruments and securities held by the Fund. An inherent conflict of interest exists in making such valuations as the Fund has an incentive to value private investments aggressively, thereby improving performance and increasing compensation to the Fund.
7. **Lack of Diversification:** The Fund may invest all of its overall investment portfolio value (consisting of Net Asset Value plus borrowings) without regard to investment diversification.
8. **Conflict of Interest:** Investors should be aware that there is a potential inherent conflict of interest between the Fund and the Investment Advisor and/or its subsidiaries and affiliates. In making loans or investments in potential borrowers from the Fund the Investment Advisor may be offered and obtain remuneration directly or indirectly from affiliated parties of the borrower (e.g. an investment advisor to the borrower).
9. **Foreign Investments:** The Fund may make investments involving companies organized and/or doing business in countries other than the United States. These investments may be subject to greater risks than domestic investments due to various political considerations, foreign and domestic tax problems, currency controls, the fluctuation of currency exchange rates and other factors.

10. **Derivative Instruments:** The Fund's investments may involve derivative instruments, such as warrants and options. The value of these instruments may decline because of a decline in the value of the underlying asset, the passage of time, changes in the market's perception as to the future price behavior of the underlying asset, or any combination thereof. Declines in the value of such instruments could negatively impact the Fund's performance.
11. **Currency and Interest Rate Investments:** The Fund may, but is not required to, trade currency and interest rate contracts in an effort to hedge against certain investment risks. These contracts are not traded on or guaranteed by an exchange or its clearinghouse. Rather, banks and dealers act as principals in the contract markets. Trading currencies and interest rates in these unregulated markets may subject the Fund to the risk of failure, inability or refusal to perform a contract by a counterparty to such contract. Were this to occur, the Fund could be deprived of any profit potential or forced to cover its commitments for resale, if any, at the market price then current.
13. **Lack of Publicly Available Information Regarding the Investment Vehicles:** The investment vehicles in which the Fund invests usually would not be offered pursuant to registration statements effective under the United States Securities Act of 1933 (the "Securities Act"), nor may they be subject to the periodic information and reporting provisions under the 1934 Act or the United States Investment Company Act of 1940 (the "1940 Act"), nor comparable provisions of laws of any other country other than the United States.
14. **Restriction on Transfer:** An investment in the Fund provides limited liquidity since the Shares are not freely transferable.
15. **Limitations on Redemptions:** Generally a Shareholder is entitled to redeem all or any portion of his Shares only at month end upon 120 days prior written notice. In addition, the Fund reserves the right to restrict aggregate redemptions to 20% of total net assets of the Fund on any one Redemption Date. Therefore, an investment in the Fund is suitable only for sophisticated investors who have no need for liquidity in this investment. See "Redemption". Transfer and redemption privileges have certain restrictions.
16. **Default and Non-Payment:** Debt securities generally are subject to credit risk, fraud and liquidity risk. Credit risk relates to the ability of the issuer of a debt security to make interest and principal payments on the loan or security as they become due. If the issuer fails to pay interest, the Fund's income might be reduced. If an issuer fails to repay principal, the value of that security and the Net Asset Value of the Shares might be reduced. The Fund's investments are all below investment grade are therefore particularly subject to risks of default.
 - i. While the Fund's investments may be secured by collateral or other assets, the Fund may have difficulty liquidating the collateral or enforcing its rights. This is particularly important because the assets held by underlying borrowers and investment vehicles in which the Fund may invest (e.g. private securities; loans etc.) are dependant upon their being an available market for such

investments. The existence of such market and, the prices offered are driven by certain factors; the change, or absence of which could materially affect the sufficiency of the collateral. These may include: changes in market demand for the kind of investments purchased by the Fund, or changes generally in the economic environment affecting the viability or attractiveness of the collateral; regulatory or legal changes prohibiting the purchase or sale of certain securities invested in by the Fund or affecting the ability of the Fund to realise collateral. There can be no guarantee that market conditions will favour the disposition of the collateral and therefore such collateral might be insufficient to meet the obligations under any loan notes, structured notes, swaps and other complex derivative instruments. In addition, collateral may be set aside by a court. Also, the Fund can invest part of its assets in other debt obligations that are not collateralised.

- ii. Collateral will generally consist of assets that may not be readily liquidated including; for example, work in the process of manufacture, real property and payments to become due under advisory contracts. There is no assurance that the liquidation of those assets would satisfy the obligations to the Fund or issuers obligations under any other debt security. Non-affiliates and affiliates of issuers of debt securities may provide collateral in the form of secured and unsecured guarantees and/or security interests in assets that they own, which may also be insufficient to satisfy the issuer's obligations.
- iii. While the Fund seeks to deal at all times with reputable counterparties, there is an inherent risk in any private debt transaction of fraud on the lender through the misappropriation of monies otherwise due to be collected or repaid by the borrower. Whether steps are taken to reduce such risk or not, they cannot be wholly mitigated since they rely upon the veracity and honesty of the borrower or those in control of the borrower.

17. **Effects of Substantial Redemptions:** Substantial redemptions of Shares by Shareholders within a limited period of time could require the Fund to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the value of both the Shares being redeemed and the remaining outstanding Shares. In addition, regardless of the period of time in which redemptions occur, the resulting reduction in the Fund's assets could make it more difficult for the Fund to generate a positive rate of return or recoup losses due to a reduced equity base.
18. **Lack of Investment Restrictions:** The Fund's investment restrictions do not prohibit certain investment techniques; such as concentration of investments in a small number of companies or sectors or borrowing funds for investment purposes - which may entail significant risks.
19. **Insolvency of Issuers:** Various laws enacted for the protection of creditors may apply to a bankruptcy proceeding against an issuer or a company through which the Fund makes an investment, which could delay or limit the ability of the Fund to collect the principal and interest payments on that issuer's debt obligation. If a lawsuit is brought by creditors of an issuer under a Note, a court or a trustee in bankruptcy could take certain actions that would be adverse to the Fund.

- i. For example: other creditors might convince the court to set aside a Note or the collateralisation of the Note as a “fraudulent conveyance” or “preferential transfer”. In that event, the court could recover from the Fund the interest and principal payments that the issuer made before becoming insolvent. There can be no assurance that the Fund would be able to prevent that recapture. A bankruptcy court may restructure the payment obligations under a Note so as to reduce the amount to which the Fund would be entitled. The court might discharge the amount of the Note that exceeds the value of the collateral. The court could subordinate the Fund’s rights to the rights of other creditors of the issuer under applicable law.
 - ii. A bankruptcy court might find that the collateral securing the Note is invalid or require the issuer to use the collateral to pay other outstanding obligations.
 - iii. All of these considerations are also relevant to the insolvency of any guarantor of a Note or any company through which the Fund made the investment.
20. **Concentration of Investments:** The Fund may at certain times hold a few, relatively large positions (in relation to its capital), with the result that a loss in any position could have a material adverse impact on the Fund’s capital. The Fund anticipates that for the immediately foreseeable future a substantial portion of any securities purchased directly or indirectly by the Fund will be issued by a limited number of issuers and secured by the assets of at times one or a limited number of account debtors. As a result, there is greater risk compared to a diversified portfolio of securities purchased through a diversified group of financing companies and secured by collateral of a diversified group of account debtors.
21. **Interest Rates:** The Fund’s returns are likely to be directly related to the interest rates chargeable to account debtors from time to time and, to a lesser extent, to the interest rates which the Fund may receive on any debt securities. Such interest rates are subject to market conditions which are entirely outside the Fund’s control.
22. **Leverage:** The Fund may borrow to acquire additional investments when the Investment Advisor believes that the interest payments and costs associated with borrowing will not exceed the total return on the investments acquired with those borrowings. Unless the income and appreciation, if any, on assets acquired with borrowed funds exceed the costs of borrowing, the use of leverage will reduce the Fund’s investment performance compared to what it would have been without leveraging. Also, leverage will increase the potential risk of loss in case of the default of an issuer of any security or an account debtor. It should be especially noted that should the Fund borrow it may subordinate all and any of the rights of the Shareholders hereunder to such lender.
23. **Counterparty and other Risks of Over-the-Counter Derivative Instruments:** The Fund intends to invest in, loan notes, structured notes, swaps and other complex derivative instruments which seek to modify or replace the investment performance of a single investment fund or a basket of investment funds on a leveraged basis and any investment

in other derivative instruments which seek to modify or replace the investment performance of particular securities, investment funds, interest rates, indices or markets on a leveraged or unleveraged basis. Derivative instruments are subject to additional risks that include interest rate and credit risk volatility, world and local market price and demand, and general economic factors and activity. Derivative instruments also have counterparty risk and may not perform in the manner expected by the Fund or the counterparties, thereby resulting in greater loss or gain to the Fund.

- i. There is no established secondary trading market, and it is unlikely that a secondary market will develop, for structured over-the-counter options and other similar derivatives. Accordingly, over-the-counter options are illiquid and may be impossible for the Investment Advisor to sell, assign or transfer such options to any person for value prior to the scheduled expiration dates. In addition, guaranteed structured notes may only be redeemed at their Net Asset Value prior to their maturity. There also may be restrictions on transfer, as well as termination fees.

24. **U.S. Government Securities:** U.S. government securities are debt securities (including bills, notes, and bonds) issued by the U.S. Treasury or issued by an agency or instrumentality of the U.S. government which is established under the authority of an Act of U.S. Congress. Such agencies or instrumentalities include, but are not limited to, Fannie Mae, Ginnie Mae (also known as Government National Mortgage Association), the Federal Farm Credit Bank, and the Federal Home Loan Banks. Although all obligations of agencies, authorities and instrumentalities are not direct obligations of the U.S. Treasury, payment of the interest and principal on these obligations may be backed directly or indirectly by the U.S. government. This support can range from the backing of the full faith and credit of the United States to U.S. Treasury guarantees, or to the backing solely of the issuing instrumentality itself. In the case of securities not backed by the full faith and credit of the United States, the investor must look principally to the agency issuing or guaranteeing the obligation for ultimate repayment, and may not be able to assert a claim against the United States itself in the event the agency or instrumentality does not meet its commitments.

- i. The Fund is subject to interest rate and market risks. The prices of government securities tend to fall as interest rates rise. Securities that have longer maturities tend to fluctuate more in price in response to changes in market interest rates than do securities with shorter maturities. This risk is usually greater when inverse floaters are held by the Fund. If interest rates fall, it is possible that issuers of callable bonds with high interest coupons will prepay their bonds before their maturity date. If a bond was prepaid during a period of declining interest rates, the Fund would likely replace the security with a lower yielding security.

25. **Repurchase Agreements:** The Fund may enter into repurchase agreements, which entails the purchase of a security from a bank or broker or other third-party that agrees to repurchase the security at the Fund's cost plus interest within a specified time. If the party agreeing to repurchase should default, as a result of bankruptcy or otherwise, the Fund may seek to sell the securities that it holds, which action could involve procedural

costs or delays in addition to a loss on the securities if their value should fall below their repurchase price. If the seller becomes insolvent and subject to liquidation or reorganisation under applicable bankruptcy or other laws, the Fund's ability to dispose of the underlying securities may be restricted. Similarly, the entering into of reverse repurchase agreements involves certain risks. A reverse repurchase agreement involves the sale of a security the Fund has and its agreement to repurchase the security at a specified time and price. Under a reverse repurchase agreement, the Fund continues to receive any principal and interest payments on the underlying security during the term of the agreement.

26. **U.S. Income Tax Risks:** The Fund intends to operate and invest in a manner such that its activities will be limited to trading in stocks and securities (within the meaning of the U.S. Internal Revenue Code of 1986, as amended (the "Code")) for its own account, and as such the Fund should not be considered engaged in a trade or business within the United States. Accordingly, the Fund should not be subject to U.S. federal income tax (at marginal rates as high as 35%) or branch profits tax (at a rate of 30% imposed on after-tax income) in respect of interest income and gains realised. However, were the U.S. Internal Revenue Service to successfully assert that the Fund was engaged in the business of lending money to or providing financing to U.S. taxpayers, as opposed to trading in debt securities, then income and gains relating to such business could be subject to U.S. income and branch profits taxes. Furthermore, certain U.S. Investments may cause the Fund to be deemed to be engaged in a US trade or business by operation of law.
27. **Limited operating history:** The Fund has a limited prior operating history and the strategy pertaining to the Shares has not previously been implemented by the Fund. There can be no assurance that the Fund will achieve its investment objective or provide a return to Shareholders.
28. **Indemnification of the Investment Advisor:** The Investment Advisor will not be liable, responsible or accountable in damages or otherwise to the Fund or any of its Shareholders for any act or omission performed or omitted by it in good faith on behalf of the Fund and in a manner reasonably believed by it to be within the scope of the authority granted to it, except when such action or failure to act constitutes gross negligence, fraud or willful misconduct. The Investment Advisor also will not be liable for any act or omission of any agent of the Fund which was selected in good faith by the Investment Advisor. In addition, the Investment Advisor and its officers, directors, principals, employees, and affiliates will be indemnified by the Fund for any loss or expense suffered or sustained by it as a result of or in connection with any act performed by such persons within the scope of the Investment Advisor's duties, including without limitation, any judgment, settlement, reasonable attorneys' fees and other costs or expenses incurred in connection with the defense of any actual or threatened action or proceeding; provided, however, that such indemnity shall be payable only if the indemnitee acted in good faith and in a manner it reasonably believed to be in, or not opposed to, the best interests of the Fund and its Shareholders, and if the indemnitee did not act, or fail to act, with gross negligence, or engage in willful misconduct or fraud.

29. **Limitation of Transfers:** All transfers and assignments of Shares must be approved by the Directors. Any transfers or attempts to transfer Shares without the appropriate consent may subject such Shares to a mandatory redemption.
30. **Swap Agreements:** The Fund may enter into swap agreements, the details of which will vary. The Fund's ability to utilise Swaps successfully will depend on the Investment Advisor's, ability to predict pertinent market and currency exchange rate movements, which cannot be assured. Swaps involve a number of risks including possible default by the other party to the transaction, illiquidity and the risk that the swapped security could result in losses greater than if the securities weren't swapped.

VI. CONFLICTS

Various conflicts of interest may arise in connection with the operation of the Fund and the sale of the Shares. Conflicts of interest involving the Fund include, but are not limited to the services of the Investment Advisor, or the Administrator. The Fund will depend on the Investment Advisor for investment decisions and Administrator for non-investment operations. Other conflicts may include, but are not limited to:

Other Investment Funds

The Investment Advisor, Administrator, or any of their affiliates, principals, employees or agents may now or in the future organise, manage, advise or be otherwise involved with other investment funds with investment objectives similar or dissimilar to those of the Fund. The activities of the officers, employees or agents of the Investment Advisor, Administrator or any of its affiliates may result in conflicts of interests in allocating management time, services and functions among the Fund and other business ventures. The Investment Advisor and Administrator will devote as much of their time as they consider necessary or appropriate to effectively conduct the Fund's activities. The Fund may invest in companies that are organised, managed, advised or otherwise involved with the Investment Advisor, or the Administrator.

Other Activities

The Investment Advisor and its affiliates, principals, employees or agents may engage in other business activities and represent, manage or administer the account of clients other than the Fund including those of other investment funds; fees, services or investment strategies for such other clients may vary from that of the Fund. In addition, the Investment Advisor may acquire interests in an underlying investment (or any related party) notwithstanding that such investment has been made by the Fund upon the advice of the Investment Advisor. The Investment Advisor or Administrator or their affiliates, principals, employees or agents may co-invest in or have a prior investment in an investment opportunity that the Fund may invest in, as well as sell and/or transfer positions in various investments to the Fund. The Investment Advisor or Administrator or any of their affiliates are not required to refrain from any other activity nor disgorge any profits from any such activity, including acting as investment advisor, administrator, introducing broker or managing agent for any Portfolio Manager or investment funds with objectives similar to those of the Fund. Officers and employees of the Investment Advisor will devote as much of their time to the business of the Fund as in their judgment is reasonably required but will be involved in other business activities. The Investment Advisor or any of their affiliates may be

eligible to receive a placement or underwriting fee in connection with a Shareholder's investment in the Fund. The Fund, Investment Advisor, Administrator or any of their affiliates, which may include related or affiliated brokers', may receive remuneration from brokerage transactions. The Investment Advisor, Administrator or any of their affiliates, or their principals and employees are not obligated to resolve any conflicts in favor of the Fund.

THE FOREGOING LIST OF "RISK FACTORS" DOES NOT PURPORT TO BE A COMPLETE ENUMERATION OR EXPLANATION OF THE RISKS INVOLVED IN AN INVESTMENT IN THE FUND. PROSPECTIVE SHAREHOLDERS SHOULD READ THE ENTIRE OFFERING MEMORANDUM AND CONSULT WITH THEIR OWN ADVISORS BEFORE DECIDING TO SUSCRIBE FOR SHARES.

VII. FEES AND EXPENSES

The Investment Advisor and the Fund have entered into an investment advisory agreement (the "Investment Advisory Agreement") pursuant to which the Investment Advisor is responsible for the investment decisions relating to the Fund's assets, subject to the policies and control of the Board of Directors. See "Investment Program -- Investment Advisor."

Class A USD Shares, Class B EUR Shares and Class C CHF Shares (together, individually the "**Fee Paying Share**" and collectively the "**Fee Paying Shares**") shall be subject to a monthly management fee, not exceeding two percent (2.0%) per annum (0.166% per month) of the net assets of each Series of a Fee Paying Share Class on the first business day of each month, after giving effect to subscriptions and redemptions accepted as of such first business day (the "Management Fee").

Class D Shares shall not be subject to a Management Fee or an Incentive Fee.

The Investment Advisor will also be entitled to receive, an incentive fee calculated and payable for each calendar quarter with respect to each Series of a Fee Paying Share Class outstanding during such calendar quarter (the "Incentive Fee"). The Incentive Fee will be based upon an aggregate amount not exceeding twenty percent (20) % of the appreciation in the Net Asset Value of each Series of a Fee Paying Share Class in excess of the High Water Mark for such calendar quarter before giving effect to the Incentive Fee.

The Incentive Fee is subject to what is commonly referred to as a "high water mark" pursuant to which such fees are only paid on new appreciation in the Net Asset Value of each Series of Fee Paying Shares. Once payable, an incentive fee will not be reduced by losses incurred in later periods. Shares of a Series that are either purchased or redeemed during a calendar quarter shall be subject to the payment of an incentive fee only for the portion of the calendar quarter during which such Shares of that Series were outstanding. The incentive fees will only be paid on the "new appreciation" in the Fund's Net Asset Value per Share of that Series.

The Investment Advisor may elect to reduce, waive or defer payment of all or any part of it's the management fees and the incentive fees payable to it.

The Investment Advisor may elect to reduce, waive or defer payment of all or any part of it's the management fees and the incentive fees payable to it.

The Board of Directors of the Fund has sole discretion on the appointment of an Administrator who will pay, or arrange for payment of all routine administrative costs on behalf of the Fund. In addition, the Administrator will maintain the register of shareholders, and calculate and/or confirm the calculation of the Net Asset Value. The Fund has entered into an administration agreement with Beacon Management Limited (the "Administrator"). For services rendered by the Administrator hereunder, the Fund shall pay to the Administrator: for the provision of all accounting and administrative services including, but not limited to, acting as Registrar & Transfer Agent, a fee payable monthly in arrears, at the annualized rate of 12 basis points on the value of the net assets of the Fund up to US \$50 Million and 10 basis points on the value of the net assets between US \$50 Million and US \$100 Million and 8 basis points above US \$100 Million subject to a minimum monthly amount of US\$ 1,000. In addition, the Administrator will be reimbursed for all out-of-pocket expenses.

The Fund will pay its other business expenses, including brokerage commissions, interest, fees to the Investment Advisor, and any extraordinary expenses, including offering expenses described below.

In keeping with the Fund's policy that the Assets of the Fund be held in safekeeping by internationally recognised financial institutions. The Fund has entered into a custody agreement ("Custody Agreement") with Butterfield Trust (Bermuda) Limited pursuant to which the bank has agreed to act as primary custodian to the Fund. The Investment Advisor may remove any custodian where in the opinion of the Investment Advisor it would be in the best interests of the Fund to do so, provided always that the Fund will adhere to its investment policy outlined above. Custody fees will be paid as agreed upon under the terms of the Custody Agreement.

The Investment Advisor will be responsible for developing, executing and monitoring the Fund's investment strategy. The Fund will not be responsible for the payment of any of the Investment Advisor's overhead expenses associated with rendering its services, including the salaries of its employees, rent and all general overhead expenses. The Fund will pay all other expenses of the Fund, including the fees paid to the Administrator, accounting, audit and legal expenses, organisational expenses; investment expenses such as commissions, research fees and expenses (including research-related travel fees and expenses); interest on margin accounts and other indebtedness; borrowing charges on securities sold short; custodial fees; and any other expenses reasonably related to the purchase, sale or transmittal of Fund's assets. Organisational expenses of the Fund have been paid

VIII. SUBSCRIPTION, SUSPENSION AND REDEMPTION

The minimum initial subscription for the Shares is US\$ 250,000, at the sole discretion of the Board of Directors of the Fund. All additional investments must be made in increments of US\$ 100,000. All subscriptions for Shares must be made by submitting a duly completed "Subscription Agreement" attached as Appendix "A". Investments may be made on the first business day of each calendar month (each a "Dealing Date") provided that a properly completed Subscription Agreement together with the appropriate cleared funds are received by the Transfer Agent no later than FOUR BUSINESS DAYS prior to the relevant Dealing Date. Once submitted, the subscription is irrevocable and will be valid and accepted as and when

received. The Fund reserves the right to reject, without cause, any subscriptions up to the time the shares are issued.

To facilitate equitable allocation of the Incentive Fee payable to the Investment Advisor between the Shareholders, Shares will be issued in a different Series at each Dealing Date. The initial Series will be designated Series One and each subsequently issued Series will be numbered sequentially. As an internal accounting matter, the Board of Directors will establish in relation to each Series a "*Series Account*" to which the subscription monies received from the issue of Shares of that Series will be allocated, together with investments and income, gains and losses derived therefrom. Fund liabilities will generally be allocated among the Series proportionately and debited to the various Series Accounts. However, liabilities specifically attributable to a particular Series of Shares (including Incentive Fees payable to the Investment Advisor as to that Series) will be debited to the Series Account for that Series. The Fund's Articles of Association permit the Fund to consolidate different Series of Shares into a single Series at any time provided that the consolidation will have no impact on the Incentive Fees payable as to any Shareholders. For administrative convenience, the Fund anticipates that, at the beginning of each fiscal year, it will consolidate all Series as to which the "high water mark" used in determining whether or not an Incentive Fee may be paid is the same.

Solicitation for subscriptions will be made through the Manager or through the assistance of one or more affiliated or unaffiliated placement agents (the "**Placement Agent(s)**"). The Placement Agents will charge a subscription fee which shall consist of up to five percent (5%) of the gross subscription proceeds corresponding to each investment in the Fund made through the Placement Agent(s) (the "**Placement Agent's Fee**"). The Placement Agent's Fee shall be paid by the prospective investors and not by the Fund or the Manager and it may be waived by the Placement Agent(s) at its/their sole discretion.

Any holder of Shares has the right, in accordance with and subject to the applicable provisions of the Articles of Association of the Fund and the laws of the British Virgin Islands, to have all or a portion of his shares redeemed as of the last business day of each calendar month (the "*Redemption Date*") pursuant to written notice which must be received by the Fund at least one hundred and twenty (120) days (or such shorter notice period as the Fund's Directors shall, in their discretion, permit) prior to such Redemption. The redemption price shall be equal to the Net Asset Value of the Shares being redeemed calculated on the Valuation Date (as defined above). Notwithstanding the foregoing, the Fund reserves the right to restrict aggregate redemptions to twenty percent (20%) of total net assets of the Fund on any one Redemption Date. Payment of ninety percent (90%) of the redemption proceeds will be normally paid within sixty (60) days of the Redemption Date. The ten percent (10%) balance will be normally paid within 30 days of completion of the Fund audit. The Fund may, however, in the sole discretion of the directors pay 100% of the redemption proceeds within sixty (60) days of the Redemption Date or such earlier period as the directors shall in their sole discretion determine. Any amount payable to a member will be generally settled in the issuing currency and remitted by wire transfer to an account designated by the member (which generally must be the account from which the member's original subscription amount was transferred). If the disposition of portfolio securities is not practicable or would cause undue hardship to the remaining members, the Company may elect to distribute assets in kind having a value equal to the redemption value of shares redeemed. The Shares redeemed must have a minimum value of US\$ 100,000 subject to the discretion of the Fund. If redemption would cause the value of the Shares held by a

Shareholder to fall below US\$ 100,000, then the Board has the right to compel redemptions of a portion of or all of the Shares held by such Shareholder.

It is contemplated that substantially all of the Fund's assets (including amounts borrowed by the Fund) will be fully invested. As a result, the satisfaction of any redemption request may require the liquidation of Fund investments. Under certain circumstances, the Fund may be unable to liquidate sufficient investments to satisfy the redemption requests as of a given date or the Fund, in its discretion, may determine that liquidation of such investments would not be in the best interests of the Fund. If, for example, the Fund believes that it would be necessary to liquidate an investment at a loss in order to honor a redemption request, it may, in its discretion, determine not to liquidate such investment. Similarly, even if the Fund believes it could liquidate an investment without a loss, or at a profit, it may decline to liquidate the investment if it believes that the liquidation might adversely affect the Fund's overall investment portfolio and strategy. **ACCORDINGLY, NO ASSURANCE CAN BE GIVEN THAT THE FUND WILL BE ABLE OR WILLING TO LIQUIDATE INVESTMENTS SUFFICIENT TO SATISFY ANY OR ALL REDEMPTION REQUESTS MADE IN RESPECT OF ANY REDEMPTION DATE.**

All unsatisfied redemption requests will be deferred to the next calendar month in which funds are available (subject to the foregoing discussion). The requests of all shareholders submitting timely redemption requests for any given Redemption Date will be satisfied from such funds as are available for distribution, if any, pro rata based on the amounts to be redeemed. Any deferred redemption requests will be given priority over later submitted redemption requests.

The Board of Directors may, with or without cause, in its sole discretion, redeem the shares of any shareholder, in whole but not in part, at any time on not less than 20 days' notice, such redemption to be effective on the date specified in such notice. If the Board of Directors, in its sole discretion, deems it to be in the best interests of the Fund to do so because the continued participation of any shareholder in the Fund might cause the Fund to violate any law, rule or regulation or expose the Fund to litigation, arbitration, administrative proceedings or any similar action or proceeding, the Board of Directors may require the redemption of such shareholder's shares from the Fund, in whole or in part, at any time on not less than 5 days' notice, such redemption to be effective on the date specified in such notice. Payment shall be made in accordance with the procedure applicable to the Shares which are redeemed at the request of the holder.

The Board of Directors may suspend the right of the shareholders of the Fund to require the Fund to redeem Shares during any period when:

1. any stock exchange on which a substantial part of securities owned by the Fund are traded is closed, otherwise than for ordinary holidays, or dealings thereon are restricted or suspended;
2. there exists any state of affairs as a result of which (i) disposal of investments of the Fund would not be reasonably practicable or cannot be completed in a timely fashion to meet redemption requirements and might seriously prejudice the shareholders of the Fund or (ii) it is not reasonably practicable for the Fund fairly to determine the value of its net assets;

3. none of the requests for redemption which have been made may be lawfully satisfied by the Fund in U.S. dollars;
4. there is a breakdown in the means of communication normally employed in determining the prices of a substantial part of the investments of the Fund; or
5. investments of the Fund cannot be liquidated in a timely fashion to meet redemption requirements without having a significant adverse effect on the Fund (but only to the extent the Fund has not received funds in respect of the liquidation of investments).

The Fund may withhold payment to any person whose Shares have been tendered for redemption until after any suspension has been lifted. Notice of any suspension will be given to any Shareholder who has tendered his Shares for redemption and to whom full payment of the redemption proceeds has not yet been remitted. If a redemption request is not withdrawn by a Shareholder following notification of a suspension, the redemption will be completed on the next redemption date in which such suspension is ended on the basis of the Net Asset Value at that time. Subject to the foregoing, in any period that redemptions or the payment of redemption proceeds have been suspended, the Fund intend to distribute payments from such funds as are available for distribution, if any, pro rata based on the amounts to be redeemed. Any deferred redemption requests will be given priority over later submitted redemption requests.

IX. NET ASSET VALUATION

The Net Asset Value for each Series of Shares is determined by the Administrator on behalf of the Fund as of the close of business on the last business day of each calendar month (the "Valuation Date"), by (i) aggregating the value of the investments owned or contracted for by the Fund attributable to the relevant Series of Shares with the value of the other assets of the Fund attributable to such Series converted into U.S. dollars in each case and (ii) deducting therefrom the liabilities of the Fund attributable to such Series of Shares. The Net Asset Value per Share is calculated by dividing the resulting sum by the number of Shares in each Series outstanding. The Net Asset Value so determined is an estimation of the Net Asset Value, (the "NAV Estimate") and the NAV Estimate in respect of month 1 will be confirmed or amended (as the case may be) as the true Net Asset Value in respect of month 1 on the last business day of the next calendar month (i.e. when a NAV Estimate is determined and issued in respect of month 2). Net asset valuations will be expressed in U.S. currency, and any items denominated in other currencies will be translated at the closing spot rate of exchange for the purchase of U.S. dollars with the relevant foreign currency in the New York foreign exchange market.

The liabilities include, but are not limited to: (i) fees of the Investment Advisor earned or accrued but not yet paid, (ii) an allowance for the Fund's estimated annual audit and legal fees, and (iii) any contingencies for which reserves are determined to be required.

In general, portfolio securities will be valued at the last sale price reported on the principal securities exchange or market on which the securities are traded. In the absence of reported sales prices on the valuation date, portfolio positions generally will be valued at the last reported bid quotation in the case of securities held long, and at the last reported offer quotation in the case of securities sold short. The value of assets will be recorded at their fair value as

determined in good faith by the Administrator on behalf of the Directors in the absence of current quotations or if the Administrator, in consultation with the Investment Advisor and the Board of Directors, concludes that such quotations are not indicative of fair value by reason of illiquidity of a particular security or other factors. Investments which are not readily marketable generally will be valued at the lesser of cost or market price, and may be subject to an additional discount at the recommendation of the Investment Advisor. Shares of other investment funds will generally be valued at the net asset value supplied by the fund, less any applicable redemption charges customarily imposed by that fund. In addition to special valuation determinations relating to illiquid securities, other special situations affecting the measurement of net asset values may arise from time to time. **Investments other than cash equivalents or publicly traded securities for which market quotations are not readily available will be valued at their fair market value as determined in good faith by the Investment Advisor under the ultimate supervision of the Board of Directors.** Prospective investors should be aware that situations involving uncertainties as to the valuation of portfolio positions could have an adverse effect on the Fund's net assets if judgments regarding appropriate valuations made by the Administrator, after consultation with the Investment Advisor and the Board of Directors, should prove incorrect. **As the Administrator calculates the Net Asset Value of the Fund based on information it receives from the Investment Advisor with respect to illiquid investments, a conflict of interest may arise because the amount of Management Fees and Incentive Fees paid to the Investment Advisor are determined by the valuations provided by the Investment Advisor.** Absent bad faith or manifest error, the Administrator's Net Asset Value determinations are conclusive and binding on all Shareholders.

X. CORPORATE STRUCTURE

The Fund was established as a British Virgin Islands BVI Business Company on 14 January 2005. The Fund's office is located at the offices of Ogier Fiduciary Services (BVI) Limited, Nemours Chambers, 4th floor, Qwomar Complex, Road Town, Tortola, British Virgin Islands and its constitution is defined in its Memorandum of Association and Articles of Association.

The Fund is authorized to issue 5,000,000 shares divided into:

- (a) Class A (USD) Shares with a par value of US\$ 0.01 per share ("Class A USD Shares")
- (b) Class B (EUR) Shares with a par value of US\$ 0.01 per share ("Class B EUR Shares");
- (c) Class C (CHF) Shares with a par value of US\$ 0.01 per share ("Class C CHF Shares");
- (d) Class D Shares with a par value of US\$ 0.01 per share ("Class D Shares");
- (e) Sponsor Shares with a par value of US\$ 0.01 per share ("Sponsor Shares").

The Class A USD Shares, Class B EUR Shares, Class C CHF Shares and the Class D Shares shall be referred to as the "Participating Shares" for the purpose of this section.

The principal rights attached to the Sponsor Shares and the Participating Shares are as follows:

Sponsor Shares:

The Sponsor Shares carry no right to dividends or have any right to participate in the profits of the Fund. Each Sponsor Share shall have one vote at general meetings of the Fund. Sponsor Shares have the right to participate on liquidation or winding up only to the extent of their par value after all claims of the Participating Shares have been satisfied out of surplus capital.

Participating Shares:

Participating Shares carry a right to such dividends as the Directors of the Fund may decide. Participating Shares shall have no right to vote at general meetings of the Fund. Irrespective of the non-voting nature of Participating Shares, no changes may be made to the rights relating to such shares without the consent in writing of the holders of three-fourths of such issued shares as the case may be or the sanction of a resolution passed by a three-fourths majority of the votes cast at a meeting of the holders of such shares.

The Fund does not anticipate that any dividends or other distributions will be paid to any Class of Shareholders out of the Fund's current earnings and profits. Rather such income will be reinvested.

There are no conversion or pre-emptive rights in connection with the Shares of the Fund. The Shares, when duly issued, will be fully paid and non-assessable. The Shares will be issued in book entry form. From time to time, the Fund, by an ordinary resolution of its shareholders or Board of Directors, may increase the authorised capital of the Fund in order to have a substantial number of Shares available at all times for issuance.

There are no underwriting arrangements with respect to the offering of Shares. All solicitations of subscriptions will be made directly by the Fund or through the assistance of unaffiliated placement agents and money managers, who may charge a placement fee directly to the subscriber and/or share in the fees earned by the Investment Advisor.

XI. TAXATION AND EXCHANGE CONTROL

Tax Treatment in British Virgin Islands. The Fund will be exempt from all income taxes in the British Virgin Islands and a Shareholder (not otherwise subject to British Virgin Islands taxation) will also be exempt from all income taxes on dividends and other payments received from the Fund or arising by reason of the ownership or redemption of any shares of the Fund.

Tax Treatment at Subscriber's Domicile. It is suggested that all prospective investors in the Fund inform themselves through their tax advisor about their own tax situation. No intermediary is authorised to make any representation as to the tax consequences of an investment in the Fund.

Tax Treatment of Fund's US activities. Based upon the Fund's organisational structure and features as described herein, the Fund should generally not be subject to U.S. federal income tax on gains from trading in securities. In addition, interest from U.S. sources earned on bank deposits, "portfolio interest" under the Internal Revenue Code, certain short-term obligations, and certain swap payments are not subject to withholding. However, income from other interest

from U.S. sources and dividend income is subject to 30% withholding. The Fund does not intend to conduct its affairs such that it will be deemed to be engaged in a US trade or business. However, the Fund may invest in US based partnerships as part of its investment strategy, which may cause the Fund to become engaged in a US trade or business by operation of Code section 875. Whenever practical, the Fund will seek to structure its partnership investments to minimise the risk of being engaged in a US trade or business.

There can be no assurance that United States or British Virgin Islands tax laws will not be changed adversely with respect to the Fund and its Shareholders or the Fund's income tax status will not be successfully challenged by such authorities. Potential Shareholders should consult their own advisors regarding tax treatment by the jurisdiction applicable to them. Shareholders should rely only upon advice received from their own tax advisors based upon their own individual circumstances and the tax laws applicable to them.

European Union Savings Directive. The government of the British Virgin Islands, in negotiation with the government of the United Kingdom, has determined that only one sub category of fund, namely the Restricted Public Fund, would be classified as a UCITS equivalent fund. All private, professional and public funds (other than Restricted Public funds) are, for the purposes of British Virgin Islands interpretation, non UCITS funds. If a British Virgin Islands non-UCITS fund has a paying agent in an EU member state it is anticipated that under the local legislation of the member state, such a fund will be treated in the same manner as an EU non-UCITS fund and consequently will fall outside the scope of the Directive. This depends on local legislation and you are advised to seek appropriate legal advice in this regard.

ARK DISCOVERY FUND (OFFSHORE) LIMITED

Subscription Agreement

To Subscribe carefully read this Agreement and then complete and fax this form to the Administrator:-

Beacon Management Limited
P.O. Box HM 2763, Hamilton HM LX
Bermuda
Attention: Martin Zolnai
Tel 441 295 9939
Fax 441 296 3578
e-mail mzolnai@beacon.bm
www.beacon.bm

Professional Investor

I/We hereby declare that in subscribing for Shares in the Fund, I/each of us is/are a Professional Investor, in that:

[Check one or both]

- my/our ordinary business involves, whether for my/our account or the account(s) of (an)other(s), the acquisition or disposal of property of the same kind as the property, or a substantial part of the property which is (or will be) owned by the Fund, as detailed in the Information Memorandum; or
- my/our net worth (in the case of a natural person, either individually or jointly with my spouse) exceeds one million dollars in United States currency (US\$ 1,000,000) or its equivalent in any other lawfully recognised currency, and I/we consent to being treated as such a Professional Investor for the purposes of investment in the Fund

The undersigned hereinafter referred to as the "Investor" hereby subscribes in accordance with the terms of the Offering Memorandum and this Subscription Agreement for _____ **CLASS A USD/CLASS B EUR/ CLASS C CHF** Shares (fill in appropriate amount and delete relevant class) of **ARK DISCOVERY FUND (OFFSHORE) LIMITED** (the "Fund") at the Net Asset Value per share at the**day of**.....**200**..... Payment of the total purchase price in the amount of **USD**..... is enclosed herewith/has been wired to the Fund's Custodian in accordance with the above wire instructions. This subscription is irrevocable by the Investor except under the terms of the Offering Memorandum dated 15 February 2008 and may be accepted if, as and when received. The Fund reserves the right to reject without cause all subscriptions up to the time the shares are issued.

The Investor hereby acknowledges that a placement fee in the amount of US\$ _____ will be deducted from the subscription proceeds and will be paid to a placement agent(s) utilized by the Fund.

WIRE INSTRUCTIONS ARE SET OUT AT THE END OF THE SUBSCRIPTION AGREEMENT

THE INVESTOR REQUESTS THAT ALL CORRESPONDENCE BE SENT / TRANSMITTED TO:

Name:

Address:

Telephone:

Facsimile:

Email

_____ 20 _____

Accepted:

ARK DISCOVERY FUND
(OFFSHORE) LIMITED

Signature (joint if applicable)
(Title if signing in representative capacity)

SUBSCRIPTION AGREEMENT (continued)

By signing the attached subscription form the Investor(s) represent and agree to the following:

1. The Investor has been given an opportunity to make any further inquiries it or he may desire of any of the personnel of the Fund and to obtain any additional information concerning the Shares, the proposed operations of the Fund, and the underlying rights and documents.

No oral representations made or oral information furnished to the Investor in connection with the purchase of the Shares were in any way inconsistent with the Offering Memorandum. The Investor(s) has received no offering material except the Offering Memorandum which may be amended. The Investor acknowledges that no person has given, or is authorised to give, any information or make any representation not contained in the Offering Memorandum and any information or representation not contained therein must not be relied upon as having been authorised by the Fund.

2. The Investor understands that the Fund will invest in high risk securities, that its or his investment in the Shares is highly speculative, and that it or he may lose its or his entire investment. The Investor understands its risk of loss is limited to the extent of its investment in the Shares of the Fund.
3. The Shares have not been registered under the United States Securities Act of 1933, as amended (the "Act"), or under the securities laws of any state in the United States of America or other jurisdiction in reliance upon the following representations, warranties and agreements of the Investor, which, by acceptance hereof, are being made to and with the Fund, to the effect that the Investor:
 - a. acquires the Shares for its own account, for the purpose of investment and not with any present intention to distribute or resell all or any portion thereof;
 - b. represents that it or is a professional investor whose ordinary business involves, whether for their own account or for the account of others, the acquisition or disposal of property of the same kind as the property, or a substantial part of the property, of the Fund, or (if an individual) an individual who individually or jointly with their spouse, has a net worth in excess one million United States dollars or its equivalent in any other currency and hereby consents to being treated as a professional investor.
4. The Investor understands that the Shares have not been registered under the Act or under any other securities laws, foreign or domestic.
5. The investor understands that the shares may only be transferred with the consent of the Fund, which consent may be withheld for any reason.

6. The Investor acknowledges and understands that the Fund is under no obligation to register the Shares with any governmental authority or to make any exemption from registration or the benefit of any rule such as Rule 144 promulgated by the United States Securities and Exchange Commission (which permits limited public resale of securities acquired in a non-public offering subject to the satisfaction of certain conditions) available to any Investor.
7. The Investor understands that the offering of the Shares has not been reviewed by the United States Securities and Exchange or the securities regulatory agency of any state or federal jurisdiction. Accordingly, no state or federal governmental authority has made any finding or determination relating to the fairness for investment of the Shares, and no state or federal governmental authority of any jurisdiction has recommended or endorsed or will recommend or endorse the Shares.
8. The Investor further represents and warrants that:
 - a. If he is an individual, he has adequate means of providing for his current needs and possible personal contingencies, is capable of bearing the economic risk and burdens of the investment and the possibility of complete loss of all of the investment, and understands that the lack of a public market may make it impossible to liquidate the investment when desired, and if it is a partnership, trust, corporation or other entity, such entity has all requisite power and authority to enter into this Agreement and to subscribe for the Shares;
 - b. At no time was it or he presented with or solicited by any leaflet, public promotional meeting, circular, newspaper or magazine article, radio or television advertisement or any other form of general advertising; and
 - c. The Investor either (a) has a pre-existing business or personal relationship with the Fund, or its officers or directors, or (b) has sufficient financial experience and expertise to evaluate the merits and risks of an investment in the Shares and is capable of protecting its or his own interests in connection therewith.
9. All documents and information which the Investor has provided to the Fund concerning the Investor, its or his financial position and its or his knowledge of financial and business matters, and if the Investor is a corporation, partnership, trust or other entity, such entity's articles of incorporation and authorising resolutions, partnership agreement, trust agreement or other governing instrument and information concerning the knowledge of financial and business matters of the person making the investment decision on behalf of such entity, are correct and complete as of the date set forth on the signature page hereof, and if there should be any adverse change in such information prior to its or his Subscription being accepted, the Investor will immediately provide the Fund with such information.

10. The Investor, (i) if an individual, is a bona-fide resident and domiciliary (not a temporary or transient resident) of, or (ii) if a corporation, partnership, trust or other entity, maintains its principal place of business in the Country set forth on the signature page, and has no present intention of becoming a resident or, or moving its principal place of business to any other Country or jurisdiction.
11. The Investor has not distributed the Offering Memorandum to any person other than its or his advisors for any purpose.
12. The Investor understands that any forecasts or predictions made by, or on behalf of, the Fund are based on estimates, assumptions and forecasts which may prove to be incorrect and should not be relied on.
13. There have been no representations, guarantees or warranties made to the Investor by the Fund or its agents or employees, or by any other person, expressly or by implication, with respect to (i) the approximate length of time that the Investor will be required to remain an owner of the Shares; (ii) the percentage of profit and/or amount of or type of consideration, profit or loss to be realised, if any, as a result of the Investor's investment; or (iii) the possibility that the past performance or experience on the part of the Fund or any affiliate, partner, salesman, associate, agent or employee of any other person might in any way indicate the predictable results of the ownership of Shares.

Professional Investor

I/We hereby declare that in subscribing for Shares in the Fund, I/each of us is/are a Professional Investor, in that:

my/our ordinary business involves, whether for my/our account or the account(s) of (an)other(s), the acquisition or disposal of property of the same kind as the property, or a substantial part of the property which is (or will be) owned by the Fund, as detailed in the Information Memorandum; or

my/our net worth (in the case of a natural person, either individually or jointly with my spouse) exceeds one million dollars in United States currency (US\$ 1,000,000) or its equivalent in any other lawfully recognised currency, and I/we consent to being treated as such a Professional Investor for the purposes of investment in the Fund

Compliance with Money Laundering

Representations

(A) The Shareholder understands and agrees that the Fund prohibits the investment of funds by any persons or entities that are acting, directly or indirectly, (i) in contravention of any applicable laws and regulations, including anti-money laundering regulations or conventions, (ii) on behalf of terrorists or terrorist organisations, including those persons or entities that are included on the List of Specially Designated Nationals and Blocked Persons maintained by the U.S. Treasury Department's Office of Foreign Assets Control¹ ("OFAC"), as such list may be amended from time to time, (iii) for a senior foreign political figure, any member of a senior foreign political figure's immediate family or any close associate of a senior foreign political figure², unless the Fund, after being specifically notified by the Shareholder in writing that it is such a person, conducts further due diligence, and determines that such investment shall be permitted, or (iv) for a foreign shell bank³ (such persons or entities in (i) – (iv) are collectively referred to as "Prohibited Persons").

¹ The OFAC list may be accessed on the web at <http://www.treas.gov/ofac>.

² Senior foreign political figure means a senior official in the executive, legislative, administrative, military or judicial branches of a foreign government (whether elected or not), a senior official of a major foreign political party, or a senior executive of a foreign government-owned corporation. In addition, a senior foreign political figure includes any corporation, business or other entity that has been formed by, or for the benefit of, a senior foreign political figure. The immediate family of a senior foreign political figure typically includes the political figure's parents, siblings, spouse, children and in-laws. A close associate of a senior foreign political figure is a person who is widely and publicly known internationally to maintain an unusually close relationship with the senior foreign political figure, and includes a person who is in a position to conduct substantial domestic and international financial transactions on behalf of the senior foreign political figure.

³ Foreign shell bank means a foreign bank without a physical presence in any country, but does not include a regulated affiliate. A post office box or electronic address would not be considered a physical presence. A regulated affiliate means a foreign shell bank that: (1) is an affiliate of a depository institution, credit union, or foreign bank that maintains a physical presence in the United States or a foreign country, as applicable; and (2) is subject to supervision by a banking authority in the country regulating such affiliated depository institution, credit union, or foreign bank.

(B) The Shareholder represents, warrants and covenants that: (i) it is not, nor is any person or entity controlling, controlled by or under common control with the Shareholder, a Prohibited Person, and (ii) to the extent the Shareholder has any beneficial owners⁴, (a) it has carried out thorough due diligence to establish the identities of such beneficial owners, (b) based on such due diligence, the Shareholder reasonably believes that no such beneficial owners are Prohibited Persons, (c) it holds the evidence of such identities and status and will maintain all such evidence for at least five years from the date of the Shareholder's complete redemption from the Fund, and (d) it will make available such information and any additional information that the Fund may require upon request.

(C) If any of the foregoing representations, warranties or covenants ceases to be true or if the Fund no longer reasonably believes that it has satisfactory evidence as to their truth, notwithstanding any other agreement to the contrary, the Fund may be obligated to freeze the Shareholder's investment, either by prohibiting additional investments, declining or suspending any redemption requests and/or segregating the assets constituting the investment in accordance with applicable regulations, or the Shareholder's investment may immediately be redeemed by the Fund, and the Fund may also be required to report such action and to disclose the Shareholder's identity to OFAC or other authority. In the event that the Fund is required to take any of the foregoing actions, the Shareholder understands and agrees that it shall have no claim against the Fund, the Investment Advisor, the Administrator, and their respective affiliates, directors, members, partners, shareholders, officers, employees and agents for any form of damages as a result of any of the aforementioned actions.

(D) The Shareholder understands and agrees that any redemption proceeds paid to it will be paid to the same account from which the Shareholder's investment in the Fund was originally remitted, unless the Fund, in its sole discretion, agrees otherwise.

(E) The Shareholder agrees to indemnify and hold harmless the Fund, the Investment Advisor, the Administrator, and their respective affiliates, directors, members, partners, shareholders, officers, employees and agents from and against any and all losses, liabilities, damages, penalties, costs, fees and expenses (including legal fees and disbursements) which may result, directly or indirectly, from any inaccuracy in or breach of any representation, warranty, covenant or agreement set forth in this Section.

Continuing Effect

The representations, warranties, certifications and agreements set forth are true and accurate as of the date of delivery of the Subscription Agreement and shall survive such delivery. If in any respect such representations, warranties, certifications and agreements shall not be true and accurate prior to delivery of certificate for the Shares, the Investor(s) shall give immediate written notice of such fact to the Fund, specifying which representations, warranties, certifications and agreements are not true and accurate and the reasons therefore.

⁴ Beneficial owners will include, but not be limited to: (i) shareholders of a corporation; (ii) partners of a partnership; (iii) members of a limited liability company; (iv) investors in a fund-of-funds; (v) the grantor of a revocable or grantor trust; (vi) the beneficiaries of an irrevocable trust; (vii) the individual who established an IRA; (viii) the participant in a self-directed pension plan; (ix) the sponsor of any other pension plan; and (x) any person being represented by the Shareholder in an agent, representative, intermediary, nominee or similar capacity. If the beneficial owner is itself an entity, the information and representations set forth herein must also be given with respect to its individual beneficial owners. If the Shareholder is a publicly-traded company, it need not conduct due diligence as to its beneficial owners.

Indemnification

The Investor(s) agrees to indemnify and hold harmless the Fund and its officers and directors, the officers and directors of the Fund's Investment Advisor and their respective counsel and other agents ("Indemnified Party") from and against all liability, damage, cost and expense (including reasonable attorneys' fees) which they may incur by reason of the failure of the Investor(s) to fulfill any of the terms or conditions of this Subscription Agreement, or by reason of any inaccuracy or omission in the information furnished by the Investor(s) to the Fund or any breach of the representations and warranties made by the Investor(s) herein or in any document provided by the Investor(s) to the Fund. The Investment Advisory Agreement and agreement with the Board of Directors of the Fund ("Board of Directors Agreement") provide that the Indemnified Party will not be liable for (i) any act or omission performed or omitted by them, including without limitation, acts performed or omitted on advice of legal counsel, accountants, brokers or consultants of the Fund, or for any costs, damages or liabilities arising therefrom or by law, unless that act or omission was performed or omitted fraudulently or in bad faith or constituted gross negligence, (ii) any tax liability imposed on the Fund or its Investors or (iii) any loss due to the negligence, dishonesty or bad faith of any employee, officer, broker, consultant or other agent of the Fund selected engaged or retained in good faith by the Fund and its Board of Directors.

Confidentiality and Non-Disclosure

In the event that the Fund is requested by a Investor and agrees to disclose information regarding the names or other proprietary information regarding any investment-related information in which the Fund has invested, then an Investor shall not invest in, or disclose information concerning or the fact of the Fund's investment to any party regarding any investment-related information during the life of the Fund.

In the event that an Investor has already invested in any investments in which the Fund has invested, then an Investor, will notify the Fund within three (3) months of the disclosure of the name of the investment, and shall be exempt from the foregoing paragraph. If there is no acknowledgment within the three (3) month period, then an Investor shall not invest in or disclose information to any party regarding the investment during the life of the Fund.

Miscellaneous

Any investor signing the Subscription Agreement annexed hereto as Appendix "A" agrees to the following:

1. The Investor(s) agrees not to transfer or assign this Subscription Agreement, or any of the Investor's interest herein, and further agrees that the transfer or assignment of the Shares acquired in connection herewith shall be made only in accordance with all applicable laws, the Fund's Offering Memorandum, Memorandum of Association, Articles of Association and this Subscription Agreement.

2. The Investor(s) agrees that the Investor may not cancel, terminate or revoke this Subscription Agreement or any agreement of the Investor(s) made hereunder and that this Subscription Agreement shall survive the death or disability or the Investor(s) and shall be binding upon the Investor(s)'s heirs, executors, administrators, successors and permitted assigns.
3. This Subscription Agreement has been duly and validly authorized, executed and delivered by the Investor(s) and, upon acceptance by the Fund, will constitute the valid, binding and enforceable agreement of the Investor(s).
4. This Subscription Agreement and the documents referred to herein constitute the entire agreement between the parties hereto with respect to the subject matter hereof.
5. Within five days after receipt of a written request from the Fund, the Investor(s) agrees to provide such information, to execute and deliver such documents and to take or forbear from taking, such actions or provide such further assurances as reasonably may be necessary to correct any errors in documentation, or to comply with any and all laws and ordinances to which the Fund is subject.
6. In the event that any provision of this Subscription Agreement or the application thereof to any person or in any circumstances shall be determined to be invalid, unlawful, or unenforceable to any extent, the remainder of this Subscription Agreement, and the application of such provisions other than the ones deemed invalid, unenforceable, or unlawful, shall not be affected thereby, and each remaining provision hereof shall continue to be valid and may be enforced to the fullest extent permitted by law.
7. As used in this Subscription Agreement, any masculine pronouns shall be deemed to include feminine or neuter pronouns and vice versa, and the singular shall include the plural, as the identity of the Investor(s) or the context may require.
8. If more than one person is signing this Subscription Agreement, each representation, warranty, certification and agreement made herein shall be a joint and several representation, warranty, certification and agreement of each such person.

WIRE INSTRUCTIONS

Wire Instructions*

*The subscription Amount must be received at least FOUR BUSINESS DAYS before the first day of the month as of which Shares are to be purchased and should be wired to:

For monies sent from outside of Bermuda:

Chase Manhattan Bank N.A.
Building F Floor 8
4 Chase Metrotech Center
New York, NY 11245
Swift: CHAS US 33

For Credit:

Butterfield Trust (Bermuda) Limited
Bermuda
Account Number: 0011067808

For Further Credit:

Ark Discovery Fund (Offshore) Limited
Account Number: 1370001
Bermuda

For monies sent from Bermuda:

For Credit:

Butterfield Trust (Bermuda) Limited
Ark Discovery Fund (Offshore) Limited
Account Number: 1370001
Bermuda

ARK DISCOVERY FUND (OFFSHORE) LIMITED
Request for Redemption

Important: To be effective this Notice of Redemption must be received no later than 120 days prior to the day on which redemption is sought and sent to:

Beacon Management Limited
 P.O. Box HM 2763
 Hamilton HM LX
 Bermuda
 Attention: Martin Zolnai
 Tel 441 295 9939
 Fax 441 296 3578
 e-mail mzolnai@beacon.bm
www.beacon.bm

For Further information or queries please contact the Administrator.

The undersigned hereby requests redemption of _____ Class A USD/Class B EUR/ Class C CHF Shares (insert the number of shares to be redeemed and appropriate class) of ARK DISCOVERY FUND (OFFSHORE) LIMITED (the "Fund") at the day of, 20... The undersigned hereby represents and warrants that he or she is the true and lawful owner of such shares with full power and authority to request redemption of such shares. Such shares are not subject to any pledge or otherwise encumbered in any fashion. This redemption will be governed by the terms of the Fund's Articles and the terms set out set out in the Fund's Offering Memorandum dated 15 February, 2008 and in particular part VIII – "Subscription, Suspension and Redemption". Redemption shall be effective at the close of the market on any Participating Redemption Date as described in the Offering Memorandum. If a shareholder is not redeeming his or her entire interest in the Fund, then the shareholder may only redeem an amount that allows the shareholder to maintain, as of the date of redemption, an interest in the Fund that equals at least US\$ 100,000. The undersigned also understands that the amount actually to be redeemed pursuant to this Request for Redemption may be substantially less than the amount requested due to the restrictions set out in the Fund's Offering Memorandum.

Please remit redemption proceeds in accordance with the following instructions:

Wire transfer to (name of Bank):	
Bank Address:	
Swift No / AAA No /Sort Code:	
For Account of :	

Account Number:	
<i>For Further Credit: (if applicable)</i>	
<i>For Account of:</i>	
<i>Account Number:</i>	

I/We agree that any payment charges will be deducted from Redemption proceeds.

Individual / Joint Subscribers:

Signature of Subscriber (Joint if applicable) _____

Date:

Note: Redemption proceeds will only be paid to an account of the Registered Owner of the Shares. No redemption proceeds will be paid out until the original Redemption Request Notice is received by the Administrator with any other documents required by the Administrator.