

NAME OF OFFEREE _____

MEMORANDUM No. _____

PLACEMENT MEMORANDUM

Relating to Shares of Capital Stock

of Par Value U.S. \$1.00 Per Share

of

LANCER OFFSHORE, INC.

(A British Virgin Islands Corporation)

Investment Manager:

LANCER MANAGEMENT GROUP, LLC

Administrator:

CITCO FUND SERVICES (CURACAO) N.V.

February 15, 2002

THIS IS NOT AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE SHARES DESCRIBED HEREIN IN ANY JURISDICTION TO ANY PERSON OR ENTITY TO WHOM IT IS UNLAWFUL TO MAKE SUCH AN OFFER OR SALE.

LANCER OFFSHORE, INC.

Lancer Offshore, Inc. (the "Fund") is a corporation incorporated under the laws of the British Virgin Islands on September 27, 1995. The Fund was formed to pool investment funds of non-U.S. Persons and Permitted U.S. Persons (as such terms are defined below) for the purpose of investing, trading and dealing in securities, traded in the United States and elsewhere, of all kinds and descriptions, including but not limited to, equity, debt, convertible securities, preferred stock, options, warrants, trade claims and monetary instruments, all as determined by the Fund's Investment Manager (as defined below). The Investment Manager believes that in the small to middle capitalized financial markets, its contrarian bias and emphasis on anticipatory timing of future corporate developments will enable the Fund to achieve significantly above average capital returns while exposing the Fund to what the Investment Manager believes will be reasonable risks as compared to potential rewards. See "*INVESTMENT PROGRAM*". **There is no assurance that the Fund's objective will be achieved, and investment results may vary substantially on a quarterly and annual basis.**

The Fund's assets are managed by Lancer Management Group, LLC (the "Investment Manager"), a limited liability company formed under the laws of the State of Connecticut, United States of America. Michael Lauer is the sole manager and principal owner of the Investment Manager and, as such, he controls the operations and activities of the Investment Manager. The Investment Manager also serves as the sole investment manager of the Viator Fund, Ltd. ("VFL") and the Orbiter Fund, Ltd. ("OFL"), both of which are British Virgin Islands companies. Mr. Lauer is also the sole manager and principal owner of Lancer Management Group II, LLC ("LMG II"), a Connecticut limited liability company, which is the sole general partner of Lancer Partners, Limited Partnership, a Connecticut investment limited partnership formed in November 1997 to succeed by merger to, and carry on the business of, Lancer Partners, L.P. which was formed in December 1994 (collectively, "LPLP"). The Fund's investment program is similar to that of LPLP.

The Fund is offering (the "Offering") shares of par value \$1.00 per share (the "Shares": all "\$" references herein are to U.S. dollars), to persons and entities (collectively, "Offerees") outside the United States who are not U.S. Persons and inside the United States to a limited number of Offerees that are Permitted U.S. Persons, and who meet other suitability requirements. The minimum initial subscription for Shares is \$1,000,000, subject to the Fund's board of directors (the "Board of Directors"), in its sole and absolute discretion, right to accept lesser amounts, but in no event shall the initial subscription be for less than \$100,000. The minimum subscription for additional Shares is \$100,000. Generally, Shares may be purchased on a monthly basis and redeemed on a quarterly basis, subject to the Redemption Charge (as defined below) for redemptions occurring during a shareholder's (individually, "Shareholder" and collectively, "Shareholders") first year as a Shareholder of the Fund.

CITCO Fund Services (Curaçao) N.V. (the "Administrator") will make available to each Offeree or its authorized representative, prior to subscribing for Shares in this Offering, the opportunity to ask questions of, and receive answers from, the Administrator or a person acting on its behalf, concerning the terms and conditions of this Offering, and to obtain any additional information, to the extent that the Administrator possesses such information or can acquire it without unreasonable effort or expense, necessary to verify the accuracy of the information set forth herein. Please direct inquiries to the Administrator at Tel. No. (599-9) 732-2222.

The Shares are admitted to the Official List of the Irish Stock Exchange. This document comprises listing particulars in respect of such application. The Directors do not anticipate that an active secondary market will develop in the Shares. No application has been made to list the Shares on any other stock exchange.

The Directors of the Company, whose names appear on Page (v) herein, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information. The Directors accept responsibility accordingly.

THE SHARES BEING OFFERED HEREBY HAVE NOT BEEN APPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION ("SEC") OR BY ANY OTHER GOVERNMENTAL AUTHORITY AND NEITHER THE SEC NOR ANY SUCH OTHER AUTHORITY HAS PASSED UPON THE ACCURACY OR ADEQUACY OF THIS MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. IT IS ANTICIPATED THAT THE OFFERING AND SALE WILL BE EXEMPT FROM REGISTRATION UNDER THE UNITED STATES FEDERAL SECURITIES ACT OF 1933, AS AMENDED ("1933 ACT") AND THAT THE FUND WILL NOT BE REGISTERED AS AN INVESTMENT COMPANY UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED ("ICA").

PURCHASE OF THE SHARES INVOLVES A HIGH DEGREE OF RISK. SEE "*CERTAIN RISK FACTORS*". CONFLICTS OF INTEREST BETWEEN THE INVESTMENT MANAGER AND THE FUND MAY ARISE IN VARIOUS CIRCUMSTANCES. SEE "*CONFLICTS OF INTEREST*".

OFFEREEES ARE NOT TO CONSTRUE THE CONTENTS OF THIS MEMORANDUM AS LEGAL, TAX, INVESTMENT OR OTHER ADVICE. OFFEREEES SHOULD REVIEW THIS MEMORANDUM AND ALL OTHER DOCUMENTS RECEIVED IN CONNECTION WITH THE OFFERING WITH THEIR LEGAL COUNSEL, ACCOUNTANT, BUSINESS AND TAX ADVISOR ON WHOSE OPINIONS THEY SHOULD RELY AS TO ALL LEGAL, TAX, REGULATORY, FINANCIAL AND RELATED MATTERS CONCERNING AN INVESTMENT IN SHARES. OFFEREEES 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 AND DISPOSAL OF SHARES, AND ANY FOREIGN EXCHANGE OR OTHER RESTRICTIONS THAT MAY BE RELEVANT THERETO. A REPRESENTATION TO THAT EFFECT IS REQUIRED TO BE MADE BY EACH OFFEREE ACQUIRING SHARES.

THE DISTRIBUTION OF THIS MEMORANDUM AND THE OFFER AND SALE OF THE SHARES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. NO ACTION HAS BEEN OR WILL BE TAKEN TO PERMIT AN OFFERING IN ANY JURISDICTION WHERE ACTION WOULD BE REQUIRED FOR THAT PURPOSE. ACCORDINGLY, SHARES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, AND THIS MEMORANDUM MAY NOT BE DISTRIBUTED, IN ANY JURISDICTION, EXCEPT IN ACCORDANCE WITH THE LEGAL REQUIREMENTS APPLICABLE IN SUCH JURISDICTION. SHARES THAT ARE ACQUIRED BY OFFEREEES NOT ENTITLED TO HOLD THEM WILL BE COMPULSORILY REDEEMED. THE BOARD OF DIRECTORS RESERVES THE RIGHT TO REFUSE ANY SUBSCRIPTION ON THE BASIS OF ANY OFFEREE'S FAILURE TO MEET THE SUITABILITY CRITERIA DESCRIBED HEREIN OR FOR ANY OTHER REASON.

THIS IS A PRIVATE OFFERING, MADE ONLY BY DELIVERY OF A COPY OF THIS MEMORANDUM TO THE OFFEREE WHOSE NAME APPEARS HEREON AND THIS MEMORANDUM MAY NOT BE REPRODUCED OR USED FOR ANY OTHER PURPOSE. ANY DISTRIBUTION OF THIS MEMORANDUM IN WHOLE OR IN PART, OR THE DIVULGENCE OF ANY OF ITS CONTENTS, IS UNAUTHORIZED. THE OFFEREE, BY ACCEPTING DELIVERY OF THIS MEMORANDUM, AGREES TO RETURN THIS MEMORANDUM TO THE ADMINISTRATOR IF THE OFFEREE DOES NOT PURCHASE SHARES.

NO OFFERING LITERATURE OR ADVERTISING IN WHATEVER FORM SHALL BE EMPLOYED IN THE OFFERING OF SHARES EXCEPT FOR THIS MEMORANDUM AND THE SUBSCRIPTION DOCUMENT BOOKLET WHICH WILL BE DELIVERED TO OFFEREEES THAT ARE INTERESTED IN ACQUIRING SHARES. NO PERSON HAS BEEN AUTHORIZED TO MAKE ANY REPRESENTATIONS, OR FURNISH ANY INFORMATION, WITH RESPECT TO THE FUND OR SHARES, OTHER THAN THE REPRESENTATIONS AND INFORMATION SET FORTH IN THIS

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MEMORANDUM, THE SUBSCRIPTION DOCUMENT BOOKLET AND THE DOCUMENTS AND INFORMATION FURNISHED BY THE FUND UPON REQUEST, AS DESCRIBED BELOW AND ANY REPRESENTATION OR INFORMATION NOT CONTAINED IN ANY OF THE FOREGOING DOCUMENTS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE FUND OR INVESTMENT MANAGER.

THE DELIVERY OF THIS MEMORANDUM DOES NOT IMPLY THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE ON THE COVER HEREOF. EACH OFFEREE IS INVITED TO ASK QUESTIONS AND OBTAIN ADDITIONAL INFORMATION FROM THE FUND, OUTSIDE OF THE UNITED STATES, CONCERNING THE TERMS AND CONDITIONS OF THE OFFERING AND ANY OTHER RELEVANT MATTERS (INCLUDING BUT NOT LIMITED TO, ADDITIONAL INFORMATION TO VERIFY THE ACCURACY OF THE INFORMATION SET FORTH HEREIN) TO THE EXTENT THE FUND POSSESSES SUCH INFORMATION OR CAN ACQUIRE IT WITHOUT UNREASONABLE EFFORT OR EXPENSE.

THIS MEMORANDUM DOES NOT CONTAIN ANY UNTRUE STATEMENT OF MATERIAL FACT OR OMIT TO STATE A MATERIAL FACT NECESSARY TO MAKE THE STATEMENTS MADE, IN LIGHT OF THE CIRCUMSTANCES IN WHICH THEY WERE MADE, NOT MISLEADING. THIS MEMORANDUM CONTAINS SUMMARIES, BELIEVED BY THE DIRECTORS AND INVESTMENT MANAGER TO BE ACCURATE, OF CERTAIN TERMS OF CERTAIN DOCUMENTS, BUT REFERENCE IS HEREBY MADE TO THE ACTUAL DOCUMENTS (COPIES OF WHICH ARE AVAILABLE FROM THE FUND) FOR COMPLETE INFORMATION CONCERNING THE RIGHTS AND OBLIGATIONS OF THE PARTIES THERETO, AND ALL SUCH SUMMARIES ARE QUALIFIED IN THEIR ENTIRETY BY THIS REFERENCE.

THE SHARES ARE SUITABLE ONLY FOR SOPHISTICATED OFFEREES WHO ARE EITHER NOT U.S. PERSONS OR PERMITTED U.S. PERSONS, WHO DO NOT REQUIRE IMMEDIATE LIQUIDITY OF THEIR INVESTMENT, FOR WHOM AN INVESTMENT IN THE FUND DOES NOT CONSTITUTE A COMPLETE INVESTMENT PROGRAM AND WHO FULLY UNDERSTAND AND ARE WILLING TO ASSUME THE RISKS INVOLVED IN THE FUND'S INVESTMENT PROGRAM. OFFEREES THAT SUBSCRIBE FOR SHARES MUST REPRESENT THAT THEY ARE ACQUIRING THE SHARES FOR INVESTMENT PURPOSES ONLY. THE TRANSFER OF SHARES IS SUBJECT TO LIMITATIONS IMPOSED BY THE FUND'S MEMORANDUM AND ARTICLES OF ASSOCIATION.

IMPORTANT INFORMATION REQUIRED BY UNITED STATES FEDERAL AND STATE LAWS AND THE LAWS OF OTHER JURISDICTIONS IS ATTACHED TO THIS MEMORANDUM AS APPENDIX A. YOU ARE URGED TO READ THIS INFORMATION CAREFULLY.

NEITHER THE ADMISSION OF THE SHARES TO THE OFFICIAL LIST NOR THE APPROVAL OF THESE LISTING PARTICULARS PURSUANT TO THE LISTING REQUIREMENTS OF THE IRISH STOCK EXCHANGE SHALL CONSTITUTE A WARRANTY OR REPRESENTATION BY THE IRISH STOCK EXCHANGE AS TO THE COMPETENCE OF SERVICE PROVIDERS TO OR ANY OTHER PARTY CONNECTED WITH THE FUND, THE ADEQUACY OF INFORMATION CONTAINED IN THESE LISTING PARTICULARS OR THE SUITABILITY OF THE FUND FOR INVESTMENT PURPOSES

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DIRECTORY

Registered Office

CITCO Building
Wickams Cay
Road Town, Tortola
British Virgin Islands

Investment Manager

Lancer Management Group, LLC
350 Bedford Street
Stamford, CT 06901
Telephone: (203) 977-7700
Telecopier: (203) 977-8360

Directors of the Fund

John W. Bendall, Jr.
Dr. Richard Geist

Prime Broker

Banc of America Securities, LLC
9 West 57th Street
New York, NY 10019

Administrator, Registrar and Transfer Agent:

CITCO Fund Services (Curaçao) N.V.
Kaya Flamboyan 9
P.O. Box 812
Curaçao, Netherlands Antilles
Telephone: (599-9) 732-2222
Telecopier: (599-9) 732-2225

Auditor for the Fund

PricewaterhouseCoopers
Chartered Accountants
Julianaplein 38
P.O. Box 360
Curaçao, Netherlands Antilles

Fund U.S. Legal Counsel

Robinson Silverman Pearce Aronsohn
& Berman LLP
1290 Avenue of the Americas
New York, NY 10104
United States of America

Fund British Virgin Islands Special Counsel

Conyers Dill & Pearman
Romasco Place
Wickham's Cay I
P.O. Box 3140
Road Town, Tortola
British Virgin Islands

Sponsoring Broker to the Irish Stock Exchange
and Paying Agent

J & E Davy
Davy House
49 Dawson Street
Dublin 2
Republic of Ireland

SUMMARY

The following is a summary of certain information set forth more fully elsewhere in this Memorandum and is qualified by other information contained in this Memorandum and by the Fund's Memorandum of Association and Articles of Association (collectively, "Articles"), copies of which are available from the Fund. Copies may also be inspected at the offices of the Sponsoring Broker to the Irish Stock Exchange.

Offerees should read the entire Memorandum and the Articles carefully before making any investment decision regarding the Fund and should pay particular attention to the information in this Memorandum under the heading "*CERTAIN RISK FACTORS*". In addition, Offerees should consult their own advisers in order to understand fully the consequences of an investment in the Fund.

The Fund	Lancer Offshore, Inc. (the "Fund") is a British Virgin Islands corporation. The Fund has been established to give investors an opportunity to participate in an investment program similar to that of Lancer Partners, Limited Partnership ("LPLP"), a limited partnership organized in November 1997 in the State of Connecticut, United States of America. LPLP is the successor by merger to Lancer Partners, L.P., a limited partnership organized in December 1994. See " <i>THE FUND</i> ".
Investment Objective	<p>The Fund's objective is to seek high economic return primarily through capital appreciation while attempting to control risk. The Investment Manager does not intend to adhere to any one particular investment strategy. Rather, the Investment Manager intends to follow a flexible approach so as to attempt to be in the best position to capitalize on opportunities in the financial markets.</p> <p>The Investment Manager believes that in the small to middle capitalized financial markets, its bottom-up value approach combined with its contrarian bias and emphasis on anticipatory timing of future corporate developments will enable the Fund to achieve significantly above average capital returns while exposing the Fund to what the Investment Manager believes will be reasonable risks as compared to potential rewards.</p>
Investment Manager	The Investment Manager is Lancer Management Group, LLC, a limited liability company formed in 1997 under the laws of the State of Connecticut, United States of America (the "Investment Manager"). The Investment Manager is the successor by merger to Lancer Management Group, LLC, a New York limited liability company, which had been the investment manager for the Fund since its inception. The Investment Manager has entered into an investment management agreement (the "Investment Management Agreement") with the Fund and is responsible for the investment of the Fund's assets, subject to the policies and control of the Board of Directors. Michael Laur is the sole manager and principal owner of the Investment Manager and, as such, he controls the operations and activities of the Investment Manager. The Investment Management Agreement is effective through December 31, 2005, and is automatically extended for additional five (5) year terms thereafter, except that it may be terminated upon ninety (90) days' written notice by either of the parties at the end of the initial term or at the end of any renewal term. See

"INVESTMENT MANAGEMENT AGREEMENT, FEES AND EXPENSES".

- Listing** The Shares are admitted to the Official List of the Irish Stock Exchange. There can be no assurance, however, that such listing will be maintained. The Directors do not anticipate that an active secondary market will develop in the Shares. No application has been made to list the Shares on any other stock exchange. See *"TRANSFER AND REDEMPTION"*.
- Eligibility Requirements** Shares will be sold outside the United States solely to Offerees that are not U.S. Persons and inside the United States solely to a limited number of Offerees that are Permitted U.S. Persons. At no time will: (i) Benefit Plan Investors (as defined below) be allowed to own twenty-five (25%) percent or more of the outstanding Shares; or (ii) Permitted U.S. Persons be allowed to own fifty (50%) percent or more of the outstanding Shares. All Permitted U.S. Persons must be either Accredited Investors (as defined below) or Sophisticated Investors (as defined below). The Board of Directors, in its sole and absolute discretion, may decline to accept the subscription of any prospective Shareholder. See *"THE OFFERING-Suitability"*.
- Minimum Subscription** The minimum initial subscription is \$1,000,000; however, the Board of Directors, in its sole and absolute discretion, may accept subscriptions of lesser amounts, but in no event less than \$100,000. Thereafter, the minimum subscription for additional Shares is \$100,000. See *"THE OFFERING"*.
- The Shares** The Shares have a par value of \$1.00 per share (the "Shares") and have equal dividend, distribution, liquidation and voting rights. See *"THE FUND"*.
- Offering of Shares** The Fund may offer Shares on the first Business Day (for purposes hereof, the term "Business Day" shall mean any day on which securities are traded on the New York Stock Exchange) of each month or at such other times as the Board of Directors, in its sole and absolute discretion, may allow, at a purchase price per Share equal to the Offering Price (as defined below) per Share as of the close of business on the preceding Business Day. As at January 31, 2002 the Offering Price was \$927.15 per Share. The Investment Manager, in its sole and absolute discretion, may pay referral fees to unaffiliated eligible persons who introduce prospective Shareholders to the Fund and be reimbursed by the Fund for such referral fees to the extent that the aggregate amount of such referral fees for which reimbursement is sought, together with the Administrative Expenses (as defined below), do not exceed the Expense Cap (as defined below). See *"INVESTMENT MANAGEMENT AGREEMENT, FEES AND EXPENSES"*, *"THE OFFERING"* and *"ADMINISTRATION-Brokerage Commissions"*.
- Use of Proceeds and Distributions** Proceeds received by the Fund from the sale of Shares (after payment of Offering expenses) will be used by the Fund in its investment

program. See "INVESTMENT PROGRAM". The Fund does not expect to make distributions or pay dividends on the Shares.

Transfer Restrictions

The Articles provide that without the prior written consent of the Board of Directors, any sale, assignment, transfer, conveyance or other disposition or any attempt to do any of the foregoing (collectively, "Transfer") shall be invalid. The Board of Directors shall not withhold its consent to a proposed Transfer unless it determines that the proposed Transfer would lead to legal, fiscal, regulatory, pecuniary or material administrative disadvantage for the Fund or the Shareholders as a whole or to maintain the minimum shareholding per Shareholder. Notwithstanding the foregoing, the Board of Directors will not consent to the Transfer of Shares to a U.S. Person. Any attempt to Transfer Shares without the prior approval of the Board of Directors may subject such Shares to compulsory redemption. There is no independent market for the purchase or Transfer of Shares and none is expected to develop, except as set forth above under "Listing". Offerees must represent that they are purchasing Shares for investment purposes only.

Redemption

Generally, Shares may be redeemed by a Shareholder on at least six (6) months' prior written notice (subject to the Board of Directors, in its sole and absolute discretion, waiving or reducing such notice requirement), on the last Business Day of each fiscal quarter of the Fund, and at such other times with the consent of, and upon such terms of payment as may be approved by, the Board of Directors, in its sole and absolute discretion (each date being referred to as a "Redemption Date"). Shares will be redeemed at the Redemption Price (as defined below). Payment of ninety-five (95%) percent of the aggregate Redemption Price for redeemed Shares (calculated on the basis of unaudited data) normally will be made within thirty (30) days following the Redemption Date. Payment of the balance of the aggregate Redemption Price will be made within thirty (30) days after completion of (i) unaudited quarterly financial statements for redemptions on the last Business Day of the first three (3) fiscal quarters of the Fund; or (ii) audited financial statements for redemptions on the last Business Day of a fiscal year. Redemption proceeds generally will be paid in \$. Any redemption of Shares within one (1) year after a Shareholder's initial investment in the Fund (whether Shares are acquired directly from the Fund or by way of Transfer in the secondary market) will be subject to a redemption charge of five (5%) percent of the amount withdrawn (the "Redemption Charge"). Other than the Redemption Charge, there are no redemption charges. See "TRANSFER AND REDEMPTION-Redemption".

If a redemption would cause the value of Shares held by a Shareholder to fall below \$1,000,000, or such lesser amount as determined by the Board of Directors in its sole and absolute discretion, then the Board of Directors will have the right to compel redemption of all Shares held by such Shareholder. The Board of Directors, upon not less than ten (10) days' prior written notice to a Shareholder, may compel redemption of all of such Shareholder's Shares at any time if the Board of Directors determines that the continued ownership of Shares by such Shareholder would result in a legal, pecuniary, regulatory, taxation or material

administrative disadvantage for the Fund or the Shareholders as a whole or to maintain the minimum shareholding per Shareholder. See "TRANSFER AND REDEMPTION-Redemption". In addition, the Board of Directors, by written notice to the Shareholders, may suspend redemption rights for all Shareholders when, in the opinion of the Board of Directors, disposal of part or all of the Fund's assets, or the determination of Net Asset Value (as defined below), would not be reasonable or practicable or would be prejudicial to the Shareholders.

Management and Incentive Fees

As set forth in the Investment Management Agreement, the Investment Manager receives (i) a fixed quarterly advisory fee (the "Management Fee") equal to 0.25% of the Net Asset Value of the Fund as of the beginning of each fiscal quarter (approximately 1.0% on an annualized basis), and (ii) an annual incentive fee (the "Incentive Fee"), determined as of the last Business Day of the Fund's fiscal year, equal to twenty (20%) percent of the net profits (including net unrealized gain) (hereinafter "Net Profits"), if any, during a fiscal year allocable to each Share; provided, however, that if a Share is redeemed at any time other than the end of a fiscal year, such payment will be made to the Investment Manager with respect to such redeemed Share as though the Redemption Date were the last day of the fiscal year. For a description of the manner in which the Incentive Fee is borne by each Share and the time of payment, see "DETERMINATION OF OFFERING PRICE". If a Share has a loss chargeable to it during any fiscal year or years ("Unrecouped Loss") and during any succeeding fiscal year there are Net Profits allocable to the Share, there will be no Incentive Fee payable with respect to such Share until the amount of the Unrecouped Loss allocated to such Share has been recouped. Generally, the Incentive Fee will be determined as of the last Business Day of the Fund's fiscal year based on net realized and unrealized appreciation for the fiscal year then ended. The Management Fee will be prorated for any fiscal quarter in which the Investment Manager does not act as Investment Manager for the entire quarter. See "INVESTMENT MANAGEMENT AGREEMENT, FEES AND EXPENSES".

The Investment Manager and the Fund may enter into a deferred incentive fee agreement pursuant to which the Investment Manager may elect to defer payment of all or a portion of its Incentive Fee. See "INVESTMENT MANAGEMENT AGREEMENT, FEES AND EXPENSES".

Expenses

The Fund will pay all of its accounting, legal, administrative and other operating expenses, including the expenses of the offer and sale of Shares to Shareholders (collectively, "Administrative Expenses") for each fiscal year, and reimburse the Investment Manager for referral fees paid to unaffiliated eligible persons, up to a maximum of one (1%) percent of the Fund's Net Asset Value at the end of each fiscal year ("Expense Cap"). To the extent that the Administrative Expenses and referral fee reimbursements exceed the Expense Cap in any fiscal year, the Investment Manager shall pay such excess Administrative Expenses and/or the Fund shall not reimburse the Investment Manager for such excess referral fees. The Expense Cap, however, does not apply to investment expenses (e.g., expenses related to the investment of the

Fund's assets, such as brokerage commissions and other trading and investment charges and fees), corporate licensing expenses, interest, custodial fees, prime broker charges and taxes. All organizational expenses are being amortized over sixty (60) months.

**Administrator, Registrar
And Transfer Agent**

Citico Fund Services (Curaçao) N.V. (the "Administrator") has been retained by the Fund to perform administrative services. The Fund pays the Administrator an annual fee of 15 basis points on the first \$100 million of Net Asset Value of the Fund and 10 basis points on the remainder. See "*THE ADMINISTRATOR*".

Risk Factors

An investment in the Fund involves significant risks. See "*CERTAIN RISK FACTORS*".

Brokerage Commissions

Portfolio transactions for the Fund will be allocated to brokers as selected by the Investment Manager on the basis of best execution and in consideration of such broker's provision or payment of the costs of research and other services and/or property which are of benefit to the Fund and related funds and accounts. The Investment Manager may also direct commissions to brokers who refer clients to the Fund and certain broker/dealers which may furnish other services to the Fund and/or the Investment Manager. See "*ADMINISTRATION-Brokerage Commissions*".

**Shareholder
Meetings and Reports**

Meetings of Shareholders will be held annually. Each Shareholder will receive performance reports at least quarterly and an annual audited financial report of the Fund. The fiscal year end of the Fund is December 31.

Taxes

Based upon the Fund's organizational structure and methods of operation as described herein, it is anticipated that the Fund generally will not be subject to U.S. Federal income tax on gains from trading in securities and instruments. In addition, interest from U.S. sources earned on bank deposits, "portfolio interest" as defined under the United States Internal Revenue Code, as amended (the "IRC") and interest from certain short term obligations generally would not be subject to withholding for U.S. Federal income tax. However, dividend income and certain other interest from U.S. sources would be subject to thirty (30%) percent withholding. Permitted U.S. Persons should not be subject to U.S. Federal income tax on any dividends received from the Fund, or on any gain recognized on the sale or other disposition of Shares, provided that such Permitted U.S. Person does not utilize leverage in acquiring or holding Shares in the Fund.

At the date of this Memorandum, the Fund is exempt from all provisions of the Income Tax Ordinance of the British Virgin Islands with respect to all dividends, interests, rents, royalties, compensation and other amounts payable by the Fund to persons who are not persons resident in the British Virgin Islands and is also exempt from any capital gains realized with respect to any Share, debt obligations or other securities of the Fund by persons who are not persons resident in the British Virgin Islands. No estate, inheritance, succession or gift tax.

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rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to any Shares, debt obligations or other securities of the Fund.

There can be no assurance that the U.S. or British Virgin Islands tax laws will not be changed adversely with respect to the Fund and its Shareholders or that 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 local and other jurisdictions applicable to them. Shareholders should rely only upon advice received from their own tax advisors based upon their own individual circumstances and the laws applicable to them.

Subscription Procedures

Offerees interested in subscribing for Shares will be furnished a Subscription Document Booklet, which contains Instructions For Subscribers and a Subscription Agreement and Revocable Proxy. The Subscription Agreement and Revocable Proxy must be completed for a specified dollar amount. The original completed and executed copy of the Subscription Agreement and Revocable Proxy should be sent by overnight courier to: Lancer Offshore, Inc., c/o CITCO Fund Services (Curaçao) N.V., Kaya Flamboyen 9, P.O. Box 812, Curaçao, Netherlands Antilles.

All payments are to be made in United States dollars. If payment is to be made by wire transfer, it is to be made in immediately available funds to HSBC Bank USA, International Banking, 452 Fifth Avenue, New York, NY 10018, ABA#021001088, for Account of CITCO Banking Corporation N.V., Account No. 000-301 795, for further credit to the account Lancer Offshore, Inc., Account No. 0012-443222-200. If payment is to be made by check, the check should be made payable to "Lancer Offshore, Inc." and it should be sent at least one (1) week prior to the Closing Date by overnight courier to Lancer Offshore, Inc., c/o CITCO Fund Services (Curaçao) N.V., Kaya Flamboyen 9, P.O. Box 812, Curaçao, Netherlands Antilles. See "*SUBSCRIPTION PROCEDURES*".

THE INVESTMENT MANAGER

The Fund's Investment Manager is Lancer Management Group, LLC ("Investment Manager"), a limited liability company formed in 1997 under the laws of the State of Connecticut. The Investment Manager is the successor by merger to Lancer Management Group, LLC, a New York limited liability company formed in 1995. Michael Lauer is the sole manager and principal owner of the Investment Manager and, as such, he controls the operations and activities of the Investment Manager. The Investment Manager is responsible for the management of the Fund. The Investment Manager is solely responsible for researching, selecting and monitoring investments by the Fund and determining when and how much to invest with or withdraw from a particular investment.

Michael Lauer began his investment career with Oppenheimer & Co. in 1980 as a technology analyst. His other professional affiliations include: Cyrus J. Lawrence and Kidder Peabody (both as senior diversified technology and defense electronics analyst). Mr. Lauer became a portfolio manager in 1993. On numerous occasions, the annual Greenwich Associates survey of sell-side analysts distinguished Mr. Lauer as the premier source for stock purchase recommendations in his discipline of industry coverage. Likewise, Mr. Lauer was selected to the Institutional Investor's All Star analyst team for seven consecutive years. The Wall Street Journal's first ever survey also rated Mr. Lauer among the top three analysts in his group. Mr. Lauer holds a BA degree in International Relations and an MBA in Finance.

From December 1994 to December 1997, Mr. Lauer served as the general partner of LPLP. Mr. Lauer serves as the sole manager and principal owner of LMG II which became the sole general partner of LPLP on January 1, 1998. The Investment Manager also serves as the sole investment manager of VFL and OFL. It is possible that in certain circumstances, the Fund, on the one hand, and LPLP, VFL, and or OFL on the other hand, could own securities of the same company and/or take opposite positions in the market.

Mr. Lauer, as sole manager of the Investment Manager and, as the sole manager of LMG II, the general partner of LPLP, devotes a substantial amount of his time to the business of running the Fund, OFL, VFL and LPLP although, Mr. Lauer may devote such time to the Investment Manager and Fund as he determines in his sole and absolute discretion. The Investment Manager, LMG II and or Mr. Lauer may also manage accounts for certain parties and/or provide consulting and/or advisory services to others.

There have never been any administrative, civil or criminal actions, whether pending, on appeal or concluded, against the Fund, Investment Manager or Mr. Lauer.

INVESTMENT PROGRAMPurpose

The Fund was organized for the purpose of investing, trading and dealing in securities, traded in the United States of America and elsewhere, of all kinds and descriptions, including but not limited to, equity, debt, convertible securities, preferred stock, options, warrants, trade claims and monetary instruments. The Fund may invest in arbitrage and special situations, both long and short securities positions, option arbitrage, international arbitrage and other financial instruments. The Fund may also engage in transactions to hedge long and short securities positions. The descriptions contained in this Memorandum of the specific activities in which the Fund may engage should not be understood to limit in any way the types of investment activities or the allocation of Fund capital among such investments which the Fund may make. The Fund may engage in any investment activities not described herein which the Investment Manager considers appropriate and consistent with the Fund's objective.

Investment Objective

The Investment Manager does not follow a market timing philosophy and accordingly, it is anticipated that the Fund's assets will be fully invested at all times. The Investment Manager's philosophy of investing could be described as an analytical discipline concentrating on underlying corporate value with an added emphasis on anticipatory timing of future corporate developments, primarily in small and middle capitalized companies. The Fund's objective is to achieve high economic return primarily through capital appreciation while exposing the Fund to what the Investment Manager believes will be reasonable risks as compared to potential rewards. One way of controlling risk is through the diversification of Fund assets by investing and trading in a range of securities, although the Investment Manager anticipates that, at any given time, it is possible that a significant percentage of the Fund's assets may be invested in one or more securities of a single entity. The Fund seeks to maximize its return by purchasing securities which the Investment Manager believes are below intrinsic value, based on the Investment Manager's evaluation of such factors as fundamental analysis of a company and the underlying value of its assets, or by seeking price appreciation due to a "catalyst" such as an earnings turnaround, a corporate restructuring or an accumulation of shares by outsiders. Potential investments will be reviewed using fundamental, technical, financial, industry and trading analyses.

In selecting investments, the Investment Manager considers various criteria. The Investment Manager focuses nearly exclusively on corporations in the secondary and tertiary financial markets. The Investment Manager's approach is highly anticipatory of a corporate event that will facilitate favorable evaluation of the corporation. Similarly, the Investment Manager may sell or sell short securities which the Investment Manager believes are overvalued.

Investment Program

The following is a description of the principal types of securities in which the Investment Manager has and intends to cause the Fund to invest in, certain trading techniques that it has and intends to employ, the investment criteria that it has and intends to apply, and the guidelines that it has established with respect to the composition of the Fund's investment portfolio. The following description, however, is merely a summary and the Investment Manager has broad discretion to cause the Fund to invest in other types of securities and to follow other investment criteria and guidelines.

1. **Equity Securities.** The Investment Manager has and intends to generally select equity investments primarily on the basis of their potential for capital appreciation. Normally, any current income, such as dividends and interest, received from such investments will be only incidental to the objective of capital appreciation.

The majority of the common stocks in which the Fund has and intends to invest in are traded on the New York Stock Exchange, the American Stock Exchange or in the over-the-counter market in the United States of America. The principal focus of the Investment Manager has and will be on the common stock of small and

middle capitalized companies. The Fund also has and may invest in options and warrants to purchase common stock and other securities convertible into common stock.

The Fund has and may purchase non-U.S. equity securities which may be represented by American Depository Receipts listed on a United States of America securities exchange or traded in the over-the-counter market in the United States of America. The Fund may also purchase non-U.S. securities denominated in non-U.S. currencies and/or traded outside of the United States of America.

The Fund may invest in newly-issued equity securities of both developing and fully developed public companies which the Investment Manager believes, based on the Investment Manager's analysis of offering materials and other information, offer the opportunity for capital appreciation.

In addition to investing in equity securities which may appreciate in the medium or long term, the Fund attempts to trade securities in a fashion intended to take advantage of what the Investment Manager believes are short-term market inefficiencies, particularly during periods of high market volatility.

2. **Diversity and Hedging Strategies.** The Investment Manager has and may seek to minimize the losses which may be incurred in severe market declines or in the decline of individual securities prices by generally utilizing internal stop limits and various hedging techniques, including short sales, stock index options and stock options. There is no assurance that these stock selection or trading techniques will eliminate or reduce in any material manner the inherent risks of equity investing.

3. **Short Sales.** The Investment Manager has and may make "short sales" of securities when it believes that particular securities are overvalued and the Investment Manager anticipates a significant decline in their market price, including arbitrage situations in which the Investment Manager believes that the proposed transaction is not likely to be consummated.

Short selling of securities involves the sale of securities which the Fund does not own. To effect a short sale, the Fund borrows securities from a third party in order to make delivery to its purchaser. The Fund returns the borrowed securities to the lender by purchasing the securities in the open market. A short seller must generally pledge other securities or cash as collateral for the short position. This collateral may be increased or decreased in response to changes in the market price of the borrowed securities.

4. **Leveraged Purchases of Securities.** The Fund may leverage its securities positions by borrowing funds up to the maximum extent permitted by law. In general, for most equity securities the maximum initial amount that can presently be loaned by brokers and banks is fifty (50%) percent of the value of most securities positions. There are no borrowing or leverage limits in the Fund's Articles.

Leverage increases the potential risk of loss on any securities position so leveraged. In addition, increases in interest rates adversely affect earnings. Furthermore, in the event of a decline in the value of the leveraged securities or a change in the percentage of the value of securities for which a margin loan may be made, the Fund may be forced to sell securities at a substantial loss in order to generate cash to reduce the Fund's margin loan.

5. **Equity and Stock Index Options.** The Investment Manager has and may purchase or sell put and call options that are traded on options exchanges at such times as it deems appropriate and consistent with the Fund's investment objectives.

The Investment Manager has and may utilize stock index options, primarily as a means of hedging the Fund's portfolio or specific securities therein (for example, to lock in gain or minimize the risk of loss), but also has and may engage in such trading as a portfolio investment or as a method of rapid implementation of an investment strategy where it is impractical to quickly purchase or sell equity securities. The Investment Manager has and may also purchase or sell options on a specific underlying security.

6. **Risk Arbitrage Activities.** The investment activities of the Fund include taking positions in companies which are, or in the opinion of the Investment Manager may be, subject to a corporate takeover, restructuring, acquisition of securities or assets, merger, reorganization, leveraged buyout or other form of similar corporate event. Generally, when a contemplated acquisition of a company's securities or assets is announced, the market price of that company's outstanding securities may not immediately rise to the stated acquisition price due to uncertainties that may exist in the marketplace, including questions relating to the possibility that the transaction will not be consummated and, if a tender offer is involved, whether all of the securities tendered will be purchased. Risk arbitrage often involves the purchase of securities which are the subject of an acquisition attempt in the expectation that by purchasing or holding the security, the Fund will recognize a gain on the ultimate disposition, whether the contemplated transaction or another transaction is consummated. Risk arbitrage may also involve the short sale of securities if the Investment Manager believes it more likely that the transaction will not be consummated. In either case, if the Investment Manager's judgment is not correct, the Fund could sustain losses on the transaction.

7. **High-Yield Securities; Participation in Buy-Outs; Liquidations; Bankruptcy Situations.** The Investment Manager may purchase high-yield speculative securities, including so-called "junk bonds." In addition, companies may propose from time to time a plan of liquidation pursuant to which all or substantially all of their assets are to be sold and the proceeds of such sales are to be distributed to their shareholders. A particular plan of liquidation may involve several liquidating distributions. The Fund may invest in the securities of the entity to be liquidated if the Investment Manager believes that the assets of the entity are worth more than the market price of the entity's publicly-traded securities and that there is a substantial likelihood that the liquidation proposal will be effected. However, the Fund would incur a loss if the sale of the entity's assets does not produce the anticipated revenues and the liquidating distributions are less than the Fund's cost of purchasing the securities.

The Fund may also invest in securities of companies involved in various stages of bankruptcy or reorganization. These situations may be particularly complicated and may involve substantial uncertainty.

Because of the highly complex nature of many liquidations, bankruptcies and reorganizations, the securities involved in such transactions may have to be held for long periods of time during which time they may have limited marketability.

Portfolio Turnover

As a result of the investment policies described in this Memorandum, the Fund expects to engage in a substantial number of portfolio transactions. It is anticipated that the Fund's investment portfolio may be frequently traded, and, accordingly, the Fund may incur substantial brokerage commissions, expenses and other transaction costs. The Investment Manager is not, however, required to execute transactions at the lowest available commission rates. See "ADMINISTRATION-Brokerage Commissions".

General

The Investment Manager does not presently intend to cause the Fund to purchase or sell real estate (although it may purchase securities of companies whose businesses involve the purchase and sale of real estate), make loans (although it may acquire publicly distributed or privately held bonds, debentures, notes and other debt securities, it may buy securities with an agreement by the vendor to repurchase them and it may lend portfolio securities), purchase participations or other direct interests in oil, gas or other minerals (except as an investor in companies in this field) or participate in the marketing of the securities of any companies.

The Fund may not amend its investment objectives and policies for a period of three years from the date of commencement of operations of the Fund except in exceptional circumstances and then only with the consent of the majority of shareholders.

Investment Restrictions

The following restrictions shall apply only so long as the Shares are listed on the Irish Stock Exchange:

- (i) No more than 20% of the gross asset value of the Fund may be lent to or invested in the securities of any one issuer or may be exposed to the creditworthiness or solvency of any one counterparty, provided that this limit per issuer shall not apply to securities issued or guaranteed by any government or any government agency or instrumentality of any EU member state or OECD Member States or by any supranational institution, organization or authority of which one or more EU or OECD Member States are members.
- (ii) The Fund may not take or seek to take legal or management control of the issuer of any of its underlying investments.
- (iii) The Fund will not invest more than ten (10%) of its Net Asset Value in real property.
- (iv) The Fund may not invest more than 10% of its gross assets directly in physical commodities.
- (v) The Fund will adhere to the general principle of risk spreading in respecting of its investment in derivative instruments.

THE FUND'S INVESTMENT PROGRAM ENTAILS SUBSTANTIAL RISKS AND THERE CAN BE NO ASSURANCE THAT THE INVESTMENT OBJECTIVES OF THE FUND WILL BE ACHIEVED. THE PRACTICES OF SHORT SELLING, LEVERAGE AND OTHER INVESTMENT TECHNIQUES WHICH THE FUND MAY EMPLOY FROM TIME TO TIME CAN, IN CERTAIN CIRCUMSTANCES, MAXIMIZE THE ADVERSE IMPACT TO WHICH THE FUND'S INVESTMENT PORTFOLIO MAY BE SUBJECT.

INVESTMENT MANAGEMENT AGREEMENT, FEES AND EXPENSESInvestment Management Agreement

The Fund has entered into an investment management agreement (the "Investment Management Agreement") with the Investment Manager to manage the Fund's portfolio investments. The Investment Management Agreement provides that the Investment Manager is responsible for investment of the Fund's assets, subject to the policies and control of the Board of Directors. The Investment Manager initiates all orders for the purchase and sale of securities on behalf of the Fund. The Investment Management Agreement will remain in effect through December 31, 2005, and is automatically extended for additional five year terms thereafter, except that it may be terminated by the Investment Manager or by the Fund upon ninety (90) days' written notice prior to the end of the initial term or the end of any renewal term.

The Investment Management Agreement provides that the Fund will indemnify and hold harmless the Investment Manager and its members, and their respective affiliates from and against any loss or expense suffered or sustained by the Investment Manager or its members or their respective affiliates resulting from the performance or non-performance of the Investment Manager's duties under the Investment Management Agreement, 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 person acted honestly and in good faith and reasonably believed that its conduct was in the best interest of the Fund and, in the case of criminal proceedings, such person had no reasonable cause to believe its action was unlawful.

Management Fee

Under the Investment Management Agreement, the Fund is obligated to pay the Investment Manager: (i) a fixed quarterly advisory fee (the "Management Fee") equal to 0.25% of the Net Asset Value of the Fund as of the beginning of each fiscal quarter (approximately 1.0% on an annualized basis); and (ii) an annual incentive fee (the "Incentive Fee") determined as of the last day of the Fund's fiscal year equal to twenty (20%) percent of the net profits (including net unrealized gains) (hereinafter "Net Profits"), if any, during a fiscal year allocable to each Share; provided, however, that if a Share is redeemed at any time other than the end of a fiscal year, such payment will be made to the Investment Manager with respect to such redeemed Share as though the Redemption Date were the last day of the fiscal year. If a Share has a loss chargeable to it during any fiscal year or years ("Unrecouped Loss") and during any succeeding fiscal year there are Net Profits allocable to the Share, there will be no Incentive Fee payable with respect to the Share until the amount of the Unrecouped Loss allocated to the Share has been recouped. Generally, the Incentive Fee will be determined as of the last Business Day of the Fund's fiscal year based on the net realized and unrealized appreciation for the fiscal year then ended. The Management Fee will be prorated for any fiscal quarter in which the Investment Manager does not act as Investment Manager for the entire quarter.

The Investment Manager may elect to defer payment of its Incentive Fee to the last day of any fiscal year following the fiscal year such fee was earned. If the Investment Manager elects to defer payment of all or part of the Incentive Fee, any such deferred amounts payable to the Investment Manager shall be treated, and the amounts eventually payable at the end of such deferred periods shall be determined, as if such deferred amounts had been invested in the Fund on the first day of the fiscal year following the fiscal year the deferred fee was earned (or, in the case of an Incentive Fee attributable to Shares redeemed during a fiscal year, on the day following the period the deferred fee was earned) and withdrawn as of the last day of the deferred period. Thus, the deferred Incentive Fee participates in both profits and losses of the Fund. The deferred Incentive Fee and amounts of net profits (without any charge for management or incentive fees), if any, allocated to such deferred Incentive Fee shall be paid promptly after the end of the deferred period.

Expenses

The Fund will pay all of its accounting, legal, administrative and other operating expenses, including the expenses of the offer and sale of Shares to Shareholders (collectively, "Administrative Expenses") for each fiscal year and reimburse the Investment Manager for referral fees paid to unaffiliated eligible persons, up to a maximum of one (1%) percent of the Fund's Net Asset Value at the end of each fiscal year ("Expense Cap"). To the extent that the Administrative Expenses and referral fee reimbursements exceed the Expense Cap in any fiscal year, the Investment Manager shall pay such excess Administrative Expenses and/or the Fund shall not reimburse the Investment Manager for such excess referral fees. The Expense Cap, however, does not apply to investment expenses (e.g., expenses related to the investment of the Fund's assets, such as brokerage commissions and other trading and investment charges and fees), corporate licensing expenses, interest, custodial fees, prime broker charges and taxes. The Fund's organizational expenses of \$40,000 are being amortized over sixty (60) months.

CERTAIN RISK FACTORS

THE PURCHASE OF SHARES OFFERED HEREBY INVOLVES CERTAIN RISKS AND IS SUITABLE ONLY FOR OFFEREEES OF ADEQUATE FINANCIAL MEANS WHO HAVE NO NEED FOR LIQUIDITY IN THIS INVESTMENT. OFFEREEES SHOULD BEAR IN MIND THE FOLLOWING RISK FACTORS:

Offerees should give careful consideration to the following risk factors in evaluating the merits and suitability of an investment in the Fund as they relate specifically to the Shares or to the Fund, in general, as the context requires. The following does not purport to be a comprehensive summary of all the risks associated with an investment in the Fund. Rather, the following are only certain particular risks to which the Fund is subject. The Investment Manager urges Offerees to discuss such risks and other potential risks, in detail with their professional advisors prior to making an investment decision.

Market Risks

1. Nature of Certain Investments. There is no limitation on the size or operating experience of the companies in which the Fund may invest. Some of these companies in which the Fund may invest may lack management depth or the ability to generate internally or obtain externally the funds necessary for growth. Companies with new products or services could sustain significant losses if projected markets do not materialize. Further, such companies may have, or may develop, only a regional market for products or services and may be adversely affected by purely local events. Such companies may be small factors in their industries and may face intense competition from larger companies and entail a greater risk than investment in larger companies.
2. Competition. The securities industry, and the varied strategies engaged in by the Investment Manager are extremely competitive and each involves a degree of risk. The Fund competes with firms, including many of the larger securities and investment banking firms, which have substantially greater financial resources and research staffs.
3. Market Volatility. The Fund's profitability substantially depends upon the Investment Manager correctly assessing the future price movements of stocks, bonds and options on stocks and other securities and the movements of interest rates. There can be no assurance that the Investment Manager will be successful in accurately predicting price and interest rate movements.
4. The Fund's Investment Activities. The Fund's investment activities involve a high degree of risk. The performance of any investment is subject to numerous factors which are neither within the control of nor predictable by the Investment Manager. Such factors include a wide range of economic, political, competitive and other conditions which may affect investments in general or specific industries or companies. In recent years the securities markets have become increasingly volatile, which may adversely affect the ability of the Fund to realize profits. As a result of the nature of the Fund's investing activities, it is possible that the Fund's financial performance may fluctuate substantially from period to period.
5. Transaction Execution and Costs. The Fund expects to utilize a portion of its assets in a trading strategy that is extremely short-term and will involve heavy trading, high volume and in many cases relatively narrow spreads between the prices at which the Fund will purchase and sell particular positions. The successful application of such a strategy depends significantly upon the quality of execution of transactions, such as the ability of broker-dealers to execute orders on a timely and efficient basis. Although the Investment Manager will seek to utilize brokerage firms which will afford superior execution capability to the Fund, there is no assurance that all of the Fund's transactions will be executed with optimal quality. On account of the degree of heavy trading, total commission charges and other transaction costs are expected to be very high. The level of commission charges as a cost to the Fund, may be expected to be a significant factor in determining future profitability of the Fund.

6. Leverage. The Investment Manager may cause the Fund to employ leverage. This includes the use of borrowed funds and investments in options, such as puts and calls, and warrants. Also, the Investment Manager may cause the Fund to engage in short selling. While such techniques increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. The level of interest rates generally, and the rates at which such funds may be borrowed in particular, could affect the operating results of the Fund.
7. Liquidity. Some of the investments that are made by the Fund may lack liquidity. Though it is intended that substantially all investments made by the Fund will be in publicly traded investments and most on listed exchanges, some may be thinly traded. As set forth in "INVESTMENT PROGRAM", the Investment Manager intends to cause the Fund to invest a substantial portion of its assets in securities of small and middle capitalized entities. This could present a problem in realizing the prices quoted and in effectively trading the position(s). In certain situations, the Fund may invest in illiquid investments which could result in significant losses.
8. Short Sales. The Investment Manager may cause the Fund to sell securities short. Selling securities short risks losing an amount greater than the proceeds received. Theoretically, securities sold short are subject to unlimited risk of loss because there is no limit on the price that a security may appreciate before the short position is closed. The Fund may be subject to losses if a security lender demands return of the borrowed securities and an alternative lending source cannot be found.
9. Options. The Fund may utilize options contracts in furtherance of its investment strategy. Options positions may include both long positions, where the Fund is the holder of put or call options, as well as short positions, where the Fund is the seller (writer) of an option. Although option techniques can increase investment return, they can also involve a relatively higher level of risk. The expiration of unexercised long options effectively results in loss of the entire cost, or premium paid for the option. Conversely, the writing of an uncovered put or call option can involve, similar to short-selling, a theoretically unlimited risk of an increase in the Fund's cost of selling or purchasing the underlying securities in the event of exercise of the option. The use of options thereon involve the contractual commitment to purchase or sell the underlying instrument at a future date. The eventual price of such security may be influenced by a broad variety of market, economic and issuer-specific events and risks, many of which may be difficult to predict or assess.
10. Risk Arbitrage. The Fund may engage in risk arbitrage transactions. Risk arbitrage involves purchasing securities which are the subject of an acquisition attempt, cash tender offer, exchange offer, corporate reorganization (such as a merger), liquidation, or an offer by an issuer to repurchase or exchange some of its own securities. Risk arbitrage investments are subject to such additional risks as the failure of the transaction to close, the failure to obtain shareholders' approval and other factors. Risk arbitrage also involves selling securities, possibly by a short sale or put option, in anticipation of the failure of a transaction to close, with the risk that the proposed transaction or another transaction will close.
11. Counterparty Creditworthiness. The Fund may engage in transactions in securities and other instruments that involve counterparties. Under certain conditions, a counterparty to a transaction could default or the market for certain securities and or other instruments may become illiquid.
12. Systemic Risk. World events and or the activities of one or more large participants in the financial markets and or other events or activities of others could result in a temporary systemic breakdown in the normal operation of financial markets. Such events could result in the Fund losing substantial value caused predominantly by liquidity and counterparty issues (as noted above) which could result in the Fund incurring substantial losses.

Regulatory Risks

1. Changes in Applicable Law. The Fund must comply with various legal requirements, including requirements imposed by the securities laws, tax laws and pension laws in various jurisdictions. Should

any of those laws change, the legal requirements to which the Fund and the Shareholders may be subject could differ materially from current requirements.

2. Strategy Restrictions. Certain Offerees may be restricted from directly utilizing investment strategies of the type the Fund may engage in. These include sales of "naked" options (those in which there is no position in the underlying security) or purchases of put and call options on stocks. Such Offerees should consult their own advisors, counsel, and accountants.
3. Trading Limitations. For all securities, including options, listed on a public exchange, the exchange generally has the right to suspend or limit trading under certain circumstances. Such suspensions or limits could render certain strategies difficult to complete or continue and subject the Fund to loss.
4. No Regulatory Oversight in the United States. The Fund will not be registered as an "investment company" under the ICA, and it is not currently intended that the Investment Manager will register as an investment advisor under the United States Investment Advisors Act of 1940, as amended, nor will the Investment Manager register as a "commodity pool operator" under the United States Commodity Exchange Act. Consequently, the Shareholders of the Fund will not benefit from certain of the protections afforded by such statutes.

Fund Risks

1. Limited Liquidity. An investment in the Fund provides limited liquidity. In connection with this Offering, an Offeree must represent that the Offeree is acquiring the Shares for investment purposes only and not with a view to or for resale, distribution or fractionalization of the Shares. The Shares will not be registered under the securities or "blue sky" laws of any state in the United States or under the laws of any other jurisdiction and, therefore, are subject to restriction.
2. Concentration of Investments. Except as specifically set forth in the section entitled "INVESTMENT PROGRAM - Investment Restrictions", the Investment Manager is not limited in the amount of capital which it may commit to any one investment. Although the Investment Manager will follow a general policy of seeking to spread capital among a number of investments, the Investment Manager may depart from such policy from time to time and may hold a few, relatively large securities positions in relation to the Fund's capital.
3. Dependence on the Investment Manager. All decisions with respect to the Fund's assets and the general management of the Fund will be made by the Investment Manager which relies on the services of several key employees. Shareholders will have no right or power to take part in the management of the Fund. As a result, the success of the Fund for the foreseeable future will depend largely upon the ability of the Investment Manager. Should any of its employees leave or become incapacitated for any period of time, profitability of the Fund's investments may suffer.
4. Custodial Risks of Brokers. Various brokers will trade with the relevant exchange as a principal on behalf of the Fund, in a "debtor-creditor" relationship, unlike other clearing broker relationships where the broker is merely a facilitator of the transaction. Such broker could, therefore, have title to all of the assets of the Fund (for example, the transactions which the broker has entered into on behalf of the Fund as principal as well as the margin payments which the Fund provides). In the event of such broker's insolvency, the transactions which the broker has entered into as principal could therefore default and the Fund's assets could become part of the insolvent broker's estate, to the detriment of the Fund.
5. Redemption. Shareholders may redeem part or all of their Shares as of the last Business Day of each fiscal quarter of the Fund, in each case upon at least six (6) months' prior written notice, and at such other times as the Board of Directors determines. All redemptions during the first year that a Shareholder is a Shareholder of the Fund (whether Shares are acquired directly from the Fund or by way of Transfer in the secondary market) are subject to the Administrative Charge. The Board of Directors also has the right to compel redemption of all of such Shareholder's Shares at any time if the Board of Directors determines

that the continued ownership of Shares by such Shareholder would result in a legal, pecuniary, regulatory, taxation or material administrative disadvantage for the Fund or the Shareholders as a whole or to maintain the minimum shareholding per shareholder.

6. Frequency of Trading. Some of the strategies employed by the Investment Manager require frequent trades to take place and, as a consequence, portfolio turnover and brokerage commissions may be greater than for other investment entities of similar size.
7. Fees and Expenses. The operating expenses of the Fund, including, but not limited to, the Management Fee, Incentive Fee, the referral fee payment reimbursement, and fees paid to the Administrator, accountants and attorneys, and the Administrative Expenses, may, in the aggregate, constitute a high percentage relative to other investment entities.
8. No Participation in Management. The management of the Fund's operations is and will be vested solely in the Board of Directors, and the Shareholders will have no right to take part in the conduct or control of the business of the Fund. The Board of Directors has irrevocably delegated to the Investment Manager the sole and exclusive authority to manage the assets of the Fund through December 31, 2005.

General Risks

1. Reserve for Contingent Liabilities. Under certain circumstances, the Board may find it necessary to establish a reserve for contingent liabilities or withhold a portion of the Shareholder's Redemption Price at the time of redemption, in which case, the reserved portion would remain at the risk of the Fund's activities.
2. Risk of Litigation. The Investment Manager to whom the Fund has allocated capital may accumulate substantial positions in the securities of a specific company. In some instances, the Investment Manager may engage in a proxy fight or become involved in litigation. Under such circumstances, the Fund may be named as a defendant in a lawsuit or regulatory action and be subject to the costs involved.
3. Limited Operating History of Fund and Investment Manager. The Fund was formed in September 1995 and has a limited operating history. The success of the Fund depends on the ability and experience of the Investment Manager, which was also formed in September 1995, and therefore has only a limited operating history as well. There can be no assurance that the Investment Manager will generate any gains or profits for the Fund.
4. Lack of Separate Representation. Neither the Fund, the Articles, the Investment Management Agreement nor any of the agreements, contracts and arrangements between the Fund, on the one hand, and the Investment Manager, Mr. Lauer or their affiliates, on the other hand, were or will be the result of arm's-length negotiations. The Administrator, attorneys, accountants and others who have performed services for the Fund in connection with this Offering, and who will perform services for the Fund in the future, have been and will be selected by the Board of Directors based upon the advice of the Investment Manager.
5. Limited Diversification. Except as specifically set forth in the section entitled "INVESTMENT PROGRAM - Investment Restrictions", the Fund is not restricted in the amount of its capital that it may commit to any single investment. At times the Fund may hold a relatively large concentration in a particular security or type of investment. Losses incurred in such investments could have a materially adverse effect on the Fund's overall financial condition.
6. Non-U.S. Investments. The Fund may invest in both U.S. and non-U.S. securities and interests denominated in non-U.S. currencies and/or traded outside of the United States of America. Such investments require consideration of certain risks not typically associated with investing in securities traded in the United States of America or other assets. Such risks include unfavorable currency exchange rate developments, restrictions on repatriation of investment income and capital, imposition of exchange control regulation, confiscatory taxation, and economic or political instability in foreign nations. In addition, there may be less publicly available information about certain non-U.S. companies than would be the case for

comparable companies in the United States of America, and certain non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. companies.

7. Incentive Fee. The payment of the Incentive Fee to the Investment Manager may create an incentive for the Investment Manager to cause the Fund to make investments that are riskier or more speculative than would be the case if this special payment was not made. In addition, since the Incentive Fee is calculated on a basis that includes unrealized appreciation of the Fund's assets, it may be greater than if such fee was based solely on realized gains.
8. Valuation of the Fund's Assets. The Board of Directors of the Fund, in consultation with the Investment Manager, will value the securities held by the Fund in accordance with the Fund's Articles of Association. When no market exists for an investment or when the Board of Directors, in consultation with the Investment Manager, determines that the market price does not fairly represent the value of the investment, the Board of Directors of the Fund, in consultation with the Investment Manager, will value such investment as it reasonably determines.

The foregoing list of certain risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in the Fund. In addition, as the Fund's investment program develops and changes over time, an investment in the Fund may be subject to additional and different risk factors. Offerees should read the entire Memorandum and consult with their own advisors before deciding to subscribe for Shares.

CONFLICTS OF INTEREST

In the conduct of the Fund's business, conflicts may arise between the interests of the Investment Manager and its affiliates, on the one hand, and those of the Fund and its Shareholders, on the other hand. Among the conflicts which each Offeree should consider are the following:

- (a) Neither the Investment Manager nor Mr. Lauer is under any obligation to devote their full time to the business of the Fund: the Investment Manager is only required to devote such time and attention to the affairs of the Fund as the Investment Manager may deem appropriate. As previously noted, Mr. Lauer is also the sole manager and principal owner of LMG II which is the sole general partner of LPLP, an investment entity engaged in a business similar to that of the Fund and the Investment Manager is also the investment manager for OFL and for VFL, which also are engaged in a business similar to that of the Fund. Mr. Lauer will devote such time and attention to the Investment Manager, LMG II, the Fund, LPLP, OFL and VFL as he deems appropriate. In addition, the Investment Manager, Mr. Lauer and their affiliates, either individually or collectively, may manage other accounts for which they may be compensated and may provide consulting and/or advisory services to others.
- (b) Mr. Lauer, as the sole manager of the Investment Manager and as the sole manager of LMG II, will determine the allocation of the Fund's capital, LPLP's capital, OFL's capital, VFL's capital and such other accounts to investment strategies and techniques on whatever basis he considers appropriate or desirable in his sole and absolute discretion.
- (c) The Investment Manager, Mr. Lauer and/or their affiliates, may manage other accounts and provide investment advice to other parties, and they may decide to invest the assets of one or more other accounts or recommend the investment of funds by other parties, rather than the Fund's assets, in a particular security or strategy.
- (d) The payment of the Incentive Fee to the Investment Manager may create an incentive for the Investment Manager to make investments that are riskier or more speculative than would be the case in the absence of such an arrangement.
- (e) Mr. Lauer is the sole manager and principal owner of LMG II which is the sole general partner of LPLP, an investment partnership engaged in a similar investment program to that of the Fund. The Investment Manager also serves as the investment manager for OFL and VFL. It is possible that LPLP, OFL and/or VFL may take positions either similar or opposite to positions taken by the Fund and that the Fund, LPLP, OFL and/or VFL may from time to time be competing for either similar or opposite positions in the markets.
- (f) The Investment Management Agreement authorizes the Investment Manager to combine purchase and sale orders on behalf of the Fund together with orders for other accounts managed by the Investment Manager or its affiliates and allocate the securities or other assets so purchased or sold on an average price basis among such accounts.
- (g) To the extent the Fund's brokerage business is allocated to brokers or dealers in recognition of past or future referrals, the Investment Manager may have an incentive to cause the Fund to effect more transactions than it might otherwise in order to stimulate brokers or dealers to refer more Shareholders to the Fund.

In the event that a conflict of interest arises, the Investment Manager will endeavor to ensure that it is resolved fairly. The Investment Manager, under the Investment Management Agreement, is required to exercise its duties with care, skill, prudence and diligence. In the event of a conflict of interest between the Fund and LPLP, OFL or VFL, the Investment Manager will resolve such conflict by taking into account the investment objective of each entity, any investment restrictions applicable to each entity and the other available investment options for each entity and will resolve such conflict in a fair and equitable manner.

THE FUNDCapital Structure of the Fund

The Fund (Reg. No. 161934) was incorporated as an international business company pursuant to the International Business Companies Act of the British Virgin Islands (the "Companies Act") on September 27, 1995 and has authorized capital of 10,000,000 Shares, par value \$1.00 per Share. Each Share has equal dividend, distribution, liquidation and voting rights. The Fund does not anticipate paying any dividends on the Shares; however, in the event that a dividend is declared, such dividend will be paid in accordance with any applicable regulation of the Irish Stock Exchange and any applicable British Virgin Islands law or regulation. From time to time, the Fund, by a resolution of the Board of Directors, may increase the authorized capital in order to have a substantial number of Shares available at all times for issuance. There are no preemptive rights associated with the Shares.

The Board of Directors may refuse to register or permit the Transfer of Shares if it reasonably determines that such registration or transfer would lead to legal, fiscal, regulatory, pecuniary or material administrative disadvantage for the Fund or the Shareholders as a whole. No Shares may be transferred to any U.S. Person. See "*SUITABILITY REQUIREMENTS*".

Shares generally may be purchased on the first Business Day of each month. The proper documentation necessary to purchase Shares must be received by the Fund at least three (3) Business Days prior to the purchase date unless waived by the Fund. The Board of Directors may permit Shares to be purchased on dates other than the first Business Day of each month.

The Fund sold its initial Shares on October 31, 1995 at \$100 per Share. As of January 31, 2002, the Offering Price was \$927.15 per Share.

The Shares are admitted to the Official List of the Irish Stock Exchange. There can be no assurance, however, that such listing will be maintained. The Directors do not anticipate that an active secondary market will develop in the shares. No application has been made to list the Shares on any other stock exchange.

The Fund's object as set out in clause 4 of the Memorandum of Association provides for engaging in any act or activity that is not prohibited by British Virgin Islands law, which includes the carrying on of the business of an investment company.

Voting by Shareholders of the Fund

Subject to the exceptions set forth below and except as otherwise provided in the International Business Companies Ordinance, 1984, all decisions of the Shareholders will be made by the holders of a majority of outstanding Shares represented at a meeting, provided that a quorum of the holders of one-third of the outstanding Shares is present. Each Share is entitled to one vote. Notwithstanding the foregoing, the (i) dismissal of a member of the Board of Directors must be adopted by an affirmative vote of two-thirds of the votes cast at a general meeting of Shareholders at which more than one-half of the total number of Shares then issued and outstanding are represented; (ii) any investment advisory or management contract entered into by the Fund may not be terminated by the Fund unless such termination is approved by a unanimous vote cast at a meeting at which all the issued and outstanding Shares are represented; (iii) amendments to the Memorandum and Articles of Association which have a material adverse effect on the rights of Shareholders of the Fund must be approved by three-quarters of the votes cast at a meeting at which not less than one-half of the issued and outstanding Shares are represented, except that any amendment to decrease the vote required to terminate an investment advisory or investment management contract requires approval by a unanimous vote cast at a meeting at which all of the issued and outstanding Shares are represented; and (iv) the merger or consolidation of the Fund with another corporation or the dissolution of the Fund requires the affirmative vote of the holders of three-quarters of the Shares outstanding. Any matters referred to herein may also be adopted by resolution in writing of all the Shareholders. There are no conversion or preemptive rights in connection with any Shares. All Shares, when duly issued, will be fully paid and non-assessable.

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The Fund's Shares have equal voting rights, which means that the holders of more than fifty (50%) percent of the Shares voting for the election of Directors can elect all of the Directors if they chose to do so, and in such event the holders of the remaining Shares representing less than fifty (50%) percent of the Shares voting for such election of Directors will not be able to elect any person or persons as Directors.

The Fund may from time to time either by a resolution of the Shareholders or by a resolution of the Directors increase the authorized capital of the Fund by such sum divided into shares of such amount, or may increase the number of its shares to such number, as the resolution shall prescribe.

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THE OFFERINGGeneral

Shares will be offered for sale to non-U.S. Persons and Permitted U.S. Persons generally on the first Business Day of each month and at such other times as the Board of Directors, in its sole and absolute discretion, may determine (each such date being referred to as a "Closing Date"). The proper documentation necessary to purchase Shares must be received by the Fund at least three (3) Business Days prior to the applicable Closing Date, unless waived by the Board of Directors. The minimum initial subscription for Shares is \$1,000,000; however, the Board of Directors, in its sole and absolute discretion, may accept subscriptions of lesser amounts, but in no event less than \$100,000. Therefore, the minimum subscription for additional Shares is \$100,000. Subscriptions received will be segregated until such date as the sale of the subject Shares is to be effected. An Offeree acceptable to the Board of Directors will be sold that number of Shares (including fractional Shares) which the Offeree's subscription will purchase (to the extent accepted) at the Offering Price then in effect. The Offeree will be notified within thirty (30) days of the number of Shares allotted to it.

The Investment Manager may pay referral fees to unaffiliated eligible persons who introduce investors to the Fund and be reimbursed by the Fund for such payments to the extent that the aggregate amount of such referral fees, together with the Administrative Expenses, do not exceed the Expense Cap.

The Shares generally will be issued in book-entry, registered form and no share certificates representing the Shares subscribed for will be forwarded to a Shareholder unless specifically requested in writing.

The Board of Directors has the right to accept or reject any subscription, in whole or in part, for any reason or no reason.

Suitability

Prospective Shareholders in the Fund must be non-U.S. Persons or Permitted U.S. Persons and must meet other suitability requirements described below and in the Subscription Agreement and Revocable Proxy. All Permitted U.S. Persons must be either Accredited Investors or Sophisticated Investors. The Fund will not accept subscriptions from more than thirty-five (35) Sophisticated Investors. The Fund, in its sole and absolute discretion, may decline to accept the subscription for Shares of any prospective Shareholder.

The Fund's Articles of Association provide that: (i) Shares may not be owned by any U.S. Person other than a Permitted U.S. Person, (ii) Shares may not be owned by any corporation which is not a Permitted U.S. Person in which U.S. Persons hold ten (10%) percent or more of either voting power or value, (iii) Shares may not be owned by any partnership which is not a Permitted U.S. Person in which a U.S. Person is a partner, (iv) Shares may not be owned by a trust which is not a Permitted U.S. Person whose grantor or any of its beneficiaries is a U.S. Person, (v) Benefit Plan Investors may not own twenty-five (25%) percent or more of the outstanding Shares and (vi) Permitted U.S. Persons may not own fifty (50%) percent or more of the outstanding Shares. See "*INVESTMENT BY U.S. TAX EXEMPT ENTITIES - ERISA CONSIDERATIONS*".

The term "U.S. Person" means, with respect to individuals, any U.S. citizen (and certain former U.S. citizens) or "resident alien" within the meaning of U.S. income tax laws as in effect from time to time. Currently, the term "resident alien" is defined under U.S. income tax laws to generally include any individual who (i) holds an Alien Registration Card (a "green card") issued by the U.S. Immigration and Naturalization Service, or (ii) meets a "substantial presence" test. The "substantial presence" test is generally met with respect to any current calendar year if (i) the individual was present in the U.S. on at least thirty-one (31) days during such year, and (ii) the sum of the number of days on which such individual was present in the U.S. during the current year, 1/3 of the number of such days during the first preceding year, and 1/6 of the number of such days during the second preceding year, equals or exceeds 183 days. With respect to persons other than individuals, the term "U.S. Person" means (i) a corporation or partnership created or organized in the United States or under the laws of the United States or any state or (ii) a trust or estate which is subject to U.S. tax on its worldwide income from all sources.

The term "Permitted U.S. Persons" means any entity organized under the laws of the United States that is generally exempt from Federal income taxation.

Each Offeree desiring to purchase the Shares will be required to certify to the Fund, among other things: (i) the identity and nationality of the person or persons on whose behalf the Shares are being acquired; and (ii) the Shares are not being acquired by and will not at any time be held for the account or benefit, directly or indirectly, of any U.S. Person other than Permitted U.S. Persons. Shareholders will be required to notify the Fund immediately of any change in such information. **IT IS THE RESPONSIBILITY OF EACH SHAREHOLDER TO VERIFY THAT SUCH SHAREHOLDER SATISFIES THE SUITABILITY REQUIREMENTS SET FORTH HEREIN.**

Prior to acceptance of any subscription for Shares, each prospective Shareholder must represent in writing, by completing and signing the Subscription Agreement and Revocable Proxy, that, among other things:

1. Neither the proposed record owner nor beneficial owner of the Shares is a U.S. Person other than a Permitted U.S. Person;
2. The prospective Shareholder has such knowledge and experience in financial and business matters that the prospective Shareholder is capable of evaluating the merits and risks of the proposed investment, that the prospective Shareholder understands the method of compensation under the Investment Management Agreement and its risks and that the prospective Shareholder can bear the economic risk of the investment (i.e., at the time of the investment the prospective Shareholder can afford a complete loss of the investment and can afford to hold the investment for an indefinite period of time);
3. The prospective Shareholder is acquiring Shares for investment purposes only and solely for the prospective Shareholder's own account and not with a view to or present intention of reselling them, except for the prospective Shareholder's right to redeem Shares;
4. The Fund has, during the course of the Offering and prior to the sale of Shares, afforded the prospective Shareholder the opportunity to ask questions and receive answers concerning the terms and conditions of this Offering and to obtain any additional information, to the extent the Fund possesses such information or could acquire it without unreasonable effort or expense, necessary to verify the accuracy of the information contained in this Memorandum;
5. The prospective Shareholder possesses certain other qualifications and makes certain other warranties and representations, as more fully set forth in the Subscription Agreement and Revocable Proxy;
6. The prospective Shareholder will indemnify the Fund against any liability, costs or expenses resulting from any misrepresentation or breach of warranty in connection with the offer or sale of Shares;
7. If the beneficial owner of the Shares is a publicly-held investment corporation, to the best of the knowledge of the owner, none of the beneficial interests in the shares of such corporation are owned, directly or indirectly through foreign entities, by any U.S. Person other than Permitted U.S. Persons;
8. If the beneficial owner of the Shares is a closely-held corporation, none of the beneficial interests in the shares of such corporation are owned, directly or indirectly through foreign entities, by any U.S. Person other than Permitted U.S. Persons;
9. The prospective Shareholder will not Transfer, directly or indirectly, any of the Shares or any interest therein (including without limitation any right to receive dividends or other distributions), unless the proposed transferee has made warranties similar to those contained in the "Subscription Agreement and Revocable Proxy", such warranties by such person have been approved by the Fund, such transferee is not a U.S. Person and the consent of the Board of Directors has been obtained;

10. The prospective Shareholder has consulted with such prospective Shareholder's own legal, tax and/or investment advisors to determine the suitability of an investment in the Shares, and the relationship of such an investment to the prospective Shareholder's overall investment program and financial and tax position;

11. The prospective Shareholder has not dealt with a broker in connection with the purchase of the Shares, other than as is specifically disclosed in the Subscription Agreement and Revocable Proxy; and

12. The prospective Shareholder is willing and able to bear the economic risks of an investment in the Fund for an indefinite period of time.

The suitability standards referred to above represent minimum suitability requirements for prospective Shareholders and the satisfaction of such standards by a prospective Shareholder does not necessarily mean that the Shares are a suitable investment for such prospective Shareholder or that the prospective Shareholder's subscription will be accepted. The Board of Directors may, in circumstances it deems appropriate, modify such requirements. In addition, the Board of Directors will have the right to reject a subscription for any reason deemed by the Board of Directors, in its sole discretion, to be sufficient.

DETERMINATION OF OFFERING PRICE

When Shares are subscribed for at the beginning of the fiscal year ("Year Beginning") or at any time other than Year Beginning ("Interim Purchases") when there is a Loss Carryover (as defined below), certain adjustments to the amount of money paid for the purchase of Shares are necessary. This is done so that (i) the Incentive Fee paid to the Investment Manager is charged only to those Shares which have appreciated in value since their acquisition, (ii) all Shareholders will have the same amount per Share at risk and (iii) all Shares will have the same Net Asset Value. "Loss Carryover" shall mean, at anytime, the largest aggregate Unrecouped Loss attributable to an outstanding Share.

The number of Shares to be purchased will be based on the offering price per Share (the "Offering Price") as defined below. The Offering Price for each Share is calculated in the following manner:

(1) For Shares purchased at the Year Beginning, the Offering Price is the Year Beginning Net Asset Value ("Beginning Value") plus a depreciation deposit ("Depreciation Deposit") equal to 20% of the Loss Carryover, if any, at Year Beginning. The Depreciation Deposit is invested and paid out as described in Section 2(a) below.

(2) For Interim Purchases:

(a) When the Net Asset Value per Share is less than the sum of (i) Beginning Value and (ii) the Loss Carryover at Year Beginning, the Offering Price is the sum of the Net Asset Value per Share and the "Depreciation Deposit". The Depreciation Deposit is 20% of the amount by which (i) and (ii) above exceed the Net Asset Value per Share at the date of purchase. The Depreciation Deposit is segregated and separately invested in U.S. Treasury Bills or other high quality short term debt securities or certificates of deposit and is not at risk with the Fund. It may, in certain circumstances, be returned to the Shareholder at the time of redemption of the Shares. It is included in the Offering Price to permit the Shares purchased on the date of purchase to be charged the 20% Incentive Fee with respect to any increase in Net Asset Value up to Beginning Value and with respect to any benefit received by reason of the existence of a Loss Carryover. If at the end of any fiscal year (or at any time during the fiscal year when the Shares of a Shareholder are redeemed), the losses which gave rise to the Depreciation Deposit are recouped, then, to the extent that the losses which gave rise to all or a portion of the Depreciation Deposit are recouped, the Depreciation Deposit will be paid to the Investment Manager as a part of the Incentive Fee. Any portion of the Depreciation Deposit not paid to the Investment Manager will be paid to the Shareholder upon redemption. Promptly after the end of each fiscal year in which a Depreciation Deposit is held, the interest (net of the income taxes payable thereon, if any) earned thereon will be paid to the Shareholder who made such Depreciation Deposit.

(b) When the Net Asset Value per Share is more than the sum of (i) Beginning Value and (ii) the Loss Carryover at Year Beginning, the Offering Price is the sum of the Net Asset Value per Share and the "Equalization Factor" as defined below. The term "Equalization Factor" means an amount which the Shares outstanding since Year Beginning should be charged (i.e. 20% of the increase in Net Asset Value since Year Beginning in excess of the Loss Carryover at Year Beginning), and which the Shares subscribed for at the date of the Interim Purchase ("Interim Purchase Date") should not be charged. To the extent that the increase in value of the Shares that cause the payment of the Equalization Factor is not lost in the current fiscal year, the Equalization Factor attributable to such increase becomes payable to the Shareholder at the end of the current fiscal year. To the extent that the increase in value of the Shares that cause the payment of the Equalization Factor is lost in the fiscal year the Shares are purchased but is recovered in a subsequent fiscal year, the Equalization Factor attributable to such recovery will become payable to the Shareholder at the end of the fiscal year in which the recovery occurs. Upon redemption by a Shareholder of his Shares, the same amount of the Equalization Factor will be paid to him as if the date of redemption were the last day of the fiscal

year in which the Shares are redeemed. Any Equalization Factor, or portion thereof, which is due to a Shareholder not redeeming his Shares will be used to purchase additional full Shares on behalf of such Shareholder as of the first day of the next succeeding fiscal year.

The following tables have been provided to illustrate the manner in which the adjustments set forth above operate. Table I illustrates the manner in which the adjustments described above operate with respect to Shares subscribed for at the beginning and during a hypothetical fiscal year where there is no Loss Carryover at the beginning of the fiscal year. Table II illustrates the manner in which the adjustments described above operate with respect to Shares subscribed for, prior to, at the beginning and during a hypothetical fiscal year where there is a Loss Carryover of \$20 per Share at the end of the first year.

TABLE I

Shareholder	Shareholder Subscribes for Shares at Year Beginning July 1 NAV = \$100	NAV on Date of Purchase	Equalization Factor Paid	Depreciation Deposit Amount Paid	Offering Price	NAV at Year End (before 20% Incentive Fee)	20% Incentive Fee Accrued at Year End	Depreciation Deposit Paid to Investment Manager	Equalization Factor Returned to Shareholder	NAV at Year End (after 20% Incentive Fee)
A		\$100	\$0	\$0	\$100	\$130	\$6	\$0	\$0	\$124
B	Interim Purchase Date Jan. 1 NAV = \$90	90	0	2	92*	130	6	2	0	124
C	Interim Purchase Date April 1 NAV = \$110 (before 20% Incentive Fee)	108	2	0	110**	130**	4	0	2	124

* Includes Depreciation Deposit

** Includes Equalization Factor

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TABLE II

Shareholder	Shareholder Subscribes for Shares at	NAV on Date of Purchase	Equalization Factor Paid	Depreciation Deposit Paid	Offering Price	NAV at Year End (before 20% Incentive Fee)	20% Incentive Fee Accrued at End of Year 2	Depreciation Deposit Paid to Investment Manager	Equalization Factor Returned to Shareholder	NAV at Year End (after 20% Incentive Fee)
A	Beginning of Year 1 NAV = 100	\$100	\$0	\$0	\$100	\$115	\$3	\$0	\$0	\$112
B	Beginning of Year 2 NAV = 80	80	0	4	84*	115	3	4	0	112
C	Interim Purchase Date Oct. 1 Year 2 NAV = 110 (before Incentive Fee)	108	2	0	110**	115**	1	0	2	112

* Includes Depreciation Deposit

** Includes Equalization Factor

Shareholder B in Table I, purchasing Shares on an Interim Purchase Date when the Net Asset Value has decreased since Year Beginning, pays an Offering Price of \$92 per Share (which includes a Depreciation Deposit of \$2) since the Incentive Fee which would accrue to his Shares would be \$2 more than the Incentive Fee which would accrue for Shares purchased by Shareholder A at Year Beginning.

Shareholder C in Table I, purchasing Shares on an Interim Purchase Date when the Net Asset Value has increased since Year Beginning, pays an Offering Price of \$110 per Share (which includes an Equalization Factor of \$2). The Equalization Factor is returned to him at Year End and applied to the purchase of additional Shares since the Incentive Fee which would accrue to his Shares would be \$2 less than the Incentive Fee which would accrue to the Shares purchased by Shareholder A.

Shareholder B in Table II, purchasing Shares at the beginning of Year 2 when the Net Asset Value has decreased since the beginning of Year 1, pays an Offering Price of \$84 per Share (which includes a Depreciation Deposit of \$4) since the Incentive Fee which would accrue to his Shares would be \$4 more than the Incentive Fee which would accrue for Shares purchased by Shareholder A at Year 1. The Depreciation Deposit is paid to the Investment Manager at the end of Year 2 when the Net Asset Value for Shareholder B's Shares has increased by more than the loss carryover.

Shareholder C in Table II, purchasing Shares on an Interim Purchase Date during Year 2 when the Net Asset Value has increased since the beginning of Year 1, pays an Offering Price of \$110 per Share (which includes an Equalization Factor of \$2) since the amount of funds he would otherwise have at risk would be \$2 less than the amount of funds at risk of Shareholder A. The Equalization Factor is returned to him and applied to the purchase of additional Shares at the end of Year 2 since the Incentive Fee which would accrue to his Shares would be \$2 less than the Incentive Fee which accrues to Shareholder A.

DETERMINATION OF NET ASSET VALUE

The Net Asset Value of the Fund is equivalent to its gross assets less its gross liabilities as of any Valuation Date (as defined below) or Redemption Date. Net Asset Value per Share is determined by dividing Net Asset Value of the Fund by the number of outstanding Shares. The Net Asset Value of a Share at any date shall be the total net assets of the Fund divided by the number of Shares then outstanding. The total net assets of the Fund at any date shall be determined on an accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America and in accordance with the following:

- (a) no value will be assigned to goodwill;
- (b) organizational expenses will be written off over a five year period beginning on the date the Fund commences operations;
- (c) accrued investment management fees and other fees will be treated as liabilities;
- (d) securities and instruments which are listed or quoted on a securities or other exchange market (including the National Association of Securities Dealers National Market System), other than securities and instruments which are in the form of put or call options, shall be valued at their last sales prices on the date of determination, or, if no sales occurred on such date, at the mean between the "bid" and "asked" prices on the most immediate prior date on which such prices were quoted, or if no such prices were quoted during the 15 Business Days prior to the date of such determination, at the value reasonably assigned to such securities and instruments by the Board of Directors;
- (e) securities and instruments which are in the form of put and call options and are listed or quoted on a securities or other exchange or market shall be valued at the mean between the "bid" and "asked" prices on the date of determination, or if no such prices were quoted on such date, at the mean between the "bid" and "asked" prices on the most immediate prior date on which such prices were quoted, or if no such prices were quoted during the 15 Business Days prior to the date of such determination, at the value reasonably assigned to such securities and instruments by the Board of Directors;
- (f) securities and instruments which are not listed or quoted on a securities or other market shall be valued at the mean between the "bid" and "asked" prices on the date of determination, or if no such prices were quoted on such date, on the most immediate prior date on which such prices were quoted, or if no such prices were quoted during the 15 Business Days prior to the date of such determination, at the value reasonably assigned to such securities and instruments by the Board of Directors;
- (g) securities and instruments which are in the form of put and call options and are not listed or quoted on a securities, commodities or futures exchange or market shall be valued at their parity value, except when the Board of Directors has reasonably assigned some other value to such securities and instruments;
- (h) the value of any shares of stock held by the Fund in an investment company which is, or which is similar to those companies which are, registered as investment companies under the United States Investment Company Act of 1940, as amended, shall be valued in accordance with the manner in which such shares are valued by such investment company; provided, however, that the Board of Directors may make such adjustments in such valuation as the Fund may from time to time consider appropriate; and
- (i) all other assets of the Fund shall be valued in the manner determined by the Board of Directors of the Fund to reflect their market value.

All such valuations shall be made as of the last Business Day of a month and at such other times as the Board of Directors shall determine (each, a "Valuation Date"). If the Board of Directors determines, in its sole discretion, that the valuation of any security or instrument pursuant to the foregoing does not fairly represent its market value, the Board of Directors shall value such security or instrument as it reasonably determines and shall set forth the basis of such valuation in writing in the Fund's records. The value of any investment, security or instrument as aforesaid or other property for which no price quotations are available as above provided shall be determined in such manner as the Board of Directors, in its sole discretion, reasonably determines and the basis of such valuation shall be set forth in writing in the Fund's records. Notwithstanding the foregoing, where on any Valuation Date or Redemption Date, any cash or other asset of the Fund has been realized or contracted to be realized, there shall be included in the assets of the Fund, in place of such cash or other asset, the assets receivable by the Fund in respect thereof, provided that if the value of such assets is not then known exactly, then the value shall be as estimated by the Board of Directors, and provided that if the net amount receivable is not payable until some future time after the Valuation Date or Redemption Date, the Board of Directors may make such allowance (discounting of claims) as is considered appropriate to reflect the true current value thereof.

In connection with the determination of the Net Asset Value of Shares, the Board of Directors may consult with and is entitled to rely upon the advice of the Fund's Investment Manager and Prime Broker. In no event and under no circumstances shall the Board of Directors, the Investment Manager or Prime Broker incur any individual liability or responsibility for any determination made or other action taken or omitted by them in good faith.

TRANSFER AND REDEMPTION

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Transfer

The Fund's Memorandum and Articles of Association provide that, without the prior written consent of the Board of Directors, any sale, assignment, transfer, conveyance or other disposition of Shares or any attempt to do any of the foregoing (collectively, "Transfer") will not be recognized by the Fund. The Fund may only withhold its consent to a Transfer of Shares if the Transfer of Shares would lead to legal, regulatory, pecuniary or material administrative disadvantage for the Fund or Shareholders as whole or to maintain the minimum shareholding per Shareholder. Any attempt to Transfer Shares without such consent may subject such Shares to a compulsory redemption. There is no independent market for the purchase or Transfer of Shares, and none is expected to develop. Officers desiring to purchase Shares must represent that they are purchasing the Shares for investment purposes only, solely for their own account and not with a view to or present intention to Transfer the Shares. The Shares are not being, and will not be, offered in the United States or its territories or possessions or to U.S. Persons other than Permitted U.S. Persons, and no Transfer of the Shares may be made to or held for the benefit of U.S. Persons.

THE TRANSFER OF SHARES TO U.S. PERSONS IS PROHIBITED. THE FUND SHALL HAVE THE RIGHT COMPULSORILY AND IMMEDIATELY TO REDEEM IN ACCORDANCE WITH THE MEMORANDUM AND ARTICLES OF ASSOCIATION ANY SHARES TRANSFERRED TO A U.S. PERSON.

Redemption

Shareholders may, in accordance with and subject to the applicable provisions of the Memorandum and Articles of Association and the laws of the British Virgin Islands, redeem their Shares as of the last Business Day of each fiscal quarter, in each case upon at least six (6) months' prior written notice (subject to the Board of Directors, in its sole and absolute discretion, waiving or reducing such notice requirement), and at such other times, with the consent of, and upon such terms of payment as may be approved by, the Board of Directors, in its sole and absolute discretion (such dates being referred to as "Redemption Dates"). If a redemption would cause the value of a Shareholder's Shares to fall below \$1,000,000, or such lesser amount as determined by the Board of Directors in its sole and absolute discretion, then the Board of Directors will have the right to compel redemption of all Shares held by such Shareholder. Shares will be redeemed at the Redemption Price as of the close of business on such Redemption Date. The "Redemption Price" shall equal (1) the Net Asset Value of the Shares on the Redemption Date, (2) all or a portion of the Depreciation Deposit to the extent it is not paid to the Investment Manager as an Incentive Fee and (3) all or a portion of the Equalization Factor to the extent that the increase in value of the Shares that caused the payment of the Equalization Factor has not been lost or has not been paid previously to the redeeming Shareholder, less the accrued Management Fee and Incentive Fee payable to the Investment Manager attributable to the Shares redeemed. Payment of the Redemption Price is subject to a Redemption Charge, if applicable. See "*DETERMINATION OF OFFERING PRICE*".

Redemption requests must be on the Fund's Form of Request for Redemption of Shares ("Redemption Form") and may be made by mail or facsimile; however, the Redemption Price will not be paid until an original executed copy of the Redemption Form is received by the Fund. If the Shareholder has elected to have share certificates sent to him rather than held for him by CITCO, the Redemption Form must be accompanied by delivery to the Fund of the certificates for the Shares to be redeemed, duly endorsed for transfer or accompanied by a proper instrument of transfer. The original executed copy of the Redemption Form should be sent to Lancer Offshore, Inc., c/o CITCO Fund Services (Curaçao) N.V., Kaya Flamboyen 9, P.O. Box 812, Curaçao, Netherlands Antilles.

Payment of ninety-five (95%) percent of the aggregate Redemption Price for redeemed Shares normally will be made within thirty (30) days after an authorized Redemption Date. Payment of the balance of the aggregate Redemption Price will be made thirty (30) days after completion of (i) unaudited quarterly financial statements for redemptions on the last Business Day of the first three (3) fiscal quarters of the Fund; or (ii) audited financial statements for redemptions on the last Business Day of a fiscal year.

Redemption proceeds generally will be paid in U.S. \$. In accordance with the Fund's Articles of Association, any redemption of Shares within one (1) year of a Shareholder's initial investment in the Fund (whether Shares are acquired directly from the Fund or by way of Transfer in the secondary market) will be subject to a Redemption Charge. Other than the Redemption Charge, there are no redemption charges.

The Board of Directors, upon not less than ten (10) days' prior written notice to a Shareholder, may compel redemption of all of such Shareholder's Shares at any time if the Board of Directors determines that the continued ownership of Shares by such Shareholder may result in a legal, pecuniary, regulatory, taxation or material administrative disadvantage for the Fund or the Shareholders as a whole or to maintain the minimum shareholding per Shareholder. Under such circumstances, the Board of Directors will have the irrevocable power to act in the name of such Shareholder to redeem his Shares. In the event of any compulsory redemption, the Redemption Price will be (i) the Net Asset Value of the Fund as at the close of business on such Redemption Date (which includes an accrual for the Incentive Fee) multiplied by (ii) a fraction the numerator of which is the number of Shares being redeemed and the denominator of which is the number of Shares outstanding as of such date. See "*DETERMINATION OF NET ASSET VALUE*". Such Shareholder will have no Shareholder rights with respect to the Shares to be redeemed after the close of business on the date as of which the Redemption Price was calculated, except the right to receive the Redemption Price therefor, without interest.

The Board of Directors may suspend Share redemptions and subscriptions (a) during any period when any stock exchange or over-the-counter market on which a substantial position of the Fund's investments are quoted, traded, listed or dealt in is closed, other than for ordinary holidays and weekends, or during periods in which dealings are restricted or suspended; (b) when circumstances exist as a result of which in the opinion of the Board of Directors it is not reasonably practicable for the Fund to dispose of investments or as a result of which any such disposal would be materially prejudicial to Shareholders; (c) when a breakdown occurs in any of the means normally employed in ascertaining the value of investments or when for any other reason the value of any of the investments or other assets cannot reasonably or fairly be ascertained; or (d) during which the Fund is unable to repatriate funds required for the purpose of making payments due on redemption of Shares or during which any transfer of funds involved in the realization or acquisition of investments or payments due on redemptions of Shares cannot in the opinion of the Board of Directors be effected at normal rates of exchange. During the suspension period, requests for redemption of Shares may be withdrawn. To the extent that a request for redemption of Shares is not withdrawn, the redemption shall be effected as of the first Redemption Date following the recommencement of redemptions. Any such suspension shall be notified immediately to the Irish Stock Exchange. Where possible, all reasonable efforts will be taken to bring any period of suspension to an end as soon as possible.

CERTAIN TAX CONSIDERATIONS

THE DISCUSSION HEREIN IS FOR INFORMATIONAL PURPOSES ONLY AND IS A DISCUSSION PRIMARILY OF THE U.S. TAX CONSEQUENCES TO PROSPECTIVE SHAREHOLDERS. EACH PROSPECTIVE SHAREHOLDER SHOULD CONSULT HIS PROFESSIONAL TAX ADVISER WITH RESPECT TO THE TAX ASPECTS OF AN INVESTMENT IN THE FUND. TAX CONSEQUENCES MAY VARY DEPENDING ON THE STATUS OF A PARTICULAR SHAREHOLDER. THE TAX AND OTHER MATTERS DESCRIBED IN THIS MEMORANDUM DO NOT CONSTITUTE AND SHOULD NOT BE CONSIDERED AS, LEGAL OR TAX ADVICE TO PROSPECTIVE SHAREHOLDERS.

The Fund has not sought a ruling from the U.S. Internal Revenue Service or any other U.S., Federal, state or local agency with respect to any of the tax issues affecting the Fund, nor has it obtained an opinion of counsel with respect to any tax issues.

The following is a summary of certain material U.S. Federal tax issues which may be relevant to prospective Shareholders. The discussion contained herein is not a full description of the complex tax rules involved and is based upon existing laws, judicial decisions and administrative regulations, rulings and practice, all of which are subject to change, retroactively as well as prospectively. A decision to invest in the Fund should be based upon an evaluation of the merits of the trading program, and not upon any anticipated U.S. tax benefits.

BASED ON THE STRUCTURE AND PROPOSED OPERATIONS OF THE FUND, THE FUND GENERALLY SHOULD NOT BE SUBJECT TO U.S. INCOME TAX, EXCEPT AS PROVIDED BELOW.

Non-U.S. Shareholders

A "Non-U.S. Shareholder" is any Shareholder other than (i) a citizen or resident of the United States; (ii) a corporation, partnership, or other entity created or organized in the United States, under the laws of the United States or of any state or political subdivision thereof, (iii) an estate whose income is includible in gross income for United States Federal income tax purposes, regardless of its source, or (iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and (b) one or more U.S. persons have the authority to control all substantial decisions of the trust.

U.S. Trade or Business

In general, a foreign corporation is subject to U.S. income tax on its income from United States sources under two separate sets of rules. Under the first set of rules, if a foreign corporation is deemed to be engaged in a United States trade or business, such foreign corporation will be subject to U.S. income taxation at the graduated rates generally applicable to U.S. corporations and may also be subject to a 30% branch profits tax. Section 864(b)(2) of the United States Internal Revenue Code of 1986, as amended (the "IRC"), sets forth a safe harbor (the "Safe Harbor") which provides that a foreign corporation that trades securities for its own account (other than a dealer in securities) or a foreign corporation that trades commodities for its own account (other than a dealer in commodities) is not deemed to be engaged in a U.S. trade or business by reason of such activity. A proposed regulation (the "Proposed Regulation") creates a similar safe harbor provision applicable to foreign corporations trading certain derivative instruments such as options, forward contracts, short positions and similar financial instruments in commodities, currencies, stocks, partnership or beneficial interests in publicly traded partnerships or trusts, notes, bonds, debentures and other evidences of indebtedness, and notional principal contracts. Furthermore, the Proposed Regulation applies only to foreign persons other than (i) dealers in stocks and securities, (ii) dealers in commodities, and (iii) persons who regularly offer to enter into, assume, offset or otherwise terminate positions in derivatives with customers in the ordinary course of a trade or business (including regularly holding oneself out, in the ordinary course of a trade or business, as being willing and able to enter into either side of a derivative transaction). The Preamble to the Proposed Regulation provides that until the final regulations are issued, taxpayers

may take any reasonable position, including that set forth in the Proposed Regulation. The Fund intends to conduct its business operations in a manner so as to meet the requirements of the Safe Harbor and the Proposed Regulation. Accordingly, the Fund's trading activities should not constitute a trade or business and, except in the limited circumstances discussed below, the Fund should not be subject to the regular U.S. income tax on any of its profits

Even if the Fund's trading activity does not constitute a U.S. trade or business, gains realized from the sale or disposition of (i) stock or securities (other than debt instruments with no equity component) of U.S. Real Property Holding Corporations (as defined in Section 897 of the IRC) ("USRPHCs") or (ii) stock or securities (other than debt instruments with no equity component) of Real Estate Investment Trusts ("REITs"), will be generally subject to U.S. income tax on a net basis. However, certain principal exceptions to these rules of taxation would apply (i) in the case of an interest in a USRPHC, if such interest is a class of stock which is regularly traded on an established securities market and the Fund generally did not hold more than five (5%) percent of such regularly traded class of stock at any time during the five (5) year period ending on the date of disposition, or (ii) in the case of an interest in a REIT, if during the five (5) year period ending on the date of disposition (or during the life of the REIT, if shorter) less than fifty (50%) percent in value of the stock of the REIT was held directly or indirectly by foreign persons. Moreover, if the Fund were deemed to be engaged in a U.S. trade or business as a result of owning a limited partnership interest in a U.S. business partnership or a similar ownership interest, income and gain realized from that investment would be subject to U.S. income and branch profits taxes.

U.S. Withholding Tax

Under the second set of rules, certain types of United States source income that is not effectively connected with a United States trade or business is subject to a withholding tax of 30% (unless reduced by an applicable income tax treaty). The types of income subject to the 30% withholding tax include dividends, rents, certain interest, certain other gains (but not capital gains from the sale of securities) and original issue discount. There is presently no tax treaty between the U.S. and the British Virgin Islands.

Generally, dividends are considered to be from United States sources (and are subject to 30% withholding) where the payor is incorporated under the laws of one of the fifty states or the District of Columbia. Furthermore, where a foreign corporation is engaged in the United States trade or business, and 25% or more of such corporation's worldwide income over a specified testing period is effectively connected with such trade or business, a portion of the dividends received from such corporation (which bears the same ratio as such corporation's income which is effectively connected with the U.S. trade or business bears to the worldwide income) is treated as from U.S. sources.

Certain types of income are specifically exempted from the thirty (30%) percent tax and thus withholding is not required on payments of such income to a foreign corporation. The thirty (30%) percent tax generally does not apply to U.S. source capital gains (whether long or short-term) or to interest paid to a foreign corporation on its deposits with U.S. banks. The thirty (30%) percent tax also does not apply to interest which qualifies as portfolio interest. The term "portfolio interest" generally includes interest (including original issue discount) on an obligation in registered form which is issued after July 18, 1984 and with respect to which the person who would otherwise be required to deduct and withhold the thirty (30%) percent tax receives the required statement that the beneficial owner of the obligation is not a U.S. person and certain other requirements are met. Under certain circumstances, interest on bearer obligations may also be considered portfolio interest. Also exempt from the thirty (30%) percent tax is income from original issue discount obligations which are payable no more than 183 days from the date of issue.

Redemption of Shares

In general, any gain realized by a Non-U.S. Shareholder on the sale, exchange, redemption or disposition of Shares will not be subject to U.S. Federal income tax, unless (i) such gain is effectively connected with a U.S. trade or business, (ii) the Non-U.S. Shareholder is an individual who is present in the United States for 183 days or more during the taxable year of the disposition and certain other conditions are met, (iii) the Non-U.S. Shareholder is subject to tax under U.S. Federal income tax law provisions applicable to certain expatriates, including certain former citizens and residents of the United States, or (iv) the Shares are treated as a United States real property

interest. Based solely on the Fund's anticipated activities, it is not expected that the conditions set forth in (i) or (iv) above will be met.

Permitted U.S. Persons

Permitted U.S. Persons are U.S. entities that generally are exempt from Federal income tax on their passive income (e.g., qualified pension plans and certain charitable organizations). Shares in the Fund will constitute equity in a passive foreign investment company ("PFIC") for U.S. tax purposes. Although not entirely clear, under current U.S. income tax law, a Permitted U.S. Person that holds shares as capital assets should not be subject to the unrelated business income tax ("UBIT") with respect to any dividends received in respect of its holding Shares and any gain from the disposition of Shares, provided that (i) such Permitted U.S. Person does not incur acquisition indebtedness in connection with an investment in the Fund, (ii) the Fund is not a "controlled foreign corporation," or "CFC," for U.S. Federal income tax purposes and (iii) such Permitted Person does not make a "mark-to-market" election (pursuant to Section 1296) with respect to its Shares in the Fund. The Fund could be a CFC if fifty (50%) percent or more of the Shareholders in the Fund (measured by voting power or value) were owned by U.S. Shareholders, each owning ten (10%) percent or more of the total combined voting power of such foreign corporation. To avoid being treated as a CFC (or, in addition, a foreign personal holding company, or foreign investment company) the Investment Manager will limit the Shares held by Permitted U.S. Persons to less than fifty (50%) percent of the outstanding Shares. Permitted U.S. Persons may be subject to certain United States information reporting requirements based on their ownership of the Shares. **PERMITTED U.S. PERSONS ARE STRONGLY URGED TO CONSULT THEIR OWN TAX ADVISERS REGARDING THE TAX CONSEQUENCES AND INFORMATION REPORTING REQUIREMENTS OF AN INVESTMENT IN THE FUND.**

U.S. tax legislation has been proposed in the past that would significantly alter certain of the UBIT, CFC and PFIC rules described above. It is not possible to predict whether any similar legislation will be proposed or enacted in the future; accordingly, a Permitted U.S. Person should consult its tax adviser with respect to any proposed U.S. tax legislation that could affect the U.S. Federal income tax treatment of an investment in the Fund.

Estate and Gift Taxes

Individual holders of Shares who are neither present or former U.S. citizens nor U.S. residents (as determined for U.S. estate and gift tax purposes) are not subject to U.S. estate and gift taxes with respect to their ownership of such Shares.

Other Jurisdictions

Income realized by the Fund from non-U.S. sources may be subject to withholding and other taxes levied by the jurisdiction in which the income is sourced.

British Virgin Islands

As of the date of this Memorandum, the Fund is exempt from all provisions of the Income Tax Ordinance of the British Virgin Islands with respect to all dividends, interests, royalties, compensation and other amounts payable by the Fund to persons who are not persons resident in the British Virgin Islands and is also exempt from any capital gains realized with respect to any shares, debt obligations or other securities of the Fund by persons who are not persons resident in the British Virgin Islands. No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to any shares, debt obligations or other securities of the Fund.

There are no exchange controls in the British Virgin Islands and, accordingly, the Fund is free to acquire, hold and sell any securities without restriction under the laws of the British Virgin Islands.

The foregoing discussion represents a general summary of tax law and is based on current law and interpretations thereof on the date of this Memorandum. No assurance can be given that applicable tax law and interpretations thereof will not be changed in the future. Additionally, in view of the number of different jurisdictions where local laws may apply to a Shareholder of the Fund, this Memorandum does not discuss the local tax consequences to a potential Shareholder arising from the subscription, purchase, holding and redemption of Shares. Accordingly, prospective Shareholders are urged to consult their own professional advisers and inform themselves of, and where appropriate take advice on, the laws and regulations (such as taxation and exchange controls) applicable to the subscription, purchase, holding and redemption of Shares in the place of their citizenship, residence, domicile or incorporation and the places in which they conduct business.

Other Taxes

Offerees should consult their own counsel regarding tax laws and regulations of any other jurisdiction which may be applicable to them.

Future Changes in Applicable law

The foregoing description of U.S. and the British Virgin Islands tax consequences of an investment in and the operations of the Fund is based on laws and regulations which are subject to change through legislative, judicial or administrative action. Other legislation could be proposed that, if enacted, would subject the Fund to income taxes or subject Shareholders to increased income taxes.

THE FOREGOING DISCUSSION REPRESENTS A GENERAL SUMMARY OF TAX LAW AND IS BASED ON CURRENT LAW AND INTERPRETATIONS THEREOF ON THE DATE OF THIS MEMORANDUM. NO ASSURANCE CAN BE GIVEN THAT APPLICABLE TAX LAW AND INTERPRETATIONS THEREOF WILL NOT BE CHANGED IN THE FUTURE. ADDITIONALLY, IN VIEW OF THE NUMBER OF DIFFERENT JURISDICTIONS WHERE LOCAL LAWS MAY APPLY TO A PROSPECTIVE SHAREHOLDER, THIS MEMORANDUM DOES NOT DISCUSS THE LOCAL TAX CONSEQUENCES TO A POTENTIAL SHAREHOLDER ARISING FROM THE SUBSCRIPTION, PURCHASE, HOLDING AND REDEMPTION OF SHARES. ACCORDINGLY, PROSPECTIVE SHAREHOLDERS ARE URGED TO CONSULT THEIR OWN PROFESSIONAL ADVISERS AND INFORM THEMSELVES OF, AND WHERE APPROPRIATE TAKE ADVICE ON, THE LAWS AND REGULATIONS (SUCH AS TAXATION AND EXCHANGE CONTROLS) APPLICABLE TO THE SUBSCRIPTION, PURCHASE, HOLDING AND REDEMPTION OF SHARES IN THE PLACE OF THEIR CITIZENSHIP, RESIDENCE, DOMICILE OR INCORPORATION AND THE PLACES IN WHICH THEY CONDUCT BUSINESS.

INVESTMENT BY U.S. TAX EXEMPT ENTITIES – ERISA CONSIDERATIONSGeneral

In considering an investment in the Fund of a portion of the assets of employee benefit plans subject to the Employee Retirement Income Security Act of 1974, as amended, ("ERISA"), including IRAs and Keogh plans (hereinafter referred to individually as "Plan" and collectively as "Plans"), fiduciaries and their legal counsel should consider, in light of all of the matters disclosed in this Memorandum, and the Plan's funding objectives and requirements, whether: (i) the investment in the Fund is prudent and in accordance with the documents and instruments governing such Plan; (ii) the investment is consistent with the fiduciary responsibility to diversify the Plan's investments under Section 404(a)(1)(C) of ERISA, if applicable; (iii) the investment will result in unrelated business taxable income ("UBTI") to the Plan; and (iv) the investment is consistent with the Plan's cash flow needs in view of the illiquidity of an investment in the Fund as described elsewhere in this Memorandum. Plan fiduciaries must make their own determination regarding whether an investment in the Fund is prudent under ERISA, taking into consideration all of the specific facts and circumstances of the Plan and an investment in the Fund.

ERISA generally requires that the assets of employee benefit plans be held in trust and that the trustee, or a duly authorized investment manager (within the meaning of Section 3(38) of ERISA), have exclusive authority and discretion to manage and control the assets of the Plan. ERISA also imposes certain duties on persons who are fiduciaries of employee benefit plans subject to ERISA and prohibits certain transactions between an employee benefit plan and the fiduciaries of such plan. Under the IRC, similar prohibitions apply to all Plans which are not subject to ERISA. Under ERISA and the IRC, any person who exercises any discretionary authority or discretionary control respecting the management or disposition of the assets of a Plan or who renders investment advice for a fee to a Plan is considered to be a fiduciary of such Plan (subject to certain exceptions not here relevant). Each Plan Investor who so requests will be issued a certificate evidencing its Shares in the Fund. The possession of such indicia of ownership should satisfy the holding in trust requirements of ERISA.

Furthermore, ERISA and the IRC prohibit fiduciaries of a Plan from engaging in various acts of self-dealing. In order to avoid such self dealings with respect to any Plan which invests in the Fund, the Investment Adviser will not permit an investment in the Fund with assets of any Plan (including a Keogh plan or IRA) if the Investment Adviser (i) has investment discretion with respect to such assets or (ii) regularly gives individualized investment advice which serves as the primary basis for the investment decisions made with respect to such assets.

Plan Asset Rules

If, by virtue of a Plan's purchase of a Share in the Fund, the assets of the Fund are deemed to be "plan assets" under ERISA, then: (i) the Investment Adviser may be required to adhere to the standards of a "fiduciary" under ERISA; and (ii) certain other transactions in which the Fund may engage may constitute prohibited transactions under Section 406 of ERISA and Section 4975(a) of the IRC.

ERISA and the IRC do not explicitly define what assets are "plan assets". Regulations issued by the Department of Labor (the "Regulations") generally provide that, unless certain exemptions apply, when a Plan acquires an equity interest in a corporation, partnership or other entity, which interest is neither a "publicly offered" readily transferable security nor a security issued by an investment company registered under the ICA, the assets of such Plan will include not only the investment, but also the underlying assets of the entity in which the equity investment is made.

The Regulations provide, however, that the assets of a corporation or partnership in which an employee benefit plan invests would not be deemed to be assets of such plan if less than twenty-five (25%) percent of each class of equity interests in the corporation or partnership are held in the aggregate by "benefit plan investors" (including, for this purpose, benefit plans such as foreign plans, Keogh Plans for owner-employees and IRAs which are not subject to the general requirements of ERISA). For purposes of this "25 percent" rule, the interests of any person (other than a benefit plan investor) who has discretionary authority or control with respect to the assets of the

corporation or partnership, or who provides investment advice for a fee (direct or indirect) with respect to such assets, or any affiliate of such person, shall be disregarded. Thus, any investment in the Fund by the Investment Adviser or its affiliates will be disregarded in determining whether this exemption is satisfied.

The Investment Adviser will not permit investments in the Fund by "benefit plan investors" to equal or exceed at any time twenty-five (25%) percent of the equity interests of the Fund. Accordingly, the above exemption will be applicable and the assets of the Fund should not be deemed to be plan assets under ERISA. In order to comply with the foregoing, the Investment Adviser has the right, in its sole discretion, to reject any proposed investment by a Shareholder or by an existing Shareholder and/or to require a mandatory redemption of all or part of the Shares of a Shareholder. Accordingly, Plan fiduciaries considering an investment in the Fund should consider the fact that neither the Investment Adviser nor its affiliates nor any of their respective officers, directors, agents, employees, affiliates, advisers or consultants will be acting as a fiduciary under ERISA or the IRC in managing the assets of the Fund.

Unrelated Business Taxable Income

Unless removed from the purview of IRC Section 501(a) by a relevant exception, organizations described in that provision are exempt from Federal income tax. Notwithstanding this, such organizations are subject to income taxes at the rate applicable to business corporations on their UBTI under Section 511(a) of the IRC. Generally, UBTI means the gross income (with certain exceptions) derived by an IRC Section 501(a) exempt organization from any trade or business carried on by such entity which is unrelated to the entity's exempt purposes, less certain deductions related to such trade or business. UBTI includes the income recognized by a tax exempt entity from any unrelated trade or business regularly carried on by a partnership of which such tax exempt entity is a partner. Also included in UBTI is "unrelated debt financed income". This is generally the net income from assets not related to the entity's exempt purpose, acquired with debt, to the extent of the ratio of debt on such assets to such assets' adjusted basis.

Under Section 512(b) of the IRC, certain forms of income are excluded from the definition of UBTI. These items include dividends, interest, annuities, royalties, capital gains, rents from real property and, in limited circumstances, personal property leased with real property. To the extent, however, that the Fund employs debt in its strategy, or if the Fund acquires securities of an entity that generates UBTI that flows through to the Fund (e.g., a corporation) or if Fund activities are determined to be a trade or business within the meaning of IRC Section 513, it is possible that otherwise tax-exempt investors subject to these rules would be liable for tax on part of their allocable share of Fund income.

Each tax-exempt investor is urged to consult with its own professional tax advisers concerning the suitability of this investment, taking into account the likelihood that such investment will generate UBTI, as well as whether, under the particular circumstances of its investment, its interest would constitute debt-financed property.

ADMINISTRATIONBoard of Directors

The Fund has a Board of Directors which is elected annually by the Shareholders. The Board of Directors meets at least once a year to review and assess the investment policy and performance of the Fund and generally to supervise the conduct of its affairs. The Board of Directors is required to hold at least one Board meeting per annum in the British Virgin Islands. The Board of Directors has adopted resolutions approving the sale of the Shares in accordance with the terms set forth in this Memorandum. The Directors will not receive any remuneration from the Fund for serving as such. No person may serve as a Director once they are 70 years old.

The Board of Directors has the right to terminate the Fund at any time and for any reason. In the case of such termination, the Fund's assets will be distributed to the Shareholders within thirty (30) days after completion of a final audit of the Fund's books. The Directors will use their best endeavors to procure the final audit within ninety (90) days.

The directors of the Fund are as follows:

John W. Bendall, Jr. founded Hermitage Capital Corporation in 1986; he is presently its Chairman and Chief Executive Officer. Mr. Bendall was Senior Vice-President and Head of Institutional Sales of Bateman, Eichler, Hill and Richards from 1977 to 1986. He was a Specialist in Mergers and Acquisitions at William E. Hill and Co. (a Division of Dunn and Bradstreet). Mr. Bendall also serves as a Director of JBC Holdings.

Dr. Richard Geist is President of The Institute of Psychology and Investing, Inc. Dr. Geist received his undergraduate degree and his doctorate in Psychology from Harvard University and is an Instructor in the Department of Psychiatry at Harvard Medical School. Dr. Geist has written and lectured extensively on the psychology of investing. His recommendations have been featured in various financial publications and he has appeared on numerous national television and radio programs.

The Articles provide that no director or officer of the Fund shall be liable for the acts, receipts, neglects or defaults of any other director or officer, or for joining in any receipt or other act for conformity, or for any loss or expense happening to the Fund through the insufficiency or deficiency of title to any property acquired by order of the directors for or on behalf of the Fund, or for the insufficiency or deficiency of any security in or upon which any of the moneys of the Fund shall be invested, or for any loss or damage arising from the bankruptcy, insolvency, or tortious act of any person with whom any moneys, securities or effects shall be deposited, or for any loss occasioned by any error of judgment, omission, default, or oversight on his part, for any other loss, damage, or misfortune whatever which shall happen in relation to the execution of the duties of his officer or in relation thereto, to the extent permitted by law.

The Articles further provide that each director or officer of the Fund shall be indemnified by the Fund against, and it shall be the duty of the directors out of the funds of the Fund to pay all costs, losses, and expenses which any director or officer may incur or become liable for by reason of any contract entered into, or act or thing done by him as such director or officer, or in any way in the discharge of his duties, and the amount for which such indemnity is provided shall immediately attach as a lien on the property of the Fund, and have priority as between the shareholders over all other claims but only if any such director or officer acted honestly and in good faith with a view to the best interests of the Fund and, in the case of criminal proceedings, the person had no reasonable cause to believe that his conduct was unlawful.

The Administrator

CITCO Fund Services (Curaçao) N.V. (the "Administrator") has been retained by the Fund to perform administrative services for the Fund. Pursuant to an Administration Agreement entered into between the Fund and the Administrator (the "Administration Agreement"), the Administrator is responsible for, among other things: (i)

maintaining the register of Shareholders of the Fund and generally performing all actions related to the issuance and transfer of Shares of the Fund and the safe-keeping of certificates therefor, if any, (ii) reviewing subscriptions for Shares and accepting payment therefor, (iii) publishing and furnishing the Net Asset Value of the Fund's Shares in accordance with its Articles of Association, (iv) performing all acts related to redemption of Shares, (v) keeping the accounts of the Fund and such financial books and records as are required by law or otherwise for the proper conduct of the financial affairs of the Fund and making available annual financial statements for inspection, as well as furnishing quarterly reports regarding the Fund's performance and Net Asset Value per Share, to Shareholders and (vi) performing all other matters necessary in connection with the administration of the Fund. The Administration Agreement provides for exculpation of liability of the Administrator and that the Fund will indemnify the Administrator as to certain liabilities and costs, except for those liabilities and costs caused by the Administrator's own gross negligence, willful misconduct or reckless disregard of its duties. The Administrator receives customary fees paid out of Fund assets based upon the nature and extent of the services performed by the Administrator for the Fund. The Administration Agreement may be terminated at any time without penalty by either of the parties upon not less than ninety (90) days' notice.

Brokerage Commissions

The Investment Manager has the sole power and authority to determine the broker to be used for each securities transaction for the Fund. In selecting brokers or dealers to execute transactions, the Investment Manager need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. In selecting brokers, the Investment Manager may or may not negotiate "execution only" commission rates; thus, the Fund may be deemed to be paying for other services provided by the broker to the Fund or the Investment Manager or their affiliates which are included in the commission rate. In negotiating commission rates, the Investment Manager will take into account the financial stability and reputation of brokerage firms and the brokerage, research and other services provided by such brokers, although the Fund may not, in any particular instance, be the direct or indirect beneficiary of the services provided. The Investment Manager may also direct commissions to brokers who refer clients to the Fund. In addition, the Investment Manager is authorized to direct commissions to certain broker/dealers which may furnish other services to the Fund or the Investment Manager or their affiliates, such as telephone lines, news and quotation equipment, electronic office equipment, account record keeping and clerical services, financial publications, economic consulting services, office space and facilities and travel and entertainment expenses.

Accordingly, the Fund may be deemed to be paying for research and other services with "soft" or commission dollars. Although the Investment Manager believes the Fund will benefit from many of the services obtained with soft dollars generated by Fund trades, the Fund will not benefit exclusively. The Investment Manager may also derive direct or indirect benefits from some or all of these services, particularly to the extent that the Investment Manager uses "soft" or commission dollars to pay for expenses it would otherwise be required to pay itself.

Section 28(e) of the United States Federal Securities Exchange Act of 1934, as amended, provides a "safe harbor" to investment managers who use commission dollars generated by their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the manager in the performance of investment decision-making responsibilities. Conduct outside of the safe harbor afforded by Section 28(e) is subject to the traditional standards of fiduciary duty under state and Federal law. Notwithstanding a good faith determination that the amount of commissions paid is reasonable in relation to the value of brokerage research services provided, to the extent that the Investment Manager determines to use commission dollars to pay for products and services that provide administrative or other nonresearch assistance to the Investment Manager, such payments may not fall within the safe harbor of Section 28(e).

The Fund's investment program will emphasize active management of the Fund's portfolio. Consequently, the Fund's portfolio turnover and brokerage commission expenses may be greater than for other types of investment vehicles.

Conflicts of Interest

The Fund's Directors, the Administrator and the Prime Broker perform similar services for other pooled investment vehicles, many of which are larger and have greater resources than the Fund. The Fund believes that there are no conflicts of interest that exist between the Fund, on the one hand, and the Fund's Directors, the Administrator or the Prime Broker, on the other hand. For a discussion of the conflicts of interest between the Fund and the Investment Manager, see "CONFLICTS OF INTEREST".

Prime Broker

The Fund has appointed Banc of America Securities, LLC ("BAS"), as prime broker and custodian. As such, BAS will settle and clear all transactions executed by the Fund. Such transactions may be executed through BAS or other brokers.

The custodial functions of BAS include, among other matters, arranging for: (i) the receipt and delivery of securities purchased, sold, borrowed and loaned; (ii) the making and receiving payments therefor; (iii) custody of securities fully paid or not fully paid for and, therefore, compliance with margin and maintenance requirements; (iv) custody of all cash, dividends and exchanges, distributions and rights accruing to an account, or delivery of cash to the Fund's banks; and (v) tendering securities in connection with cash tender offers, exchange offers, mergers or other corporate reorganizations. BAS has no decision-making discretion relating to the Fund's investments.

BAS is entrusted with the safe custody of all the assets of the Fund and maintains segregated accounts in the name of and for the sole benefit of the Fund. The assets of the Fund will be separately designated in the books of BAS. These fully paid assets will be segregated from BAS' own proprietary positions in order to ensure adequate protection in the event of the bankruptcy or insolvency of BAS. Fully paid for assets refers to all assets not deposited as margin. Non-fully paid for securities held in the margin accounts with BAS need not be segregated and may be available to the creditors of BAS. The assets of the Fund may also be deposited as margin with other brokers, dealers and may not be held in segregated accounts.

The Fund is not required to pay any custody fee to BAS to act as Prime Broker and custodian. The Fund is not committed to continue its "prime brokerage" relationship or its clearing relationship with BAS for any minimum period. If the Fund uses another prime broker, it may be required to pay separate fees in cash. To the extent that securities are purchased in non-U.S. markets, BAS will transfer funds to its sub-brokers located in the country in which the securities are purchased. Such sub-brokers (sub-custodians) will maintain custody of the securities until such time as they are sold, at which point uninvested proceeds will be transferred back to the Fund's account at BAS. BAS shall exercise reasonable skill, care and diligence in the selection of sub-custodians. BAS will be responsible to the Fund for the duration of the sub-custody agreement for satisfying itself as to the ongoing suitability of any sub-custodian to provide custodian services to the Fund. BAS shall maintain an appropriate level of supervision over the sub-custodians and make appropriate enquiries, periodically to confirm that the obligations of the sub-custodians continue to be competently discharged. BAS remains responsible for losses arising from the acts or omissions or insolvency of such sub-custodians. A sub-custodian who holds assets of the Fund other than margin will segregate those assets in segregated accounts to ensure that they are unavailable to creditors of the sub-custodian or any other entity. The fees of any such sub-custodians shall be at normal commercial rates. The Investment Manager also expects to allocate portions of the Fund's brokerage business to BAS.

Accounting Matters

The Fund's accountants are PricewaterhouseCoopers, which have audited the Fund's accounts for the Fiscal Year ended December 31, 1999 and 2000 and they are expected to audit the Fund's accounts for the Fiscal Year ended December 31, 2001 and the current Fiscal Year. The annual accounts of the Fund have been audited since inception of the Fund.

SUBSCRIPTION PROCEDURES

Offerees interested in subscribing for Shares will be furnished a Subscription Document Booklet which contains Instructions For Subscribers and a Subscription Agreement and Revocable Proxy to be completed by them for a specified dollar amount of Shares. The Fund is domiciled in the British Virgin Islands and as such the Irish Stock Exchange requires that there is a minimum subscription amount of US\$100,000 at all times. The Fund currently has a minimum initial subscription amount of \$1,000,000 but may permit subscriptions for a lesser amount. The Fund shall not be permitted to reduce such lesser amount to less than \$100,000. Please contact the Administrator if you desire to subscribe for Shares so that a Subscription Document Booklet can be forwarded to you. The proper documentation necessary to purchase Shares must be received by the Fund at least three (3) days prior to the applicable Closing Date, unless waived by the Board of Directors.

The completed and original executed copy of the Subscription Agreement and Revocable Proxy should be sent by overnight courier to: Lancer Offshore, Inc., c/o CITCO Fund Services (Curaçao) N.V., P.O. Box 812, Curaçao, Netherlands Antilles.

All payments are to be made in U.S. dollars. If payment is to be made by wire transfer, it is to be made in immediately available funds to HSBC Bank USA, International Banking, 452 Fifth Avenue, New York, NY 10018, ABA# 021001088, for Account of CITCO Banking Corporation N.V., Account No. 000-301 795, for further credit to the account Lancer Offshore, Inc., Account No. 0012-443222-200. If payment is to be made by check, the check should be made payable to "Lancer Offshore, Inc." and it should be sent at least one (1) week prior to the Closing Date by overnight courier to Lancer Offshore, Inc., c/o CITCO Fund Services (Curaçao) N.V., Kaya Flamboyan 9, P.O. Box 812, Curaçao, Netherlands Antilles.

The Subscription Agreement and Revocable Proxy to be executed and delivered by prospective Shareholders contains their agreement to indemnify and hold harmless the Fund, its Directors and officers and the Investment Manager, against any loss, liability, cost or expense (including attorneys' fees, taxes and penalties) which may result, directly or indirectly, from any misrepresentation or breach of any warranty, condition, covenant or agreement set forth therein or in any other document delivered by the prospective Shareholders to the Fund.

The acceptance or non-acceptance of any subscription is solely at the discretion of the Board of Directors and no reasons need be given for the non-acceptance of any subscription.

The Shares generally will be issued in book-entry, registered form and no share certificates representing the Shares subscribed for will be forwarded to a Shareholder unless specifically requested.

The form of "Subscription Agreement and Revocable Proxy" grants a proxy to the Administrator, authorizing it or its designee to vote the Shares subscribed for on behalf of the subscriber at any annual or special meeting of Shareholders. Such proxy may be revoked by the Shareholder giving the proxy by written notice to the Administrator at the business office of the Fund. Any such revocation shall be effective upon its receipt by the Administrator.

MISCELLANEOUS

A00523

- (1) A Permitted U.S. Person is an "Accredited Investor" if the U.S. Person is:
- (A) An employee benefit plan within the meaning of Title I of ERISA:
- (i) whose investment decisions are made by a plan fiduciary, as defined in Section 3(21) of ERISA, which is either a bank, insurance company or registered investment advisor;
 - (ii) having total assets in excess of \$5,000,000; or
 - (iii) if self-directed, the investment decisions are made solely by natural persons, each of whom either:
 - (1) currently has a net worth in excess of \$1 million, and/or
 - (2) has individual income in excess of \$200,000 in each of the two most recent years or joint income with that person's spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year; OR
- (B) A trust, which is a tax-exempt entity with assets in excess of \$5 million, not formed for the specific purpose of acquiring Shares, whose investment decisions are made by a person or persons who have such knowledge and experience in financial and business matters that such person or persons is or are capable of evaluating the merits and risks of the prospective investment; OR
- (C) A tax-exempt entity in which all of the equity owners are natural persons each of whom either (i) currently has a net worth in excess of \$1 million, and/or (ii) had individual income in excess of \$200,000 in each of the two most recent years or joint income with that person's spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year; OR
- (D) A plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefits of its employees if such plan has total assets in excess of \$5,000,000; OR
- (E) A tax-exempt organization under Section 501(c)(3) of the IRC having total assets in excess of \$5,000,000, which was not formed for the specific purpose of acquiring Shares.
- (2) A Permitted U.S. Person is a "Sophisticated Investor" if it either alone or with a purchaser representative has knowledge and experience in financial and business matters so as to be capable of evaluating the relative merits and risks of the purchase of Shares and recognizes and understands the nature of such an investment.
- (3) The term "U.S. Person" means, with respect to individuals, any U.S. citizen (and certain former U.S. citizens) or "resident alien" within the meaning of U.S. income tax laws as in effect from time to time. Currently, the term "resident alien" is defined under U.S. income tax laws to generally include any individual who (i) holds an Alien Registration Card (a "green card") issued by the U.S. Immigration and Naturalization Service, or (ii) meets a "substantial presence" test. The "substantial presence" test is generally met with respect to any current calendar year if (i) the individual was present in the U.S. on at least thirty-one (31) days during such year, and (ii) the sum of the number of days on which such individual was present in the U.S. during the current year, 1/3 of the number of such days during the first preceding year, and 1/6 of the number of such days during the second preceding year, equals or exceeds 183 days.

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With respect to persons other than individuals, the term "U.S. Person" means (i) a corporation or partnership created or organized in the United States or under the laws of the United States or any state or (ii) a trust or estate which is subject to U.S. tax on its worldwide income from all sources.

- (4) The term "Permitted U.S. Persons" means any entity organized under the laws of the United States that is generally exempt from Federal income taxation.
- (5) A "Professional Investor" is defined as a person whose ordinary business involves, whether for his own account or 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 a person (in the case of a natural person, either individually or jointly with spouse) who has signed a declaration that they have a net worth in excess of \$1 million (or its equivalent in any other currency) and they consent to being treated as a Professional Investor.

APPENDIX A

REQUIRED DISCLOSURES

FOR ALL OFFEREES:

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE PERSON OR ENTITY CREATING THE SECURITIES AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY UNITED STATES FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

EACH INVESTOR MUST REPRESENT AND WARRANT THAT THE INVESTOR HAS READ THIS MEMORANDUM AND IS AWARE OF AND CAN AFFORD THE RISKS OF AN INVESTMENT IN THE FUND FOR AN INDEFINITE PERIOD OF TIME. THIS INVESTMENT IS SUITABLE ONLY FOR INVESTORS WHO HAVE ADEQUATE MEANS OF PROVIDING FOR THEIR CURRENT AND FUTURE NEEDS AND CONTINGENCIES, AND HAVE NO NEED FOR LIQUIDITY IN THIS INVESTMENT.

FOR PERMITTED U.S. PERSONS:

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE 1933 ACT, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. THE SHAREHOLDERS MAY ONLY REDEEM THEIR SHARES AT CERTAIN LIMITED TIMES AND UPON CERTAIN REQUIRED ADVANCE NOTICE.

THE SHARES ARE BEING OFFERED IN THE UNITED STATES UNDER SECTION 4(2) OF THE 1933 ACT AND RULE 506 OF REGULATION D PROMULGATED THEREUNDER ONLY TO PERMITTED U.S. PERSONS WHO QUALIFY AS ACCREDITED INVESTORS UNDER THE 1933 ACT. EACH PERMITTED U.S. PERSON WILL BE REQUIRED TO REPRESENT THAT THEY ARE AN ACCREDITED INVESTOR THAT SATISFIES ALL OTHER SUITABILITY CRITERIA SET FORTH IN THIS MEMORANDUM. ARE ACQUIRING THE SHARES FOR THEIR OWN ACCOUNT, AS PRINCIPAL, FOR INVESTMENT PURPOSES ONLY, AND NOT WITH ANY INTENTION TO RESELL, TRANSFER, DISTRIBUTE OR OTHERWISE DISPOSE OF OR FRACTIONALIZE THE SHARES, EITHER IN WHOLE OR IN PART, AND NO RESALE, TRANSFER OR OTHER DISPOSITION OF THE SHARES WILL BE PERMITTED EXCEPT IN ACCORDANCE WITH THE PROVISIONS OF THE 1933 ACT, THE RULES AND REGULATIONS THEREUNDER, ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION AND THE TERMS AND CONDITIONS OF THE ARTICLES.

Special Notice to U.S. Investors Subject to ERISA

THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED, IMPOSES CERTAIN LIMITATIONS ON THE INVESTMENT BY CERTAIN PENSION AND OTHER EMPLOYEE BENEFIT PLANS IN INVESTMENTS SUCH AS THE FUND. THEREFORE, ANY PENSION OR OTHER EMPLOYEE BENEFIT PLAN CONSIDERING AN INVESTMENT IN SHARES OF THE FUND SHOULD CONSULT ITS OWN COUNSEL AS TO THE LEGAL EFFECTS OF SUCH INVESTMENT.

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FOR BRITISH VIRGIN ISLANDS RESIDENTS:

NO INVITATION MAY BE MADE TO THE PUBLIC IN THE BRITISH VIRGIN ISLANDS TO SUBSCRIBE FOR SHARES.

FOR UNITED KINGDOM INVESTORS:

THE FUND IS A COLLECTIVE INVESTMENT SCHEME WHICH WILL NOT BE AUTHORISED OR OTHERWISE APPROVED FOR PROMOTION IN THE UNITED KINGDOM AND IS NOT REGULATED BY THE FINANCIAL SERVICES AUTHORITY OF THE UNITED KINGDOM. NOR HAS THIS OFFERING MEMORANDUM BEEN ISSUED OR APPROVED BY ANY PERSON AUTHORISED UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000 ("FSM ACT"). CONSEQUENTLY, INVESTORS WILL NOT HAVE THE BENEFIT OF THE INVESTORS' COMPENSATION SCHEME AND OTHER PROTECTIONS AFFORDED BY THE FSM ACT OR THE RULES AND REGULATIONS MADE THEREUNDER AND THE FUND MAY ONLY BE PROMOTED IN THE UNITED KINGDOM: (A) BY PERSONS NOT AUTHORISED UNDER THE ACT TO CERTAIN CATEGORIES OF PERSONS SPECIFIED IN THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2001; AND (B) BY PERSONS WHO ARE NOT AUTHORISED UNDER THE FSM ACT TO PERSONS WHO ARE OF A KIND DESCRIBED IN THE FINANCIAL SERVICES AND MARKETS ACT 2000 (PROMOTION OF COLLECTIVE INVESTMENT SCHEMES) (EXEMPTIONS) ORDER 2001 OR WHO ARE PERSONS TO WHOM THIS DOCUMENT MAY OTHERWISE LAWFULLY BE DISTRIBUTED OR TO WHOM THE FUND MAY OTHERWISE LAWFULLY BE PROMOTED.

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