

AQUA RESOURCES FUND LIMITED

Report and Audited Financial Statements

For the period from 12 June 2008 (date of incorporation) to 31 December 2008

The Company is an Authorised Closed-ended investment scheme domiciled in Guernsey. As an existing closed-ended fund the Company is deemed to be granted an authorisation declaration in accordance with section 8 of the Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended and rule 6.02 of the Authorised Closed-ended Investment Schemes Rules 2008 on the same date as the Company obtained consent under the Control of Borrowing (Bailiwick of Guernsey) Ordinance 1959 to 1989.

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MANAGEMENT AND ADMINISTRATION

DIRECTORS:

Hasan Askari (*Chairman*)*
Andrea Rossi*
Timothy Betley*
Kimberly Tara
(*all of whom are non executive*)
* *independent directors*

REGISTERED OFFICE:

Arnold House
St. Julian's Avenue
St. Peter Port
Guernsey CI
GY1 3NF

MANAGER & CO-PLACING AGENT:

FourWinds Capital Management
Scotia Bank Building
PO Box 268GT
George Town
Grand Cayman
Cayman Islands

SPONSOR, BROKER AND CO-PLACING AGENT:

Until 11 November 2008
Landsbanki Securities (UK) Limited
Beaufort House
15 St Botolph Street
London EC3A 7QR
United Kingdom

SPONSOR:

From 12 February 2009
BDO Stoy Hayward LLP
55 Baker Street
London
W1U 7EU
United Kingdom

BROKER:

From 10 November 2008
Cenkos Securities plc
6,7,8 Tokenhouse Yard
London EC2R 7AS
United Kingdom

SOLICITORS TO THE COMPANY:

(as to English Law)

Herbert Smith LLP
Exchange House
Primrose Street
London EC2A 2HS
United Kingdom

ADVOCATES TO THE COMPANY:

(as to Guernsey Law)

Ozannes
PO Box 186
1 Le Marchant Street
St. Peter Port
Guernsey CI
GY1 4HP

MANAGEMENT AND ADMINISTRATION (CONTINUED)

ADMINISTRATOR AND COMPANY SECRETARY: HSBC Security Services (Guernsey) Limited
Arnold House
St. Julian's Avenue
St. Peter Port
Guernsey CI
GY1 3NF

AUDITORS: Ernst & Young LLP
PO Box 9
14 New Street
St. Peter Port
Guernsey CI
GY1 4AF

REGISTRAR: Capita Registrars (Guernsey) Limited
Longue Hougue House
St. Sampson
Guernsey CI
GY1 4JN

UK TRANSFER AGENT: Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

CHAIRMAN'S STATEMENT

For the period from 12 June 2008 (date of incorporation) to 31 December 2008

Introduction

It is my pleasure to report the results of Aqua Resources Fund Limited ("Aqua" or the "Company") for the period from 12 June 2008 to 31 December 2008.

The Company raised €62.1 million in a placing of ordinary shares ("Ordinary Shares") when it launched on 24 July 2008, at which time its Ordinary Shares were admitted to the Official List of the UK Listing Authority and to trading on the Main Market of the London Stock Exchange Plc (the "London Stock Exchange") ("Admission"). The placing price was €1.00 per Ordinary Share and the opening net asset value per Ordinary Share was €0.9675, taking into consideration share issue costs. On 8 October 2008, the Company issued an additional 10.4 million Ordinary Shares at a placing price of €1.00 per Ordinary Share.

The Company was launched in the midst of what has turned into the worst recessionary conditions since 1945. Investors used to a decade of appreciating values, were faced with a sudden reversal of fortune across all asset classes. The alternative space - hedge funds, leveraged buy-outs or emerging markets - perceived by many analysts and investors as being immune to and insulated from market downturns or cyclical shifts in the real economy, were just as affected as the mainstream asset classes.

We believe that, in this challenging economic environment, investors should focus on long-term investments underpinned by genuine fundamentals. The water sector offers investors such an opportunity; a critical element of our existence with demonstrable growth characteristics and a spectrum of investment opportunities from basic utilities to recycling and industrial use.

Aqua is well positioned to take advantage of this unique long-term investment opportunity as it has a clear and focused mandate of investing in the water sector.

FourWinds Capital Management, the Company's investment manager (the "Manager"), has continued to build its team of investment professionals and analysts specialized in the environmental sector with a particular focus on water and water solutions, as well as individuals dedicated to operations and risk management. The Board of Directors of the Company (the "Board") is satisfied with the risk management and investment standards that the Manager has applied.

Net Asset Value

The Company's net asset value per Ordinary Share was €0.9561 as at 31 December 2008. No dividends have been announced, declared or paid in the period.

Board's Intentions

The Board is committed to investing the Company's resources as expeditiously as possible but is conscious of the over-riding need to seek out value and sustainable growth.

Outlook

Despite the challenging market environment, your Board and the Manager believe the Company is well positioned to provide healthy risk adjusted returns by way of water and water related investment exposure in a global and diversified portfolio.

I look forward to reporting on the Company's progress in the interim report later this year. In the meantime further information about the Company is available on its website at www.aquaresourcesfund.com.

Hasan Askari
Chairman
21 April 2009

DIRECTORS' REPORT

The Directors of the Company present their report and the audited financial statements for the period from 12 June 2008 (date of incorporation) to 31 December 2008.

The Company was incorporated on 12 June 2008 with registered number 49038 and is domiciled and incorporated in Guernsey, Channel Islands. The Company is a closed-ended investment company with limited liability formed under The Companies (Guernsey) Law, 1994 (as amended) and its Ordinary Shares are admitted to the Official List of the UK Listing Authority and traded on the Main Market of the London Stock Exchange.

Principal activity and business review

The principal activity of the Company during the period was that of an investment company. The Company's investment objective is to provide capital appreciation through diversified exposure to a global portfolio of water-related investments. A review of the period is provided in the Manager's Report. The Company expects to continue its activities in the coming year.

Results and dividends

The results for the period are shown in the Statement of Operations on page 17 and the Company's financial position at the end of the period is shown in the Statement of Assets and Liabilities on page 16.

The Directors expect returns to be reinvested and do not anticipate paying a dividend. Where any dividend or other distribution is to be paid, it is expected to be paid in Euros and in accordance with the Companies (Guernsey) Law, 2008 (the "Companies Law"), any other applicable laws, the Listing Rules of the UK Listing Authority ("Listing Rules") and the rules and regulations of the London Stock Exchange. Since the date of incorporation of the Company, there has been no dividend or distribution of any kind declared, paid or made by the Company.

Directors

The Directors of the Company who served during the period were:

Hasan Askari (*Chairman*)
Andrea Rossi
Timothy Betley
Kimberly Tara

All of the Directors are non-executive directors and, other than Kimberly Tara, are independent directors. Kimberly Tara is not an independent director by virtue of her directorship of, and shareholding in, the Manager.

The Directors' interests in the share capital of the Company as at 31 December 2008 were:

	Number of Ordinary Shares
Hasan Askari	62,500
Andrea Rossi	18,750
Timothy Betley	12,500
Kimberly Tara*	3,985,000

* K. Tara's interest is in respect of Ordinary Shares owned by the Manager of which she is a director and shareholder.

None of the Directors has, or has had, an interest in any transaction which is, or was, unusual in its nature or conditions, or significant to the business of the Company, or which has been affected by the Company since its incorporation, except for the interest of Kimberly Tara in the Manager (as stated above) and therefore in the Management Agreement (details of which are set out on page 24), the placing agreement (details of which are set out on page 25) and the related party transaction in respect of Bluewater Bio International ("BBI") (details of which are set out on page 26).

The Directors receive the following annual fees from the Company ("Directors' Fees"):

DIRECTORS' REPORT (CONTINUED)

Director	Per annum fees entitlement (in £)	Fees paid during the period (in £)	No. of Ordinary Shares paid in satisfaction of fees ¹	Fees payable at the end of the year (in £)	Prepaid Directors' Fees for 2009 (in £)
Hasan Askari	50,000	50,000	62,500	-	27,945
Andrea Rossi	15,000	15,000	18,750	-	8,383
Timothy Betley	20,000	10,000	12,500	4,411	5,589
Kimberly Tara	-	-	-	-	-

¹Applies to first year fees only

The Company reserves the right to pay Hasan Askari's Directors' Fee in shares in respect of any subsequent years. The Chairman of the Audit and Management Engagement Committee, Timothy Betley, receives £5,000 for his services in this role in addition to his Directors' Fee of £15,000. Kimberly Tara does not receive any Directors' Fees. All of the Directors are also entitled to be paid all reasonable expenses properly incurred by them in attending general meetings, Board or committee meetings or otherwise in connection with the performance of their duties. The Board may determine that additional remuneration may be paid, from time to time, to any one or more Directors in the event such Director or Directors are requested by the Board to perform extra or special services on behalf of the Company.

Share repurchases

The Directors have shareholder authority to purchase in the market up to 14.99 percent of the Company's issued Ordinary Shares. This authority will expire at the conclusion of the first annual general meeting of the Company (i.e. the forthcoming 2009 Annual General Meeting). The Directors intend to seek renewal of this authority from shareholders at each annual general meeting in respect of 14.99 percent of the Ordinary Shares in issue at the time of the relevant annual general meeting. Accordingly a resolution authorising the Directors to purchase up to 14.99 percent of the Ordinary Shares in issue will be proposed at the forthcoming 2009 Annual General Meeting.

Substantial interests in share capital

As at 31 December 2008, the following holdings representing more than 3 percent of the Company's issued share capital had been reported.

	Number of Ordinary Shares	Percentage of Ordinary Share capital
BNY (OCS) Nominees Limited*	2,988,850	4.12
Euroclear Nominees Limited*	22,964,000	31.69
FourWinds Capital Management	3,985,000	5.50
HSBC Global Custody Nominee (UK) Limited*	21,500,000	29.67
State Street Nominees Limited*	7,500,000	10.35
Vidacos Nominees Limited*	5,230,145	7.22

* Custodian accounts holdings on behalf of individual shareholders. These holdings are therefore aggregated holdings.

West Midlands Metropolitan Authorities Pension Fund ("West Midlands") is a beneficial holder of Ordinary Shares and a related party of the Company on account of the size of West Midlands' beneficial holding in the Company. West Midlands subscribed for 29.97 percent of the Ordinary Shares in the Company's initial placing of Ordinary Shares at Admission. On 8 October 2008, West Midlands subscribed for an additional 2,900,000 Ordinary Shares for an aggregate consideration of €2,900,000 and so currently holds 29.67 percent of the issued Ordinary Shares. The second subscription by West Midlands constituted a smaller related party transaction to which the provisions of the UKLA Listing Rule 11.1.10R apply and have been complied with. Landsbanki Securities (UK) Limited acted as sponsor to the Company in relation to this transaction.

DIRECTORS' REPORT (CONTINUED)

The Manager

FourWinds Capital Management was appointed as the Manager of the Company on 21 July 2008. The Directors have reviewed the performance of the Manager and are satisfied that the continued appointment of the Manager on the terms agreed is in the best interests of the shareholders and the Company.

Auditors

Ernst & Young LLP have been appointed as auditors of the Company and have expressed their willingness to continue in office.

Listing

On 24 July 2008, the Company's Ordinary Shares were admitted to the Official List of the UK Listing Authority and to trading on the Main Market of the London Stock Exchange (Admission).

Authorised and Issued Share Capital

The share capital of the Company is represented by an unlimited number of Ordinary Shares of no par value which are denominated in Euros.

Upon incorporation 2 Ordinary Shares of no par value were subscribed for by the subscribers to the Memorandum of Incorporation of the Company. On Admission, the Company issued a further 62,064,338 Ordinary Shares in its initial placing at an offer price of €1 per share. On 8 October 2008, the Company issued a further 10,400,000 Ordinary Shares at an offer price of €1 per share and these additional Ordinary Shares were admitted to the Official List of the UK Listing Authority and to trading on the Main Market of the London Stock Exchange on 10 October 2008.

Going Concern

The Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future and, after due consideration, believe it is appropriate to adopt the going concern basis in preparing the financial statements.

Corporate Governance

There is no specific corporate governance regime in Guernsey and as a closed-ended investment company registered in Guernsey, the Company is not required to comply with the Combined Code on Corporate Governance (the "Combined Code") issued by the Financial Reporting Council. The Board has, however, put in place a framework for corporate governance, which it believes is suitable for an investment company. As such the Company has, to the extent the Directors consider appropriate, having regard to the Company's size, stage of development and resources and save as set out below, complied since Admission with the Code of Corporate Governance produced by the Association of Investment Companies ("AIC") which is considered by the Financial Reporting Council to meet the obligations of the Combined Code.

Save for departing from the requirement to form a remuneration committee or a nomination committee (since the Company does not have any executive Directors), the Company is not presently aware of any departures from the AIC Code of Corporate Governance throughout this accounting period.

The Board

All the Directors are non-executive and so there is no nomination or remuneration committee.

The Board will generally meet at least four times a year, at which time the Directors review the management of the Company's assets and all other significant matters so as to ensure that the Directors maintain overall control and supervision of the Company's affairs. The Board is responsible for the appointment and monitoring of all service providers to the Company. Between these quarterly meetings there is regular contact with the Manager. The Directors are kept fully informed of investment and financial controls and other matters that are relevant to the business of the Company and should be brought to the attention of the Directors. The Directors also have access to the Company Secretary (through its appointed representatives who are responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with) and, where necessary in the furtherance of their duties, to independent professional advice at the expense of the Company.

DIRECTORS' REPORT (CONTINUED)

There have been a small number of ad hoc meetings of the Board to approve the listing and placings of Ordinary Shares and to review specific items arising between the regular scheduled quarterly meetings.

In accordance with the Company's Articles of Association, at each Annual General Meeting of the Company all the Directors who held office at the two preceding Annual General Meetings and did not retire shall retire from office and may be available for re-election at the same meeting. Pursuant to the Listing Rules, Kimberly Tara is required to retire from office at each Annual General Meeting and may be available for re-election at each such meeting.

The Company's Audit and Management Engagement Committee (the "Committee") comprises each of the Directors, except Kimberly Tara. Timothy Betley acts as Chairman of the Committee. The Committee meets formally at least twice a year. The principal duties of the Committee will be to consider the appointment of external auditors, to discuss and agree with the external auditors the nature and scope of the audit, to keep under review the scope, results and cost effectiveness of the audit and the independence and objectivity of the auditors, to review the external auditors' letter of engagement and management letter, to approve the remuneration of the auditors, to review the Company's annual report and audited financial statements, unaudited interim financial reports and to analyse the key procedures adopted by the Company's service providers. Where non-audit services are to be provided by the auditors, full consideration of the financial and other implications on the independence of the auditors arising from any such engagement will be considered before proceeding.

The Committee will also consider the appointment and remuneration of the Manager and of other service providers to the Company.

Attendance at the Board and the Committee meetings for the period from incorporation on 12 June 2008 to 31 December 2008 was as follows:

	Number of meetings held	H Askari	A Rossi	T Betley	K Tara
Board Meetings	1	1	-	1	-
Ad hoc Board Meetings	5	1	3	4	5
Ad hoc Committee Meetings of the Board	2	1	-	1	1
Audit and Management Engagement Committee	-	-	-	-	-

The Board has a breadth of experience relevant to the Company and the Directors believe that any foreseeable changes to the Board's composition can be managed without undue disruption. With any new director appointment to the Board, consideration will be given as to whether an induction process is appropriate.

Internal Controls

The Board recognises the need for effective high level internal controls. High level controls in operation at the Company include:

- Segregation of duties between relevant functions and departments within the Company's administrator, HSBC Securities Services (Guernsey) Ltd ("the "Administrator" or "HSBC") and the Manager.
- Consideration of compliance reports, administration reports, and portfolio valuations provided by the Administrator.
- Consideration of Manager's reports and analysis.

The Administrator has a number of internal control functions including a dedicated Compliance Officer who is appointed as a statutory requirement and whose role is determined by the Guernsey Financial Services Commission which includes the maintenance of a log of errors and breaches which are reported to the Board of both the Company and the Administrator at each quarterly board meeting.

Relations with Shareholders

The Board believes that the maintenance of good relations with shareholders is important for the long term prospects of the Company. The Board receives feedback on the views of shareholders from the Company's Broker and the Manager.

All general meetings of the Company will be held in Guernsey. The Company will hold an Annual General Meeting each year.

DIRECTORS' REPORT (CONTINUED)

2009 Annual General Meeting

The following information to be discussed at the forthcoming Annual General Meeting of the Company, to be held on 4 June 2009, is important and requires your immediate attention. If you are in any doubt about the action you should take, you should seek advice from your stockbroker, bank manager, solicitor, accountant or other financial adviser, authorised under the UK Financial Services and Markets Act 2000 (as amended). If you have sold or transferred all of your Ordinary Shares in the Company, you should pass this document, together with all accompanying documents, to the purchaser or transferee or to the person through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Resolutions relating to the following items of special business will be proposed at the forthcoming Annual General Meeting of the Company. **The Directors recommend that shareholders vote in favour of the resolutions which are, in the Directors' opinion, in the best interests of shareholders as a whole.**

Resolution 6 - Authority to buy back shares

The resolution to be proposed will seek to renew the authority granted to Directors enabling the Company to purchase its own shares. The Directors will consider repurchasing shares in the market if they believe it to be in shareholders' interests and as a means of addressing any imbalance between supply of, and demand for, shares, to increase the net asset value per share and to assist in maintaining a narrow discount to net asset value per share in relation to the price at which the shares may be trading.

Purchases of Ordinary Shares will only be made through the market for cash at prices below the prevailing net asset value per share. Under the Listing Rules of the Financial Services Authority the maximum price which can be paid by the Company for a share shall be the higher of (i) 5 percent above the average of the mid-market values of the Ordinary Shares for the five business days immediately preceding the date of purchase, and (ii) the higher of the last independent trade and the highest current independent bid for the Ordinary Shares on the trading venue where the purchase is carried out. The Directors are seeking authority to purchase up to 14.99 percent of the issued share capital of the Company at the date the resolution is passed. At the date of the publication of the notice of Annual General Meeting that represented 10,862,404 Ordinary Shares. The authority granted by the resolution will expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, 14 months from the date of passing of the resolution.

The timing of any purchases by the Company pursuant to the authority will be decided by the Directors. Any shares bought back may be held in treasury (up to a maximum of 10 percent of the issued share capital) or be subsequently cancelled by the Company.

Resolution 7 - Authority to make tender offers

The resolution to be proposed will seek to renew the authority granted to the Directors enabling the Company to purchase its own shares pursuant to a tender offer for up to 25 percent of the issued Ordinary Shares of the Company as referred to, and on such terms as are set out in, the prospectus issued by the Company on 21 July 2008. The Directors will consider making such a tender offer from time to time if they believe it to be in shareholders' interests and as a means of addressing any imbalance between supply of, and demand for, shares, to increase the net asset value per share and to assist in maintaining a narrow discount to net asset value per share in relation to the price at which the shares may be trading.

The Directors are seeking authority to make tender offers for a maximum number of shares up to 25 percent of the issued share capital. Any such tender offer will only be made at a price below the prevailing net asset value less attributable costs and as otherwise determined by the Directors in their sole discretion. The minimum price (exclusive of expenses) which may be paid for a share pursuant to a tender offer under the authority is €0.01. The authority granted by the resolution will expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, 14 months from the date of passing of the resolution.

The timing of any purchases by the Company pursuant to a tender offer made under this authority will be decided by the Directors. Any shares bought back may be held in treasury (up to a maximum of 10 percent of the issued share capital) or be subsequently cancelled by the Company.

DIRECTORS' REPORT (CONTINUED)

Resolution 8 - Amendment of the Articles of Association of the Company

The resolution to be proposed will seek to amend the Articles of Association of the Company in order to provide that the holders of dematerialised shares can vote those shares using CREST Electronic Proxy Voting Service.

The full terms of the proposed amendments to the Articles of Association will be available for inspection from the date of posting of this document until the close of the Annual General Meeting at the offices of Cenkos Securities plc, 6, 7, 8 Tokenhouse Yard, London, EC2R 7AS and at the place of the Annual General Meeting for at least 15 minutes before and during the meeting.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the financial statements in accordance with applicable Guernsey law and generally accepted accounting principles in the United States of America ("US GAAP").

Guernsey company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing such financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;
- disclose that there is no relevant audit information of which the Company's auditor is unaware;
- disclose that they have taken reasonable steps they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Law. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm to the best of their knowledge:

- The financial statements have been prepared in accordance with US GAAP.
- The financial statements have been prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities and financial position and profit or loss of the Company.
- The Chairman's Statement and Manager's Report include a fair review of the development and performance of the business and position of the Company together with the description of the principal risks and uncertainties that the Company faces, as required by the Disclosure and Transparency Rules of the UK Listing Authority¹.
- So far as each of the Directors is aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all reasonable steps he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Signed on behalf of the Board of Directors by:

Hasan Askari
Director
28 April 2009

¹ DTR 4.1.12

MANAGER'S REPORT (CONTINUED)

As at 31 December 2008

For the period from 12 June 2008 (date of incorporation) to 31 December 2008

The Company's portfolio is managed by the Manager, FourWinds Capital Management.

The Manager is pleased to report that the net asset value per Ordinary Share of the Company as of 31 December 2008 was €0.9561.

In the current economic context, investors are seeking to protect their capital and tend to shift their attention to long term real assets. An ideal sector for this type of investment is water which has strong, sustainable growth characteristics and allows investors to diversify their risk across a range of investments which surround the supply, use and treatment of this precious commodity while targeting more specifically water treatment, reuse and recycling, energy efficiency and new infrastructure.

There has been much press attention lately focused on the simple fact that drinking water is a scarce commodity, it is becoming scarcer and that supplies of it are rarely where they are most needed. In March 2009, the UN released their three-year report at the water summit in Istanbul which concluded that water scarcity is not just an issue, it is a health and human urgency. Industry and agriculture demand ever increasing volumes of water and in increasingly pure forms. Additionally, the infrastructure that is needed to ensure that as many people as possible have access to as much fresh water as they need is either nonexistent in many parts of the third world, or is aged to the point of infirmity in most of the developed world. It is a well known statistic that London's Victorian water pipes, for example, leak away over 40 percent of the extensively treated water that is pumped through them.

2008 proved to be a very difficult year for some large water companies and it has been even harder for those listed on stock exchanges as their stock prices fell in sympathy with the broader financial markets. It is true that their activities slowed down and there have been a good number of reorganizations, including CFO and CEO departures at blue chip companies, which provoke unease with their investor base. Whilst the water utilities are, typically, fairly close to being pure play water investments and have very defensive qualities (the beta of UK water companies is typically below 0.8 against the FTSE 100 Index¹) they suffer from being the focus of governments' efforts to continue to supply as much water as consumers need at a price those consumers can afford.

Nevertheless, the water sector is still in great demand. With the US stimulus package, it is expected that the US will spend several billions in water and water related investments, including US\$4 billion for clean water State revolving fund grants, US\$2 billion for safe drinking water capitalization grants and US\$1 billion for the Bureau of Reclamation water and related resources, including inspection of canals in urbanized areas². This stimulus package emphasizes the general lack of investment in infrastructure and lack of technology development in the water sector. This has in part been driven by the need to keep costs down - water utilities do not like to focus on research and development costs which may end up being written off. A further contributing factor has been that those countries which experience the worst water stress are either too poor to be able to develop their own technology to tackle the problem or are so rich and have access to such cheap energy they do not need to. For example, the prevailing desalination technology in the Middle East is thermal, which, to put it in its most primitive terms, is boiling sea water and collecting the steam to remove the salt. Those countries in the middle, such as the UK, where water stress is moderate and consumers are relatively wealthy typically make and mend the infrastructure they have and focus on juggling to keep supply constant and costs down.

Aqua is focusing on the one hand on operators and developers who require new capital for growth, and on the other hand on innovation with an aim to ensure that the industry becomes more efficient by providing consumers, whether individuals or industrials, with plentiful water without dramatic increases in cost. By investing across the water value chain, from providers of infrastructure and services, to industries and municipalities, to proponents of advanced wastewater treatment and technology which focuses on the removal of fat oil and grease from effluent in wastewater streams, Aqua can diversify risk across a very broad range of industries and geographies whilst maintaining a fundamental link to the core driver behind its investments. This approach seeks to ensure that investors make consistent, stable, enhanced returns.

Aqua announced its first commitment in November 2008 when it conditionally agreed to invest US\$12.6 million for a 45 percent interest in Ranhill Water Technologies (Cayman) Ltd ("RWT Cayman"), a new company incorporated in the Cayman Islands. Ranhill Utilities Berhad ("RUBHD"), Ranhill Berhad's 70 percent owned water utility subsidiary, announced it would contribute its existing business of Ranhill Water Technologies Sdn Bhd and operations in the People's Republic of China and Thailand to RWT Cayman and be a 51.8 percent owner of RWT Cayman. Furthermore, the officers of RUBHD committed to invest US\$880,000 for a 3.2 percent equity interest in RWT Cayman. The Ranhill Group's 2007 revenues were approximately US\$425 million with net profits at approximately US\$34 million. This first investment, which closed in March 2009, is a clear endorsement of Aqua's strategy to focus on the water sector and its ability to attract best in class water partners.

¹ Sourced from publicly available information

² US Department of the Interior, Bureau of Reclamation, WateReuse, US Environment Protection Agency

MANAGER'S REPORT (CONTINUED)

As at 31 December 2008

In addition, since the balance sheet date the Company has closed its second investment, in a two stage process. On 16 March 2009, the Company purchased shares representing approximately 7.8 percent of the fully diluted share capital of BBI from the Manager for a consideration of US\$2.97 million (€2.30 million). On 20 April 2009, the Company acquired by subscription a further stake in BBI for a total consideration of approximately £2.3 million (€2.6 million), taking the Company's aggregate holding to approximately 15 percent of the enlarged fully diluted share capital of BBI. BBI focuses on selling its proprietary wastewater technology, HYBACS, to both the municipal treatment sector and to industrial consumers and polluters of water. The investment fits well with Aqua's strategy as it not only adds an attractive set of technologies focusing on wastewater treatment and water recycling, but also a very good geographic coverage with partnerships and clients in both Western and Eastern Europe as well as the Middle East. Furthermore BBI has moved towards signing reference plants and distribution contracts with high profile water players.

The Manager is actively looking to add attractive investment opportunities in the water space. Recent market conditions have presented opportunities for the Company to engage in discussions with key global sector players. As a result, the Manager is focused on further accessing partnerships with blue chip water companies which re-inforce the Company's credibility as a key private capital provider in the water space in 2009.

FourWinds Capital Management

21 April 2009

INVESTMENT OBJECTIVE AND POLICY

Investment Objective

The Company's investment objective is to provide capital appreciation through exposure to a diversified portfolio of water related investments.

Investment Policy

The Company is in the early stages of implementing its investment policy as set out below, having launched on 24 July 2008, and had not, as at 31 December 2008, invested in any assets or investments.

The Manager is responsible for the discretionary investment management of the assets of the Company and seeks to accomplish the Company's investment objective by:

- seeking exposure to water-related investments (as explained below) on a global basis;
- seeking portfolio diversification by investing across the broad value chain of water-related projects and investments; and
- seeking to control risk through such portfolio diversification, investment vehicle selection and implementation of risk control strategies.

No assurance can be given, however, that the Company will achieve its investment objective, and investment results may vary substantially over time and from period to period.

Diversification

The Company's portfolio of assets and investments from time to time (the "Portfolio") will be diversified by factors such as geography, water sector and investment type, structure and size. The Company may invest in companies and projects in both mature and emerging markets. There will be no predetermined limit per region, but for diversification purposes the Company will invest in at least three regions of the world.

Investments will be sought in a diverse range of water sectors. Once investment is substantially completed it is anticipated that no single investment, at the time of acquisition, may exceed 30 percent of the gross assets of the Company. For these purposes, where the Company invests in a portfolio of assets, each individual underlying asset shall be treated as a single investment and where the Company invests by means of a holding company, joint venture or similar investment or investment vehicle, each underlying asset shall be treated as a single investment.

In addition, in exceptional circumstances, the Board may authorise the acquisition of an investment or asset which exceeds the 30 percent limit and is up to 50 percent of gross assets, at the time of acquisition. Such authorisation may only be given in circumstances where the Board considers the acquisition to be of strategic importance to the Company in achieving its overall investment objective and the Manager has, at the time of acquisition, presented to the Board for approval a proposal for rebalancing the Portfolio to within the 30 percent limit as soon as practicable (and in any event within a period not exceeding 18 months) by means of further capital raisings, additional investments, disposals of part of investment or otherwise.

Asset Allocation

Investments may be made within a diverse range of water-related segments including infrastructure, technology, recycling and treatment and in water-related projects such as wastewater treatment, water distribution and infrastructure, water-to-energy, clean water, desalination, and others. Investment will comprise primarily direct stakes in unquoted water-related companies and projects. A target threshold of at least 60 percent water-related activity will be set for an investment to be considered "water-related".

Gearing

Whilst the Articles of Association of the Company permit maximum borrowings of up to 30 percent of net asset value of the Company, the Company's policy is to ensure that its aggregate borrowings from time to time do not exceed a maximum of 20 percent of net asset value of the Company. Initially, the Directors intend to use this facility primarily for short term liquidity, to facilitate the operation of the Company's over-commitment policy, for working capital requirements and to fund share buybacks. However, borrowings may also be used for investment financing in certain cases and, if the Directors deem it prudent, the Company may borrow for longer term purposes.

INVESTMENT OBJECTIVE AND POLICY (CONTINUED)

General

It is the intention of the Directors, subject to market conditions, for the Company to be substantially invested or committed (i.e. 80 to 85 percent) in accordance with its investment policy within 12 to 18 months of Admission on 24 July 2008 and thereafter at all times, although the Manager may exercise its discretion to hold cash or cash equivalent instruments at any time as appropriate. Pending such investment the net proceeds of the initial placing of the Company's Ordinary Shares at Admission will be held in cash or fixed income securities (including, but not limited to, bank deposits, bonds or government issued treasury securities) for the purpose of protecting the Company's capital assets. Income earned from its investments will be reinvested by the Company in accordance with its investment policy, subject to working capital requirements.

The Portfolio is expected to comprise investments in multiple currencies. The Company will not systematically hedge its currency exposure, but may evaluate on a case-by-case basis the potential benefits of hedging against interest rate risks or currency risk related to assets not denominated in Euro. The Company may, where appropriate, also enter into forward interest rate agreements, forward currency agreements, interest rate and bond futures contracts and interest rate swaps and purchase or enter into put or call options on interest rates and put or call options on futures of interest rates. Any currency hedging will only be used for the purposes of efficient portfolio management and will not be used for any currency speculation.

In order for the Company to maximise the percentage of total assets invested at any given period of time, the Manager intends to follow an over-commitment strategy, subject to any guidelines set by the Board. The Board has set a guideline that the Company's total commitments should not exceed 150 percent of the current gross assets of the Company (as determined by the Directors and the Manager at the time of acquisition or commitment), subject to such commitments being in accordance with the Company's investment policy. Whilst the Board may increase or reduce this percentage in its discretion in the future, it has no current intention to do so.

The Company will comply with certain investment restrictions for so long as they remain requirements of the UK Listing Authority as set out below. The Directors do not currently intend to propose any material changes to the Company's investment objective and policy, save in the case of exceptional and unforeseen circumstances. As long as the Listing Rules so require, any material change to the investment policy of the Company will be made only with the approval of shareholders.

Investment restrictions

The Company will comply with the following investment restrictions for so long as they remain requirements of the UK Listing Authority:

- the Company and any of its subsidiaries must not conduct a trading activity which is significant in the context of its group as a whole. This does not prevent the businesses forming part of the Portfolio from conducting trading activities themselves; and
- not more than 10 percent in aggregate of the value of the total assets of the Company at the time of Admission on 24 July 2008 may be invested in other listed closed ended investment funds except that this restriction shall not apply to investments in closed ended investment funds which themselves have published investment policies to invest no more than 15 percent of their total assets in other listed closed ended investment funds; and
- the Company will notify to a regulatory information service within five business days of the end of each quarter, a list of all investments in other listed closed ended investment funds, as at the last business day of that quarter, which themselves do not have stated investment policies to invest no more than 15 percent of their total assets in other listed closed ended investment funds.

Although there is no restriction on the Company taking a controlling stake in an investee company, to ensure a spread of investment risk the Company will avoid:

- cross financing between the businesses forming part of its Portfolio including, for example, through the provision of undertakings or security for borrowings by such businesses for the benefit of another; and
- the operation of common treasury functions as between the Company and investee companies.

The Company will, at all times, invest and manage its assets in a way which is consistent with its object of spreading investment risk and in accordance with the investment policy set out above.

BOARD OF DIRECTORS

The Directors are as follows:

Hasan Askari (Chairman)

Mr Askari, the Chairman of the Board, has been an investment banker since 1975, initially with SG Warburg & Co. Ltd. (now UBS Ltd.) and subsequently, with Chase Investment Bank in Hong Kong and Barclays Capital in Tokyo and London. He was most recently at Old Mutual plc., London as a member of the Executive Committee responsible for the United Kingdom and Europe and later, for Asia-Pacific. He remains an adviser to Old Mutual. He is also an adviser to the Kotak Mahindra Group, one of India's leading banking groups. He has an M.A. (Oxon).

Andrea Rossi

Mr Rossi is currently Chairman and Chief Executive Officer of AXA Italy and Deputy Chairman of AXA activities in the Gulf Region. He has worked for the AXA Group for the past eight years, and previously served as Senior Vice President for International Operations for the Mediterranean region, Latin America and the Middle East before becoming Chief Operating Officer for the Mediterranean region in 2005. He has been a Board member of AXA entities in countries including Turkey, Spain, Portugal, Morocco, Brazil, Argentina and Chile and is currently a Board member of AXA Middle East (Lebanon), AXA Italy and AXA Gulf. Before AXA, he held senior executive positions in GE Capital and Aegon Transamerica. Mr Rossi was awarded a Masters of Science degree in Economics from the University of Rome in 1992 and an MBA from Fontainebleau's INSEAD in 1994. Mr Rossi is an Italian national.

Timothy Betley

Mr Betley is a Guernsey resident independent Director of the Company. He has extensive experience in offshore financial management, having started his career with the Trust Corporation of the Bahamas in 1960 and became Managing Director of Royal Bank of Canada (Channel Islands) Limited, Guernsey in 1973. Between 1973 and 2000 he at various times served as a Director of Royal Bank of Canada trust companies in the Bahamas, the Cayman Islands, Jersey, Hong Kong and Switzerland. In the 1990s he was Chairman of Bank Sarasin (Guernsey) Limited, and in 2000 became a Director of Close Trust Company Guernsey Limited. Mr Betley has been a member of the Investment Dealers Association Canada, the Society of Trust and Estate Practitioners, and the Chartered Institute of Bankers.

Kimberly Tara

Ms Tara is the Chief Executive Officer of the Manager. She started her career in 1991 in Mergers & Acquisitions at Morgan Stanley. In 1995 she joined Value Partners, a McKinsey spin-off that is today the largest private consulting firm in Italy. In 1999, she began working as an alternative investment consultant, providing financial and advisory services for clients in Europe and the US. She also worked as Chief Financial Officer and Director of Business Development for a US-based biotech company focusing on central nervous system drug development and memory enhancement. In 2005, she co-founded FourWinds Capital Management (the Manager). Ms. Tara graduated magna cum laude from Brown University with a degree in Business Economics and received her MBA from INSEAD in France. Ms. Tara is resident in France.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AQUA RESOURCES FUND LIMITED

We have audited the Company's financial statements for the period from 12 June 2008 (date of incorporation) to 31 December 2008 which comprise the Statement of Assets and Liabilities, Statement of Operations, Statement of Changes in Net Assets, Statement of Cash Flow, Financial Highlights and the related notes 1 to 7 ("the financial statements"). These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's members as a body in accordance with Section 262 of the Companies (Guernsey) Law 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent required by the law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors are responsible for the preparation of the financial statements in accordance with applicable Guernsey law as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Guernsey) Law, 2008. We also report to you if, in our opinion, the Company has not kept proper accounting records, if the Company's financial statements are not in agreement with the accounting records or if we have not received all the information and explanations we require for our audit.

We read other information contained in the financial statements and consider whether it is consistent with the audited financial statements. This other information comprises Management and Administration, the Chairman's Statement, Directors' Report and Manager's Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view in accordance with accounting principles generally accepted in the United States, of the state of affairs of the Company as at 31 December 2008 and of its loss for the period from 12 June 2008 to 31 December 2008 and have been properly prepared in accordance with the Companies (Guernsey) Law, 2008.

Ernst & Young LLP
Guernsey
28 April 2009

**STATEMENT OF ASSETS AND LIABILITIES
AS AT 31 DECEMBER 2008**

	Notes	31 December 2008 €
Assets		
Cash		69,302,712
Interest receivable		2,338
Prepaid expenses		315,206
TOTAL ASSETS		<u>69,620,256</u>
Liabilities		
Directors' fees payable		4,601
Other payables	4	335,508
TOTAL LIABILITIES		<u>340,109</u>
NET ASSETS		<u>69,280,147</u>
Net Assets consist of:		
Ordinary Shares (no par value, authorised to issue unlimited number of Ordinary Shares, 72,464,340 of which were issued and outstanding)	5	70,030,004
Accumulated losses		(749,857)
		<u>69,280,147</u>
Net asset value per Ordinary Share		<u>0.9561</u>

The accompanying notes form an integral part of the financial statements.

The financial statements on pages 16 to 26 were approved by the Board of Directors on 28 April 2009 and signed on its behalf by:

Hasan Askari
Director

Timothy Betley
Director

STATEMENT OF OPERATIONS
FOR THE PERIOD FROM 12 JUNE 2008 (DATE OF INCORPORATION) TO 31 DECEMBER 2008

	Notes	12 June 2008 to 31 December 2008 €
Operating Income		
Interest income		410,338
Total operating income		<u>410,338</u>
Operating Expenses		
Administrator fees		48,520
Audit & professional fees		115,876
Directors' fees	3	42,598
Organisational expenses		54,060
Due diligence expenses		269,191
Management fees	3	570,245
Miscellaneous expenses		49,017
Total operating expense		<u>1,149,507</u>
Net investment loss		<u>(739,169)</u>
Realised loss from foreign currency		
Net realised loss from foreign currency		(10,688)
		<u>(10,688)</u>
Decrease in net assets resulting from operations		<u><u>(749,857)</u></u>
Net investment loss per Ordinary Share (annualised):		
Basic & Diluted		(0.0185)
Net loss per Ordinary Share (annualised):		
Basic & Diluted		(0.0188)
Weighted Average Number of Ordinary Shares Outstanding:		
Basic & Diluted		67,524,340

The accompanying notes form an integral part of the financial statements.

**STATEMENT OF CHANGES IN NET ASSETS
FOR THE PERIOD FROM 12 JUNE 2008 (DATE OF INCORPORATION) TO 31 DECEMBER 2008**

	Notes	12 June 2008 to 31 December 2008 €
Operations		
Net operating loss		(739,169)
Net realized foreign currency loss		(10,688)
Net decrease in net assets resulting from operations		<u>(749,857)</u>
Share Capital transactions		
Issuance of capital		72,464,340
Offering costs		(2,434,336)
Net increase in net assets resulting from share capital transactions	5	<u>70,030,004</u>
Net increase in net assets		69,280,147
Net assets at beginning of period		-
Net assets at end of period		<u>69,280,147</u>
Net asset value per Ordinary Share		<u>0.9561</u>
Number of Ordinary Shares issued and outstanding at end of period	5	<u>72,464,340</u>

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 12 JUNE 2008 (DATE OF INCORPORATION) TO 31 DECEMBER 2008

	12 June 2008 to 31 December 2008
	€
Operating activities	
Decrease in net assets resulting from operations	(749,857)
Adjustment to reconcile decrease in net assets resulting from operations to net cash used in operating activities:	
Increase in interest receivables	(2,338)
Increase in prepaid expenses	(315,206)
Increase in other payables	340,109
Net cash used in operating activities	<u>(727,292)</u>
Financing activities	
Proceeds from Ordinary Shares issued	72,464,340
Offering costs	<u>(2,434,336)</u>
Net cash provided by financing activities	<u>70,030,004</u>
Net increase in cash	69,302,712
Cash at beginning of period	<u>-</u>
Cash at end of period	<u><u>69,302,712</u></u>

The accompanying notes form an integral part of the financial statements.

**FINANCIAL HIGHLIGHTS
FOR THE PERIOD FROM 12 JUNE 2008 (DATE OF INCORPORATION) TO 31 DECEMBER 2008**

	12 June 2008 to 31 December 2008
Per share data¹	
Net asset value on issue	1.0000
Offering costs	(0.0361)
Net asset value after deducting offering costs	0.9639
Net investment loss	(0.0076)
Net realised foreign currency loss	(0.0002)
Total from investment operations	(0.0078)
Net asset value at end of period	0.9561
Ratios/supplemental data	
Per share market value at end of period	0.9561
Total return	(0.0096)
Total shareholder loss	(0.0439)
Number of Ordinary Shares outstanding at end of period	72,464,340
Weighted average number of Ordinary Shares	67,524,340
Net assets at end of period (in €)	69,280,147
Average net assets ² (in €)	64,581,854
Ratio of operating expenses to average net assets ³	(4.07%)
Ratio of net investment loss to average net assets ³	(2.62%)

The accompanying notes form an integral part of the financial statements.

¹Basic weighted average per share data

²Average net assets calculated using the quarterly net assets

³Ratios based on reporting periods of less than twelve month are annualized

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 12 JUNE 2008 (DATE OF INCORPORATION) TO 31 DECEMBER 2008**

1. ORGANISATION

Aqua Resources Fund Limited (the “Company” or “Aqua”) was incorporated on 12 June 2008 as a closed-ended investment company with limited liability under The Companies (Guernsey) Law, 1994 (as amended).

The Company aims to provide capital appreciation through diversified exposure to a global portfolio of water-related investments. The Company’s portfolio of investments will be diversified by factors such as geography, water sector, and investment type, structure and size. The Company may invest in companies and projects in both mature and emerging markets. There is no predetermined limit per region, but for diversification purposes the Company will invest in at least three regions of the world.

FourWinds Capital Management has been appointed as the Manager of the Company with responsibility for the discretionary management of the Company’s assets.

On 24 July 2008 the Company’s Ordinary Shares were admitted to the Official List of the UK Listing Authority and to trading on the Main Market of the London Stock Exchange under the ticker symbol "H2O" (Admission).

The Company's fiscal year end is 31 December.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally acceptable in the United States of America (“US GAAP”).

The Company’s financial statements are presented in Euro which is the functional and the reporting currency of the Company.

Valuation of Investments

The investments of the Company will be carried at fair value in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 157 (“SFAS No. 157”).

SFAS No. 157 provides a framework for measuring the fair value of assets and liabilities. SFAS No. 157 also provides guidance regarding a fair value hierarchy which prioritises information used to measure fair value and the effect of fair value measurements on earnings and provides for enhanced disclosures determined by the level within the hierarchy of information used in the valuation. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances.

SFAS No. 157 defines fair value in terms of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The price used to measure the fair value is not adjusted for transaction costs while the cost basis of investments may include initial transaction costs. Under SFAS No. 157, the fair value measurement also assumes that the transaction to sell an asset occurs in the principal market for the asset or, in the absence of a principal market, the most advantageous market for the asset. The principal market is the market in which the reporting entity would sell or transfer the asset with the greatest volume and level of activity for the asset. In determining the principal market for an asset or liability under SFAS No. 157, it is assumed that the reporting entity has access to the market as of the measurement date. If no market for the asset exists or if the reporting entity does not have access to the principal market, the reporting entity should use a hypothetical market.

The Company adopted SFAS No. 157 as of 12 June 2008 (the date of incorporation). SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under SFAS No. 157 are described below:

Level 1 Financial assets and liabilities whose values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD FROM 12 JUNE 2008 (DATE OF INCORPORATION) TO 31 DECEMBER 2008**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Level 2 Financial assets and liabilities whose values are based on the following:

- a) Quoted prices for similar assets or liabilities in active markets;
- b) Quoted prices for identical or similar assets or liabilities in non-active markets;
- c) Pricing models whose inputs are observable for substantially the full term of the asset or liability;
- d) Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level 3 Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable. These inputs reflect the directors' own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The Company did not have any financial instruments to measure at fair value as of 31 December 2008.

Use of Estimates

The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. Actual results could differ from those estimates.

Cash

Cash comprises bank balances with banks and financial institutions.

Interest Income

Interest is recorded on an accruals basis to the extent that the amounts are collectible.

Expenses

Expenses are accounted for on an accruals basis.

Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the date of the financial statements. Transactions in foreign currencies are translated at the rates of exchange prevailing at the time of the transaction. Exchange gains or losses are included in the Statement of Operations under net realised gain/(loss) and appreciation/(depreciation) of foreign currency.

Taxation

The Company is a Guernsey Exempt Company and is therefore not subject to taxation on its income under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989.

Consolidation

Under the investment company rules and regulations pursuant to the American Institute of Certified Public Accountants ("AICPA") Audit and Accounting Guide for Investment Companies, investment management companies are precluded from consolidating any entity other than another investment company. An exception to this general principle occurs if the investment company has an investment in an operating company that provides services to the investment company. Investments in investment companies or funds will be recorded as investments in the accompanying financial statements and will not be consolidated. All intercompany accounts will be eliminated on consolidation.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD FROM 12 JUNE 2008 (DATE OF INCORPORATION) TO 31 DECEMBER 2008**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

In May 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. FSP APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). The standard applies to convertible debt instruments that may be settled in cash upon conversion including partial cash settlement. It provides that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's non-convertible debt borrowing rate when interest cost is recognised in subsequent periods. APB 14-1 is effective for financial statements issued for fiscal years and interim periods beginning after 15 December 2008 with early adoption not permitted. The Company has not yet assessed the impact on future financial statements of adopting APB 14-1.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities ("SFAS No. 161"). The objective of SFAS No. 161 is to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS No. 161 improves transparency about the location and amounts of derivative instruments in an entity's financial statements; how derivative instruments and related hedged items are accounted for under SFAS No. 133; and how derivative instruments and related hedged items affect its financial position, financial performance, and cash flows.

SFAS No. 161 achieves these improvements by requiring disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. It also provides more information about an entity's liquidity by requiring disclosure of derivative features that are credit risk-related. Finally, it requires cross-referencing within footnotes to enable financial statement users to locate important information about derivative instruments. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after 15 November 2008, with early application encouraged. The Company has not opted for an early adoption of SFAS No. 161. The Company has not yet assessed the impact of this standard on the financial statements.

In February 2008, the FASB issued FASB Staff Position FAS No. 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions ("FSP FAS 140-3") which provides guidance on when assets purchased from a particular counterparty and financed through a repurchase agreement with the same counterparty are not considered part of the same arrangement for evaluation under SFAS No. 140. FSP FAS 140-3 assumes that the initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (linked transaction) unless all of the following criteria apply:

- (1) the initial transfer and repurchase financing cannot be contractually contingent on one another;
- (2) the repurchase financing entered into between the parties provides the initial transferor with full recourse to the transferee upon default and the repurchase price is fixed;
- (3) the financial asset subject to the initial transfer and repurchase financing is readily obtainable in the marketplace and the transfer is executed at market rates; and
- (4) the repurchase agreement and financial asset do not mature simultaneously.

FSP FAS No. 140-3 is effective for financial statements issued for fiscal years and interim periods beginning after 15 November 2008, with early application not permitted. The Company has not yet assessed the impact on future financial statements of adopting FSP FAS No. 140-3.

In September 2008, the FASB issued FSP FAS No. 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161. The FSP requires enhanced disclosures by sellers of credit derivatives, including credit derivatives embedded in hybrid instruments. FSP FAS 133-1 and FIN 45-4 also amends FIN 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, to require additional disclosure about the current status of the payment/performance risk of a guarantee as of the date of the statement of financial position and excludes disclosures by sellers of credit derivative instruments that are covered under this FSP.

FSP FAS No. 133-1 and FIN 45-4 is intended to improve disclosures about credit derivatives by requiring more information about the potential adverse effects of changes in credit risk on the financial position, financial performance, and cash flows of the sellers of credit derivatives. The FSP is effective for financial statements issued for reporting periods ending after 15 November 2008. Since FSP FAS No. 133-1 and FIN 45-4 only requires additional disclosures concerning credit derivatives and guarantees, the adoption of FSP FAS No. 133-1 and FIN 45-4 will not affect the Company's financial condition, results of operations or cash flows.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD FROM 12 JUNE 2008 (DATE OF INCORPORATION) TO 31 DECEMBER 2008**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In October 2008, the FASB issued FSP FAS 157-3, Determining Fair Value of a Financial Asset in a Market That Is Not Active (“FSP FAS 157-3”). FSP FAS 157-3 clarified the application of SFAS No. 157, Fair Value Measurements in an inactive market. It provided guidance for determining the fair value of a financial asset when the market for that financial asset is inactive. FSP FAS 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. The implementation of this standard did not have an impact on the Company’s financial position and results of operations.

3. SIGNIFICANT AGREEMENTS AND RELATED PARTIES

Manager

The Manager has been appointed by the Company as discretionary investment manager of the Company’s assets pursuant to an investment management agreement dated 21 July 2008 (“Management Agreement”). Under the Management Agreement, the Manager is entitled to a base fee (“Base Fee”) of 2 percent per annum of the net asset value of the Company. The Base Fee is payable quarterly in advance and is calculated at the beginning of each quarter in advance using the higher of (i) an implied straight line increase in net asset value (excluding cash) of 10 percent per annum on a basis which increases 2.5 percent per quarter over the most recently published audited net asset value plus the actual value of all cash, and (ii) the most recently published estimated net asset value.

In addition, the Manager is, in certain circumstances, entitled to a performance fee (“Performance Fee”) in respect of each calculation period. The first calculation period was the period from Admission on 24 July 2008 to 31 December 2008 and, thereafter, the calculation periods shall be each financial period of the Company (“Calculation Period”).

The Performance Fee is payable where the net asset value per Ordinary Share at the end of the relevant Calculation Period exceeds the benchmark net asset value per Ordinary Share, which is the figure equal to the High Water Mark net asset value per Ordinary Share (defined below) increased by 10 percent per annum (or, if the period since a Performance Fee was last paid is not twelve months, an amount equating to an annual compound rate of 10 percent). The High Water Mark net asset value per Ordinary Share is the net asset value per Ordinary Share at the end of the last Calculation Period in respect of which a Performance Fee was paid (or if no Performance Fee has been paid, the net asset value per Ordinary Share immediately following Admission).

The Performance Fee per Ordinary Share will be equal to 20 percent of the amount by which the net asset value per Ordinary Share at the end of the relevant Calculation Period exceeds the High Water Mark net asset value per Ordinary Share subject to the net asset value per Ordinary Share never being reduced as a result below the benchmark net asset value per Ordinary Share.

The Base Fees expensed for the period from 21 July 2008 (the date of the Manager’s appointment) to 31 December 2008 amounted to €570,245 and the Base Fees prepaid as at 31 December 2008 amount to €260,872. There was no Performance Fee paid or accrued as at 31 December 2008.

The Management Agreement between the Company and the Manager is for an initial fixed term of seven years and is terminable by either party giving to the other not less than 24 months’ notice to expire on the seventh anniversary of Admission or on any two year interval after the initial seven year term. The Management Agreement may be terminated by the Company immediately in the event of a continuing material breach of the Management Agreement by the Manager or certain insolvency or regulatory events affecting the Manager.

Administrator

The Administrator, HSBC Securities Services (Guernsey) Ltd, is paid fees for acting as Administrator of the Company on a sliding scale, based on the net asset value of the Company subject to a minimum quarterly fee of €25,000, or such other fees as may be agreed on normal commercial terms between the Administrator and the Company from time to time. The following scale is used for calculating the Administrator’s fees:

€0 to €500,000,000	0.05% per annum
€500,000,001 to €1,000,000,000	0.04% per annum
€1,000,000,001 to €1,500,000,000	0.03% per annum
€1,500,000,001 and above	0.02% per annum

The fees are payable quarterly in arrears.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD FROM 12 JUNE 2008 (DATE OF INCORPORATION) TO 31 DECEMBER 2008**

3. SIGNIFICANT AGREEMENTS AND RELATED PARTIES (CONTINUED)

The Administrator is also entitled to a transaction fee of €35 per transaction, a minimum termination fee of €5,000 in the event of termination or liquidation of the Company, and may be entitled to a minimum fee of €10,000 in the event of any future restructuring of the Company. The Administrator is also entitled to a corporate services management fee on a time charge basis, subject to a minimum of €2,000 per calendar month, a fee of €10,000 for the preparation of each set of financial statements and additional fees for any tax related services provided to the Company.

The Administrator's fees expensed for the period from 12 June 2008 to 31 December 2008 amounted to €48,520. The amount outstanding at 31 December 2008 was €29,616.

Directors' Remuneration and Expenses

Director	Per annum fees entitlement (in £)	Fees paid during the period (in £)	No. of Ordinary Shares paid in satisfaction of fees¹	Fees payable at the end of the period (in £)	Prepaid Directors Fees for 2009 (in £)
Hasan Askari	50,000	50,000	62,500	-	27,945
Andrea Rossi	15,000	15,000	18,750	-	8,383
Timothy Betley	20,000	10,000	12,500	4,411	5,589
Kimberly Tara	-	-	-	-	-

¹Applies to first year fees only

The Company reserves the right to pay Hasan Askari's Directors' Fee in shares in respect of any subsequent years. The Chairman of the Audit and Management Engagement Committee, Timothy Betley, receives £5,000 for his services in this role in addition to his Directors' Fee of £15,000. Kimberly Tara does not receive any Directors' Fees. All of the Directors are also entitled to be paid all reasonable expenses properly incurred by them in attending general meetings, Board or committee meetings or otherwise in connection with the performance of their duties. The Board may determine that additional remuneration may be paid, from time to time, to any one or more Directors in the event such Director or Directors are requested by the Board to perform extra or special services on behalf of the Company.

Kimberly Tara has an interest in 3,985,000 Ordinary Shares of the Company which are owned by the Manager, of which she is a director and shareholder.

Placing Agreement

A placing agreement was entered into on 21 July 2008 between (i) the Company, (ii) the Manager and (iii) Landsbanki Securities (UK) Ltd ("Landsbanki") in respect of the placing of Ordinary Shares at the initial admission of the Company to the Official List of the UK Listing Authority (the "Placing") pursuant to which each of Landsbanki and the Manager agreed to use its reasonable endeavours to arrange for placees to subscribe for up to 500 million Ordinary Shares at a placing price of €1.00 per Ordinary Share. For its services in connection with the Placing, Landsbanki was entitled to a corporate finance fee of £125,000 and a sponsor's fee equivalent to 0.25 percent of the gross proceeds of the Placing. In addition, each of Landsbanki and the Manager were entitled to a commission of 2.5 percent of such part of the gross proceeds of the Placing as was represented by placees procured by each of them. Landsbanki waived 100 percent of its corporate finance fee. Placing fees paid by the Company during the period to the Manager amounted to €260,000 and to Landsbanki amounted to €1,598,166.

4. OTHER PAYABLES

	2008
	€
Administration fees	29,616
Audit fees	36,506
Due diligence expense	255,914
Other accrued expenses	13,472
	<u>335,508</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD FROM 12 JUNE 2008 (DATE OF INCORPORATION) TO 31 DECEMBER 2008**

5.SHAREHOLDERS' EQUITY

The authorised share capital of the Company on incorporation is represented by an unlimited number of Ordinary Shares of no par value which are denominated in Euros.

The holders of Ordinary Shares are entitled to:

- receive and participate in any dividends or other distributions out of the profits of the Company available for dividend or distribution;
- the right to the surplus assets remaining after payment of all the creditors of the Company in the case of winding up; and
- the right to receive notice of, and to attend and vote at, general meetings of the Company and each holder of Ordinary Shares being present in person or by attorney at a meeting upon a show of hands has one vote and upon a poll each such holder present in person or by proxy or by attorney has one vote in respect of each share held by him.

Under the Company's Articles of Association, the Company may purchase its own Ordinary Shares in accordance with the Companies (Purchase of Own Ordinary Shares) Ordinance, 1998. The Company may hold any Ordinary Shares purchased by it whether out of distributable profits or the proceeds of a fresh issue of Ordinary Shares as treasury shares in accordance with The Companies (Purchase of Own Ordinary Shares) (Treasury Shares) Ordinance 2006. Shares held in treasury do not carry the same rights as set out above in respect of Ordinary Shares.

At incorporation, 2 Ordinary Shares were subscribed for by the subscribers to the Memorandum of Association. On 24 July 2008 (the date of Admission), the Company issued a further 62,064,338 Ordinary Shares in its initial placing at a placing price of €1 per share. On 8 October 2008, the Company issued a further 10,400,000 Ordinary Shares at a placing price of €1 per share.

Issued capital

	Number of Ordinary Shares	€
Ordinary Shares issued at 12 June 2008	2	2
Issued during the period (on 24 July 2008 and on 8 October 2008)	72,464,338	72,464,338
Offering costs	-	(2,434,336)
Ordinary Shares issued and outstanding at 31 December 2008	<u>72,464,340</u>	<u>70,030,004</u>

6.SUBSEQUENT EVENTS

On 16 March 2009, the Company purchased 21,100,000 shares in BBI from the Manager, which is a related party of the Company pursuant to Listing Rules 15.5.4R and 11.1.4R by virtue of its being the Manager, a shareholder of the Company and an associate of Kimberly Tara (a Director of the Company), for a consideration of US\$2.97 million (€2.30 million). The purchase constitutes a smaller related party transaction to which the provisions of the UKLA Listing Rule 11.1.10R apply and have been complied with. BDO Stoy Hayward LLP acted as sponsor to the Company in relation to this transaction. On 20 April 2009, the Company acquired by subscription a further stake in BBI (increasing the Company's aggregate holding to approximately 15 percent of the enlarged fully diluted share capital of BBI), for a total consideration of approximately £2.3million.

On 26 March 2009, the Company completed its investment in Ranhill Water Technologies (Cayman) Ltd for \$12,555,000.