

**FMG MIDDLE EAST NORTH AFRICA (MENA) FUND LTD.**

**Financial Statements**

(With Auditors' Report Thereon)

March 31, 2010 and 2009



**KPMG**

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**AUDITORS' REPORT**

To the Directors and Shareholders of  
FMG Middle East North Africa (MENA) Fund Ltd.

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of FMG Middle East North Africa (MENA) Fund Ltd. (the "Fund") as at March 31, 2010, and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FMG Middle East North Africa (MENA) Fund Ltd. as at March 31, 2010, and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in Bermuda and Canada.

Chartered Accountants  
Hamilton, Bermuda  
October 13, 2010

**FMG MIDDLE EAST NORTH AFRICA (MENA) FUND LTD.**

## Statement of Assets and Liabilities

March 31, 2010

*(Expressed in United States Dollars)*

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	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Investments in other investment companies and managed accounts (cost - \$9,235,363; 2009 - \$23,789,233) (see Schedule of Investments) (Notes 2(a), 6, 9, 10 and 11)	\$ 9,695,572	\$ 20,070,346
Cash and cash equivalents (Notes 3, 6 and 11)	15,545,438	3,072,009
Unrealized gain on forward foreign exchange contracts (Notes 6, 9, 10 and 11)	-	370,929
Receivable for investments sold	-	106,415
Dividends receivable	-	1,508
Unamortized formation costs	4,416	8,831
Other assets	<u>13,998</u>	<u>20,925</u>
 Total assets	 <u>25,259,424</u>	 <u>23,650,963</u>
<b>Liabilities</b>		
Unrealized loss on forward foreign exchange contracts (Notes 6, 9, 10 and 11)	93,527	-
Subscriptions received in advance	40,527	-
Management fees and incentive fees payable (Note 4)	128,538	125,177
Redemptions payable (Note 7)	5,573,215	489,680
Payable for investments purchased	-	13,032
Audit fees payable	29,235	18,750
Administration fees payable (Note 5)	18,420	15,960
Accounts payable and accrued expenses (Note 4)	<u>7,134</u>	<u>17,259</u>
 Total liabilities	 <u>5,890,596</u>	 <u>679,858</u>
 <b>Net assets</b>	 <u>19,368,828</u>	 <u>22,971,105</u>
 Less: attributable to 100 common shares (Note 7)	 <u>(100)</u>	 <u>(100)</u>
 <b>Net assets attributable to redeemable preference shares</b> (Note 7)	 <u>\$ 19,368,728</u>	 <u>\$ 22,971,005</u>
 Net assets attributable to 81,993 (2009 - 105,536) US Dollar Class A redeemable preference shares	 <u>\$ 5,957,836</u>	 <u>\$ 6,572,342</u>
 <b>Net asset value per US Dollar Class A redeemable preference share</b>	 <u>\$ 72.66</u>	 <u>\$ 62.27</u>
 Net assets attributable to 766 (2009 - nil) US Dollar Class A09 redeemable preference shares	 <u>\$ 85,705</u>	 <u>\$ -</u>
 <b>Net asset value per US Dollar Class A09 redeemable preference share</b>	 <u>\$ 111.83</u>	 <u>\$ -</u>

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*See accompanying notes to financial statements*

**FMG MIDDLE EAST NORTH AFRICA (MENA) FUND LTD.**

Statement of Assets and Liabilities (continued)

March 31, 2010

*(Expressed in United States Dollars)*

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	<u>2010</u>	<u>2009</u>
Net assets attributable to 1,131,576 (2009 - 1,468,650) US Dollar Class B redeemable preference shares	\$ <u>8,761,494</u>	\$ <u>9,695,609</u>
<b>Net asset value per US Dollar Class B redeemable preference share</b>	\$ <u>7.74</u>	\$ <u>6.60</u>
Net assets attributable to 4,033 (2009 - nil) US Dollar Class B09 redeemable preference shares	\$ <u>46,381</u>	\$ <u>-</u>
<b>Net asset value per US Dollar Class B09 redeemable preference share</b>	\$ <u>11.50</u>	\$ <u>-</u>
Net assets of \$2,272,212 (2009 - \$2,623,847) attributable to 25,819 (2009 - 35,194) Euro Class A redeemable preference shares	€ <u>1,681,850</u>	€ <u>1,974,826</u>
<b>Net asset value per Euro Class A redeemable preference share</b>	€ <u>65.14</u>	€ <u>56.11</u>
Net assets of \$149,514 (2009 - \$19,312) attributable to 981 (2009 - 144) Euro Class A09 redeemable preference shares	€ <u>110,670</u>	€ <u>14,535</u>
<b>Net asset value per Euro Class A09 redeemable preference share</b>	€ <u>112.83</u>	€ <u>100.94</u>
Net assets of \$2,095,586 (2009 - \$4,059,895) attributable to 222,769 (2009 - 512,422) Euro Class B redeemable preference shares	€ <u>1,548,242</u>	€ <u>3,055,769</u>
<b>Net asset value per Euro Class B redeemable preference share</b>	€ <u>6.95</u>	€ <u>5.96</u>

*See accompanying notes to financial statements*

Signed on behalf of the Board

\_\_\_\_\_  
Director\_\_\_\_\_  
Director

**FMG MIDDLE EAST NORTH AFRICA (MENA) FUND LTD.**

Schedule of Investments

March 31, 2010

*(Expressed in United States Dollars)*

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<u>Other Investment Companies</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>	<u>Redemption Frequency</u>
Khaleej Equity Fund	\$ 2,735,369	\$ 2,851,465	14.72%	Weekly
ING (L) Invest - Middle East & North Africa	<u>6,499,994</u>	<u>6,844,107</u>	<u>35.34%</u>	Daily
<b>Total investments in other investment companies</b>	<b>\$ <u>9,235,363</u></b>	<b>\$ <u>9,695,572</u></b>	<b><u>50.06%</u></b>	

*See accompanying notes to financial statements*

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**FMG MIDDLE EAST NORTH AFRICA (MENA) FUND LTD.**

## Schedule of Investments

March 31, 2009

*(Expressed in United States Dollars)*

<b><u>Other Investment Companies</u></b>	<b><u>Cost</u></b>	<b><u>Fair Value</u></b>	<b><u>% of Net Assets</u></b>	<b><u>Redemption Frequency</u></b>
Ajeej MENA Fund	\$ 5,122,635	\$ 2,348,971	10.23%	Monthly
Babylon Fund Corporation, Class A Series 10	1,000,000	878,836	3.83%	Quarterly
MENA Admiral Fund	3,024,862	3,205,230	13.95%	Monthly
TNI MENA Special Situations Sub-Fund	<u>3,113,071</u>	<u>3,032,978</u>	<u>13.20%</u>	Monthly
Total investments in other investment companies	<u>12,260,568</u>	<u>9,466,015</u>	<u>41.21%</u>	
<b><u>Investment in Managed Accounts</u></b>				
JS Investments Limited Managed Account	1,994,438	947,230	4.12%	
Algebra Capital Limited ITP Managed Account	4,930,025	5,281,671	22.99%	
Algebra Capital Limited SSP Managed Account	<u>4,604,202</u>	<u>4,375,430</u>	<u>19.05%</u>	
Total investments in managed accounts	<u>11,528,665</u>	<u>10,604,331</u>	<u>46.16%</u>	
<b>Total investments in other investment companies and managed accounts</b>	<b><u>\$ 23,789,233</u></b>	<b><u>\$ 20,070,346</u></b>	<b><u>87.37%</u></b>	

As at March 31, 2009, holdings in the managed accounts were comprised as follows:

Long – equities	\$ 7,560,141	32.90%
Long – warrants	2,485,235	10.82%
Long – other investment companies	279,944	1.22%
Long – corporate bonds	279,011	1.22%

As at March 31, 2009, one equity security held in Algebra Capital Limited SSP Managed Account, called Prime Industrial Holding, with a fair value of \$1,257,220, represented more than 5% of the Fund's net asset value. No other single equity security held in the managed accounts was individually greater than 5% of the net assets of the Fund.

*See accompanying notes to financial statements*

**FMG MIDDLE EAST NORTH AFRICA (MENA) FUND LTD.**

## Statement of Operations

Year ended March 31, 2010

*(Expressed in United States Dollars)*

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	<u>2010</u>	<u>2009</u>
<b>Investment income</b>		
Interest income	\$ 8	\$ 5
Dividend income	369,898	802,872
Rebate income	<u>9,570</u>	<u>663</u>
 Total income	 <u>379,476</u>	 <u>803,540</u>
 <b>Expenses</b>		
Incentive fees (Note 4)	10,318	798,583
Management fees (Note 4)	472,634	1,662,768
Administration fees (Note 5)	67,970	112,826
Audit fees	36,000	41,018
Bank charges	5,117	35,910
Custodian fees (Note 6)	5,326	95,367
Directors' and secretarial fees	13,500	18,039
Bermuda company fees	3,112	3,151
Miscellaneous	<u>16,473</u>	<u>19,683</u>
 Total expenses	 <u>630,450</u>	 <u>2,787,345</u>
 <b>Net investment loss</b>	 <u>(250,974)</u>	 <u>(1,983,805)</u>
 <b>Realized and unrealized gains and losses on investments</b>		
Net realized losses on sale of investments	(301,269)	(25,130,131)
Net realized gains (losses) on forward foreign exchange contracts	467,674	(5,411,628)
Net change in unrealized gains and losses on investments	4,179,096	(11,431,558)
Net change in unrealized gains and losses on forward foreign exchange contracts	<u>(464,456)</u>	<u>(361,537)</u>
 Net realized and unrealized gains and losses on investments	 <u>3,881,045</u>	 <u>(42,334,854)</u>
 <b>Net increase (decrease) in net assets from operations</b>	 <u>\$ 3,630,071</u>	 <u>\$ (44,318,659)</u>

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*See accompanying notes to financial statements*

**FMG MIDDLE EAST NORTH AFRICA (MENA) FUND LTD.**

## Statement of Changes in Net Assets

Year ended March 31, 2010

*(Expressed in United States Dollars)*

	<u>2010</u>	<u>2009</u>
<b>Net increase (decrease) in net assets resulting from operations</b>		
Net investment loss	\$ (250,974)	\$ (1,983,805)
Net realized losses on sale of investments	(301,269)	(25,130,131)
Net realized gains (losses) on forward foreign exchange contracts	467,674	(5,411,628)
Net change in unrealized gains and losses on investments	4,179,096	(11,431,558)
Net change in unrealized gains and losses on forward foreign exchange contracts	<u>(464,456)</u>	<u>(361,537)</u>
Net increase (decrease) in net assets from operations	<u>3,630,071</u>	<u>(44,318,659)</u>
<b>From capital share transactions</b>		
Proceeds from sale of 134 (2009 - 50,622)		
US Dollar Class A redeemable preference shares	9,750	6,544,895
Proceeds from sale of 807 (2009 - nil)		
US Dollar Class A09 redeemable preference shares	86,987	-
Proceeds from sale of 737 (2009 - 634,819)		
US Dollar Class B redeemable preference shares	5,687	8,879,023
Proceeds from sale of 6,186 (2009 - nil)		
US Dollar Class B09 redeemable preference shares	68,026	-
Proceeds from sale of 246 (2009 - 24,016)		
EUR Class A redeemable preference shares	21,170	4,445,398
Proceeds from sale of 1,245 (2009 - 144)		
EUR Class A09 redeemable preference shares	191,124	18,439
Proceeds from sale of nil (2009 - 800,649)		
EUR Class B redeemable preference shares	-	15,112,420
Proceeds from sale of 242,072 (2009 - nil)		
EUR Class B09 redeemable preference shares	3,555,387	-
Payment on redemption of 23,677 (2009 - 51,946)		
US Dollar Class A redeemable preference shares	(1,712,339)	(4,656,798)
Payment on redemption of 41 (2009 - nil)		
US Dollar Class A09 redeemable preference shares	(4,361)	-
Payment on redemption of 337,811 (2009 - 1,947,363)		
US Dollar Class B redeemable preference shares	(2,525,540)	(20,709,107)
Payment on redemption of 2,153 (2009 - nil)		
US Dollar Class B09 redeemable preference shares	(26,259)	-
Payment on redemption of 9,621 (2009 - 25,371)		
EUR Class A redeemable preference shares	(873,539)	(2,640,202)
Payment on redemption of 408 (2009 - nil)		
EUR Class A09 redeemable preference shares	(65,480)	-
Payment on redemption of 289,653 (2009 - 805,288)		
EUR Class B redeemable preference shares	(2,759,008)	(8,472,940)
Payment on redemption of 242,072 (2009 - nil)		
EUR Class B09 redeemable preference shares	<u>(3,203,953)</u>	<u>-</u>
Net decrease in net assets from capital share transactions	<u>(7,232,348)</u>	<u>(1,478,872)</u>

*See accompanying notes to financial statements*



**FMG MIDDLE EAST NORTH AFRICA (MENA) FUND LTD.**

Statement of Changes in Net Assets (continued)

Year ended March 31, 2010  
(Expressed in United States Dollars)

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	<u>2010</u>	<u>2009</u>
<b>Net decrease in net assets attributable to redeemable preference shares</b>	\$ (3,602,277)	\$ (45,797,531)
<b>Net assets attributable to redeemable preference shares at the beginning of the year</b>	<u>22,971,005</u>	<u>68,768,536</u>
<b>Net assets attributable to redeemable preference shares at the end of the year</b>	\$ <u>19,368,728</u>	\$ <u>22,971,005</u>

*See accompanying notes to financial statements*

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**FMG MIDDLE EAST NORTH AFRICA (MENA) FUND LTD.**

## Statement of Cash Flows

March 31, 2010

*(Expressed in United States Dollars)*

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	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities:</b>		
Net increase (decrease) in net assets from operations	\$ 3,630,071	\$ (44,318,659)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by (used in) operating activities:		
Change in assets and liabilities:		
Net change in investments and derivative financial instruments	10,839,230	41,028,519
Investment paid in advance	-	3,200,000
Receivable for investments sold	106,415	410,677
Dividends receivable	1,508	125,590
Unamortized formation costs	4,415	4,415
Other assets	6,927	(18,562)
Management fees and incentive fees payable	3,361	(137,347)
Payable for investments purchased	(13,032)	(114,481)
Audit fees payable	10,485	(16,976)
Administration fees payable	2,460	(2,290)
Accounts payable and accrued expenses	(10,125)	(238,897)
Net cash provided by (used in) operating activities	<u>14,581,715</u>	<u>(78,011)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issue of redeemable preference shares	3,978,658	32,843,459
Payments on redemptions of redeemable preference shares	<u>(6,086,944)</u>	<u>(35,989,367)</u>
Net cash used in financing activities	<u>(2,108,286)</u>	<u>(3,145,908)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	12,473,429	(3,223,919)
<b>Cash and cash equivalents at beginning of year</b>	<u>3,072,009</u>	<u>6,295,928</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 15,545,438</u>	<u>\$ 3,072,009</u>

*See accompanying notes to financial statements*

# FMG MIDDLE EAST NORTH AFRICA (MENA) FUND LTD.

Notes to Financial Statements

March 31, 2010

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## 1. **Operations**

FMG Middle East North Africa (MENA) Fund Ltd. (the "Fund") was incorporated in Bermuda on February 8, 2006 as an open ended investment fund, empowered by its bye-laws to issue, redeem and reissue its own shares at prices based on their net asset value.

The Fund invests in other investment companies and managed accounts managed by independent investment managers in the Middle East and North Africa region with the objective of earning a return in excess of that earned on the Morgan Stanley Capital International World Index.

## 2. **Significant accounting policies**

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

### *(a) Investment transactions and valuation*

Investments are categorized as held for trading in accordance with CICA Section 3855, *Financial Instruments – Recognition and Measurement* ("Section 3855") and therefore are recorded at fair value. Investments in other investment companies are recorded on the effective date of the subscription and are valued at their net asset value as reported by the administrators of the other investment companies. Where net asset values are not reported on a timely basis, the Manager (Note 4) may estimate the net asset value based on information provided by the other investment companies. The other investment companies in which the Fund invests generally value securities traded on a national securities exchange or reported on a national market and securities traded in the over-the-counter market at the last reported bid price if held long and the last reported ask price if sold short on the valuation day. Realized gains or losses on sale of investments are determined on an average cost basis. Realized gains and losses and the net change in unrealized gains and losses are included in the statement of operations. Dividend income is recorded on the ex-dividend date and is disclosed net of the withholding taxes.

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

The investment in the equity securities within the managed accounts are accounted for on a trade date basis. The securities within the managed accounts that are traded on a national securities exchange are valued at the last reported bid price on the valuation day. If significant, the interest, dividend income, fees and realized gains and losses arising from the managed account are included in the relevant line items in the statement of operations. Similarly, cash, receivables and payables attributable to the managed accounts are included in the statement of assets and liabilities.

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## FMG MIDDLE EAST NORTH AFRICA (MENA) FUND LTD.

Notes to Financial Statements

March 31, 2010

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### 2. Significant accounting policies (continued)

#### (b) Forward foreign exchange contracts

The Fund purchases forward foreign exchange contracts in amounts approximating the net assets attributable to the Euro classes of preference shares to manage the Fund's exposure to changes in the US Dollar/Euro exchange rates. Forward foreign exchange contracts are recorded at fair value at the reporting date. The unrealized gain or loss on open forward foreign exchange contracts on each valuation date is the difference between the contract date exchange rate and the forward exchange rate at the valuation date, as reported by published sources, applied to the face amount of the contract. The unrealized gain or loss at the reporting date is included in the statement of assets and liabilities. Realized and unrealized changes in the fair value of the forward foreign exchange contracts are included in the statement of operations in the period in which the change occurs and are attributed entirely to the classes of redeemable preference shares that the forward contracts relate to (see Notes 2(d) and 10).

#### (c) Middle East and North Africa business environment

The Fund invests in companies that are located in the Middle East and North Africa regions. This region is an emerging market and investments in this market involve risks that do not necessarily exist in more mature developed countries. These markets continue to experience significant political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment.

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

#### (d) Allocation of profits and losses

The profit or loss of the Fund for each month, excluding realized and unrealized gains and losses on forward foreign exchange contracts used for hedging (Notes 2(b) and 10) before management and incentive fees, is allocated at the end of each month between the US Dollar and Euro classes of redeemable preference shares (Note 7). The amount is allocated in proportion to the relative net assets of each class of redeemable preference shares on the first day of the month after adding subscriptions and deducting redemptions effective that day. All of the realized and unrealized gains and losses on forward foreign exchange contracts used for hedging are allocated to the appropriate class of redeemable preference shares. Management and incentive fees are calculated separately for each class of redeemable preference shares (Note 4).

#### (e) Foreign currency transactions

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

#### (f) Interest income and expense

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

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## FMG MIDDLE EAST NORTH AFRICA (MENA) FUND LTD.

Notes to Financial Statements

March 31, 2010

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### 2. Significant accounting policies (continued)

#### (g) Rebate income

The Fund receives rebates as part of the management and incentive fees charged on these investments in other investment companies that are also managed by the Manager (Note 3), or as per the investment agreements entered into by the Fund's Manager. If the amount and timing of such receipts can be estimated, they are accrued; otherwise rebate income is recorded on a cash basis.

#### (h) Formation costs

Formation costs are deferred and amortized over a sixty-month period.

#### (i) Cash and cash equivalents

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

#### (j) Use of estimates

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

#### (k) Changes in accounting policies

On April 1, 2008, the Fund adopted CICA Section 3862, *Financial Instruments – Disclosures* (“Section 3862”) and CICA Section 3863, *Financial Instruments – Presentation* (“Section 3863”), replacing Section 3861. Section 3862 requires enhanced disclosure of the nature and extent of the risks arising from financial instruments and how the Fund manages those risks. Section 3863 carries forward unchanged the presentation requirements of Section 3861 with respect of financial instruments.

### 3. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	<u>2010</u>	<u>2009</u>
Cash	\$ 13,530,646	\$ 2,259,833
Cash held in managed accounts	<u>2,014,792</u>	<u>812,176</u>
	<u>\$ 15,545,438</u>	<u>\$ 3,072,009</u>

### 4. Management, incentive and load fees

#### *Management fees*

The Fund pays FMG Fund Managers Limited (the “Manager”) a management fee at a rate of 2.0% per annum of the net assets attributable to the Class A Shares of the Fund and 1.5% per annum of the net assets attributable to the Class B Shares of the Fund, calculated on a monthly basis and payable quarterly. For the year ended March 31, 2010, this management fee was \$436,251 (2009 - \$932,745), of which \$101,725 (2009 - \$103,809) was payable at March 31, 2010.

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## FMG MIDDLE EAST NORTH AFRICA (MENA) FUND LTD.

Notes to Financial Statements

March 31, 2010

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#### 4. **Management, incentive and load fees** (continued)

##### *Management fees* (continued)

The Fund also pays fees to the manager of the managed account. For the year ended March 31, 2010, the Fund incurred management fees of \$36,383 (2009 - \$730,023), of which \$26,813 (2009 - \$21,323) was payable at March 31, 2010.

##### *Incentive fees*

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

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

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

For the year ended March 31, 2010, incentive fees was \$10,318 (2009 - \$798,583), of which \$nil (2009 - \$45) was payable at March 31, 2010.

##### *Load fees*

The Manager may charge load fees of up to 5% of the amount subscribed. When charged these load fees will reduce the amount available to shareholders for the purchase of redeemable preference shares in the Fund. For the year ended March 31, 2010, load fees were \$7,433 (2009 - \$337,467), of which \$1,400 (2009 - \$2,642) were included within the accounts payable and accrued expenses.

One of the directors of the Fund is also a director of the Manager.

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## FMG MIDDLE EAST NORTH AFRICA (MENA) FUND LTD.

Notes to Financial Statements

March 31, 2010

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### 5. Administration fees

Apex Fund Services Limited (the “Administrator”) acts as the administrator, registrar and transfer agent for the Fund. For administration services provided, the Fund pays fees at the higher of \$2,000 per month for net assets up to \$10 million and \$3,000 per month for net assets exceeding \$10 million, or 15 basis points of the Fund’s average net assets. Effective December 1, 2008, the minimum fee was increased to \$3,000 per month for net assets up to \$10 million and \$4,000 per month for net assets exceeding \$10 million. For the year ended March 31, 2010, Administration fees were \$67,970 (2009 - \$112,826), of which \$18,420 (2009 - \$15,960) was payable at March 31, 2010.

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

### 6. Custodian fees

Effective August 14, 2009, Credit Suisse AG (the “Custodian”) acts as custodian to the Fund. Fees for custody services are charged a fee of 7 basis points per annum of the value of the net assets of the Fund under custody subject to an annual minimum of CHF 5,500. In addition, a set up fee of US\$1,500 will be payable together with all responsible disbursement and out-of-pocket expenses. Prior to August 14, 2009, HSBC Institutional Trust Services (Bermuda) Limited was the custodian for the Fund. Fees for custody services prior to August 14, 2009 were charged at the higher of \$3,000 per annum or five basis points of the gross asset value of investments held in custody (calculated monthly). In addition, custody transaction fees were chargeable on individual transactions on a sliding scale, depending on the market and type of security.

Effective August 26, 2009, the Custodian has a right of lien against all currency accounts and investments in other investment companies held by the Custodian on the Fund’s behalf. The purpose of the right of lien is to secure any and all claims of the Custodian against the Fund from any agreement or contracts as well as claims on other legal grounds resulting from business operations with the Fund.

### 7. Share capital

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

The holder of the common shares is not entitled to receive dividends, may not redeem their holding and is only entitled to be repaid the par value of the common shares upon a winding-up or distribution of capital. The common shares are entitled to one vote per share at a general meeting. All the common shares are held by the Manager (Note 4). Each of the redeemable preference shares carries no preferential or pre-emptive rights upon the issue of new shares and has no voting rights at general meetings of the Fund.

Shares may be purchased and redeemed on a Dealing Day, which is generally the first business day of each calendar month. Shares may be purchased at the net asset value per share calculated at the immediately preceding Valuation Day, generally the last business day of the preceding month. Class A Shares and Class B Shares may be redeemed with 10 and 20 business days’ written notice, respectively, at their net asset value per share, subject to certain restrictions as described in the Prospectus.

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## FMG MIDDLE EAST NORTH AFRICA (MENA) FUND LTD.

Notes to Financial Statements

March 31, 2010

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### 7. **Share capital** (continued)

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

At March 31, 2010, redemptions payable include \$5,160,415 payable to FMG (EU) MENA Fund Ltd., a fund with the same manager as the Fund.

At March 31, 2009, FMG (EU) MENA Fund Ltd. held 43.47% of the EUR Class B redeemable preference shares.

### 8. **Taxation**

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

It is management's belief that the Fund is not engaged in a United States trade or business and will not be subject to United States income or withholding taxes in respect of the profits and losses of the Fund, other than the 30% withholding tax on U.S. source dividends.

As a result, management has made no provision for income taxes in these financial statements.

### 9. **Fair value of financial instruments**

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

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

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

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

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## FMG MIDDLE EAST NORTH AFRICA (MENA) FUND LTD.

Notes to Financial Statements

March 31, 2010

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### 9. Fair value of financial instruments (continued)

The following is a summary of the inputs used as of March 31, 2010 in valuing the Fund's investments and derivatives carried at fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments in other investment companies	\$ <u>6,844,107</u>	\$ <u>2,851,465</u>	\$ <u>—</u>	\$ <u>9,695,572</u>
Derivative liabilities	\$ <u>—</u>	\$ <u>(93,527)</u>	\$ <u>—</u>	\$ <u>(93,527)</u>

For investments in other investment companies the Fund has used the net asset value per share reported by the administrators of the investment companies to arrive at fair value.

### 10. Financial instruments and risk management

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

#### (a) Liquidity risk

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

The schedule of investments summarizes the redemption frequencies of the Fund's investments in other investment companies at March 31, 2010. The information has been obtained by the Manager from the offering memoranda or similar information provided by the managers of the underlying investment companies.

The liabilities of the Fund are comprised of accrued expenses and redemptions payable and these fall due within 3 months of the date of the statement of assets and liabilities.

#### (b) Interest rate risk

Interest rate risk arises when an entity invests in interest-bearing financial instruments. The Fund does not hold investments which are sensitive to interest rates but is indirectly exposed to the interest rate risk of the investments held by the investment companies in which the Fund invests.

#### (c) Credit risk

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

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## FMG MIDDLE EAST NORTH AFRICA (MENA) FUND LTD.

Notes to Financial Statements

March 31, 2010

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### 10. Financial instruments and risk management (continued)

#### (c) Credit risk (continued)

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

The Fund has cash of \$2,014,792 held in managed accounts. Algebra Capital Limited act as the advisor for the managed accounts. Unlike an investment in an investment company, the Fund will not receive shares or any other form of title for its investment but will simply rank as a creditor of the advisor. The advisor for the managed accounts will make separate custody arrangements for the investments held therein. The maximum amount of exposure to the advisor is represented by the carrying amount of the managed accounts.

#### (d) Market risk

Market risk is the risk that the changes in interest rates, foreign exchange rates or securities prices will affect the fair value of the financial instruments held by the Fund. The Fund invests directly through managed accounts and indirectly through other investment companies in securities that are traded in the Middle East and North Africa. These investment markets are volatile and difficult to predict and therefore expose the Fund to significant market risk. Maximum risk resulting from financial instruments is equivalent to their fair value.

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

At March 31, 2010, if the price of the investments increased by 5%, this would have increased the net assets attributable to holders of redeemable preference shares by \$484,779 (2009 - \$1,003,517); an equal change in the opposite direction would have decreased the net assets attributable to holders of redeemable preference shares by an equal amount. Actual results will differ from this sensitivity analysis and the difference could be material.

#### (e) Currency risk

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

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

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**FMG MIDDLE EAST NORTH AFRICA (MENA) FUND LTD.**

Notes to Financial Statements

March 31, 2010

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

(e) *Currency risk* (continued)

	<u>Monetary Assets</u>	<u>Monetary Liabilities</u>	<u>Net assets attributable to non-USD denominated share classes</u>	<u>Forward FX contracts</u>	<u>Net Exposure</u>
March 31, 2010					
EUR	\$ <u>—</u>	\$ <u>(1,478)</u>	\$ <u>(4,517,312)</u>	\$ <u>9,452,494</u>	\$ <u>4,933,704</u>
March 31, 2009					
SAR	\$ 1,003	\$ —	\$ —	\$ —	\$ 1,003
AED	1,172,231	—	—	—	1,172,231
QAR	1,124,848	—	—	—	1,124,848
PKR	1,069,459	(13,032)	—	—	1,056,427
EGP	2,308,187	—	—	—	2,308,187
KWD	1,660,890	—	—	—	1,660,890
EUR	—	(114,870)	(6,703,054)	6,252,955	(564,969)
Other currencies	<u>732,681</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>732,681</u>
	<u>\$ 8,069,299</u>	<u>\$ (127,902)</u>	<u>\$ (6,703,054)</u>	<u>\$ 6,252,955</u>	<u>\$ 7,491,298</u>

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

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

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

## FMG MIDDLE EAST NORTH AFRICA (MENA) FUND LTD.

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### 10. Financial instruments and risk management (continued)

#### (e) Currency risk (continued)

At March 31, 2010, had the US Dollar strengthened by 5% in relation to the non-hedged currencies, there would be an approximate net impact of \$nil (2009 - \$(402,813)) on the statement of operations and net assets of the Fund arising from the change in the carrying value of monetary assets, as shown below.

There would also be an approximate net impact of \$(246,685) (2009 - \$28,245) on the statement of operations and on the net assets attributable to the hedged non-USD denominated share classes. A 5% weakening of the US Dollar against the Euro would have resulted in an approximate equal but opposite effect.

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

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

<u>Currency to be Bought</u>	<u>Currency to be Sold</u>	<u>Contract due Date</u>	<u>Fair Value</u>
EUR 6,927,949	USD 9,452,494	April 7, 2010	\$ <u>(93,527)</u>

At March 31, 2009, the Fund had the following open forward foreign exchange contract:

<u>Currency to be Bought</u>	<u>Currency to be Sold</u>	<u>Contract due Date</u>	<u>Fair Value</u>
EUR 4,985,612	USD 6,252,955	April 2, 2009	\$ <u>370,929</u>

#### (f) Capital management

The Fund's objectives in managing the redeemable preference shares are to ensure a stable base to maximize returns to all investors, and to manage liquidity risk arising from redemptions. The Fund's management of the liquidity risk arising from redeemable preference shares is discussed in Note 10(a).

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

### 11. Overdraft facility

The Fund had a multi-currency overdraft facility of \$3,000,000 with The Bank of Bermuda Limited. Collateral for the overdraft facility was a fixed and floating charge over the investments portfolio and deposits held in the Fund's restricted account with HSBC Institutional Trust Services (Bermuda) Limited. Aggregate drawings of the facility were limited to the lesser of \$3,000,000 or 15% of the net asset value of the Fund. Interest was charged at LIBOR plus 1.5% per annum and was payable monthly. The overdraft facility was closed with the change in the Fund's Custodian, effective August 14, 2009.

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**FMG MIDDLE EAST NORTH AFRICA (MENA) FUND LTD.**

Notes to Financial Statements

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**12. Subsequent events**

Subsequent to year-end, certain investments of the Fund were transferred to FMG (EU) MENA Fund Ltd., a sub-fund of FMG Funds SICAV Ltd. which is a regulated Malta entity managed by FMG Malta Ltd. In exchange for these investments, the Fund received shares in FMG (EU) MENA Fund Ltd. Class B09 USD for the same value.

Effective April 1, 2010, the redemption notice period changed from being 10 and 20 business days written notice for Class A and Class B shares respectively, to providing notice by at least the 20<sup>th</sup> day of the month prior to the Dealing Day.

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