

AQUA RESOURCES FUND LIMITED

Annual Report and Audited Consolidated Financial Statements

for the year ended 31 December 2009

The Company is a Guernsey domiciled Authorised Closed-ended investment scheme pursuant to 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.

AQUA RESOURCES FUND LIMITED

CONTENTS

	Page
Management and Administration	1
Chairman's Statement	3
Directors' Report	6
Manager's Report	15
Investment Objective and Policy	20
Board of Directors	23
Independent Auditor's Report	24
Consolidated Statement of Assets and Liabilities	26
Consolidated Schedule of Investments	27
Consolidated Statement of Operations	28
Consolidated Statement of Changes in Net Assets	29
Consolidated Statement of Cash Flows	30
Consolidated Financial Highlights	31
Notes to the Consolidated Financial Statements	32

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AQUA RESOURCES FUND LIMITED

MANAGEMENT AND ADMINISTRATION

DIRECTORS:	Hasan Askari (<i>Chairman</i>)* Andrea Rossi* Timothy Betley* Kimberly Tara (<i>all of whom are non executive</i>) * <i>independent directors</i>
REGISTERED OFFICE:	Arnold House St. Julian's Avenue St. Peter Port Guernsey CI GY1 3NF
MANAGER AND PLACING AGENT:	FourWinds Capital Management Scotia Centre PO Box 268 George Town Grand Cayman KY1-1104 Cayman Islands
CORPORATE BROKER:	Cenkos Securities plc 6,7,8 Tokenhouse Yard London EC2R 7AS United Kingdom
SOLICITORS TO THE COMPANY: (<i>as to English Law</i>)	Herbert Smith LLP Exchange House Primrose Street London EC2A 2HS United Kingdom
ADVOCATES TO THE COMPANY: (<i>as to Guernsey Law</i>)	Ozannes PO Box 186 1 Le Marchant Street St. Peter Port Guernsey CI GY1 4HP
ADMINISTRATOR AND COMPANY SECRETARY:	HSBC Securities Services (Guernsey) Limited Arnold House St. Julian's Avenue St. Peter Port Guernsey CI GY1 3NF
AUDITORS:	Ernst & Young LLP PO Box 9 Royal Chambers St. Julian's Avenue St. Peter Port Guernsey CI GY1 4AF

AQUA RESOURCES FUND LIMITED

MANAGEMENT AND ADMINISTRATION (continued)

REGISTRAR:

Capita Registrars (Guernsey) Limited
PO Box 627
Longue Hougue House
St. Sampson
Guernsey CI
GY1 4PP

UK TRANSFER AGENT:

Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

AQUA RESOURCES FUND LIMITED

CHAIRMAN'S STATEMENT

for the year ended 31 December 2009

INTRODUCTION

It is my pleasure to report the results of Aqua Resources Fund Limited ("Aqua" or the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2009.

HIGHLIGHTS

- Invested €6.5 million in aggregate over the year, for an approximate 17 percent stake in Bluewater Bio International;
- Completed joint venture with the Ranhill group to invest US\$12.6 million (€9.3 million) in Ranhill Water Technologies (Cayman) Limited in return for a 45 percent stake;
- Invested US\$3 million (€2.1 million) growth capital in In-Pipe Technology Company, LLC for a 14 percent stake, with further investment expected in 2010 (subject to certain milestones being met);
- Made a US\$20 million (€13.5 million) pre-IPO investment in China Hydroelectric Corporation, which subsequently launched an IPO and was listed on the New York Stock Exchange in January 2010. Aqua currently owns a 4 percent stake in the company;
- Since the end of the year the Company has completed additional investments bringing the total invested amount to 80 percent of net assets;
- At 31 December 2009, the Company had invested approximately 53 percent of its net assets; and
- At 31 December 2009, the audited net asset value per ordinary share of the Company was €1.0219.

INVESTMENT PORTFOLIO

Despite launching the Company in the midst of a worldwide economic recession, 2009 was a year during which Aqua confirmed, through the quality of the investments it has made, that it is well positioned to take advantage of the unique long-term investment opportunities in the water sector.

During the year, Aqua made four investments with a dedicated focus on operators and technologies in high growth markets, and with the aim of delivering a well-balanced portfolio both in terms of sector and geography. Two investments were made in technology companies that share the characteristic of providing a cost saving solution to large water utilities. In the context of a global recession, these are attractive investments as they allow for water utilities to continue improving their water plants while spending less money than before. The first investment of this nature was in Bluewater Bio International ("BBI"), which provides a biological solution that efficiently removes, during the process of treating waste water, a large amount of inorganic nutrients as well as biological matter, hence helping wastewater plants to produce re-usable water. The second investment was in US-based In-Pipe Technologies, LLC ("In-Pipe"), which has developed a totally chemical-free bacteriological solution which is used to pre-treat water in the underground sewage systems, the process being well-suited for both municipal and industrial customers. Two

CHAIRMAN'S STATEMENT (continued)

for the year ended 31 December 2009

further investments were made in owner-operators, i.e. project based companies who own the assets they operate. The first investment was made in Ranhill Water Technologies (Cayman) Limited ("RWT") which is a pan-Asian water developer with a presence in Southeast Asia, China and India. The second investment was made in China Hydroelectric Company ("CHC") which operates small and medium size hydropower plants in China. All four investments are further detailed in the Manager's Report.

FourWinds Capital Management, the Company's investment manager (the "Manager"), has strengthened its team of investment professionals focused on the environmental sector, with a particular emphasis on water and water solutions, as well as individuals dedicated to operations and risk management. The Board of Directors of the Company (the "Board" or the "Directors") is satisfied with the risk management and investment standards that the Manager has applied. A detailed analysis of the risks and uncertainties facing the business is set out on page 19 of the Managers Report

NET ASSET VALUE

At 31 December 2009 the net asset value ("NAV") per ordinary share of the Company ("Ordinary Share") was €1.0219 (€0.9561 at 31 December 2008).

The Directors are conscious of the fact that the Ordinary Shares of the Company have during 2009 and since the year-end traded at a discount to the net asset value of the Ordinary Shares. The Directors review the relative and absolute performance of the share price regularly and consider measures to narrow the discount and will continue to do so, if necessary, in the future.

BOARD'S INTENTIONS

The Board is committed to continuing its approach of 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

With better visibility than a year ago and despite a market environment which remains challenging, your Board believes the Company is well positioned to provide healthy risk adjusted returns. The portfolio is now substantially invested in water and water related investments providing not only a global and well-balanced geographic exposure but also strong intra-sectoral diversification.

At 31 December 2009, the Company had invested approximately 53 percent of its net assets, and the Board is pleased with the quality of these investments. Since the year end, the Company has subscribed for five-year convertible bonds of Waterleau Group N.V. ("Waterleau") for a total cash consideration of €20 million. Following completion of this investment on 1 April 2010, the Company has now invested approximately 80 percent of its net assets.

CHAIRMAN'S STATEMENT (continued)
for the year ended 31 December 2009

The Board believes that the Manager's strategy of focusing on partnerships with blue chip water companies and deploying capital into key areas of the water value chain reinforces the Company's credibility in the global water sector.

Hasan Askari
Chairman
21 April 2010

AQUA RESOURCES FUND LIMITED

DIRECTOR'S REPORT

for the year ended 31 December 2009

The Directors of the Company present their annual report and the audited consolidated financial statements for the year ended 31 December 2009.

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 are traded on the Main Market of the London Stock Exchange.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the Company during the year 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 year 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 year are shown in the Consolidated Statement of Operations on page 28 and the Company's financial position at the end of the year is shown in the Consolidated Statement of Assets and Liabilities on page 26.

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 year 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 at 31 December 2009 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

AQUA RESOURCES FUND LIMITED

DIRECTOR'S REPORT (continued)

for the year ended 31 December 2009

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 in notes 5 and 8 to the consolidated financial statements) and the related party transaction in respect of BBI (details of which are set out in note 8 to the consolidated financial statements on page 44).

The Directors are entitled to receive, and have received during the year, the following fees from the Company ("Directors' Fees"):

Director	Per annum fees entitlement (in £)	Fees paid during the year (in £)	No. of Ordinary Shares paid in satisfaction of fees	Fees payable at the end of the year (in £)	Prepaid Directors' Fees for 2010 (in £)
Hasan Askari	50,000	50,000	-	-	28,022
Andrea Rossi	15,000	2,813	-	3,804	-
Timothy Betley	20,000	9,372	-	9,450	-
Kimberly Tara	-	-	-	-	-

The Company reserves the right to pay Hasan Askari's Directors' Fee in Ordinary Shares but did not do so during this year. 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 forthcoming 2010 annual general meeting of the Company. 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 2010 annual general meeting. No Ordinary Shares were purchased by the Company during the year.

AQUA RESOURCES FUND LIMITED

DIRECTOR'S REPORT (continued)
for the year ended 31 December 2009

SUBSTANTIAL INTERESTS IN SHARE CAPITAL

At 31 December 2009, the following holdings representing more than 3 percent of the Company's issued share capital were recorded in the Company's register of members

	Number of Ordinary Shares	Percentage of Ordinary Share capital
Euroclear Nominees Limited*	22,964,000	31.69
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
FourWinds Capital Management	3,985,000	5.50
BNY (OCS) Nominees Limited*	2,988,850	4.12

* 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. As at 31 December 2009, West Midlands held 29.97 percent of the issued Ordinary Shares.

THE MANAGER

FourWinds Capital Management has been appointed as the Manager of the Company. 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.

Please refer to note 5 on page 40 for further details of the management agreement.

AUDITORS

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

ADMINISTRATOR

On 25 August 2009 the Company announced that there was a change in the entity to which its administrator, HSBC Securities Services (Guernsey) Limited (the "Administrator"), delegates the provision of administration services to the Company.

In 2009, HSBC Securities Services (Isle of Man) Limited, to whom the Administrator had previously delegated the provision of administration services to the Company, informed the Company that it intended to substantially transfer its operations. In consequence, with effect from 24 August 2009, the Administrator has delegated the provision of all administration functions to the Company, except those of a corporate secretarial nature, to HSBC Securities Services (Ireland) Limited, which is an affiliate of the Administrator.

AQUA RESOURCES FUND LIMITED

DIRECTOR'S REPORT (continued) for the year ended 31 December 2009

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. At 31 December 2009, there were 72,464,340 Ordinary Shares in issue (31 December 2008, 72,464,340).

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 consolidated 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 was not, before April 2010, 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 therefore 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,

AQUA RESOURCES FUND LIMITED

DIRECTOR'S REPORT (continued)

for the year ended 31 December 2009

where necessary in the furtherance of their duties, to independent professional advice at the expense of the Company.

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. Accordingly, each of Kimberly Tara and Hasan Askari will retire by rotation at the 2010 annual general meeting and will each put themselves up for re-election at that meeting. None of the Directors has a service contract with the Company.

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 are 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 auditors' letter of engagement and management letter, to approve the remuneration of the auditors and to review the Company's annual report and audited consolidated financial statements as well as unaudited interim financial reports. 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 by the Committee before proceeding.

The Committee will also consider the continued appointment and remuneration of, and the key procedures adopted by, the Manager and the other service providers to the Company.

Attendance at the Board and the Committee meetings for the year ended 31 December 2009 was as follows:

	Number of meetings held	H Askari	A Rossi	T Betley	K Tara
Board Meetings	4	4	4	4	4
Ad hoc Board Meetings	2	1	1	2	2
Ad hoc Committee Meetings of the Board	-	-	-	-	-
Audit and Management Engagement Committee	3	3	1	3	Not applicable

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 Administrator and the Manager.

AQUA RESOURCES FUND LIMITED

DIRECTOR'S REPORT (continued)

for the year ended 31 December 2009

- Consideration of the compliance reports, administration reports, and portfolio valuations provided by the Administrator.
- Consideration of the 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 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, Cenkos Securities Plc and from the Manager. All general meetings of the Company will be held in Guernsey. The Company will hold an annual general meeting each year.

2010 ANNUAL GENERAL MEETING

The following information, to be discussed at the forthcoming annual general meeting of the Company to be held on 11 June 2010 ("2010 Annual General Meeting"), 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 2010 Annual General Meeting. **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 7 – 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 the maximum price which can be paid by the Company for an Ordinary 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

DIRECTOR'S REPORT (continued)

for the year ended 31 December 2009

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 the 2010 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 the resolution is passed.

The timing of any purchases by the Company pursuant to the authority will be decided by the Directors. Any Ordinary 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 8 – 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 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 Ordinary 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 the resolution is passed.

The timing of any purchases by the Company pursuant to a tender offer made under this authority will be decided by the Directors. Any Ordinary 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 9 – 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 (i) to provide that accounts may be sent to shareholders electronically or made available to shareholders by their publishing on a website and (ii) to allow notices to shareholders to be published on a website.

The full terms of the proposed amendments to the Articles of Association will be available for inspection from the date posting of the Notice of the 2010 Annual General Meeting until the close of the 2010 Annual General Meeting at the offices of Cenkos Securities plc, 6, 7, 8 Tokenhouse Yard, London EC2R 7AS and at the place of the 2010 Annual General Meeting for at least 15 minutes before and during the meeting.

DIRECTOR'S REPORT (continued)

for the year ended 31 December 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the consolidated financial statements in accordance with applicable Companies Law and generally accepted accounting principles.

The Companies Law requires the Directors to prepare consolidated 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 consolidated financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 consolidated financial statements;
- prepare the consolidated 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; and
- 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 consolidated 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 consolidated financial statements have been prepared in accordance with US GAAP;
- The consolidated 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; and
- 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.

AQUA RESOURCES FUND LIMITED

DIRECTOR'S REPORT (continued)
for the year ended 31 December 2009

Signed on behalf of the Board of Directors by:

Hasan Askari
Director
21 April 2010

Timothy Betley
Director

¹ DTR 4.1.12

AQUA RESOURCES FUND LIMITED

MANAGER'S REPORT

for the year ended December 2009

The Company's portfolio is managed by FourWinds Capital Management, (a Cayman Islands exempt limited company).

The Manager, is pleased to report that the NAV per Ordinary Share at 31 December 2009 was €1.0219 (€0.9561 at 31 December 2008).

SUMMARY OF INVESTMENTS MADE DURING THE YEAR

In 2009, Aqua made the following four investments:

1. On 16 March 2009, the Company invested €4.9 million in BBI in a two-stage transaction. In the first stage, the Company purchased shares representing approximately 7.8 percent of BBI on a fully diluted basis from the Manager for a consideration of US\$2.9 million (€2.3 million). On 20 April 2009, the Company acquired by subscription for new shares 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 BBI on a fully diluted basis. Then, in September 2009, the Company invested a further £1.5 million (€1.6 million) in a placing of new shares by BBI, taking its shareholding in BBI to 17 percent on a fully diluted basis. BBI focuses on selling its proprietary wastewater technology, HYBACS, to both the municipal treatment sector and to industrial consumers and polluters of water. For further information on the Warrants please refer to note 3 on page 37.
2. On 26 March 2009, the Company, through its wholly owned subsidiary, Aqua Resources Asia Holdings Limited ("Aqua Asia"), completed its investment in RWT, a joint venture with the Ranhill group of Malaysia to invest in water and wastewater operations in the People's Republic of China and Thailand. The Company invested a total of US\$12.6 million (€9.3 million) for a 45 percent interest in RWT.
3. On 6 August 2009, the Company, through its wholly owned subsidiary, Aqua Resources (In-Pipe) Holdings Limited ("ARIPH"), entered into an agreement to invest up to US\$5 million (€3.5 million) in exchange for up to approximately 24 percent of In-Pipe Technologies LLC, a limited liability company registered in the State of Illinois, USA. The transaction will be completed in two tranches. In the first tranche, completed on 6 August 2009, ARIPH invested US\$3 million (€2.1 million) in exchange for approximately 14 percent of In-Pipe. As part of this first tranche, ARIPH was granted, for a nominal consideration, a warrant to acquire further shares of In-Pipe, equal to an additional 2 percent of In-Pipe's share capital (as at 6 August 2009), for a further consideration of US\$450,000. This warrant is exercisable at any time until 6 August 2016. In the second tranche of the transaction, expected to occur on or before 6 August 2010, ARIPH has the right to increase its stake in In-Pipe to approximately 21 percent, for an additional consideration of US\$2 million (€1.4 million), subject to the satisfaction of certain performance related conditions by In-Pipe. As part of this second tranche, if completed, ARIPH will receive another warrant to acquire an additional 1 percent of In-Pipe, for a further consideration of US\$300,000. This second warrant would be exercisable at any time until 6 August 2017. The total investment required to complete the two tranches in full including the exercise of the two warrants would amount to US\$5.75 million (€4.0 million). If the investment is completed in full i.e. both tranches and the exercise of both warrants the Company would have a total stake of 24 percent in In-Pipe. In-Pipe provides engineered biological solutions for the pre-treatment of wastewater at

MANAGER'S REPORT (continued)

for the year ended December 2009

strategic locations throughout the sewer collection system and at the wastewater treatment plant.

4. On 23 October 2009, the Company through its wholly owned subsidiary, Aqua Asia, entered into an agreement to subscribe for Series C Convertible Preferred Shares in China Hydroelectric Company for US\$20 million (€13.5 million). CHC is a consolidator and operator of small hydroelectric power plants in China. The investment was completed on 29 October 2009. The IPO of CHC took place on 25 January 2010, on the New York Stock Exchange, in which CHC priced its IPO of 6 million American Depositary Shares ("ADS") at US\$14.80 per ADS which yielded aggregate gross proceeds of US\$96 million. The terms of the IPO included the conversion of three CHC shares into one ADS. The net proceeds from the IPO and the subscription by Aqua Asia will be used by CHC to acquire hydroelectric operating companies and assets and for the development of new hydropower plants in China, for working capital and for general corporate purposes. The Company did not subscribe for any further shares in the IPO. Post-IPO, the Company (through Aqua Asia) owns approximately 4 percent of CHC's ordinary shares.

At 31 December 2009, the Company had invested 53 percent of its net assets.

INVESTMENTS MADE SINCE THE YEAR END

On 25 February 2010, the Company announced that it had entered into an agreement to acquire five-year convertible bonds of Waterleau Group N.V. for a total cash consideration of €20 million. Completion of the investment occurred on 1 April 2010. Waterleau is a privately held global environmental technology, solutions and services company which provides a wide range of water, wastewater and solid waste and air treatment solutions for both industrial and municipal clients. Waterleau applies these technologies to purify wastewater and produce renewable energy from wastewater and bio-waste. Incorporated in 2000, Waterleau had a turnover in excess of €50 million in 2009, is profitable and enjoyed double digit growth rates since inception. It currently employs 225 people across offices in Belgium, France, Morocco, Egypt, India, China and Brazil. Waterleau was recently awarded two major wastewater Build & Operate large capacity projects in Marrakech and Fes, Morocco. The proceeds of the subscription provides Waterleau with growth capital to invest alongside its clients in Build Own Operate Transfer ("BOOT") wastewater projects, make selective add-on acquisitions, and further expand into new markets.

On completion of this investment the Company had invested approximately 80 percent of its assets.

OUTLOOK FOR PORTFOLIO COMPANIES

1. Ranhill Water Technologies expects strong growth prospects in China. RWT expects to complete the construction of the 30,000 m³/day MLD Hefei wastewater plant shortly. New projects expected to be concluded during 2010 include the expansion of the existing 30,000 m³/day Xiao Lan project by another 50,000 m³/day. RWT is actively pursuing new project opportunities in China and India and expects to secure contracts in both these countries this year.
2. BBI continues to make progress with the HYBACS process, performing well in independent pilot trials being carried out with Severn Trent Water in the UK and Aqualia in Spain. As a result of these trials, discussions for significant sales of

MANAGER'S REPORT (continued)

for the year ended December 2009

HYBACS Units are progressing well. The current sales focus is on the East European, South African and Middle Eastern markets.

3. In-Pipe is very active in the United States. It continues to sign up municipal customers who shy away from expensive engineering spending and look to secure construction free solutions for wastewater plants with an aim to increase capacity, reduce organic waste and achieve energy efficiencies. Active markets are Texas, Florida, the East Coast and California, where green solutions are largely favored.
4. CHC has approximately US\$90 million of cash available for further acquisitions resulting from Aqua's subscription and the net IPO proceeds. CHC is targeting to add a further 250MW of generating capacity to their existing 377MW through acquisitions of identified projects. Longer-term, CHC will be developing, in stages, two hydropower schemes of 1,000MW and 1,250MW in the Henan and Sichuan provinces of China respectively.

COMMENTARY

Aqua continues to concentrate on building a strong and diversified water portfolio by way of investments involving the supply, use and treatment of what is an increasingly scarce though absolutely essential resource. It seeks to do so by targeting companies (operators as well as equipment and services providers) in the water treatment industry, water reuse and recycling, energy efficiency and new infrastructure, as well as water as a source of renewable energy.

Aqua has built its portfolio through providing growth capital to operators of projects in water and waste water as well as hydroelectricity, and to equipment and innovation providers whose products and services seek to ensure that the broader water industry increases its efficiency and provides end-users, whether individuals or industrials, with cleaner and better water without dramatic increases in cost. By investing across this water value chain, Aqua has been able to diversify the risk across a very broad range of industries and geographies whilst maintaining a fundamental link to the core driver behind its investments.

Just as in 2008, the first half of 2009 proved to be very difficult for many industries, including the water sector, as large blue chip water companies struggled to deleverage their balance sheet. Nevertheless this created some unique investment and partnership opportunities for Aqua as some unexpected players in the water sector looked to partner with new players like Aqua.

In Europe, growth continues to be driven predominantly by EU water regulation in the form of the Water Framework Directive which requires member states to meet their environmental objectives by 2015. This has driven new entrants to the EU from Eastern Europe to begin upgrading their water and wastewater infrastructure, and has also seen a focus in Western Europe on the development of technologies which efficiently meet the Directive's stringent requirements. 2009 also saw the conclusion of Ofwat's AMP5 consultation which sets pricing policy, capital expenditure and other targets for UK regulated water businesses for the period 2010 – 2015. The report forecasts £22 billion of capital expenditure in the UK over the next 5 years, with over half of this allocated to maintaining and upgrading existing infrastructure and a significant allocation to ensuring continuity of supply and wastewater treatment capacity. We expect to see water utilities around Europe, but particularly in the UK, finalise projects and technology supply

MANAGER'S REPORT (continued)

for the year ended December 2009

contracts over the next 12 – 18 months in preparation for ensuring they are able to meet their goals by 2015 and, in the UK, the requirements of the Ofwat determinations².

In the United States, the water industry was estimated at 31 December 2009 to be worth US\$127 billion, representing a growth of close to 3 percent compared to 2008³ figures, proving once again that water is resilient to recession. The volume and growth of this market is driven by many factors, including a booming population and an aging infrastructure, which has resulted in tighter restrictions and increased surveillance by the US Environmental Protection Agency ("EPA"). The substantial size of the market, as well as the pressing need for more water-related development in many states, signals enormous opportunity for engineering, environmental, and water/wastewater treatment providers. The increase in public awareness of drinking water quality standards, and the current state of water municipalities in the United States, has led federal agencies to undertake rapid corrective measures, resulting in substantial investment.

With efforts to enforce stringent water quality regulations through the Clean Water Act and the Safe Drinking Water Act, the EPA estimates investments of more than US\$150 billion will be necessary over the next 20 years to upgrade and replace the USA's water infrastructure⁴.

In Asia, the Manager continues to see growth in the Asian water industry led by the need to address water scarcity and sanitation in India and China. Governments have played a major role in promoting further public-private partnerships as well as embarking on major public works. In China, the central government is expected to double the amount it is committing to environmental protection, including wastewater treatment, in the upcoming 2011-2015 Five-Year Plan from US\$219 billion to US\$454 billion. The proposed figure represents approximately 1.5 percent of China's projected GDP over that five year period, and appears to be an acknowledgement of the growing scarcity of uncontaminated water in the country⁵. In India, significant Urban Renewal projects have been approved over the past year, with the value of project approvals having increased to US\$10.7 billion from US\$5.9 billion in 2008. Water supply, sewerage and drainage projects account for 76 percent of all project approvals. Given the strong activity on the ground, the Manager expects a surge in orders in the areas of water supply, sewerage and drainage during the next 6–12 months.⁶

The Manager is continuing to pursue bolt-on strategic investment opportunities and is actively looking to manage its investments while creating strong synergies within the Company's portfolio, either by helping portfolio companies to access new geographical markets, or bringing new and attractive technologies to operators looking to improve the quality of their services and ultimately water quality. 2009 created unique opportunities for the Company to engage in discussions with key global sector players and has strengthened the Company's positioning and credibility as a key private capital provider in the water space.

² Source: Ofwat

³ Source: The WaterView 2009 Report: Water & Wastewater Markets

⁴ Source: US Environment Protection Agency

⁵ Source: Source: Global Water Intelligence, January 2010 issue

⁶ Source: Macquarie Research Equities – India Infrastructure, 7 August 2009

MANAGER'S REPORT (continued)

for the year ended December 2009

PRINCIPAL RISKS & UNCERTAINTIES

In 2010, the Company expects to face challenges linked to the global macroeconomic environment such as uncertainties linked to the pace of global economic recovery, additional government regulations in the water sector, currency risk and the possibility of insufficient investment opportunities offering value to shareholders, as well as potential microeconomic challenges linked to the Company's investments if such investments do not achieve the expected financial and operating results. As a result of its investment strategy, the Company is exposed to various risks including market risk, credit risk and liquidity risk which are further explained in note 7 of the notes to the consolidated financial statements for the year ended 31 December 2009 on page 43.

FourWinds Capital Management

21 April 2010

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 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,

INVESTMENT OBJECTIVE AND POLICY (continued)

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.

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 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

INVESTMENT OBJECTIVE AND POLICY (continued)

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 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 has been an investment banker since 1975, initially with SG Warburg & Co. Ltd. (now UBS Ltd.) and subsequently, with JP Morgan 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 is 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.

Timothy Betley

Mr Betley, the Chairman of the Audit and Management Engagement Committee. 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. In 2005, Ms Tara co-founded 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.

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

We have audited the Company's consolidated financial statements for the year ended 31 December 2009 which comprise the Consolidated Statement of Assets and Liabilities, Consolidated Schedule of Investments, Consolidated Statement of Operations, Consolidated Statement of Changes in Net Assets, Consolidated Statement of Cash Flows, Consolidated Financial Highlights and the related notes 1 to 10 ("the consolidated financial statements"). These consolidated 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 consolidated financial statements in accordance with applicable Guernsey law as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements and consider whether it is consistent with the audited consolidated financial statements. This other information comprises Management and Administration, the Chairman's Statement, Directors' Report, Manager's Report, Investment Objective and Policy and Board of Directors. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated 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 consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AQUA
RESOURCES FUND LIMITED (continued)**

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 consolidated 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 consolidated financial statements.

OPINION

In our opinion the consolidated 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 2009 and of its profit for the year ended 31 December 2009 and have been properly prepared in accordance with the Companies (Guernsey) Law, 2008.

Andy Offen
Partner
Ernst & Young LLP
Guernsey
21 April 2010

AQUA RESOURCES FUND LIMITED

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

at 31 December 2009

	Notes	31 December 2009 €	31 December 2008 €
Assets			
Investments at fair value (cost 2009: €31,313,024 and 2008: €Nil)	3	39,046,630	-
Cash		35,177,646	69,302,712
Interest receivable		-	2,338
Prepaid expenses		57,148	315,206
TOTAL ASSETS		<u>74,281,424</u>	<u>69,620,256</u>
Liabilities			
Directors' fees payable		14,945	4,601
Other payables	4	211,999	335,508
TOTAL LIABILITIES		<u>226,944</u>	<u>340,109</u>
NET ASSETS		<u>74,054,480</u>	<u>69,280,147</u>
Net Assets consist of:			
Ordinary Shares (no par value, authorised to issue unlimited number of Ordinary Shares, of which 72,464,340 (2008: 72,464,340) were issued and outstanding)	6	70,030,004	70,030,004
Accumulated gains/(losses)		4,024,476	(749,857)
		<u>74,054,480</u>	<u>69,280,147</u>
Net asset value per Ordinary Share		<u>1.0219</u>	<u>0.9561</u>

The consolidated financial statements on pages 26 to 45 were approved by the Board of Directors on 21 April 2010 and signed on its behalf by:

Hasan Askari
Director

Timothy Betley
Director

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

AQUA RESOURCES FUND LIMITED**CONSOLIDATED SCHEDULE OF INVESTMENTS**

at 31 December 2009

Investments	Shares/ Warrants	Fair Value €	% of NAV
INVESTMENTS AT FAIR VALUE			
Companies			
Cayman Islands (cost: €15,742,669)			
Bluewater Bio International (Note 3)	49,170,112	8,593,448	11.60
Ranhill Water Technologies (Cayman) Limited	12,555,000	10,989,391	14.84
China (cost: €13,478,451)			
China Hydroelectric Corporation – Series C Convertible Preferred Shares	20,356	17,370,573	23.46
United States of America (cost: €2,091,902)			
In-Pipe Technology Company LLC	284,900	2,093,216	2.83
Total investments in companies (cost: €31,313,022)		<u>39,046,628</u>	<u>52.73</u>
Warrants			
Cayman Islands (cost: €1)			
Bluewater Bio International – Part 1 Warrant 20/04/2011, Part 2 Warrant 31/03/13 (Note 3)	1	1	-
Bluewater Bio International – Supplemental Warrant 25/09/2014 (Note 3)	-	-	-
United States of America (cost: €1)			
In-Pipe Technology Company LLC – Warrants 06/08/2016	1	1	-
Total investments in warrants (cost: €2)		<u>2</u>	<u>-</u>
Total investments at fair value (cost: €31,313,024)		<u>39,046,630</u>	<u>52.73</u>

There were no investments held at the 31 December 2008.

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

AQUA RESOURCES FUND LIMITED**CONSOLIDATED STATEMENT OF OPERATIONS**

for the year ended 31 December 2009

	31 December 2009	12 June 2008 to 31 December 2008
Notes	€	€
Investment Income		
Interest income	3	410,338
Total investment income	<u>3</u>	<u>410,338</u>
Operating Expenses		
Administrator fees	105,588	48,520
Audit and professional fees	73,437	115,876
Brokerage fee	30,173	-
Directors' fees	5 95,232	42,598
Directors' expenses	26,987	-
Organisational expenses	-	54,060
Due diligence expenses	903,850	269,191
Management fees	5 1,441,545	570,245
Marketing expense	170,492	-
Miscellaneous expenses	167,672	49,017
Total operating expense	<u>3,014,976</u>	<u>1,149,507</u>
Net investment loss	<u>(3,014,973)</u>	<u>(739,169)</u>
Realised and unrealised gain/(loss) from investments and foreign currency		
Net realized gain/(loss) from foreign currency	55,700	(10,688)
Net unrealised appreciation of investments	7,733,606	-
	<u>7,789,306</u>	<u>(10,688)</u>
Increase/(decrease) in net assets resulting from operations	<u>4,774,333</u>	<u>(749,857)</u>
Net investment loss per Ordinary Share (annualised):		
Basic & diluted	(0.0416)	(0.0185)
Net gain/(loss) per Ordinary Share (annualised):		
Basic & diluted	0.0659	(0.0188)
Weighted Average Number of Ordinary Shares Outstanding:		
Basic & diluted	72,464,340	67,524,340

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

AQUA RESOURCES FUND LIMITED**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**

for the year ended 31 December 2009

	31 December	12 June
	2009	2008 to 31
	2009	December
Notes	€	2008
	€	€
Operations		
Net investment loss	(3,014,973)	(739,169)
Net realised foreign currency gain/(loss)	55,700	(10,688)
Net unrealised appreciation of investments	7,733,606	-
	<u>4,774,333</u>	<u>(749,857)</u>
Net increase/(decrease) in net assets resulting from operations		
	4,774,333	(749,857)
Share capital transactions		
Issuance of capital	-	72,464,340
Offering costs	-	(2,434,336)
	<u>-</u>	<u>70,030,004</u>
Net increase in net assets resulting from share capital transactions		
	-	70,030,004
Net increase in net assets	4,774,333	69,280,147
Net assets at beginning of year/period	69,280,147	-
Net assets at end of year/period	74,054,480	69,280,147
Net asset value per Ordinary Share	1.0219	0.9561
	<u>1.0219</u>	<u>0.9561</u>
Number of Ordinary Shares issued and outstanding at end of year/period	6 72,464,340	72,464,340
	<u>72,464,340</u>	<u>72,464,340</u>

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

AQUA RESOURCES FUND LIMITED**CONSOLIDATED STATEMENT OF CASH FLOWS**

for the year ended 31 December 2009

	31 December 2009	12 June 2008 to 31 December 2008
	€	€
Operating activities		
Increase/(decrease) in net assets resulting from operations	4,774,333	(749,857)
Adjustment to reconcile decrease in net assets resulting from operations to net cash used in operating activities:		
Net unrealised appreciation of investments	(7,733,606)	-
Decrease/(increase) in interest receivables	2,338	(2,338)
Decrease/(increase) in prepaid expenses	258,058	(315,206)
(Decrease)/increase in other payables	(113,165)	340,109
Net cash used in operating activities	<u>(2,812,042)</u>	<u>(727,292)</u>
Investment activities		
Purchase of investments	(31,313,024)	-
Net cash used in investment activities	<u>(31,313,024)</u>	<u>-</u>
Financing activities		
Proceeds from Ordinary Shares issued	-	72,464,340
Offering costs	-	(2,434,336)
Net cash provided by financing activities	<u>-</u>	<u>70,030,004</u>
Net (decrease)/increase in cash	(34,125,066)	69,302,712
Cash at beginning of year/period	<u>69,302,712</u>	<u>-</u>
Cash at end of year/period	<u><u>35,177,646</u></u>	<u><u>69,302,712</u></u>

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

AQUA RESOURCES FUND LIMITED

CONSOLIDATED FINANCIAL HIGHLIGHTS

for the year ended 31 December 2009

	31 December 2009	12 June 2008 to 31 December 2008
Per share data¹		
Net asset value at beginning of year/period	0.9561	1.0000
Offering costs	-	(0.0361)
Net asset value after deducting offering costs	0.9561	0.9639
Net investment loss	(0.0417)	(0.0076)
Net realised foreign currency gain/(loss)	0.0008	(0.0002)
Net unrealized appreciation on investments	0.1067	-
Total from investment operations	0.0658	(0.0078)
Net asset value at end of year/period	1.0219	0.9561
Ratios/supplemental data		
Per share market value at end of year/period	1.0219	0.9561
Total return	6.88%	(4.39)%
Number of Ordinary Shares outstanding at end of year/period	72,464,340	72,464,340
Weighted average number of Ordinary Shares	72,464,340	67,524,340
Net assets at end of year/period (in €)	74,054,480	69,280,147
Average net assets ² (in €)	69,730,982	64,581,854
Ratio of operating expenses to average net assets ³	(4.32%)	(4.07%)
Ratio of net investment loss to average net assets ³	(4.32%)	(2.62%)

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

¹ Basic weighted average per share data

² Average net assets calculated using the quarterly net assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2009

1. ORGANISATION

The Company was incorporated in Guernsey 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".

The Company's financial year end is 31 December.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with US GAAP.

In June 2009, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 168, The FASB Accounting Standards Codification(tm) ("FASB ASC") and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162. This standard establishes FASB ASC as the source of authoritative U.S. accounting and reporting standards for non-governmental entities, in addition to guidance issued by the Securities and Exchange Commission ("SEC"), and is effective for financial statements issued for interim and annual periods ending after 15 September 2009. The FASB ASC brings together in one place all authoritative US GAAP previously in levels A through D of the US GAAP hierarchy that has been issued by a standard setter, for example, FASB Statements, FASB Interpretations, EITF Abstracts, FASB Staff Positions, and AICPA Accounting and Auditing Guides. Non authoritative US GAAP includes certain items currently in the US GAAP hierarchy's Level D (for example, prevalent industry practice) and other accounting guidance, such as textbooks and articles.

The implementation of this standard resulted in the replacement of the references to the previously issued US GAAP accounting pronouncements with the citation of the corresponding FASB ASC topic.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Consolidation

The consolidated financial statements consolidate the financial statements of the two wholly owned subsidiaries of the Company, Aqua Resources (In-Pipe) Holdings Limited, a Guernsey limited company formed in August 2009, and Aqua Resources Asia Holdings Limited, an exempt company incorporated in the Cayman Islands formed in October 2008. Aqua Resources Asia Holdings Limited wholly owns a subsidiary, Robinson Investments Limited, which is an exempt company incorporated in the Cayman Islands formed in October 2008. All intercompany accounts are eliminated on consolidation.

Use of Estimates

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

Valuation of Investments

The investments of the Company are carried at fair value in accordance with FASB ASC 820. FASB ASC 820 provides a framework for measuring the fair value of assets and liabilities. FASB ASC 820 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. FASB ASC 820 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.

FASB ASC 820 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 FASB ASC 820, 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 FASB ASC 820, 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.

Securities that are listed on an exchange and are freely transferable are valued at their latest closing price as published by the relevant exchange or clearing house

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

quoted on such exchange. Securities which are not listed or quoted on any securities exchange or similar electronic system or if, being so listed or quoted, are not regularly traded thereon or in respect of which no prices are available, are valued on the basis of the latest available valuation provided by a relevant counterparty and are adjusted in such a manner as the Directors, in their sole discretion, think fit. If no such valuation is available, the Directors determine the value in good faith in consultation with the Manager having regard to such factors as they deem relevant.

Details of the basis upon which the investments held by the Company as at 31 December 2009 were valued are contained in Note 3 below.

FASB ASC 820 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 FASB ASC 820 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.
- 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; and
 - (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.

Fair Value

The fair value of the Company's assets and liabilities which qualify as financial instruments under ASC 825 (SFAS 107), "Disclosure about Fair Value of Financial Instruments," approximates the carrying amounts presented in the statement of assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Transactions and Related Investment Income

Transactions in securities are recorded on a trade date basis. Realised gains and losses on security transactions are based on the average cost method. Dividend income is recorded on the ex-dividend date.

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 consolidated 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 Consolidated 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.

The Company adopted FASB Interpretation 48 (FIN 48), "Accounting for Uncertainty in Income Taxes – an interpretation of ASC 740 (SFAS 109)" effective 1 January 2009. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in Company's financial statements in accordance with ASC 740 (SFAS 109), Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 requires that the enterprise determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the enterprise should presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company adopted ASU 2009-06, Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities (ASU 2009-06). ASU 2009-06 provides additional guidance on the accounting for uncertainty in income taxes and eliminates certain disclosure requirements for nonpublic entities. ASU 2009-06 amends the disclosure requirements for unrecognized tax benefits to eliminate certain disclosures for nonpublic entities. Under the amended disclosure requirements nonpublic entities are not required to disclose a tabular reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of the period nor the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate. Remaining disclosures required by FIN 48 are still applicable to nonpublic entities.

Management has analyzed the Company's tax positions for all open tax years (tax years ended 31 December 2009–2008) and the positions to be taken for tax year ended 31 December 2009 and have concluded that no provision for income tax is required in the Company's financial statements. During the year ended 31 December 2009, the Company did not incur any interest or penalties.

3. INVESTMENTS

The following tables show an analysis of assets and liabilities recorded at fair value, between those whose fair value is based on quoted market prices (Level 1), those involving valuation techniques where model inputs are observable in the market (Level 2) and those where the valuation technique involves the use of non-market observable inputs (Level 3).

Assets at fair value as of 31 December 2009	Total	Quoted prices in active markets for identical assets (Level 1)	Other market-based observable inputs (Level 2)	Unobservable inputs (Level 3)
Description	€	€	€	€
Equities	39,046,628	-	-	39,046,628
Warrants	2	-	-	2
Total	39,046,630	-	-	39,046,630

The table below shows a reconciliation of beginning to ending balances for Level 3 investments and the amount of total gains or losses for the year included in earnings attributable to the change in unrealised gains or losses relating to assets and liabilities held at 31 December 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

3. INVESTMENTS (continued)

Fair value measurements: A reconciliation of the movement in Level 3 asset is presented below:

	Total	Equities	Warrants
	€	€	€
Opening balance 1 January 2009	-	-	-
Purchases of Investments	31,313,024	31,313,022	2
Change in net unrealised appreciation	7,733,606	7,733,606	-
Closing balance 31 December 2009	<u>39,046,630</u>	<u>39,046,628</u>	<u>2</u>
Total unrealised gains at 31 December 2009	<u>7,733,606</u>	<u>7,733,606</u>	<u>-</u>

The Company did not hold any investments at 31 December 2008.

The Company's policy for valuation of investments is disclosed in Note 2.

Warrants

As part of the transaction with Bluewater Bio International which completed in April 2009 and as further described in the Manager's Report on page 15, the Company also acquired from BBI, for a nominal consideration of £1, a warrant to acquire further shares in BBI (the "Warrant"). The Warrant consists of two parts. The first part of the Warrant entitles the Company to acquire such further number of shares in BBI as is equal to 1.67 percent of BBI's issued ordinary shares as at the date of the Warrant and is exercisable at any time before 20 April 2011. The second part of the Warrant is only exercisable if the Company's shareholding in BBI is diluted by the exercise of certain other named warrants. A supplemental warrant was granted by BBI to the Company in September 2009 for no consideration, as part of the Company's additional subscription for shares in BBI at that time (the "Supplemental Warrant"). This Supplemental Warrant extends the second part of the Warrant and the Company's anti-dilution protection in light of the price paid by the Company for the additional shares subscribed in September 2009.

As part of the transaction with In-Pipe which completed in August 2009 and as further described in the Manager's Report on pages 15 and 16, the Company also acquired from In-Pipe, for a nominal consideration of US\$1, a warrant to acquire further shares in In-Pipe (the "In-Pipe Warrant"). The In-Pipe Warrant is exercisable until 6 August 2017 and entitles the Company to subscribe for such further number of shares in In-Pipe as is equal to 2 percent of In-Pipe's fully diluted share capital as at the date of the In-Pipe Warrant. The exercise of the In-Pipe Warrant would require a further investment of US\$450,000.

Investments

In determining an investment's placement within the fair value hierarchy, the Directors take into consideration the following.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

3. INVESTMENTS (continued)

Investments whose values are based on quoted market prices in active markets, and are therefore classified within level 1. These include listed equities. The Directors do not adjust the quoted price for such instruments, even in situations where the Company holds a large position and a sale could reasonably impact the quoted price.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include less liquid listed equities. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments also include private equity investments. When observable prices are not available for these securities, the Directors use one or more valuation techniques (e.g., the market approach or the income approach) for which sufficient and reliable data is available. Within level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

The inputs used by the Directors in estimating the value of level 3 investments include the original transaction price, recent transactions in the same or similar instruments, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the Directors in the absence of market information. The fair value measurement of level 3 investments does not include transaction costs that may have been capitalised as part of the security's cost basis. Assumptions used by the Directors due to the lack of observable inputs may significantly impact the resulting fair value and therefore the Company's results of operations.

As at 31 December 2009 the investments held by the Company which were valued using an estimate of fair value were as follows;

The Company held 20,356 Series C Convertible Preferred Shares in China Hydroelectric Corporation at 31 December 2009. On 25 January 2010, CHC successfully launched an initial public offering ("IPO") on the New York Stock Exchange of units comprising American Depositary Shares and redeemable warrants (an ADS and a redeemable warrant being, together a "Unit"). Each ADS represented three ordinary shares in CHC and each redeemable warrant represented the right to acquire three ordinary shares in CHC for US\$15. The IPO price was US\$16 per Unit (US\$14.80 per ADS and US\$1.20 per redeemable warrant). The IPO was oversubscribed and, overall, CHC raised a total of US\$96 million. Under the terms of the conversion of its holding of Series C Convertible Preferred Shares, at the time of

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

3. INVESTMENTS (continued)

the IPO the Company received 1.9 million ADSs (then representing approximately 4 percent of CHC's ordinary shares) with a 6 month lock up on the Company's holding. The Company did not receive any redeemable warrants. Subsequent to the IPO (and up until 15 April 2010, the latest date prior to finalization of these consolidated financial statements) the ADSs have traded in the US\$14.80 to US\$8.51 range. Based on the Manager's review, the Directors are of the opinion that the appropriate valuation of the Company's investment in CHC is the IPO valuation of US\$14.80 per ADS, less a 15 percent discount.

The Company acquired a 14 percent stake in In-Pipe Technology Company, LLC in August 2009. The Manager has reviewed the results and budgets of In-Pipe as at 31 December 2009. Based on the Manager's review, the Directors are of the opinion that the fair value of the Company's holding in In-Pipe is at cost and, accordingly, are adopting this value (US\$2,093,216) at the year end.

The Company purchased its interest in Bluewater Bio International in a number of tranches during the year. The final tranche, completed in September 2009, was part of a wider fundraising exercise by BBI and the shares offered by BBI were subscribed for by a number of existing shareholders, including the Company, at £0.155 per share. Based on the Manager's review, the Directors are of the opinion that this fundraising exercise established a fair value for the shares in BBI, and accordingly are valuing the Company's holding in BBI at £0.155 per share.

The Company established a co-investment with the Ranhill group to invest in Ranhill Water Technologies (Cayman) Limited in March 2009. The Manager has valued the Company's holding in RWT using a discounted cash flow model, the results of which were validated by cross checking with available data from companies in comparable industries. The Directors are of the opinion that this represented the fair value of this investment at the year end.

The actual amounts realised on a disposal of any investments could differ from their carrying values, and these differences could be significant.

4. OTHER PAYABLES

	31 December 2009	31 December 2008
	€	€
Accounting fees	9,410	5,714
Administration fees	50,410	29,616
Audit fees	34,000	36,506
Due diligence expense	108,000	255,914
Other accrued expenses	10,179	7,758
	<u>211,999</u>	<u>335,508</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

5. SIGNIFICANT AGREEMENTS

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 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 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 year ended 31 December 2009 amounted to €1,441,545 (period ended 31 December 2008: €570,245) and the Base Fees prepaid at 31 December 2009 amount to €Nil (31 December 2008: €260,872). There was no Performance Fee paid or accrued at 31 December 2009 or for the period ended 31 December 2008.

The High Water Mark at 31 December 2009 was €0.9675 (31 December 2008: €0.9675).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

5. SIGNIFICANT AGREEMENTS (continued)**Administrator**

The Administrator, 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. 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 consolidated financial statements and additional fees for any tax related services provided to the Company.

The Administrator's fees expensed for the year ended 31 December 2009 amounted to €105,588 (period ended 31 December 2008: €48,520). The amount outstanding at 31 December 2009 was €50,410 (31 December 2008: €29,616).

Directors' Remuneration and Expenses**31 December 2009**

Director	Per annum fees entitlement (in £)	Fees paid during the year (in £)	No. of Ordinary Shares paid in satisfaction of fees	Fees payable at the end of the year (in £)	Prepaid Directors Fees for 2010 (in £)
Hasan Askari	50,000	50,000	-	-	28,022
Andrea Rossi	15,000	2,813	-	3,804	-
Timothy Betley	20,000	9,372	-	9,450	-
Kimberly Tara	-	-	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

5. SIGNIFICANT AGREEMENTS (continued)**31 December 2008**

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 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	-	-	-	-	-

¹ Applies to first year only

The Company reserves the right to pay Hasan Askari's Directors' Fee in shares but did not do so during this accounting period. 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.

6. SHAREHOLDERS' EQUITY

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

6. SHAREHOLDERS' EQUITY (continued)

Ordinary Shares) (Treasury Shares) Ordinance 2006. Shares held in treasury do not carry the rights as set out above in respect of Ordinary Shares.

Issued capital

	Number of Ordinary Shares	€
31 December 2009		
Ordinary Shares at 1 January 2009	72,464,340	70,030,004
Ordinary Shares outstanding at 31 December 2009	<u>72,464,340</u>	<u>70,030,004</u>

No shares were issued or repurchased by the Company during the year.

	Number of Ordinary Shares	€
31 December 2008		
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>

7. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

As a result of its investment strategy, the Company is exposed to varying degrees of market risk, credit risk and liquidity risk.

(a) Market Risk

Market risk is the risk that the value of the Company's investments will fluctuate due to changes in interest rates, currency rates and other market factors. Price risk embodies not only the potential for loss but also the potential for gain.

(b) Credit Risk

Credit risk is represented by the possibility that counterparties or exchanges will not perform under the terms of contracts agreed to with the Company. Cash amounts are held with HSBC Bank Plc.

The company continuously monitors the credit standing of its counterparties and does not expect any material losses.

(c) Liquidity Risk

Liquidity risk is the risk that the Company may encounter as a result of its inability to sell its investments quickly at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

8. RELATED PARTIES

Kimberly Tara is a Director and is also a director and shareholder of the Manager. As at 31 December 2009, Kimberly Tara had an interest in 3,985,000 (31 December 2008: 3,985,000) Ordinary Shares of the Company which are owned by the Manager.

At the time of the Company's acquisitions of its investment in BBI and RWT, Kimberly Tara became a director of each of those companies.

Valerie Daoud Henderson, an employee of the Manager's group in the role of Head of Europe Environment Group, became a director of In-Pipe at the time of the Company's investment in that company.

Jui Kian Lim, an employee of the Manager's group in the role of Head of Asia Environment Group, became a director of RWT at the time of the Company's investment in that company.

The Directors' interests in the share capital of the Company at 31 December 2009 were:

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

Details of the fees payable to the Manager for the year ended 31 December 2009 and the period ended 31 December 2008 are disclosed in note 5 to the consolidated financial statements. The following expenses are also paid by the Manager on behalf of the Company and were reimbursed:

	31 December 2009	31 December 2008
	€	€
Due diligence expenses	286,800	269,191
Marketing expense	168,411	-
	<u>455,211</u>	<u>269,191</u>

On 16 March 2009, the Company purchased 21,100,000 shares in BBI from the Manager for a consideration of US\$2.97 million (€2.30 million), the initial cost to the Manager was US\$2.10 million. This transaction was a related party transaction between the Manager and the Company pursuant to Listing Rules 15.5.4R and 11.1.4R by virtue of the Manager being the investment manager of the Company, a shareholder of the Company and an associate of a Director, Kimberly Tara.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

9. COMPARATIVE FIGURES

Comparative figures used in these consolidated financial statements are for the period from 12 June 2008 (date of incorporation) to 31 December 2008 for the Consolidated Statement of Assets and Liabilities, the Consolidated Statement of Operations, the Consolidated Statement of Changes in Net Assets, the Consolidated Statement of Cash Flows and the Consolidated Financial Highlights.

10. SUBSEQUENT EVENTS

In May 2009, the FASB issued ASC 855 (SFAS 165) entitled "Subsequent Events". The Company adopted ASC 855 (SFAS 165) effective period ending 31 December 2009. Under ASC 855 (SFAS 165) the Company is now required to disclose the date through which subsequent events have been evaluated by the management. ASC 855 (SFAS 165) provides that financial statements are considered available to be "issued" when they are widely distributed for general use and reliance in a form and format that complied with US GAAP and all approvals necessary for issuance have been obtained. The adoption of ASC 855 (SFAS 165) during the period ended 31 December 2009 did not have a significant effect on the consolidated financial statements as of that date. In connection with the preparing the accompanying consolidated financial statements at 31 December 2009, management has evaluated the impact of all subsequent events on the Company up to 15 April 2010, the latest practicable date prior to the issue of the consolidated financial statements were issued, and has determined that there were no additional subsequent events requiring recognition or disclosure in the financial statements.

Subsequent Investment: On 25 February 2010, the Company announced that it had entered into an agreement to acquire five-year convertible bonds of Waterleau Group N.V. for a total cash consideration of €20 million. Completion of the investment occurred on 1 April 2010.

Waterleau is a privately held global environmental technology, solutions and services company which provides a wide range of water, wastewater and solid waste and air treatment solutions for both industrial and municipal clients. Waterleau applies these technologies to purify wastewater and produce renewable energy from wastewater and bio-waste. Incorporated in 2000, Waterleau had a turnover in excess of €50 million in 2009, is profitable and currently employs 225 people across offices in Belgium, France, Morocco, Egypt, The proceeds of the subscription provides Waterleau with growth capital to invest alongside its clients in Build Own Operate Transfer ("BOOT") wastewater projects, make selective add-on acquisitions, and further expand into new markets.