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CONFIDENTIAL EXPLANATORY MEMORANDUM

ETOLIAN CAPITAL OFFSHORE CREDIT FUND, LTD.

(a Cayman Islands exempted company)

February 2005

THIS CONFIDENTIAL EXPLANATORY MEMORANDUM (THE "MEMORANDUM") IS SUBMITTED TO YOU ON A CONFIDENTIAL BASIS SOLELY IN CONNECTION WITH YOUR CONSIDERATION OF AN INVESTMENT IN COMMON SHARES OF ETOLIAN CAPITAL OFFSHORE CREDIT FUND, LTD., A CAYMAN ISLANDS EXEMPTED COMPANY. DUE TO THE CONFIDENTIAL NATURE OF THIS MEMORANDUM, ITS USE FOR ANY OTHER PURPOSE MIGHT INVOLVE LEGAL CONSEQUENCES. CONSEQUENTLY, THIS MEMORANDUM MAY NOT BE REPRODUCED IN WHOLE OR IN PART, AND MAY NOT BE DELIVERED TO ANY PERSON (OTHER THAN YOUR FINANCIAL ADVISOR) WITHOUT THE PRIOR WRITTEN CONSENT OF THE FUND'S DIRECTORS.

THE FUND OPERATES PURSUANT TO AN EXEMPTION FROM THE U.S. COMMODITY FUTURES TRADING COMMISSION (THE "CFTC") IN CONNECTION WITH POOLS WHOSE PARTICIPANTS ARE LIMITED TO QUALIFIED ELIGIBLE PERSONS. ACCORDINGLY, AN OFFERING MEMORANDUM FOR THE FUND IS NOT REQUIRED TO BE, AND HAS NOT BEEN, FILED WITH THE CFTC. THE CFTC DOES NOT PASS UPON THE MERITS OF PARTICIPATING IN A POOL OR UPON THE ADEQUACY OR ACCURACY OF AN OFFERING MEMORANDUM. CONSEQUENTLY, THE CFTC HAS NOT REVIEWED OR APPROVED THIS OFFERING OR ANY OFFERING MEMORANDUM FOR THIS POOL.

Offer for sale of two classes of common shares, par value \$0.01 (U.S.) per share ("Common Shares"), issuable in multiple series (references herein to "Common Shares" will mean any class of Common Shares unless otherwise indicated), of Etolian Capital Offshore Credit Fund, Ltd., an exempted company incorporated and existing under the laws of the Cayman Islands (the "Fund"). The Fund invests substantially all of its assets in and is a shareholder of Etolian Capital Offshore Master Fund, Ltd., an exempted company incorporated and existing under the laws of the Cayman Islands that has elected to be treated as a partnership for U.S. tax purposes (the "Master Fund"). The required initial subscription (which is subject to change in the sole discretion of the Board of Directors but not below \$50,000 (U.S.)) is currently \$1,000,000 (U.S.).

Price: \$100 (U.S.) per Common Share.

The Common Shares of the Fund are speculative securities intended for a limited number of experienced and sophisticated investors. Common Shares of the Fund will be offered only to persons who are neither citizens nor residents of the United States and to a limited number of U.S. investors, consisting of qualified pension, profit sharing and other retirement trusts, charities and other tax-exempt entities. The Common Shares will not be offered to members of the public resident in the Cayman Islands (which does not include an exempted or ordinary non-resident company in the Cayman Islands).

THIS MEMORANDUM HAS BEEN PREPARED IN CONNECTION WITH THE OFFER AND SALE OUTSIDE OF THE UNITED STATES, ITS TERRITORIES OR POSSESSIONS OF COMMON SHARES OF ETOLIAN CAPITAL OFFSHORE CREDIT FUND, LTD. (THE "FUND") TO PERSONS WHO ARE NOT MEMBERS OF THE PUBLIC IN THE CAYMAN ISLANDS AND WHO ARE NEITHER CITIZENS NOR RESIDENTS OF THE UNITED STATES OF AMERICA AND WITHIN THE UNITED STATES TO A LIMITED NUMBER OF UNITED STATES INVESTORS CONSISTING OF TAX-EXEMPT INVESTORS. THIS MEMORANDUM MAY NOT BE REPRODUCED IN WHOLE OR IN PART, AND MAY NOT BE DELIVERED TO ANY PERSON (OTHER THAN YOUR FINANCIAL ADVISOR) WITHOUT THE PRIOR WRITTEN CONSENT OF THE FUND'S DIRECTORS.

NO REGISTRATION STATEMENT HAS BEEN FILED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES AUTHORITY WITH RESPECT TO THIS OFFERING. THE COMMON SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND MAY ONLY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED DIRECTLY OR INDIRECTLY TO ANY UNITED STATES CITIZEN OR RESIDENT OR TO ANY CORPORATION, PARTNERSHIP, TRUST OR OTHER ENTITY CHARTERED OR ORGANIZED UNDER THE LAWS OF ANY JURISDICTION IN THE UNITED STATES OF AMERICA, ITS TERRITORIES OR POSSESSIONS IN PRIVATE PLACEMENTS EXEMPT FROM REGISTRATION PURSUANT TO REGULATION D OF THE ACT.

THE DISTRIBUTION OF THIS MEMORANDUM AND THE OFFER AND SALE OF THE COMMON SHARES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY COMMON SHARES IN ANY JURISDICTION IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER IN ANY JURISDICTION. NO ACTION HAS BEEN OR WILL BE TAKEN TO PERMIT A PUBLIC OFFERING IN ANY JURISDICTION WHERE ACTION WOULD BE REQUIRED FOR THAT PURPOSE. ACCORDINGLY, THE COMMON SHARES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, AND THIS MEMORANDUM MAY NOT BE DISTRIBUTED, IN ANY JURISDICTION, EXCEPT IN ACCORDANCE WITH THE LEGAL REQUIREMENTS APPLICABLE IN SUCH JURISDICTION. PURCHASERS SHOULD INFORM THEMSELVES AS TO THE LEGAL REQUIREMENTS WITHIN THEIR OWN COUNTRIES FOR THE PURCHASE OF COMMON SHARES AND TO ANY TAXATION OR EXCHANGE CONTROL LEGISLATION APPLICABLE TO THEM.

AN INVESTMENT IN THE FUND MAY BE DEEMED SPECULATIVE AND IS NOT INTENDED AS A COMPLETE INVESTMENT PROGRAM. IT IS DESIGNED ONLY FOR EXPERIENCED AND SOPHISTICATED PERSONS WHO ARE ABLE TO BEAR THE RISK OF THE SUBSTANTIAL IMPAIRMENT OR LOSS OF THEIR INVESTMENT IN THE FUND.

PROSPECTIVE INVESTORS ARE NOT TO CONSTRUE THE CONTENTS OF THIS MEMORANDUM AS LEGAL, INVESTMENT OR TAX ADVICE. EACH INVESTOR SHOULD CONSULT HIS PERSONAL COUNSEL, ACCOUNTANTS AND OTHER ADVISERS AS TO THE LEGAL, TAX, ECONOMIC AND RELATED ASPECTS OF THE INVESTMENT DESCRIBED HEREIN AND AS TO ITS SUITABILITY FOR SUCH INVESTOR.

THE FUND IS A REGULATED MUTUAL FUND FOR THE PURPOSES OF THE MUTUAL FUNDS LAW (2003 REVISION) OF THE CAYMAN ISLANDS. THE FUND IS REGISTERED WITH THE MONETARY AUTHORITY OF THE CAYMAN ISLANDS PURSUANT TO SECTION 4(3) OF THAT LAW AND THE PRESCRIBED DETAILS IN RESPECT OF, AND A COPY OF, THIS MEMORANDUM HAVE BEEN FILED WITH THE MONETARY AUTHORITY. SUCH REGISTRATION DOES NOT IMPLY THAT THE MONETARY AUTHORITY OF THE CAYMAN ISLANDS OR ANY OTHER REGULATORY AUTHORITY IN THE CAYMAN ISLANDS HAS APPROVED THIS MEMORANDUM OR THE OFFERING OF COMMON SHARES HEREUNDER. FOR A SUMMARY OF THE CONTINUING REGULATORY OBLIGATIONS OF THE FUND AND A DESCRIPTION OF THE REGULATORY POWER OF THE CAYMAN ISLANDS MONETARY AUTHORITY SEE SECTION 18 OF THIS MEMORANDUM.

THE COMMON SHARES ARE OFFERED ONLY ON THE BASIS OF THE INFORMATION CONTAINED IN THIS MEMORANDUM. ANY FURTHER INFORMATION OR REPRESENTATIONS GIVEN OR MADE BY ANY DEALER, BROKER OR OTHER PERSON SHOULD BE DISREGARDED AND ACCORDINGLY SHOULD NOT BE RELIED UPON. NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION IN CONNECTION WITH THE OFFERING OF THE COMMON SHARES OTHER THAN THOSE CONTAINED IN THIS MEMORANDUM AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED ON AS HAVING BEEN AUTHORIZED BY THE FUND, THE DIRECTORS, THE INVESTMENT MANAGER, THE PRIME BROKER OR THE ADMINISTRATOR. NEITHER THE DELIVERY OF THIS MEMORANDUM NOR THE ISSUE OF COMMON SHARES WILL UNDER ANY CIRCUMSTANCES CREATE ANY IMPLICATION OR CONSTITUTE ANY REPRESENTATION THAT THE AFFAIRS OF THE FUND HAVE NOT CHANGED SINCE THE DATE HEREOF.

THE DIRECTORS OF THE FUND WHOSE NAMES APPEAR IN THIS MEMORANDUM ACCEPT RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS DOCUMENT. TO THE BEST OF THE KNOWLEDGE AND BELIEF OF THE DIRECTORS (WHO HAVE TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE) THE INFORMATION CONTAINED IN THIS DOCUMENT IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION. THE DIRECTORS ACCEPT RESPONSIBILITY ACCORDINGLY.

WHENEVER THE MASCULINE OR FEMININE GENDER IS USED IN THIS MEMORANDUM, IT WILL EQUALLY, WHERE THE CONTEXT PERMITS, INCLUDE THE OTHER, AS WELL AS INCLUDE ENTITIES.

SPECIAL NOTICE TO FLORIDA, U.S.A. INVESTORS:

UPON THE ACCEPTANCE OF FIVE (5) OR MORE FLORIDA INVESTORS, AND IF THE FLORIDA INVESTOR IS NOT A BANK, A TRUST COMPANY, A SAVINGS INSTITUTION, AN INSURANCE COMPANY, A DEALER, AN INVESTMENT COMPANY AS DEFINED IN THE INVESTMENT COMPANY ACT OF 1940, A PENSION OR PROFIT-SHARING TRUST, OR A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT OF 1933), THE FLORIDA INVESTOR ACKNOWLEDGES THAT ANY SALE OF AN INTEREST TO THE FLORIDA INVESTOR IS VOIDABLE BY THE FLORIDA INVESTOR EITHER WITHIN THREE DAYS AFTER THE FIRST TENDER OF CONSIDERATION IS MADE BY THE FLORIDA INVESTOR TO THE ISSUER, OR AN AGENT OF THE ISSUER, OR WITHIN THREE DAYS AFTER THE AVAILABILITY OF THAT PRIVILEGE IS COMMUNICATED TO THE FLORIDA INVESTOR, WHICHEVER OCCURS LATER.

TABLE OF CONTENTS

	Page
1. SUMMARY	1
2. DIRECTORY	4
3. INTRODUCTION.....	5
4. INVESTMENT PROGRAM	5
5. BACKGROUND OF THE INVESTMENT MANAGER	10
6. INVESTMENT MANAGEMENT AGREEMENT	11
7. RISK FACTORS.....	12
8. EXPENSES.....	20
9. DESCRIPTION OF THE FUND'S COMMON SHARES	20
10. OFFERING OF COMMON SHARES.....	23
11. PAYMENTS TO SPONSORS OF THE FUND.....	24
12. REDEMPTIONS.....	24
13. BROKERAGE AND CUSTODY	28
14. BOARD OF DIRECTORS	28
15. ADMINISTRATOR	29
16. TAXATION AND ERISA MATTERS	30
17. FISCAL YEAR AND FISCAL PERIODS; FINANCIAL STATEMENTS; AUDITORS	33
18. GENERAL COMMENTS.....	33
19. PROCEDURES TO PURCHASE COMMON SHARES AND REPRESENTATIONS BY PURCHASERS.....	35

1. SUMMARY

The following is a summary of the more detailed information contained elsewhere in this Confidential Explanatory Memorandum ("Memorandum") and is qualified in its entirety by reference to such information and to the Memorandum and Articles of Association of the Fund and the other documents and agreements referred to herein.

The Fund	Etolian Capital Offshore Credit Fund, Ltd. (the "Fund") is an exempted company incorporated and existing under the laws of the Cayman Islands. The Fund invests substantially all of its assets in and is a shareholder of Etolian Capital Offshore Master Fund, Ltd., a Cayman Islands exempted company that has elected to be treated as a partnership for U.S. tax purposes (the "Master Fund"). References herein to the Fund may, to the extent appropriate, also refer to the Master Fund.
Investment Objective	The Fund's investment objective, through its investment in the Master Fund, is to provide stable and superior returns that are uncorrelated with the equity and fixed income markets, by establishing both long and short positions in the credit fixed income obligations of companies based in North America. The Investment Manager (as defined below) utilizes a quantitative methodology that relies on input from the credit fixed income, equity and equity options markets to assess relative value among the various parts of the capital structure of such companies. The application of state-of-the-art risk management techniques enables the Investment Manager to focus on differences in the relative valuation of companies' obligations, and generate its investment objectives through a careful selection of long and short positions in such obligations.
The Investment Manager	The investment manager of the Fund and the Master Fund is Etolian Capital Group, LP (the "Investment Manager"), a limited partnership organized under the laws of the State of Delaware, U.S.A. The general partner of the Investment Manager is Etolian Capital Management, LLC, a Delaware, U.S.A. limited liability company. George Handjinicolaou, Larry Hirshik and Yiannis Tsiounis are the managing members of Etolian Capital Management, LLC and portfolio managers of the Investment Manager. Since the Master Fund utilizes futures to hedge the portfolio, the Investment Manager has registered as a "commodity pool operator" with the U.S. Commodity Futures Trading Commission (the "CFTC").
Minimum Initial Investment	The minimum initial investment is \$1,000,000 (U.S.), subject to waiver at the sole discretion of the Board of Directors, but not below \$50,000 (U.S.).
Risk Factors	An investment in the Fund involves significant risks and is suitable only for those persons who can bear the economic risk of the loss of their investment and who have limited need for liquidity in their investment. There can be no assurance that the Fund will achieve its investment objective. An investment in the Fund carries with it the inherent risks associated with investments in fixed income securities, short sales, options and other financial instruments. See "Risk Factors" - Section 7. Each prospective shareholder ("Shareholder") should carefully review this Memorandum and the documents referred to herein before

deciding to invest in the Fund.

Management Fee

The Investment Manager will receive a quarterly management fee calculated at the annual rate of 1.5% of the net assets of the Fund (the "Management Fee"). The Management Fee will be paid quarterly in advance, based on the value of the net assets of the Fund as of the first "Business Day" of each calendar quarter (for purposes of this Memorandum, a Business Day will mean any day on which banks are open in New York). The Management Fee will be prorated for any period that is less than a full calendar quarter and will be adjusted for subscriptions occurring during the quarter. There will be no Management Fee charged at the Master Fund level.

Incentive Fee

The Investment Manager will receive an annual incentive fee equal to 20% of the net profits (taking into account unrealized gains and losses), if any, allocable to each Common Share of the Fund, subject to a loss carryforward provision (the "Incentive Fee"). The Investment Manager may elect to defer receipt of all or a part of the Incentive Fee. There will be no Incentive Fee charged at the Master Fund level. The Incentive Fee will be calculated and accrued with respect to each series of Common Shares as of each date on which the net asset value of such series is calculated.

Expenses

The Investment Manager is responsible for and pays or causes to be paid the following overhead expenses of the Fund: office rent; furniture and fixtures; stationery; secretarial/internal administrative services; salaries; entertainment expenses; employee insurance and payroll taxes. All other expenses are paid by the Fund and include: the fees payable to the Investment Manager; legal, audit and accounting expenses (including third party accounting services); administrator fees and expenses; organizational expenses; investment expenses such as commissions, research fees and expenses (including research-related travel); interest on margin accounts and other indebtedness; borrowing charges on securities sold short; custodial fees; directors' fees and expenses; the Fund's pro rata share of the expenses of the Master Fund and any other expenses reasonably related to the purchase, sale or transmittal of Fund assets. Organizational expenses of the Fund are being amortized over a period of 60 months from the commencement of the Fund's operations.

The Offering

The shares being offered are two classes of common shares par value \$0.01 (U.S.) per share ("Common Shares"), issuable in multiple series. The Fund's Common Shares will be offered only to experienced and sophisticated investors who are neither citizens nor residents of the United States and to a limited number of United States investors consisting of tax-exempt entities. The Common Shares will not be offered to members of the public resident in the Cayman Islands (which does not include an exempted or ordinary non-resident company in the Cayman Islands). The Fund may admit new Shareholders and accept additional subscriptions by existing Shareholders on the first Business Day of each calendar month; however, the Fund reserves the right, in its sole discretion, to accept subscriptions at other times.

Redemptions

Common Shares may be redeemed by a shareholder as of the last

day of each month by written notice received by the Fund at least 30 calendar days (or such lesser period as the Fund shall determine) prior to the redemption date; provided, however, that if a shareholder redeems all or any portion of its Common Shares within the first quarter of making its initial subscription into the Fund, then such redemption is subject to a redemption charge for the benefit of the Fund (unless such charge is waived by the Fund). The redemption charge is 3% of the redeemed amount if redeemed within the same calendar quarter as the making of the initial subscription into the Fund. No redemption charge shall be paid after the first quarter following the initial subscription. Any redemption fee payable shall be deducted from the redemption proceeds and retained by the Fund.

If as of any redemption date, redemption requests are received by the Fund from its investors representing, in the aggregate, more than 20% of the Fund's net assets, the amount permitted to be redeemed by each Shareholder will be prorated on the basis that no more than 20% of the Fund's net assets will be paid out.

Valuation

Fund investments will generally be valued at their last traded price.

Reports

Each Shareholder will receive unaudited reports of the performance of the Fund monthly and will receive audited year-end financial statements annually.

Tax Matters

The Fund should not be subject to any Cayman Islands or United States income taxes (other than United States withholding taxes on dividends and certain interest income derived from United States sources). Shareholders of the Fund who are not otherwise subject to United States taxation by reason of their residence, nationality or other particular circumstances should not become subject to any such taxation by reason of the ownership, transfer or redemption of Common Shares. Shareholders should consult their own advisors as to the tax consequences to them of an investment in the Fund.

2. DIRECTORY

Registered Office	Etolian Capital Offshore Credit Fund, Ltd. c/o Citco Fund Services (Cayman Islands) Ltd. Regatta Office Park, West Bay Road P.O. Box 31106 SMB Grand Cayman, Cayman Islands British West Indies
Principal Office	Etolian Capital Offshore Credit Fund, Ltd. c/o Citco Fund Services (Bermuda) Limited Washington Mall West 7 Reid Street Hamilton HM11, Bermuda
Administrator	Citco Fund Services (Bermuda) Limited Washington Mall West 7 Reid Street Hamilton HM11, Bermuda
Investment Manager	Etolian Capital Group, LP 67 Wall Street, 10 th Floor New York, New York 10005 United States of America Telephone: 212-659-2430
Auditors	PricewaterhouseCoopers Strathvale House 90 North Church Street P.O. Box 258GT Grand Cayman, Cayman Islands British West Indies
United States Counsel	Seward & Kissel LLP One Battery Park Plaza New York, New York 10004 United States of America
Cayman Islands Counsel	Ogier & Boxalls Queensgate House 113 South Church Street P.O. Box 1234 GT Grand Cayman, Cayman Islands British West Indies
Prime Broker and Custodian	UBS Securities LLC 1285 Avenue of the Americas New York, New York 10019

Written inquiries relating to the Fund should be addressed to Etolian Capital Offshore Credit Fund, Ltd. at the address of the Administrator set forth above.

3. INTRODUCTION

Etolian Capital Offshore Credit Fund, Ltd. (the "Fund") is an exempted company formed under the laws of the Cayman Islands for the purpose of investing its assets in accordance with the investment objective set forth in this Confidential Explanatory Memorandum (the "Memorandum"). The Fund invests substantially all of its assets in and is a shareholder of Etolian Capital Offshore Master Fund, Ltd., a Cayman Islands exempted company that has elected to be treated as a partnership for U.S. tax purposes (the "Master Fund"). Its investment manager is Etolian Capital Group, LP, a Delaware, U.S.A. limited partnership (the "Investment Manager"). The general partner of the Investment Manager is Etolian Capital Management, LLC, a Delaware, U.S.A. limited liability company. The managing members of Etolian Capital Management, LLC and the portfolio managers of the Investment Manager are George Handjinicolaou, Larry Hirshik and Yiannis Tsiounis (the "Managing Members"). The registered office of each of the Fund and the Master Fund is located at c/o Citco Fund Services (Cayman Islands) Ltd., Regatta Office Park, West Bay Road, P.O. Box 31106 SMB, Grand Cayman, Cayman Islands, British West Indies. The principal office of each of the Fund and the Master Fund is c/o Citco Fund Services (Bermuda) Limited, Wessex House, Washington Mall West, 2nd Floor, 7 Reid Street, Hamilton HM 11, Bermuda. The Fund's administrator, registrar and transfer agent is Citco Fund Services (Bermuda) Limited (the "Administrator"). The Administrator will delegate certain of its duties and services to be provided by it to one or more of its affiliates which may be located in the United States. The Investment Manager is registered with the U.S. Commodity Futures Trading Commission (the "CFTC") as "commodity pool operators" ("CPO"). References herein to the Fund may, to the extent appropriate, also refer to the Master Fund.

This Memorandum sets forth the investment objective and method of operation of the Fund, the principal terms of the Articles of Association and certain other pertinent information. However, the Memorandum does not set forth all the provisions and distinctions of the Articles of Association that may be significant to a particular prospective Shareholder. Each prospective Shareholder should examine this Memorandum, the Articles of Association, the Subscription Agreement accompanying this Memorandum and the other documents and agreements referred to herein in order to assure itself that the Investment Manager or the Fund's investment program is satisfactory to it.

Prospective Shareholders are invited to review any materials available to the Fund, relating to the Fund, the operations of the Fund and any other matters regarding this Memorandum. All such materials are available at the principal office of the Fund, at any reasonable hour, after reasonable prior notice. The Fund will afford prospective Shareholders the opportunity to ask questions of and receive answers from its representatives concerning the terms and conditions of the offering and to obtain any additional information to the extent that the Investment Manager or the Fund possesses such information or can acquire it without unreasonable effort or expense.

4. INVESTMENT PROGRAM

Investment Objective

The Fund's investment objective, through its investment in the Master Fund, is to provide stable and superior returns that are uncorrelated with the equity and fixed income markets, primarily by establishing both long and short positions in the credit fixed income obligations of companies based in North America. The Investment Manager utilizes a quantitative methodology that relies on input from the equity markets and equity options markets to assess relative value. The application of state-of-the-art risk management techniques enables the Investment Manager to focus on credit spreads (i.e., the difference between the yield offered by a particular credit and LIBOR), and generate its investment objectives through a careful selection of long and short positions.

Investment Universe

The instruments in which the Fund, through its investment in the Master Fund, generally invests can be grouped into three broad categories:

- **Cash Fixed Income Obligations Issued by Companies:** The emphasis is on US dollar denominated obligations issued by US companies. However, the Investment Manager may consider investing in either US dollar denominated obligations of non-US companies, and/or non-US dollar denominated obligations of US and non-US companies.
- **Credit Default Derivatives:** These are off-balance sheet instruments (e.g., credit default swaps, credit spread options, and cash bond options) that are designed to replicate the economic profile of the above-described bonds and may be used after taking into account the comparative economics, liquidity, and availability of credit lines.
- **Equity, Preferred Stock and Convertible Bond Obligations Issued by Companies:** The Investment Manager may consider the use of all of the above obligations either for expressing a view on a credit or for hedging purposes. Preferred stock obligations, although they are considered equity obligations, behave similarly to fixed income obligations and may represent an alternative for expressing a view on the credit of a particular company. Equities and convertible bonds may be used by the Investment Manager for hedging purposes.
- **Options on the Underlying Equity Stock Issued by Companies:** The Investment Manager may use equity puts and calls for hedging purposes.

In addition, because the focus of the Fund's investment strategy is on credit spreads, it uses cash fixed income, interest rate futures and/or interest rate swaps to hedge various portfolio risks – interest rate risk in particular. Furthermore, it may occasionally use other fixed income derivatives such as credit derivatives on baskets of fixed income obligations and/or options (puts and calls) on such instruments, as well as cash equities index and equity index derivatives for hedging purposes.

Investment Opportunity

The Investment Manager believes that there exists a great opportunity in the credit fixed income markets due to a number of trends:

- Over the last decade investors deployed large amounts of capital to equity capital markets, at the expense of fixed income markets, leading to portfolios that have been overrepresented with equity investments. Over the past couple of years, we have witnessed a shift back to fixed income investments. Yet, portfolios continue to be overweight with equities creating the possibility for further significant flows to the fixed income market through portfolio rebalancing.
- Investors have been disillusioned with market directional, index-based, investment returns that have failed to prevent capital erosion and are looking for investment opportunities that generate sustainable above average absolute returns that are not market direction sensitive, exhibit relatively low volatility, provide protection of capital, and produce alpha.
- The credit fixed income market comprises the largest market sector in fixed income, after governments and mortgages. Despite its size, it continues to be highly fragmented and opaque with, often times, poor price discovery. It is one of the few remaining markets where arbitrage opportunities still exist. Moreover, this market is in the midst of a major remake under the influence of new innovative products and techniques (such as credit derivatives and collateralized debt obligations) and new entrants to the market. Moreover, these techniques enable investors to create exposure to credit without exposing themselves to interest rate risks. Traditionally, investors wishing to hold credit fixed income instruments were exposed to both interest rate risk and credit risk.
- Pricing in the credit fixed income market continues to be driven by traditional credit analysis which relies heavily on detailed analysis of balance sheet and income statement information. As such, credit evaluation continues to be viewed as an “art”, not a science, and is driven by a wide range of subjective views about the various credits. The dramatic credit events of 2001 and 2002 (e.g., Enron,

Kmart, WorldCom, Tyco) have demonstrated that these analytical tools have been inadequate in anticipating major credit deterioration. Increasingly, market participants are looking for new, objective ways to assess and evaluate credit risk.

The Investment Manager believes that the offered product addresses such market needs at this time by offering an opportunity to invest in credit fixed income markets, without being exposed to interest rate risk, and in a manner that is consistent with preserving capital (by being hedged, i.e., having both long and short positions), while generating stable, above average annual returns that are uncorrelated with the equity and fixed income markets. More specifically,

- Unlike most other credit fixed income managers who utilize subjective traditional credit analysis for credit selection, the Investment Manager utilizes an objective approach to credit valuation which is based on a well established body of Finance theory – an options valuation framework. This approach (dating back to the seminal papers by Black & Scholes (1973) and Robert Merton (1974)), views credit (and risky bond valuation) as a claim on the assets of a company. The value of these options can be objectively obtained and estimated on the basis of market variables. The Investment Manager utilizes an options based methodology and relies on inputs from the credit fixed income, equity and equity options markets to determine which credits are overvalued and/or undervalued. This methodology drives the Investment Manager's selection process.
- The Investment Manager views the asymmetric nature of credit fixed income investments (the best outcome possible is the return of capital and interest, while losses can amount to the total invested), as a requirement for preserving capital and as an opportunity to create excess returns. The Investment Manager's approach aims at preserving capital and generating returns by taking advantage of credit deteriorating events. This is accomplished by going short on credits that are expected to deteriorate according to certain selection criteria. The combination of long and short positions reduces the likelihood of disastrous events, contributes to capital preservation, and creates potential upside.
- The Investment Manager seeks to generate stable and above average investment performance (alpha) by utilizing a blend of quantitative and qualitative selection methodology to select the individual credits, create the long and short portfolios, managing the long/short ratio, and by applying rigorous risk management techniques to control and manage risk.

Overview of the Investment Process

Driven by the above considerations, the investment procedure followed by the Investment Manager will involve a four-step process.

The first step in the investment process is a quantitative screening of the corporate fixed income universe. The second step, the credit selection process, involves a rigorous research and analysis of the various alternative short and long investment candidates that are available for inclusion in the portfolios. The third step involves the portfolio construction and management, including the daily review of the whole portfolio construction process where each position in the portfolio is re-evaluated in light of the new candidates. Finally, in the fourth step, there is on-going risk management aimed at focusing on credit spread risk by hedging away other market risks, and controlling the Fund's risk exposure in line with the stated objectives.

Step One: Quantitative Screening

The Investment Manager's quantitative screening methodology is based on the insight, first outlined by Black & Scholes, and Merton, that the obligations of a firm (such as equity, preferred, loans, senior bonds, junior bonds, convertibles, etc.) represent claims on its assets. As such, they can be viewed as options that can be priced as a function of the assets of the firm. Moreover, such valuations have to be consistent. That is, all these instruments being options on the same underlying asset (the

value of the assets of the firm) have to be priced in a consistent manner. The reality is that all these securities are traded in different markets (the equity of a firm in the equity market, its bonds in the fixed income market, and so on), and it is likely that such valuations may not be consistent with each other.

The Investment Manager utilizes information available in the credit fixed income, equity and equity options markets to determine the extent to which the outstanding debt of a company is fairly priced, that is, whether the equity and equity options markets are pricing the firm's debt consistently with the way the credit fixed income market does. This enables the Investment Manager to determine whether credit fixed income securities of a particular company are overvalued or undervalued relative to its equity and equity options. The Investment Manager believes that a rigorous analysis of credit via this methodology uncovers arbitrage opportunities by exposing information available from the other liquid markets which trade identical business risk. Information from these markets may or may not be adequately reflected in the credit fixed income market, giving rise to relative value opportunities and thus providing the basis for the investment strategy.

The U.S. credit fixed income universe consists of over U.S. \$5.5 trillion notional amount outstanding as of December 2003, representing over 30% of the outstanding size of the U.S. bond market and more than 50% of the global credit fixed income market. Moreover, there is an emerging market for credit default swaps, estimated to be about \$3 trillion of outstanding notional contracts. The Investment Manager believes that its methodology enables it to sort through the universe of companies whose obligations trade in the above markets, in a highly efficient manner. Rather than going through an intensive credit research process where historical balance sheet and income statements are rigorously analyzed, this process allows for a quick screening and identification of the most promising opportunities throughout the corporate universe.

Step Two: Credit Selection Process

The screening process typically results in large pools of company names, the debt of which is either undervalued or overvalued in relation to the companies' equity and equity options valuations. During the second step of the investment process, a series of additional screenings are performed in order to come to a determination as to the source of the misalignment in the value of identical business risk among these three markets and narrow down the pools of credits to the best candidates for long positions and short positions. During this step, the Investment Manager incorporates in the selection process views about the state of the economy as well as the desirability of individual sectors/industries. Moreover, the Investment Manager reviews and assesses all information available on the candidate companies, and evaluates the feasibility of executing the conceived strategies in the market place at the desired levels. The end result of this process is to achieve the objective of segregating the credits which have the best prospects of retaining (or even narrowing) the yield compensation while minimizing spread widening risk (candidates for the long portfolio), and those credits which have the greatest potential to experience price erosion due to spread widening (candidates for the short portfolio).

In order to do this, the Investment Manager uses a number of filtering techniques to reduce the candidates. Such filters include conducting input validation tests (to discard spurious results caused by input errors); picking only the top prospects from the pools (judged by statistical techniques); picking the best instrument for each credit; analyzing the statistical properties of the variables underlying the credit, equity and equity option valuations; factoring in carry costs, liquidity and ability to short and ascertaining whether the trades are feasible in the market place. The tangible output of this step is a universe of about 50 – 70 credits from which the portfolios in Step Three are constructed.

Step Three: Portfolio Construction and Management

The next step in the investment process involves subjecting the universe of credits that result from Step Two, to additional considerations aimed at improving the portfolio efficiency in terms of risk and return. Specifically, considerations such as ***correlation analysis*** (aimed at diversifying credit selection by analyzing the correlations among credit candidates); ***controlling industry exposure*** (limiting the entire portfolio's exposure generally to a maximum of 15% of its risk adjusted positions either long or

short in any one industry (measured at the time of investment)); **controlling individual company exposure** (limiting the entire portfolio's exposure generally to a maximum of 5% of its risk adjusted positions either long or short in any one company (measured at the time of investment)); and by **balancing overall long and short positions in order to achieve a credit market neutral stance** (although the selection process is a "bottoms up" approach, an important portfolio consideration is whether the overall position is "long or short" credit spreads. Because the nature of the credit risk, such balancing may imply that the ratio of long positions to short positions can vary over time. The Investment Manager's intent is to maintain a balanced portfolio with respect to credit risk by maintaining an optimal portfolio of 40 to 60 credits, (total long and short).

Step Four: Risk Management

The Investment Manager seeks to produce excess returns (alpha) through the selection criteria discussed above, and by its ability to determine relative value which is predicated on the inconsistencies of valuation within the credit market universe relative to valuations prevailing in the equity and equity options markets. Therefore, it is critical to isolate these "spread" inefficiencies, and mitigate all other portfolio risks, the most important being interest rate risk. Where necessary, the Investment Manager will hedge the interest rate risk generally by using interest rate (fixed-floating) swaps, exchange traded Eurodollar futures, and/or other cash fixed income, interest rate futures and options. The result of this hedging exercise is that each credit position is expressed as a calculated spread over LIBOR.

A critical part of risk management is the continuous portfolio review and rebalancing of the portfolios. Individual company credits are, de facto, reviewed daily by being subjected to the selection process on a daily basis. This process identifies credits to be rotated out of the portfolios and indicates better choices for positioning. Rather than determining arbitrary spread objectives to take profits, this procedure ensures that the portfolio is consistently comprised of the best possible credit candidates, eliminating from the portfolios those credits for which theoretical and actual credit spreads converge. Furthermore, the manager has strict stop losses designed to address potentially wrong signals from the selection process and to preserve capital gains.

Risk Management Limits

The Investment Manager has made a significant investment in risk management technology. At any point in time, the Investment Manager is in a position to monitor and manage the dynamics of the Fund's portfolio. The goal is to focus on credit spreads and control all other risks within very tight tolerances. Specifically, the Investment Manager can monitor and manage the efficiency of the hedging strategies (i.e., the process of eliminating interest rate risk). In addition, there is on going monitoring and management of the long and short positions with ability to represent them on the basis of many criteria (i.e., by long and short portfolios, by maturity, by credit rating, by industry, and by individual company or credit instrument). Finally, the whole portfolio is subjected to standard value-at-risk methodologies in order to identify potential exposures and scenarios that can lead to large losses.

Flexibility

The Investment Manager intends to pursue the investment objective described above and will generally follow the outlined investment program as long as such program is in accord with the Fund's overall investment objective. In addition, it may also formulate new approaches to carry out the overall investment objective of the Fund.

While it is anticipated that the Fund will invest primarily in fixed income securities, the Fund has broad and flexible investment authority. Accordingly, the Fund's investments may at any time include long or short positions in U.S. or non-U.S. publicly traded or privately issued or negotiated common stocks, preferred stocks, stock warrants and rights, corporate debt, bonds, notes or other debentures or debt participations, convertible securities, fixed income securities, swaps, options (purchased or written), futures contracts, commodities, forward contracts and other derivative instruments, partnership interests and other securities or financial instruments including those of investment companies. The Fund may

also invest in new issues of securities ("new issues"), provided that the Fund first complies with all of the rules and regulations pertaining to such investments, including the Conduct Rules of the U.S. National Association of Securities Dealers, Inc. (the "NASD"). The Fund intends to utilize financial futures as part of its hedging strategy and, in this regard, the Investment Manager has registered with the CFTC.

Master-Feeder Structure

As discussed above, rather than make portfolio investments directly, the Fund invests substantially all of its assets in a "Master-Feeder" structure in the Master Fund. All portfolio investments are held at the Master Fund level. See "Risk Factors" below for a discussion of certain risks associated with this structure.

THE FUND MAY BE DEEMED TO BE A HIGHLY SPECULATIVE INVESTMENT AND IS NOT INTENDED AS A COMPLETE INVESTMENT PROGRAM. IT IS DESIGNED ONLY FOR SOPHISTICATED PERSONS WHO CAN BEAR THE ECONOMIC RISK OF THE LOSS OF THEIR INVESTMENT IN THE FUND AND WHO HAVE A LIMITED NEED FOR LIQUIDITY IN THEIR INVESTMENT. THERE CAN BE NO ASSURANCE THAT THE FUND WILL ACHIEVE ITS INVESTMENT OBJECTIVE.

5. BACKGROUND OF THE INVESTMENT MANAGER

The Fund's investments are managed by its Investment Manager, Etolian Capital Group, LP, a Delaware limited partnership whose general partner is Etolian Capital Management, LLC. The managing members of Etolian Capital Management, LLC and portfolio managers of the Investment Manager are George Handjnicolaou, Larry Hirshik and Yiannis Tsiounis, whose biographies are set forth below.

George Handjnicolaou. *Managing Member and Co-Chief Investment Officer.* Prior to forming Etolian Capital Partners, LLC, Etolian Capital Group, LP and Etolian Capital Management, LLC, Mr. Handjnicolaou was Managing Director at Merrill Lynch with responsibility for Global Fixed Income Emerging Markets (2000-2002). From 1998 to 2000, he was Executive Vice President and Head of Fixed Income for the Americas at Dresdner Kleinwort Benson. From 1986 to 1998, George was involved with the fixed income derivatives trading in a variety of functions, including Head of Global Swaps Group at Security Pacific/Bank of America, and Head of Fixed Income Derivatives for the Americas at UBS. In the early eighties (1983 to 1986) and for a brief period in the nineties (1994-1995), he was with the World Bank Group, including serving as the Treasurer of the IFC. Over the years, Mr. Handjnicolaou has been an active member of the financial community, has served on the Board of Directors of ISDA and Brokertek, and is on the Advisory Boards of Polytechnic University, and the International Association of Financial Engineers (IAFE). He has taught at N.Y.U. and Baruch College and has published several articles. George has a Ph.D (1983) and an MBA (1978) in Finance from N.Y.U., and a BA in Economics from the University of Athens (1975).

Larry Hirshik. *Managing Member and Co-Chief Investment Officer.* Mr. Hirshik has more than 20 years of capital markets experience concentrating in the structuring, trading, and risk management of fixed income derivatives. From 1999 to 2002, Larry was CEO of Derivatives Exchange Network, an Internet start-up. From 1993 to 1999, he was Managing Director and Head of Derivatives Trading with First Union, where he headed a team of 8 traders with responsibility for pricing, trading, hedging and managing the risk of fixed income swaps, options, and municipals derivatives portfolios. From 1984 to 1993, he was with Security Pacific/Bank of America and Manufacturers Hanover in a variety of fixed income derivatives trading functions. Throughout his career, Larry has proven to be a profitable and consistent trader. Larry has an MBA in Finance from UCLA (1983) and a BA in Mathematics and Computer Science from the University of New Hampshire (1980).

Yiannis Tsiounis. *Managing Member and Chief Operating Officer.* Yiannis Tsiounis brings to Etolian Capital a wealth of analytical, quantitative and entrepreneurial skills gathered from his experience as an academic and an entrepreneur. Prior to Etolian Capital, he was principal and co-founder of Ecleide (2001-2003), a company consulting for the banking industry and the Government, and of Internet Cash

(1999-2001), an internet venture focusing on secured payments and communications. From 1995 to 1999 he was a scientist with GTE (now Verizon) Laboratories focusing on cryptography and from 1992 to 1995 he taught at Northeastern University, while getting his Ph.D. and Master's degrees in Cryptography and Computer Science respectively. Yiannis also holds a BA in Applied Mathematics from the University of Athens.

6. INVESTMENT MANAGEMENT AGREEMENT

Under an Investment Management Agreement (the "Management Agreement") between the Investment Manager and the Fund, the Investment Manager will invest and reinvest the assets of the Fund in accordance with the investment objective and policies of the Fund set forth above. Under the terms of the Management Agreement, the Fund will pay to Etolian Capital Group, LP, for its services as Investment Manager, a quarterly "Management Fee" and an annual "Incentive Fee" as described below.

Management Fee

The Management Fee is calculated at the annual rate of 1.5% of the net assets of the Fund. The Management Fee will be paid quarterly in advance based on the value of the net assets of the Fund as of the first "Business Day" of each calendar quarter, adjusted for subscriptions made during the quarter and without accrual of the Incentive Fee, if any (a Business Day is any day on which banks are open in New York). The Fund will pay the Management Fee in U.S. dollars promptly after the first Business Day of each calendar quarter, unless the Investment Manager elects to defer receipt of the Management Fee as further described below. The Management Fee will be prorated for any period that is less than a full calendar quarter, and will be deducted in computing the net profit or net loss of the Fund. The Fund, with the consent of the Investment Manager, may waive or modify the Management Fee for Shareholders that are members, employees or affiliates of the Investment Manager, relatives of such persons, and for certain large or strategic investors. There will be no Management Fee charged at the Master Fund level.

Incentive Fee

The Incentive Fee for any fiscal year is an amount equal to 20% of the net profits (including realized and unrealized gains), if any, during such fiscal year allocable to each Common Share, subject to a loss carryforward. The Incentive Fee shall be calculated and accrued with respect to each series as of each date on which the net asset value of such series is determined. If a Common Share has a loss chargeable to it during any fiscal year, and during a subsequent fiscal year there is a profit allocable to such Common Share, there will be no Incentive Fee payable with respect to such Common Share until the amount of the loss previously allocated to such Common Share has been recouped. In order to ensure that the Incentive Fee is properly charged only to those Common Shares that have appreciated in value, Common Shares will be issued in series, with Series One Shares being issued on inception of the Fund, and further separate series issued on each separate subscription day during the fiscal year, all as further described in Section 9 below. The Fund, with the consent of the Investment Manager, may waive or modify the Incentive Fee for Shareholders that are members, employees or affiliates of the Investment Manager, relatives of such persons, and for certain large or strategic investors. There will be no Incentive Fee charged at the Master Fund level.

The Management Agreement provides that the Investment Manager will be paid the Incentive Fee within 30 days after the end of the fiscal year, unless the Investment Manager elects to defer receipt of the Incentive Fee as further described below. The amount of any Incentive Fee attributable to any Common Shares being redeemed will be payable to the Investment Manager following such redemption.

Deferral of Fees

The Investment Manager may elect to defer payment of its Management Fee and/or Incentive Fee to the first day of any fiscal year following the quarter or year such fee was earned. If the Investment Manager elects to defer payment of all or part of the Management Fee and/or Incentive Fee, any such

deferred amounts payable to the Investment Manager will be treated, and the amounts eventually payable at the end of such deferral periods will be determined, as if such deferred amounts had been invested in Common Shares of the Fund (or in such “Alternative Investments” as to which the Fund and Investment Manager agree), without any charge for the Management Fee or Incentive Fee, immediately after the particular fee would otherwise be payable and redeemed as of the last day of the deferral period. The deferred fees and any appreciation or depreciation thereon will be paid promptly after the end of the deferral period.

Other Provisions of the Management Agreement

In the event that the Management Agreement is terminated or redemptions are made prior to the last day of the fiscal year, the Incentive Fee will be computed as though the termination date or redemption date, as the case may be, were the last day of the fiscal year.

The Management Agreement provides that it will continue until the close of business on December 31, 2032, except that either the Fund or the Investment Manager may terminate the Management Agreement effective at the close of business on the last day of any fiscal year by giving the other party not less than 60 days' written notice. Termination of the Management Agreement by the Fund requires the prior unanimous approval of holders of Voting Common Shares (as defined below).

The Management Agreement recognizes that the Investment Manager and its directors, members, partners, shareholders, officers, employees, agents and affiliates (hereinafter referred to as the “Affiliated Parties”) are associated with other investment entities and engage in investment management for others. Except to the extent necessary to perform its obligations under the Management Agreement, the Affiliated Parties are not limited or restricted from engaging in or devoting time and attention to the management of any other business, whether of a similar or dissimilar nature, or rendering services of any kind to any other corporation, firm, individual or association. See discussion in Section 7 under “Potential Conflicts of Interest.”

Under the Management Agreement, the Fund will, to the fullest extent legally permissible under the laws of the State of Delaware, indemnify and hold harmless the Affiliated Parties against any loss, liability or expense (including, without limitation, judgments, fines, amounts paid or to be paid in settlements and reasonable attorney’s fees and expenses) incurred or suffered by an Affiliated Party in connection with the good faith performance of his, her or its responsibilities to the Fund; provided, however, that an Affiliated Party will not be indemnified for losses resulting from his, her or its gross negligence, willful misconduct or violation of applicable laws. An Affiliated Party will, upon request, and to the extent legally permissible, be advanced amounts in connection with the Fund's indemnification obligation; provided, however, that if it is later determined that such party was not entitled to indemnification, then such party will promptly reimburse the Fund for all advanced amounts.

7. RISK FACTORS

The Fund may be deemed to be a highly speculative investment and is not intended as a complete investment program. It is designed only for sophisticated persons who are able to bear the economic risk of the loss of their investment in the Fund and who have a limited need for liquidity in their investment. The following risks should be carefully evaluated before making an investment in the Fund:

Risks of Trading Strategies

The Fund’s performance may be adversely affected by unforeseen events involving such matters as political crises, economic or market conditions, changes in currency rates or interest rates or forced redemptions of securities. Certain of the portfolio strategies employed by the Fund are based on historical trends in, and relationships between, asset prices. There can be no assurance that such historical trends or relationships will continue, and no representation is made by the Investment Manager as to what results the Fund will or is likely to achieve based on such trends and relationships.

Nature of Investments

The Investment Manager has broad discretion in making investments for the Fund. Investments generally consist of credit fixed income obligations of companies and other assets that may be affected by business, financial market or legal uncertainties. There can be no assurance that the Investment Manager will correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on investments. Prices of investments may be volatile, and a variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of the Fund's activities and the value of its investments. In addition, the value of the Fund's portfolio may fluctuate as the general level of interest rates fluctuates. No guarantee or representation is made that the Fund's investment objective will be achieved.

Convertible Securities

Convertible securities are securities that may be exchanged or converted into a predetermined number of the issuer's underlying shares or the shares of another company or that are indexed to an unmanaged market index at the option of the holder during a specified time period. Convertible securities may take the form of convertible preferred stock, convertible bonds or debentures, stock purchase warrants, zero-coupon bonds or liquid-yield option notes, stock index notes, mandatorily, or a combination of the features of these securities. Prior to conversion, convertible securities have the same general characteristics as non-convertible debt securities. As with all debt securities, the market value of convertible securities tends to decline as interest rates increase and conversely, increase as interest rates decline. Convertible securities, however, also appreciate when the underlying common stock appreciates, and conversely, depreciate when the underlying common stock depreciates.

Lower-Rated Securities

At any given time, the Fund may invest in fixed income securities rated lower than Baa by Moody's or lower than BBB by S&P (or, if not rated, deemed by the Investment Manager to be of comparable quality). Securities rated lower than Baa by Moody's or lower than BBB by S&P are sometimes referred to as "high yield" or "junk" bonds. Securities rated Baa are considered by Moody's to have some speculative characteristics. Lower-rated securities may include securities that have the lowest rating or are in default. Investing in lower-rated securities involves special risks in addition to the risks associated with investments in higher-rated fixed income securities, including a high degree of credit risk. Lower-rated securities may be regarded as predominately speculative with respect to the issuer's continuing ability to meet principal and interest payments. Analysis of the creditworthiness of issuers/issues of lower-rated securities may be more complex than for issuers/issues of higher quality debt securities. Lower-rated securities may be more susceptible to losses and real or perceived adverse economic and competitive industry conditions than higher-grade securities. Securities that are in the lowest rating category are considered to have extremely poor prospects of ever attaining any real investment standing, to have a current identifiable vulnerability to default, and to be unlikely to have the capacity to pay interest and repay principal. The secondary markets on which lower-rated securities are traded may be less liquid than the market for higher-grade securities. Less liquidity in the secondary trading markets could adversely affect and cause large fluctuations in the value of the Fund's portfolio. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the values and liquidity of lower-rated securities, especially in a thinly traded market. Furthermore, with respect to certain residential and commercial mortgage-backed securities, it is difficult to obtain current reliable information regarding delinquency rates, prepayment rates, servicing records, as well as updated cash flows.

The use of credit ratings as the sole method of evaluating lower-rated securities can involve certain risks. For example, credit ratings evaluate the safety of principal and interest payments, not the market value risk of lower-rated securities. In addition, credit rating agencies may fail to change credit ratings in a timely fashion to reflect events since the security was rated.

Interest Rate Risk

The Fund is subject to interest rate risk. Generally, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends to increase. This risk will be greater for long-term securities than for short-term securities. The Fund intends to minimize the exposure of the portfolios to interest rate changes through the use of interest rate swaps, interest rate futures and/or interest rate options. However, there can be no guaranty that the Investment Manager will be successful in fully mitigating the impact of interest rate changes on the portfolios.

Corporate Debt Obligations

The Fund will invest in corporate debt obligations, including commercial paper. Corporate debt obligations are subject to the risk of an issuer's inability to meet principal and interest payments on the obligations (credit risk). The Investment Manager intends to actively expose the portfolios to credit risk. The Fund's investment objective is to provide stable and superior returns that are uncorrelated with the equity and fixed income markets, primarily by establishing both long and short positions in the credit fixed income obligations of companies based in developed countries. However, there can no guarantee that the Investment Manager will be successful in making the right selections and thus fully mitigating the impact of credit risk changes on the portfolios.

U.S. Government Securities

The Fund may invest in U.S. Government securities. Generally, these securities include U.S. Treasury obligations and obligations issued or guaranteed by U.S. Government agencies, instrumentalities or sponsored enterprises. U.S. Government securities also include Treasury receipts and other stripped U.S. Government securities, where the interest and principal components of stripped U.S. Government securities are traded independently. These securities are subject to market and interest rate risk. The Fund may also invest in zero coupon U.S. Treasury securities and in zero coupon securities issued by financial institutions, which represent a proportionate interest in underlying U.S. Treasury securities. A zero coupon security pays no interest to its holder during its life, and its value consists of the difference between its face value at maturity and its cost. The market prices of zero coupon securities generally are more volatile than the market prices of securities that pay interest periodically.

Leverage

The Investment Manager may borrow funds from brokerage firms, banks and other institutions on behalf of the Fund in order to be able to increase the amount of capital available for marketable securities investments. In addition, the Fund may in effect borrow funds through entering into repurchase agreements, and may "leverage" its investment return with options, commodity futures contracts, swaps, forwards and other derivative instruments. The amount of borrowings that the Fund may have outstanding at any time may be large in relation to its capital. Consequently, the level of interest rates, generally, and the rates at which the Fund can borrow, in particular, will affect the operating results of the Fund.

The use of leverage will increase investor returns if the Fund earns a greater return on leveraged investments than the Fund's cost of such leverage. However, the use of leverage exposes the Fund to additional levels of risk, such as: (i) should the securities pledged to brokers to secure the Fund's margin accounts decline in value, the Fund could be subject to a "margin call", pursuant to which the Fund will be required to either deposit additional funds with the lender or suffer mandatory liquidation of the pledged securities to compensate for the decline in the securities' value; (ii) greater losses from investments than would otherwise have been the case had the Fund not borrowed to make the investments; and (iii) losses on investments where the investment fails to earn a return that equals or exceeds the Fund's cost of leverage related to such investments.

Counterparty Credit Risk

Transactions entered into by the Fund involve credit risk to the extent that its market counterparties are unable or unwilling to fulfill their contractual obligations. In an effort to limit counterparty credit risk the Fund will be subject to credit concentration limits. Counterparties will generally be expected to fulfill certain criteria as to creditworthiness. It is the Investment Manager's policy generally not to expose the Fund to any counterparty that, at the time of entering into a transaction, has a long-term senior debt rating (or, if it has no rating, is deemed by the Investment Manager to merit a rating) below A- by Standard & Poor's Ratings Services, a division of McGraw Hill Companies, Inc., or A3 by Moody's Investors Service, Inc.

Custody Risk

While UBS Securities LLC serves as the Fund's cash custodian (the "Custodian"), as noted in Section 13 below, the majority of the Fund's assets will be invested in fixed income instruments, currencies and related derivatives instruments many of which are not capable of being "custodied" in the traditional sense. Accordingly, at any given time the Fund's account at the Custodian may only contain a small amount of cash and/or direct investments, with the majority of the Fund's assets posted as collateral or otherwise held at the various banks, brokerage firms and other financial institutions with whom it has effected investment transactions. It is expected that all securities and other assets deposited with custodians or brokers will be clearly identified as being assets of the Fund and hence the Fund should not be exposed to a credit risk with respect to such parties. However, it may not always be possible to achieve this segregation and there may be practical or timing problems associated with enforcing the Fund's rights to its assets in the case of an insolvency of any such party, particularly in regard to parties located in non-U.S. jurisdictions.

Special Situations

The Fund may invest in companies involved in (or the target of) acquisition attempts or tender offers or in companies involved in or undergoing work-outs, liquidations, spin-offs, reorganizations, bankruptcies or other catalytic changes or similar transactions. In any investment opportunity involving any such type of special situation, there exists the risk that the contemplated transaction either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the Fund of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, the Fund may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which the Fund may invest, there is a potential risk of loss by the Fund of its entire investment in such companies.

Portfolio Turnover

The investment strategy of the Fund may involve the taking of frequent trading positions, and, as a result, turnover and brokerage commission expenses of the Fund may significantly exceed those of other investment entities of comparable size.

Non-U.S. Securities

The Fund intends to invest primarily in U.S. securities, but may invest in non-U.S. securities. Investing in securities of non-U.S. governments and companies which are generally denominated in non-U.S. currencies and utilization of options on non-U.S. securities involves certain considerations comprising both risks and opportunities not typically associated with investing in securities of the United States Government or United States companies. These considerations include changes in exchange rates and exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, foreign government restrictions, less government supervision of exchanges,

brokers and issuers, greater risks associated with counterparties and settlement, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Currency Risks

Investments that are denominated in a foreign currency are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment, capital appreciation and political developments. The Investment Manager may try to hedge these risks, but there can be no assurance that it will implement a hedging strategy, or if it implements one, that it will be effective.

Lack of Diversification

The Fund's portfolio may not be as diversified among a wide range of types of securities or industry sectors as other investment vehicles. Accordingly, the investment portfolio of the Fund may be subject to more rapid change in value than would be the case if the Fund were required to maintain a wider diversification among types of sectors, securities and other instruments.

Options

The purchase or sale of an option involves the payment or receipt of a premium by the investor and the corresponding right or obligation, as the case may be, either to purchase or sell the underlying security, commodity or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument will not change price in the manner expected, so that the investor loses its premium. Selling options involves potentially greater risk, because the investor is exposed to the extent of the actual price movement in the underlying security rather than only the premium payment received (which could result in a potentially unlimited loss). Over-the-counter options also involve counterparty solvency risk.

Derivatives

To the extent that the Fund invest in swaps, derivative or synthetic instruments, repurchase agreements or other over-the-counter transactions or, in certain circumstances, non-U.S. securities, the Fund may take a credit risk with regard to parties with whom it trades and may also bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded transactions that generally are backed by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. It is expected that all securities and other assets deposited with custodians or brokers will be clearly identified as being assets (directly or indirectly) of the Fund, and hence the Fund should not be exposed to a credit risk with regard to such parties. However, it may not always be possible to achieve this, and there may be practical or time problems associated with enforcing rights to its assets in the case of an insolvency of any such party.

Credit Derivatives

Credit derivatives are contracts that transfer price, spread and/or default risks of debt and other instruments from one party to another. Such instruments may include one or more debtors. Payments under credit derivatives may be made during the exercise period of the contracts. Payments under many credit derivatives are triggered by credit events such as bankruptcy, default, restructuring, failure to pay, cross default or acceleration, etc. Such payments may be for notional amounts, actual losses or amounts determined by formula.

The market for credit derivatives is relatively illiquid, and there are considerable risks that may make it difficult either to buy or sell the contracts as needed or at reasonable prices. Sellers of credit derivatives carry the inherent price, spread and default risks of the debt instruments covered by the derivative instruments. Buyers of credit derivatives carry the risk of non-performance by the seller due to inability to pay. There are also risks with respect to credit derivatives in determining whether an event will trigger payment under the derivative and whether such payment will offset the loss or payment due under another instrument. In the past, buyers and sellers of credit derivatives have found that a trigger event in one contract may not match the trigger event in another contract, exposing the buyer or the seller to further risk.

Distressed Securities

The Fund may invest in "distressed securities" -- securities, private claims and obligations of domestic and foreign entities which are experiencing significant financial or business difficulties. Investments may include loans, commercial paper, loan participations, trade claims held by trade or other creditors, stocks, partnership interests and similar financial instruments, executory contracts and options or participations therein not publicly traded. Distressed securities may result in significant returns to the Fund, but also involve a substantial degree of risk. The Fund may lose a substantial portion or all of its investment in a distressed environment or may be required to accept cash or securities with a value less than the Fund's investment. Among the risks inherent in investments in entities experiencing significant financial or business difficulties is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. The market prices of such instruments are also subject to abrupt and erratic market movements and above average price volatility, and the spread between the bid and asked prices of such instruments may be greater than normally expected. In trading distressed securities, litigation is sometimes required. Such litigation can be time-consuming and expensive, and can frequently lead to unpredicted delays or losses.

Futures

The prices of futures contracts and options used for hedging purposes may not correlate with price movements of the underlying securities being hedged. Although the Fund intends to purchase or sell commodity futures contracts only if there is an active market for each such contract, no assurance can be given that a liquid market will exist for the contracts at any particular time. Futures exchanges and boards of trade limit the amount of fluctuation permitted in certain futures contract prices during a single trading day. Once the daily limit has been reached in a particular contract, no trades may be made that day at a price beyond that limit.

Short Sales

Short sales can, in certain circumstances, substantially increase the impact of adverse price movements on the Fund's portfolio. A short sale involves the risk of a theoretically unlimited increase in the market price of the particular investment sold short, which could result in an inability to cover the short position and a theoretically unlimited loss. There can be no assurance that securities necessary to cover a short position will be available for purchase.

Lack of Liquidity of Fund Investments / Restricted or Non-Marketable Securities

The Fund's investments in restricted or non-marketable securities may involve a high degree of business and financial risk that can result in substantial losses. There may be no existing market for the purchase and sale of such investments, and the Fund may not be able to readily sell such investments. In addition, Fund assets may, at any given time, include securities and other financial instruments or obligations that are thinly-traded, making purchase or sale of such securities at desired prices or in

desired quantities difficult or impossible. Furthermore, the sale of any such investments may be possible only at substantial discounts, and it may be extremely difficult to value any such investments accurately.

Limited Redemption and Transfer Rights

A Shareholder generally will be permitted to redeem all or any part of his or her Common Shares on a monthly basis (subject to a redemption charge in certain cases). Transfers of the Common Shares will be permitted only with the written consent of the Directors of the Fund. Accordingly, the Common Shares should only be acquired by investors willing and able to commit their funds for an appreciable period of time.

Incentive Fee

The payment of a percentage of the Fund's net profits to the Investment Manager may create an incentive for the Investment Manager to cause the Fund to make investments that are riskier or more speculative than would be the case if this fee were not paid. Since the fee is calculated on a basis which includes unrealized appreciation of assets, such fee may be greater than if it were based solely on realized gains.

Reliance on Managing Members of the General Partner of the Investment Manager

If one or more of the managing members (the "Managing Members") of the General Partner of the Investment Manager resigns from the General Partner or otherwise becomes unable to participate in the management of the Fund, Shareholders will generally have no special redemption rights. If one or more of the Managing Members no longer participates in the management of the Fund, it is possible that a significant number of the Fund's Shareholders may exercise their right to redeem their Common Shares at the next applicable redemption date. There can be no assurance that the Fund's portfolio could be liquidated in an efficient manner to accommodate such redemptions, and Shareholders could experience losses.

Limited Operating History

Each of the Investment Manager, the Fund and the Master Fund is a recently-formed entity and has limited operating history upon which investors can evaluate its likely performance. Accordingly, an investment in the Fund entails a significant degree of risk.

Absence of Regulatory Oversight

While the Fund may be considered similar to an investment company, it does not intend to register as such under the Investment Company Act of 1940, as amended, in reliance upon an exemption available to privately offered investment companies, and, accordingly, the provisions of that Act (which, among other matters, require investment companies to have disinterested directors, require securities held in custody to at all times be individually segregated from the securities of any other person and marked to clearly identify such securities as the property of such investment company and regulate the relationship between the adviser and the investment company) will not be afforded to the Fund or the Shareholders.

No Separate Counsel

Seward & Kissel LLP will act as United States counsel to the Investment Manager, the Master Fund and the Fund. Ogier & Boxalls will act as Cayman Islands counsel to the Master Fund and the Fund.

Neither the Fund nor the Master Fund has U.S. counsel separate and independent from counsel to the Investment Manager. Seward & Kissel LLP and Ogier & Boxalls do not represent investors in the Fund, and no independent counsel has been retained to represent investors in the Fund.

Potential Conflicts of Interest

The Investment Manager will use its best efforts in connection with the purposes and objectives of the Fund and will devote so much of its time and effort to the affairs of the Fund as may, in its judgment, be necessary to accomplish the purposes of the Fund. Under the terms of the Investment Management Agreement between the Investment Manager and the Fund (the "Management Agreement"), the Investment Manager and its directors, members, partners, shareholders, officers, employees, agents and affiliates (herein referred to as the "Affiliated Parties") may conduct any other business, including any business within the securities industry, whether or not such business is in competition with the Fund. Without limiting the generality of the foregoing, any of the Affiliated Parties may act as investment adviser or investment manager for others, may manage funds, separate accounts or capital for others and may serve as an officer, director, consultant, partner or stockholder of one or more investment funds, partnerships, securities firms or advisory firms. In this regard, it should be noted that the Investment Manager and an affiliate serve as the management company and the general partner, respectively, to Etolian Capital Credit Fund, LP, a U.S. based private investment partnership which has substantially similar investment programs and methods of operation to that of the Fund. Such other entities or accounts may have investment objectives or may implement investment strategies similar or different to those of the Fund. In addition, the Affiliated Parties may, through other investments, including in other investment funds, have interests in the securities in which the Fund invests as well as interests in investments in which the Fund does not invest. As a result of the foregoing, the Affiliated Parties may have conflicts of interest in allocating their time and activity between the Fund and other entities, in allocating investments among the Fund and other entities and in effecting transactions for the Fund and other entities, including ones in which the Affiliated Parties may have a greater financial interest.

George Handjinicolaou, a managing member of the of the General Partner of the Investment Manager, will also act as a director to the Fund and may have a conflict of interest in this regard.

The Affiliated Parties may give advice or take action with respect to such other entities or accounts that differs from the advice given with respect to the Fund. To the extent a particular investment is suitable for both the Fund and other clients of the Affiliated Parties, such investments will be allocated between the Fund and the other clients pro rata based on assets under management or in some other manner that the Affiliated Parties determine is fair and equitable under the circumstances to all clients, including the Fund.

In addition, purchase and sale transactions (including swaps) may be effected between the Fund and the other entities or accounts subject to the following guidelines: (i) such transactions shall be effected for cash consideration at the current market price of the particular securities, and (ii) no extraordinary brokerage commissions or fees (i.e., except for customary transfer fees or commissions) or other remuneration shall be paid in connection with any such transaction.

While the Administrator for the Fund typically will value the Fund's portfolio based on pricing information from independent sources such as brokers, the Administrator may also rely on pricing information from the Investment Manager. Because the Investment Manager is paid a percentage fee based on the Fund's net profits (which includes unrealized gains on the Fund's securities), the Investment Manager's involvement regarding valuation may present a potential conflict of interest.

From the standpoint of the Fund, simultaneous identical portfolio transactions for the Fund and the other clients may tend to decrease the prices received, and increase the prices required to be paid, by the Fund for its portfolio sales and purchases. Where less than the maximum desired number of shares of a particular security to be purchased is available at a favorable price, the shares purchased will be allocated among the Fund and the other clients in an equitable manner as determined by the Affiliated Parties. Further, it may not always be possible or consistent with the investment objectives of the various

persons or entities described above and of the Fund for the same investment positions to be taken or liquidated at the same time or at the same price, however all transactions will be made on a “best execution” basis.

While the Administrator for the Fund typically will value the Fund’s portfolio based on pricing information from independent sources such as brokers, in valuing the Fund’s portfolio, the Administrator may also rely on pricing information from the Investment Manager. Because the Investment Manager is paid a percentage fee based on the Fund’s net profits (which includes unrealized gains on the Fund’s securities), the Investment Manager’s involvement regarding valuation may present a potential conflict of interest.

Master-Feeder Fund Structure

As discussed above, rather than make portfolio investments directly, the Fund invests substantially all of its assets in a "Master-Feeder" structure in the Master Fund. All portfolio investments are held at the Master Fund level. The "Master-Feeder" structure may be dissolved at any time whereupon the Fund would make portfolio investments directly and such portfolio investments would be held by the Fund. The master-feeder fund structure and, in particular, the existence of multiple investment vehicles investing in the same portfolio presents certain risks to investors, including the increased costs associated specifically with investing through the Master Fund (which are borne on a pro-rata basis by the various entities investing in the Master Fund). Similarly, the Master Fund may become less diverse due to withdrawal by a larger investment vehicle, resulting in increased portfolio risk.

8. EXPENSES

The Investment Manager is responsible for and pays or causes to be paid the following overhead expenses of the Fund: office rent; utilities; furniture and fixtures; stationery; secretarial/internal administrative services; salaries; entertainment expenses; employee insurance and payroll taxes. All other expenses are paid by the Fund and include: the fees payable to the Investment Manager; legal, audit and accounting expenses (including third party accounting services); organizational expenses; investment expenses such as commissions, research fees and expenses (including research-related travel); interest on margin accounts and other indebtedness; borrowing charges on securities sold short; custodial fees; Administrator fees and expenses; directors’ fees and expenses; the Fund’s pro rata share of the expenses of the Master Fund and any other expenses reasonably related to the purchase, sale or transmittal of Fund assets.

The organizational expenses of the Fund (including expenses incurred in connection with the initial offer and sale of Common Shares in the Fund) were paid by the Fund. Organizational expenses are being amortized over a period of 60 months from the date the Fund commenced operations. Accordingly, the auditor’s opinion on the Fund’s financial statements may contain a qualification to reflect this treatment.

9. DESCRIPTION OF THE FUND'S COMMON SHARES

The authorized share capital of the Fund consists of 5,000,000 Common Shares having a par value of \$0.01 (U.S.) per share. As described below, the Fund’s Common Shares are initially divided into two classes, "Class A" shares and "Class B" shares in order to accommodate the purchase of securities considered to be “new issues”. Each class of Common Shares is generally issuable monthly in series of shares (unless the context otherwise indicates, the use of the term “Common Shares” in this Memorandum includes all classes and series). The subscription price for each series of each class of Common Shares shall be US\$100 per share. Series One of the relevant class of Common Shares was sold during the Fund’s initial offering, and each series of each class issued on a monthly basis thereafter shall be numbered sequentially. The reason for the different series is to equitably reflect the differing incentive fees attributable to each series (because of the differing issue dates throughout the fiscal year). At the end of each fiscal year, each outstanding series of a Class which does not have a loss carryforward as at the end of that fiscal year may be converted into one of such series, or into a newly

created series, as determined by the Administrator in consultation with the Investment Manager. Any series which as at the end of a fiscal year has a loss carryforward shall remain outstanding and shall not be converted into any other series until the end of a fiscal year as at which that series has no loss carryforward. The Fund may, in the sole discretion of the Board of Directors, create and issue additional classes, sub-classes or series of shares with such rights as the Board of Directors shall determine. Such additional classes, sub-classes or series may, without limitation, reflect terms and conditions that differ from the Fund's previously issued classes, sub-classes or series of Common Shares.

Except as set forth below, each series and class of Common Shares to be issued pursuant to this current Memorandum has equal dividend, distribution, liquidation and voting rights within each class, sub-class or series. The Fund does not anticipate paying any dividends on its Common Shares.

Allocation of New Issues

From time to time, the Fund may, to the extent permitted by the Rules of the U.S. National Association of Securities Dealers, Inc., as may be amended from time to time (the "Rules"), purchase equity securities that are part of an initial public offering (sometimes referred to as "IPOs" or "new issues"). Under the Rules, brokers may not sell such securities to a private investment fund, if the fund has investors who are "Restricted Persons", which category includes persons employed by or affiliated with a broker and portfolio managers of hedge funds and other registered and unregistered investment advisory firms ("Restricted Persons" will be issued Class B shares, while other investors will be "Unrestricted Persons" and will be issued Class A shares). The profits and losses with respect to new issues will generally be allocated to investors in the Fund that are Unrestricted Persons. The Fund may, however, avail itself of a "de minimis" exemption pursuant to which a portion of any new issue profits and losses may be allocated to Restricted Persons. The Fund's Articles of Association provide that the directors are authorized to determine, among other things: (i) the manner in which new issues are purchased, held, transferred and sold by the Fund and any adjustments with respect thereto; (ii) the Shareholders who are eligible and ineligible to participate in new issues; (iii) the method by which profits and losses from new issues are to be allocated among Shareholders in a manner that is permitted under the Rules (including whether the Fund will avail itself of the "de minimis" exemption or any other exemption); and (iv) the time at which new issues are no longer considered as such under the Rules.

Each subscriber for and each transferee of Common Shares will be required to complete and execute a statement representing to the Fund that he does not fall within the proscription of the Rules of the NASD. Persons who do not fully complete and execute such statement as required by the Fund may not be permitted to participate in new issues to any extent, until they establish their eligibility to participate in new issues to the Fund's satisfaction. Shareholders may also be requested to provide periodic updates of such information and failure to do so may result in the Shareholder's Class A shares being converted into Class B shares.

The Fund may permit holders of Class B shares who are eligible to own Class A shares to convert their Class B shares to Class A shares based upon their relative net asset values at the time of conversion, and any such holder will be required to execute a statement regarding his eligibility to participate in "new issue" securities.

If the Fund determines to its satisfaction that an owner of Class A shares falls within the proscription of the NASD Rules, the Fund will give notice to the Shareholder who will have 10 days from the date of such notice to respond and in the absence of any response or if the Fund is not satisfied with the response, it may by further notice redeem the Class A shares of such Shareholder as of the date specified in such notice and apply the redemption proceeds to the purchase of an equivalent value of Class B shares in the Fund on the date specified in such notice.

Special Designation as Non-Voting Common Shares

While the Fund's Common Shares generally have voting rights ("Voting Common Shares"), the Fund, at its discretion, may designate certain Common Shares as Non-Voting Common Shares in order to avoid

certain adverse U.S. tax, filing or other requirements. In particular, Non-Voting Common Shares shall be issued for new subscriptions by U.S. Shareholders if at the time of the subscription the Fund determines, at its discretion, that issuing the shares as Non-Voting Common Shares is necessary or advisable to avoid these possible adverse consequences. The status of the shares as non-voting will, of course, be fully disclosed to the investor at the time of his subscription and any such investor will be allowed to revoke his subscription upon notification of such classification. In addition, existing Shareholders who have been issued Voting Common Shares may have such shares converted to Non-Voting Common Shares if the Fund determines, at its discretion, that such conversion is necessary or advisable; provided that the Shareholder will be granted the right to redeem such shares prior to conversion. Except with regard to voting rights, Non-Voting Common Shares shall be identical in all respects to Voting Common Shares and, accordingly, references herein to Shares or Common Shares shall mean both Voting Common Shares and Non-Voting Common Shares unless otherwise indicated. Although Non-Voting Common Shares shall not have the right to vote at general meetings of the Fund or class meetings, in the event of any proposed variation or abrogation of rights affecting Non-Voting Common Shares as a class, each holder of Non-Voting Common Shares will receive notice of the proposed change and an opportunity to redeem his shares prior to the change taking effect.

Rights of Shareholders

All shareholders are entitled to the benefit of, are bound by and are deemed to have notice of the provisions of the Memorandum and Articles of Association of the Fund.

Under the terms of the Fund's Memorandum and Articles of Association, the liability of the shareholders of the Fund is limited to any amount unpaid on their Common Shares. As the Common Shares can only be issued if they are fully paid, the shareholders will not be liable for any debt, obligation or default of the Fund beyond their interest in the Fund.

The Fund's Articles of Association have been drafted in broad and flexible terms to allow the Directors the authority to, in their discretion, determine a number of issues including the period of notice to be given for redemptions and whether or not to charge subscription or redemption fees, generally or in any particular case. In approving the offering of Common Shares on the terms set out in this Memorandum, the Directors have exercised a number of these discretions in accordance with the Fund's Articles of Association.

General meetings of the voting Shareholders may be called by the Directors and will be called at the request of the Shareholders holding a simple majority of the outstanding Voting Common Shares. All Shareholders' meetings will be held in the Cayman Islands, or such other location as the Directors will determine. All Shareholders' meetings require seven (7) days' prior notice. Notice may be sent by hand, mail, fax or email, or alternatively, where the recipient has agreed, by posting the notice on a secure nominated web-site.

Subject to the exceptions set forth below and except where a special resolution is otherwise required by the Cayman Islands Companies Law, all decisions of the Shareholders will be made by the holders of a majority of outstanding Voting Common Shares represented at a meeting, provided that a quorum of the holders of one-third of the outstanding Voting Common Shares is present. Notwithstanding the foregoing, (i) the dismissal of a member of the Board of Directors must be adopted by an affirmative vote of two-thirds of the votes cast at a meeting of Shareholders at which more than one-half of the total number of Voting Common Shares then issued and outstanding are represented; (ii) any investment management contract entered into by the Fund (other than an investment advisory or investment management contract which the Investment Manager is authorized to enter into pursuant to the Management Agreement) may not be terminated by the Fund unless such termination is approved by a unanimous vote cast at a meeting at which all the issued and outstanding Voting Common Shares are represented; (iii) amendments to the Memorandum of Association and the Articles of Association must be approved by three-quarters of the votes cast at a meeting at which not less than one-half of the issued and outstanding Voting Common Shares are represented, except that any amendment to decrease the vote required to terminate an investment advisory or investment management contract requires approval by a unanimous vote cast at a meeting at which all of the issued and outstanding shares are represented;

and (iv) the merger or consolidation of the Fund with another corporation or the dissolution of the Fund requires the affirmative vote of the holders of three-quarters of the Voting Common Shares outstanding. Any matter referred to herein may also be adopted by resolution in writing of all the voting Shareholders.

The rights attaching to any class of Common Shares (unless otherwise provided by the terms of issue of the Common Shares of that class) may, whether or not the Fund is being wound up, be varied with the consent in writing of the holders of two-thirds of the issued Common Shares of that class, or with the sanction of a resolution passed by a two-thirds majority of the holders of the issued Common Shares of that class at a separate meeting of the holders of the Common Shares of that class.

Notwithstanding the foregoing, the Fund with the consent of the Investment Manager, shall have the absolute discretion to agree with a Shareholder to waive or modify the application of any provision of the offering terms herein with respect to such Shareholder (including those relating to the Management Fee, the Incentive Fee and redemptions) without obtaining the consent of any other Shareholder. For administrative convenience, the Fund may issue a separate class or sub-class of Common Shares for such Shareholder. Such Shareholders may be members, employees or affiliates of the Investment Manager, relatives of such persons, and large or strategic investors.

Except for such rights of conversion as are set forth above with respect to the conversion of Class A shares to Class B shares (or Class B shares to Class A shares), the conversion of Common Shares to Non-Voting Shares, and the conversion rights set forth in Section 12, "Redemptions," the Common Shares have no conversion or pre-emptive rights. All Common Shares of the Fund, when duly issued, will be fully paid and nonassessable. By subscribing for shares of any series of the applicable class that were profitable in the prior year, a subscriber will have irrevocably authorized and directed the Fund to convert such shares (insofar as they are not redeemed) into shares of another series of the applicable class of Common Shares that were also profitable in the prior year or into a newly created series as set forth in the paragraph in Section 12 entitled "Conversion of Shares."

Common Shares will generally be issued in registered form only. No share certificates representing the shares subscribed for will be forwarded to an investor, unless requested by the investor and approved by the Fund. All shares issued in the Fund will generally be issued as registered shares.

From time to time, the Fund, by a resolution passed by a simple majority of the Shareholders, may increase its authorized share capital in order to have a substantial number of shares available at all times for issuance.

Transfers

Common Shares may be transferred only if the proposed transferee of the Common Shares obtains the prior written approval of the Fund. In this regard, the proposed transferee will be required to make the representations and warranties required of a subscriber in form and substance satisfactory to the Fund. The Fund will have full discretion to approve or disapprove any proposed transferee, and no proposed transfer will be recognized until the documents relating to it, including, but not limited to, certain subscription documents, have been approved by the Fund.

10. OFFERING OF COMMON SHARES

The Fund is conducting an offering of its Common Shares to a limited number of experienced and sophisticated investors who are neither citizens nor residents of the United States and to a limited number of United States investors consisting of qualified pension, profit sharing and other retirement trusts, charities and other tax-exempt entities. The Common Shares will not be offered to members of the public resident in the Cayman Islands (which does not include an exempted or ordinary non-resident company in the Cayman Islands). Admission as a Shareholder in the Fund is not open to the general public and shares will be privately offered to investors who meet the requirements set forth in the "Subscription Agreement and Revocable Proxy" accompanying this Memorandum.

The minimum initial subscription of each investor is \$1,000,000 (U.S.), subject to change at the sole discretion of the Board of Directors, but not below \$50,000 (U.S.). Subscriptions for Common Shares will be made in cash or, in the sole discretion of the Fund, in securities or partly in cash and partly in securities. Shares generally may be purchased on the first Business Day of each month and at such other times as the Fund determines in its sole discretion.

The number of shares to be purchased will be based on the offering price per share (the "Offering Price"). The Offering Price per share of each series of each class shall be \$100.

Investors interested in subscribing for Common Shares should follow the procedures set forth in Section 20, "Procedures to Purchase Common Shares and Representations by Purchasers."

11. PAYMENTS TO SPONSORS OF THE FUND

The Investment Manager may pay (or cause to be paid) fees to persons (whether or not affiliated with the Investment Manager) who are instrumental in the sale of interests in the Fund. Any such fees will in no event be payable by or chargeable to the Fund or any Shareholder or prospective Shareholder, unless there is an offsetting credit or fee reduction given by the Investment Manager on either or both fees.

12. REDEMPTIONS

Common Shares may be redeemed by a shareholder as of the last day of each month by written notice received by the Fund's Administrator at least 30 calendar days (or such lesser period as the Fund shall determine) prior to the redemption date; provided, however, that if a shareholder redeems all or any portion of its Common Shares within the first quarter of making its initial subscription into the Fund, then such redemption is subject to a redemption charge for the benefit of the Fund (unless such charge is waived by the Fund). The redemption charge is 3% of the redeemed amount if redeemed within the same calendar quarter as the making of the initial subscription into the Fund. No redemption charge shall be paid after the first quarter following the initial subscription. Any redemption charge payable by a redeeming Shareholder shall be deducted from the redemption proceeds and retained by the Fund. A redeeming Shareholder will redeem his shares at net asset value as of the close of business on such redemption date (the "Redemption Price") (as determined in accordance with the valuation principles contained in the Articles of Association and summarized below). The net asset value is computed after deduction of any accrued Incentive Fee payable to the Investment Manager attributable to the Common Shares redeemed. The Shareholder must request such redemption by written notice that must be received by the Administrator at least 60 days prior to the redemption date. Such notice must indicate (i) the Shareholder's intention to make such redemption and (ii) the amount of such redemption or the manner in which such redemption is to be determined. Common Shares will be redeemed on a first-in, first-out basis. A redemption request, once given, may not be withdrawn without the consent of the Board of Directors, except upon a declaration of the suspension of the determination of net asset value. The Fund, in its sole discretion, may waive or modify the conditions relating to redemptions for Shareholders that are members, employees or affiliates of the Investment Manager, relatives of such persons, and for certain large or strategic investors.

If one or more redemption requests are received in respect of any one redemption date that would, if satisfied, result in the redemptions of an amount equal to more than 20% of the total net asset value of the Fund, the Directors may determine in their absolute discretion to reduce the amount of each redemption request pro rata so that redemption requests represent in aggregate an amount equal to no more than 20% of the total net asset value of the Fund. The partial amounts of the redemption requests that remain unsatisfied shall be carried forward to the next redemption date and satisfied in priority to any redemption requests received in relation to such subsequent redemption date until the prior redemption requests shall have been satisfied in full.

The payment of the Redemption Price will be subject to the retention of a reserve for Fund liabilities and for other contingencies in such amount as will be determined by the Fund in its discretion. If

the reserve (or a portion thereof) is later found to be excessive, such amount will be returned to the redeeming Shareholder with interest (at the broker's call charged at that time by the Fund's prime broker). In the case of a complete redemption, the foregoing will be in addition to any other applicable holdbacks.

Redemption requests may be made by mail or facsimile (with original to follow by courier). However, if the Shareholder has elected to have share certificates sent to him rather than held for him by the Administrator, the redemption request must be accompanied by delivery to the Fund of the certificates for the shares to be redeemed. The Shareholder's request should be made by letter addressed to the Fund, c/o Citco Fund Services (Bermuda) Limited, Washington Mall West, 2nd Floor, 7 Reid Street, Hamilton HM 11, Bermuda, attention: Shareholder Services Department, or by facsimile to the Fund at (441) 295-0992 (with the original to follow by courier, as payment will not be made until the original redemption request is received by courier). Neither the Fund nor the Administrator shall be responsible for any mis-delivery or non-receipt of any facsimile. Facsimiles sent to the Fund or the Administrator will only be effective when actually received. Shareholders who submit redemption requests initially by facsimile are advised to contact the Administrator after sending a facsimile redemption request to ensure that the Administrator has received the request.

On partial redemptions of less than 90% of a Shareholder's holdings of Common Shares, the Redemption Price will generally be paid within 30 days. Payment of the Redemption Price on the redemption of 90% or more of a Shareholder's holdings of Common Shares will generally be made as soon as practicable but, except in cases where share certificates and share transfers are not delivered, the Shareholder will receive at least 90% of the Redemption Price no later than 30 days following the date of redemption. Promptly after the Fund has determined the net asset value of the Common Shares as of the date of redemption (which in the Fund's discretion may be after the Fund's annual audit), the Fund will pay to such Shareholder the balance, if any, of the amount to which such Shareholder is entitled, or such Shareholder will be obligated to repay the Fund the excess, if any, of the amount previously paid over the amount to which such Shareholder is entitled, in each case together with interest thereon, to the extent permitted by applicable law. Redemption payments will be made in cash (in U.S. dollars) or, in the discretion of the Fund, in securities or partly in cash and partly in securities, as further described below. Such interest shall accrue from the date of such redemption to the date of the payment of such excess at the broker's call rate charged at that time by the Fund's prime broker.

Mandatory Redemptions

If the Board of Directors determines that any of the representations given by any holder of Common Shares as set forth in the Subscription Agreement and Revocable Proxy were not true or have ceased to be true or that the continuing ownership of Common Shares by a Shareholder would cause an undue risk of adverse tax or other consequences to the Fund or any of its Shareholders, the Fund may compulsorily redeem all or any part of his Common Shares at a date specified in the notice of such redemption by the Fund to the Shareholder, which date will be not less than 5 nor more than 60 days from the date of such notice. Mandatory redemptions will occur at the net asset value as of the close of business on such Redemption Date. In addition, the Fund will be entitled to require the redemption of all or any part of a Shareholder's Common Shares, with or without cause, at any time upon 20 days' notice. Payment will be made in accordance with the procedure applicable to Common Shares that are redeemed at the request of the holder.

Suspension of Redemptions

The Board of Directors may suspend the determination of net asset value and the right of the holders of the Fund's Common Shares to require the Fund to redeem Common Shares during any period when:

- (a) any stock exchange on which a substantial part of securities owned by the Fund or the Master Fund are traded is closed, other than for ordinary holidays, or dealings thereon are restricted or suspended;

(b) there exists any state of affairs which constitute a state of emergency or period of extreme volatility or illiquidity as a result of which (i) disposal of a substantial part of the investments of the Fund or the Master Fund would not be reasonably practicable and might seriously prejudice the Shareholders or the Fund or the Master Fund or (ii) it is not reasonably practicable for the Fund or the Master Fund to determine fairly the value of its net assets;

(c) there is a breakdown in the means of communication normally employed in determining the prices of a substantial part of the investments of the Fund or the Master Fund;

(d) the Master Fund suspends redemptions; or

(e) none of the requests for redemption that have been made may be lawfully satisfied by the Fund in U.S. dollars.

Conversion of Shares

Any series of Common Shares issued during any fiscal year will be converted immediately before the start of business on the first day of the subsequent fiscal year for shares of another existing series or a newly created series of the applicable class of Common Shares on the basis of the relative net asset value per share of the particular series and class of Common Shares being converted and of the series of the applicable class of Common Shares into which such series is being converted (if a newly created series, the conversion shall be at the rate of US\$100 per Common Share of such newly created series), provided, however, that no series of a class of Common Shares shall be so converted while any loss carryforward attributable to that series of the applicable class remains outstanding. Such conversion will be effected by the Fund acquiring the shares to be converted from the holder of such shares and applying the proceeds of such acquisition in paying for the relevant class and series of Common Shares into which such shares are being converted.

Distributions in Cash or in Kind

Payment of the Redemption Price to a Shareholder on redemption will be made in cash or, in the discretion of the Board of Directors (in consultation with the Investment Manager), in securities selected by the Board of Directors (in consultation with the Investment Manager), or partly in cash and partly in securities selected by the Board of Directors (in consultation with the Investment Manager). In-kind distributions may be made directly to the redeeming Shareholder or, alternatively, in certain limited circumstances, distributed into a liquidating account and sold for the benefit of such redeeming Shareholder, in which case (i) payment to such Shareholder of that portion of his redemption attributable to such securities will be delayed until such time as such securities can be liquidated and (ii) the amount otherwise due such Shareholder will be increased or decreased to reflect the performance of such securities through the date on which the liquidation of such securities is effected.

Net Asset Value

The net asset value of a Common Share at any date will be the total net assets of the Fund attributable to the relevant series within the relevant class divided by the number of Common Shares of that series within the relevant class then outstanding. The total net assets of the Fund at any date will be determined on the accrual basis of accounting utilizing generally accepted accounting principles applied in the United States as a guideline and in accordance with the following:

(a) No value will be assigned to goodwill;

(b) Organizational expenses are being written off over 60 months beginning on the date the Fund commenced operations;

(c) Accrued investment management fees and other fees will be treated as liabilities;

(d) Dividends payable on the Common Shares, if any, after the date as of which the total net assets are being determined to Shareholders of record prior to such date will be treated as liabilities;

(e) The market value of positions in securities will be as follows: securities that are listed on an exchange or the NASDAQ National Market and are freely transferable will be valued at their last sale price during the regular or primary trading session on the primary exchange on the date of determination, or, if no sales occurred on such date, at the "bid" price at the close of business on such day if held long and at the "asked" price at the close of business on such day if sold short. Securities traded over the counter and not listed on the NASDAQ National Market that are freely transferable will be valued at the last sale price on the date of determination, or, if no sales occurred on such day, at the "bid" price at the close of business on such day if held long and at the "asked" price at the close of business on such day if sold short. Options that are listed on a national options exchange shall be valued at their last sale price on the principal market on which such options will have traded on such date; provided that if the last sale price of such options do not fall within the last "bid" and "asked" price for such options on such date, the options will be valued at the mean between the last "bid" and "asked" price for such options on such date by the Board of Directors. Notwithstanding the foregoing, if in the reasonable judgment of the Board of Directors, in its sole discretion, the listed price for any securities held by the Fund or any securities that the Fund sells short does not accurately reflect the value of such security, the Board of Directors may value such security at a price (i) that is less than the quoted market price for such securities that the Fund holds long and (ii) that is more than the quoted market price for securities that the Fund sells short.

(f) The market value of a commodity future, forward or similar contract or any option on any such instrument traded on an exchange will be the most recent available closing quotation on such exchange; provided, that if the Board of Directors determines that such closing price does not accurately reflect market value due to price limit constraints, such contract or option will be valued at fair market value as determined by the Board of Directors;

(g) Securities contributed to the Fund will be treated as if purchased by the Fund at market value on the date of contribution, and securities distributed from the Fund will be treated as if sold by the Fund at market value on the date of distribution;

(h) The increase or decrease in the net worth of the Fund resulting from the investment in new issue securities by the Fund shall be credited or debited to the net asset value of the Class A shares, unless the Fund utilizes the "de minimis" exemption (see Section 9, "Description of the Fund's Common Shares – Allocation of New Issues" above), in which case up to 10% of such profits and losses may be credited or debited to the net asset value of the applicable restricted shares as determined by the Board of Directors;

(i) The value of the Fund's interest in the Master Fund will be valued based on the latest financial statements or interim net assets value report of the Master Fund; and

(j) All other assets of the Fund will be valued in the manner determined by the Board of Directors of the Fund to reflect their fair market value.

In connection with the determination of the net asset value of shares, the Board of Directors may consult with and is entitled to rely upon the advice of the Fund's brokers, custodians, the Investment Manager or other advisers. In no event and under no circumstances will the Board of Directors or the Investment Manager incur any individual liability or responsibility for any determination made or other action taken or omitted by them in good faith.

13. BROKERAGE AND CUSTODY

The Investment Manager is authorized to determine the broker or dealer to be used for each securities transaction for the Fund. In placing orders, it is the Fund's policy to obtain the best price and execution for its transactions. Where best price and execution may be obtained from more than one dealer, the Investment Manager may purchase and sell securities through dealers who provide research, statistical and other information, although the Fund may not necessarily, in any particular instance, be the direct or indirect beneficiary of the research services provided. Research and related services furnished or paid for by brokers may include, but is not limited to, written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; financial publications; statistic and pricing services, as well as discussions with research personnel, along with hardware, software, databases and other technological, technical and telecommunication services (including wireless services), lines and equipment utilized in the investment management process (including improvements, updates, maintenance, modifications, offsite or onsite backup, repairs and replacements), as well as research-related travel. Research and related services obtained by the use of commissions arising from the Fund's portfolio transactions may be used by the Investment Manager in its other investment activities.

Services, other than research, obtained by the use of commissions arising from the Fund's portfolio transactions will only be used for the benefit of the Fund, and such services will be limited to services which would otherwise constitute an expense borne by the Fund. It should be noted that certain of the foregoing commission arrangements are outside the parameters of Section 28(e) of the Securities Exchange Act of 1934, as amended, which permits use of commissions or "soft dollars" to obtain "research and execution" services.

Additionally, from time to time, the Fund may request and receive cash rebates when there is a soft dollar commission credit built up at an executing broker.

In selecting brokers and negotiating commission rates, the Investment Manager will take into account the financial stability and reputation of brokerage firms and the brokerage and research services provided by such brokers, although the Fund may not, in any particular instance, be the direct or indirect beneficiary of the research services provided. The Investment Manager may also consider the referral of investors, consistent with best execution.

The Investment Manager may also hire separate independent trading firms in order to obtain better price and/or execution, and such trading firms will be paid through additional commissions to be borne by the Fund.

The Fund maintains accounts at UBS Securities LLC, which serves as the Fund's prime broker and custodian (the "Prime Broker"). The Investment Manager reserves the right, in its sole discretion, to change or add prime brokers and/or custodians without further notice to the Shareholders.

14. BOARD OF DIRECTORS

The Board of Directors of the Fund and the Master Fund consists of George Handjinicolaou, Ian Pilgrim and InterAtlantic Services Ltd. Mr. Handjinicolaou serves as a Director without compensation, while Citco Fund Services (Bermuda) Limited receives fees for providing the services of Mr. Pilgrim and InterAtlantic Services Ltd. as Directors. If additional Directors are elected, the Fund may compensate such Directors (other than the Fund's Investment Manager or any persons affiliated with the Investment Manager) with respect to services rendered in that capacity.

The Directors are responsible for the overall management and control of the Fund in accordance with its Memorandum and Articles of Association. However, the Directors are not responsible for the day-to-day operations and administration of the Company, nor are they responsible for making or approving any investment decisions, having delegated such responsibilities to the Investment Manager pursuant to

the Management Agreement and the day to day administrative functions to the Administrator pursuant to the Administration Agreement in accordance with its powers of delegation as set forth in the Articles of Association. The Directors will review the performance of the Investment Manager and the Administrator on a periodic basis.

Ian Pilgrim joined Citco Fund Services (Bermuda) Limited in January 2001 and served as its Managing Director until December 2003. Mr. Pilgrim currently serves as General Counsel to Citco Fund Services. Prior to joining Citco, Mr. Pilgrim practiced from the beginning of 1997 until the end of 2000 as a Barrister & Attorney with M.L.H. Quin & Co. in Bermuda. From 1994 to 1996, Mr. Pilgrim practiced as a solicitor with Allen & Overy in Hong Kong where he was involved primarily in banking and project finance, and prior to that from 1991 to 1994 with Deacons in Hong Kong. Before moving to Hong Kong, Mr. Pilgrim practiced as a solicitor with the City of London law firm, Taylor Joynson Garrett. Mr. Pilgrim was admitted to practice as a solicitor in England & Wales in 1989 and in Hong Kong in 1992. He was admitted to the Bar in Bermuda in 1998. He is a member of the Law Societies of England and Wales and Hong Kong and of the Bar of Bermuda.

InterAtlantic Services Ltd., a British Virgin Islands corporation incorporated on May 23, 2001, is indirectly wholly-owned by The Citco Group Limited, the ultimate parent company of the Fund's Administrator and is therefore affiliated with the Fund's Administrator. The address of InterAtlantic Services Ltd. is c/o Citco Fund Services (Bermuda) Limited, Washington Mall West, 2nd Floor, 7 Reid Street, Hamilton HM11 Bermuda. The company is an affiliate of the Citco Group of Companies, a major international group providing financial services.

The Articles of Association do not stipulate a retirement age for the Directors and do not provide for retirement of the Directors by rotation. There is no shareholding qualification for the Directors. The Directors are empowered to exercise all of the borrowing powers of the Fund. Biographical information for Ian Pilgrim and details regarding InterAtlantic Services Ltd. are set forth below. For the biography of Mr. Handjinicolaou, see "Background of the Investment Manager" above.

The Articles of Association provide certain rights of indemnification in favor of directors, officers, employees and agents of the Fund against legal liability and expenses if such persons have acted in accordance with certain standards of conduct and, in connection with the matter giving rise to a particular claim, did not engage in willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of their office.

With the exception of the Investment Manager, the Directors, who are also the directors of the Master Fund, may change any of the Fund's or Master Fund's service providers, including the Fund's and the Master Fund's auditors, without the consent of the Shareholders.

15. ADMINISTRATOR

The Fund and the Master Fund have entered into an Administration Agreement (the "Administration Agreement") with Citco Fund Services (Bermuda) Limited (the "Administrator"), a company incorporated under the laws of Bermuda, to perform certain financial, accounting, corporate, administrative, registrar and transfer agency and other services on behalf of the Fund. Certain personnel or entities associated with the Administrator serve as officers or directors of the Fund. The Administrator, together with its affiliates in New York, Miami, Toronto, San Francisco, Curacao, the Cayman Islands, the British Virgin Islands, Bahamas, Montevideo, Amsterdam, Luxembourg, Zurich, Geneva, Hong Kong and Sydney, advises, sponsors, manages and/or administers investment companies worldwide.

Pursuant to the Administration Agreement, the Administrator is responsible for the overall administration of the Fund and performs or supervises the performance of all services necessary for the Fund's operation and administration (other than making investment decisions), including administrative, accounting and shareholder services. The Administrator is also responsible for, among other things: (i) calculating the Net Asset Value of the Fund's Common Shares in accordance with this Memorandum and the Fund's Articles of Association; (ii) performing certain acts related to the subscription and redemption

of Common Shares; (iii) keeping such books and records as are required by law or otherwise for the proper conduct of the affairs of the Fund; and (iv) performing other services necessary in connection with the administration of the Fund.

For the purpose of calculating the Net Asset Value of the Fund's Common Shares, the Administrator will rely on, and shall not be responsible for, the accuracy of financial data furnished to it by the Investment Manager, the prime brokers and/or independent third party pricing services. The Administrator will not be responsible or liable for the accuracy of information furnished by other persons to the Administrator and/or the Fund. The Administrator in no way acts as guarantor or offeror of the Fund's Common Shares or any underlying investment, nor is it responsible for the actions of the Fund's sales agents, the prime brokers, any other brokers or the Investment Manager.

Under the Administration Agreement, the Fund will indemnify and hold harmless the Administrator, its subsidiaries, affiliates, directors and other officers, shareholders, servants, employees, agents and permitted delegates (together "Indemnified Parties") against any liability, actions, proceedings, claims, demands, costs or expenses in connection therewith that may be incurred by the Administrator or any other Indemnified Party or which may be made against the Administrator or any other Indemnified Party in respect of the same sustained or suffered by any third party, except that no Indemnified Party will be indemnified against any liability to which it would be subject by reason of its gross negligence, bad faith, fraud or dishonesty. In the absence of material breach of the Administration Agreement by the Administrator due to the gross negligence, bad faith, fraud or dishonesty in the performance of its duties, neither the Administrator nor any other Indemnified Party will be liable to the Fund, the Investment Manager or any shareholder of the Fund or any other person on account of anything done, omitted or suffered by the Administrator or any other Indemnified Party in good faith pursuant to the Administration Agreement in the performance of the services to be performed by the Administrator.

The fee payable to the Administrator is based on its standard schedule of fees charged by the Administrator for similar services. The Fund and the Administrator may terminate the Administration Agreement upon 90 days' written notice to the other party.

The Fund may retain other affiliated or additional service providers to perform the administrative services that would otherwise be performed by the Administrator and such service providers may be located in the United States.

16. TAXATION AND ERISA MATTERS

The tax status of the Fund and its Shareholders under the tax laws of the Cayman Islands and the United States is summarized below. The summary is based on the assumption that the Fund is owned, managed and operated as contemplated. The summary is considered in the opinion of the attorneys indicated below to be a correct interpretation of existing laws as applied at the date of this Memorandum, but no representation is made or intended by the Fund (i) that changes in such laws or their application or interpretation will not be made in the future or (ii) that the United States Internal Revenue Service will agree with the above-described interpretation as applied to the method of operation of the Fund. Persons interested in subscribing for the Fund's Common Shares should consult their own tax advisers with respect to the tax consequences, including the income tax consequences, if any, to them of the purchase, holding, redemption, sale or transfer of Common Shares.

Cayman Islands Taxes

Fund and Master Fund Level. The Fund and the Master Fund are not subject to any income, withholding or capital gains taxes in the Cayman Islands. Each of the Fund and the Master Fund has received an undertaking dated October 1, 2002 from the Governor-in-Council of the Cayman Islands pursuant to the Tax Concessions Law (1999 Revision) of the Cayman Islands that for a period of twenty years from the date of the grant of the undertaking, no law which is thereafter enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations will apply to it or its

operations; and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax will be payable on or in respect of its shares, debentures or other obligations, or by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of The Tax Concessions Law (1999 Revision). No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Common Shares.

Shareholder Level. Shareholders will not be subject to any income, withholding or capital gains taxes in the Cayman Islands with respect to the Common Shares of the Fund owned by them and dividends received on such Common Shares, nor will they be subject to any estate or inheritance taxes in the Cayman Islands.

United States Taxes

Fund Level - Capital Gains. Section 864(b)(2) of the Internal Revenue Code of 1986, as amended (the "Code"), provides a safe harbor pursuant to which a foreign corporation that engages in the United States in trading securities for its own account will not be deemed to be engaged in a United States trade or business. The Fund intends to conduct its activities in a manner so as to meet the requirements of this safe harbor. Thus, the Fund's securities trading activities should not constitute a United States trade or business, and the Fund generally should not be subject to the regular United States Federal income tax on its trading profits. However, if certain of the Fund's activities were determined not to be of the type described in this safe harbor, the Fund may be considered to be engaged in a United States trade or business, in which case the Fund would be subject to United States Federal income and branch profits tax on some or all of its income and profits. Assuming that the Fund qualifies for this safe harbor, the Fund will not be subject to any United States Federal income tax on its capital gains from the sale of securities to the extent that such securities are not classified as "United States real property interests" within the meaning of Code section 897. In this connection the Fund does not presently intend to buy any securities which would be classified as "United States real property interests."

Fund Level - Interest and Dividend Income. Assuming the Fund qualifies for the safe harbor discussed above, the only United States Federal income taxes which will be payable by the Fund on its income from dividends and interest is the 30% withholding tax applicable to dividends and certain interest income considered to be from sources within the United States. Generally, interest received by the Fund upon obligations issued after July 18, 1984 which are either in registered form or in bearer form where there are arrangements reasonably designed that the obligations will be sold only to non-United States persons is exempt from this withholding tax.

Shareholder Level. Shareholders, as long as they are neither citizens nor residents of the United States nor engaged in a trade or business in the United States, are not subject to any United States Federal income, withholding, capital gains, estate or inheritance taxes with respect to the Common Shares owned by them or dividends received on such Common Shares.

Other Taxes

Depending on the tax laws of any other jurisdiction, there may be withholding taxes imposed on dividends, interest income or capital gains received by the Fund on securities issued by governments or corporations of those jurisdictions.

U.S. Shareholders - Special Considerations

PFIC Status. As noted above, Common Shares in the Fund may be sold to a limited number of United States investors which are pension and profit sharing trusts or other tax-exempt organizations ("U.S. Exempt Shareholders"). The Fund is a "passive foreign investment company" ("PFIC") as defined in Code section 1297. It is noted that the Fund does not furnish information necessary for a United States person to treat the Fund as a "qualified electing fund" in the event that a United States person that is not a

U.S. Exempt Shareholder is considered to own Common Shares in the Fund under the constructive ownership rules of Code section 1298.

No Unrelated Business Taxable Income. While the Fund may purchase securities on margin, borrow money and otherwise utilize leverage in connection with its investments, under current law such leverage should not be attributed to, or otherwise flow through to, U.S. Exempt Shareholders in the Fund. Accordingly, assuming a U.S. Exempt Shareholder does not borrow money or otherwise utilize leverage to purchase its Common Shares in the Fund, any dividends from the Fund or gain on the sale or redemption of Common Shares in the Fund should not constitute “unrelated debt-financed income” as defined in Code section 514 or “unrelated business taxable income” as defined in Code section 512 to the U.S. Exempt Shareholder and should not be subject to United States Federal income tax under the PFIC provisions of the Code.

Controlled Foreign Corporation Status. The Fund will monitor its Shareholders in an attempt to ensure that at all times the ownership of the Fund by U.S. Exempt Shareholders is below the threshold amounts set forth in Code section 957 and therefore that the Fund will not be classified as a “controlled foreign corporation” as defined in Code section 957, although there can be no assurance that the Fund will be able to do so.

Information Reporting. U.S. Exempt Shareholders may be subject to certain U.S. Internal Revenue Service filing requirements. For example, pursuant to Code section 6038B, a United States person which transfers property (including cash) to a foreign corporation in exchange for stock in the corporation is in some cases required to file an information return with the U.S. Internal Revenue Service with respect to such transfer. Accordingly, a U.S. Exempt Shareholder may be required to file an information return with respect to its investment in the Fund. Additional reporting requirements may be imposed on a U.S. Exempt Shareholder that acquires Common Shares with a value equal to at least 10% of the aggregate value of all the Common Shares. Shareholders should consult their own tax advisers with respect to any applicable filing requirements.

ERISA Matters

The following is a summary of certain aspects of the laws and regulations applicable to retirement plan investments as in existence on the date hereof, all of which are subject to change. This summary is general in nature and does not address every issue under the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”) that may be applicable to the Fund or a particular investor.

The Fund may accept subscriptions from individual retirement accounts (“IRAs”), Keogh plans, pension or profit-sharing plans, governmental plans, entities that invest the assets of such accounts or plans and/or other benefit plan investors (all such entities are herein referred to as “Benefit Plan Investors”). The Fund does not anticipate that its assets will be subject to ERISA, because it intends to limit the investments in the Fund by Benefit Plan Investors (both U.S. and non-U.S.) to less than 25% of the value of any class of equity interests of the Fund, excluding from this calculation any non-Benefit Plan Investor interest of that class held by the Investment Manager, persons affiliated with the Investment Manager or their employees. No subscriptions for Common Shares made by Benefit Plan Investors will be accepted and no transfers of Common Shares will be permitted to the extent that the investment or transfer would result in the Fund exceeding this 25% limit. In addition, because the 25% limit is to be calculated upon every subscription to or redemption from the Fund, the Fund has the authority to require the redemption of all or some of the Common Shares held by any Benefit Plan Investor if the continued holding of such Common Shares, in the opinion of the Board of Directors, could result in the Fund being subject to ERISA (See “Mandatory Redemptions”- Section 12).

ERISA and the Code impose certain duties, obligations and responsibilities on persons who serve as fiduciaries with respect to employee benefit plan (“Plans”) or IRAs and prohibit acts of fiduciary self-dealing and certain transactions between Plans or IRAs and “parties-in-interest” or “disqualified persons” (as such terms are defined in ERISA and the Code). In the Fund’s Subscription Agreement and Revocable Proxy, each Plan and IRA will be required to represent that its fiduciary has independently

made the decision to invest in the Fund and has not relied as a primary basis for its investment decision on any advice from the Investment Manager, any placement agent associated with the Fund or any affiliate of either with respect to the investment in the Fund. Accordingly, fiduciaries of Plans or IRAs should consult their own investment advisors regarding the prudence of the investment and their own legal counsel regarding the consequences under ERISA and the Code of the investment in the Fund.

The above statements are based on advice received by the Fund as to United States taxes and ERISA matters from Seward & Kissel LLP, New York, New York and as to Cayman Islands taxes from Ogier & Boxalls, Cayman Islands.

17. FISCAL YEAR AND FISCAL PERIODS; FINANCIAL STATEMENTS; AUDITORS

The fiscal year of the Fund will end on December 31 of each year.

Since Common Shares may be sold by the Fund and dividends declared on Common Shares during the course of a fiscal year, the Fund's Articles of Association provide for fiscal periods, which are portions of a fiscal year, for the purpose of allocating net profits and net losses. A new fiscal period will commence on the date next following the date of any redemption of Common Shares, the date of any issuance of Common Shares and the date established by the Board of Directors for determining the record ownership of Common Shares for the payment of dividends, and the prior fiscal period will terminate on the date immediately preceding the first day of a new fiscal period.

Each year Shareholders will be sent audited year-end financial statements of the Fund within 90 days of the end of each fiscal year or as soon as practicable thereafter, including a statement of profit or loss for such fiscal year and an unaudited status for each Shareholder at such time. In general, the Fund's financial statements will be prepared in accordance with United States generally accepted accounting principles ("GAAP"). However, organizational expenses are being amortized over a period of 60 months from the date the Fund commenced operations because the Fund believes that such treatment is more equitable than expensing the entire amount during the first year of operations, as is required by GAAP. As a result, the Fund's financial statements may contain a qualification to reflect this treatment.

PricewaterhouseCoopers are the auditors for the Fund, and the Board of Directors may change the Fund's auditors without prior notice to the Shareholders. As a regulated mutual fund under Cayman Islands law, the Fund is required to file its audited financial statements with the Monetary Authority of the Cayman Islands within six (6) months of the end of its fiscal year.

18. GENERAL COMMENTS

The summary set forth herein does not purport to be and should not be construed as a complete description of the Memorandum and Articles of Association of the Fund, the Administration Agreement or the Management Agreement, copies of which will be furnished on request made to the Fund at its principal office.

Common Shares may be transferred only if the proposed transferee of the shares obtains the prior written approval of the Fund. In this regard, the proposed transferee will be required to make the representations and warranties required of a subscriber in form and substance satisfactory to the Fund. The Fund will have full discretion to approve or disapprove any proposed transferee, however, such approval will not be unreasonably withheld. No proposed transfer will be recognized until the documents relating to it have been approved by the Fund. The Fund need not approve any transfer that is not or may not be consistent with any representation or warranty that the transferor of the shares may have given to the Fund.

All Shareholders are entitled to the benefit of, are bound by and are deemed to have notice of the provisions of the Memorandum and Articles of Association of the Fund.

Prevention of Money Laundering

United States: In order to comply with applicable laws aimed at the prevention of money laundering and terrorist financing, each prospective investor that is an individual will be required to represent in the Subscription Agreement and Revocable Proxy that, among other things, he is not, nor is any person or entity controlling, controlled by or under common control with the prospective investor, a "Prohibited Person" as defined in the Subscription Agreement and Revocable Proxy (generally, a person involved in money laundering or terrorist activities, including those persons or entities that are included on any relevant lists maintained by the U.S. Treasury Department's Office of Foreign Assets Control, any senior foreign political figures, their immediate family members and close associates, and any foreign shell bank). Further, each prospective investor which is an entity will be required to represent in the Subscription Agreement and Revocable Proxy that, among other things, (i) it has carried out thorough due diligence to establish the identities of its beneficial owners, (ii) it reasonably believes that no beneficial owner is a "Prohibited Person", (iii) it holds the evidence of such identities and status and will maintain such information for at least five years from the date of its complete redemption from the Fund, and (iv) it will make available such information and any additional information that the Fund may require upon request that is required under applicable regulations.

Cayman Islands: The Fund, or the Administrator on its behalf, reserves the right to request such information as they consider necessary to verify the identity of a prospective investor. In the event of delay or failure by the prospective investor to produce any information required for verification purposes, the Administrator may refuse to process a subscription request until proper information has been provided and any funds received may be returned without interest to the account from which the moneys were originally debited.

The Fund, or the Administrator on its behalf, also reserves the right to refuse to make any redemption payment or other distribution to a Shareholder if any of the Directors of the Fund or the Administrator suspects or is advised that the payment of any redemption moneys or other distribution to such Shareholder might result in a breach or violation of any applicable anti-money laundering or other laws or regulations by any person in any relevant jurisdiction, or such refusal is considered necessary or appropriate to ensure the compliance by the Fund, its Directors or the Administrator with any such laws or regulations in any relevant jurisdiction.

If, as a result of any information or other matter which comes to his attention, any person resident in the Cayman Islands (including the Fund, its Directors and the Administrator) knows or suspects that any payment to the Fund (by way of subscription or otherwise) is the proceeds of criminal conduct, such person is required to report such information or other matter pursuant to the Proceeds of Criminal Conduct Law (2004 Revision) of the Cayman Islands and/or the Proceeds of Crime Act 1997 of Bermuda, as the case may be, and such report shall not be treated as a breach of any restriction upon the disclosure of information imposed by law or otherwise.

Regulation. The Fund is registered with the Cayman Islands Monetary Authority pursuant to Section 4(3) of The Mutual Funds Law (2003 Revision). Such registration does not imply that the Monetary Authority or any other regulatory authority in the Cayman Islands has approved this Memorandum or the offering of Common Shares hereunder. Accordingly, the Fund has filed the prescribed particulars of, and a copy of this Memorandum with the Monetary Authority. The Fund's continuing obligations are to file with the Monetary Authority the prescribed details of any changes to this Memorandum, to file annually with the Monetary Authority accounts audited by an approved auditor, and to pay a prescribed annual fee (currently CI\$2,000 (US\$2,439)).

As a regulated mutual fund, the Fund is subject to the supervision of the Monetary Authority and the Monetary Authority has wide powers under The Mutual Funds Law (2003 Revision) in that regard. The powers of the Monetary Authority include the power to require the substitution of the directors, or at the expense of the Fund, to appoint a person to advise the Fund on the proper course of its affairs, and at the expense of the Fund, to appoint a person to assume control of the affairs of the Fund including, but not limited to, the ability to terminate the business of the Fund. There are other remedies available to the

Monetary Authority, including the ability to apply to the Courts of the Cayman Islands for approval of other actions.

The Master Fund is exempted from registration under the Mutual Funds Law (2003 Revision) on the basis that it has less than fifteen investors, the majority of whom are capable of appointing or removing the directors of the Master Fund.

19. PROCEDURES TO PURCHASE COMMON SHARES AND REPRESENTATIONS BY PURCHASERS

Persons interested in purchasing Common Shares of the Fund should inform themselves as to (i) the legal requirements within their own countries for the purchase of such shares, and (ii) any foreign exchange restrictions which they might encounter.

Any person desiring to subscribe for Common Shares of the Fund is requested to execute one copy of the "Subscription Agreement and Revocable Proxy," in the form furnished by the Fund, offering to purchase a specified dollar amount of Common Shares on a specified date at the Offering Price, and fax one completed and executed copy no later than two (2) business days prior to the requested purchase date to: Etolian Capital Offshore Credit Fund, Ltd., c/o Citco Fund Services (Bermuda) Limited, Attention: Shareholder Services Department, facsimile: (441) 295-0992 and mail one such completed and executed copy of the "Subscription Agreement and Revocable Proxy" by mail or courier to: Etolian Capital Offshore Credit Fund, Ltd., c/o Citco Fund Services (Bermuda) Limited, Washington Mall West, 2nd Floor, 7 Reid Street, Hamilton HM 11, Bermuda, Attention: Shareholder Services Department.

With respect to certain countries, special requirements may have to be observed with respect to subscriptions.

The Fund will advise each subscriber promptly of the Fund's acceptance of an offer to subscribe for Common Shares. Payment in the amount of the subscription in United States dollars should be made in accordance with the terms of the Subscription Agreement.

The subscription documents to be executed and delivered by prospective subscribers contain the subscriber's agreement to indemnify and hold harmless the Fund, the Investment Manager, the Administrator and their respective affiliates, directors, members, partners, shareholders, officers, employees and agents against any and all losses, liabilities, damages, penalties, costs, fees and expenses (including legal fees and disbursements) that may result, directly or indirectly, from any inaccuracy in or breach of any representation, warranty, covenant or agreement set forth therein or in any other document delivered by the subscriber to the Fund.

The acceptance or nonacceptance of any subscription is solely at the discretion of the Fund and no reason need be given for the nonacceptance of any subscription. Any subscription amounts not accepted by the Fund will be promptly returned without interest.

No share certificates representing the shares subscribed for will be forwarded to an investor, unless requested by the investor and approved by the Fund. All shares issued in the Fund will generally be issued as registered shares.

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

ETOLIAN CAPITAL OFFSHORE CREDIT FUND, LTD.

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