RAB Special Situations Company Limited

Key Facts
AIM quoted
Ticker: RSS.L

Company Information
Shares in issue: 64,795,000*
Denomination: GBP
Admission date: 31 May 2005
Year end: 31 December

**Voting shares in issue, excludes shares held in treasury*

Share Price (as at 27/03/12)
31.50 p

Manager
RAB Capital

Administrator & Company Secretary
Elysium Fund Management Ltd

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Investment Commentary

In February the RAB Special Situations Company (the "Company") returned +11.2%. This brings the Company's year to date performance to +19.4%. The RAB Special Situations Fund (the "Fund") $ Class returned +12.0% for the month. This compares with the performance of the Bloomberg World Index, which was up +5.11%, and the Bloomberg World Mining Index, which was up only +1.49%. Indeed, the Fund compared favourably to most indices, performing particularly strongly when compared with the precious metals indices, with the GDX and the GDX-J both performing negatively with a -1.88% and -5.83% return respectively. For the year the Fund was up +20.90%, compared to +11.60% for the Bloomberg World Index, +16.47% for the Bloomberg World Mining Index and +7.72% and +13.04% for the GDX and GDX-J Indices respectively.

The gains of January continued on into February with most of the main indices up between 2% and 4%, with Asian markets in particular performing strongly (the Hong Kong Hang Seng index up +6.32% and the Nikkei 225 up +10.46%). In the US, although jobs aren't yet plentiful, they are less difficult to get. In a survey of consumer confidence conducted by the Conference Board in February, the response to the question about whether "jobs are hard to get" fell sharply from 43.3% in January to 38.7% - the lowest reading since November 2008. This was matched by a fall during February of initial jobless claims by 5.1% as well as continuing jobless claims by 3.1%, indicating that not only are fewer workers getting fired, but that it's also getting easier to get hired. The markets were also given a fillip by the second round of the ECB's LTRO program, with 800 European banks tapping into €530bn – up from 523 banks and €489bn in December 2011. Of course there were still concerns pertaining to the second Greek bailout, and in particular private sector bondholders' willingness to take a 53.5% cut on the €206bn bonds in issue, or a 74% cut in real terms. On a separate note, tensions in the Middle East, notably the humanitarian disaster and escalating civil war enveloping Syria and the nuclear developments of Iran, have forced oil prices upwards by 11% to US$122.66/barrel by February month-end. *(Continued on next page)*

Portfolio – Top 5 Holdings

Top 5 Holdings		Gross Assets (%)
1	Falkland Oil & Gas	22.7
2	Red Island Minerals	8.3
3	African Minerals	7.7
4	Royal Nickel	4.5
5	Madagascar Oil	4.4
	Top 5 holdings represent	**47.6**

Sector Split

	Sector	(%)
1	Oil & Gas	38.4
2	Ind. Base Metals	21.3
3	Coal/Uranium	15.5
4	Gold & P. Metal	11.7
5	Biotech	4.5
6	Agriculture	4.3
7	Technology	1.7
8	Consumer	1.2
9	Other	1.0
10	Clean Tech/Energy	0.7
11	Real Estate	0.7
		100.2

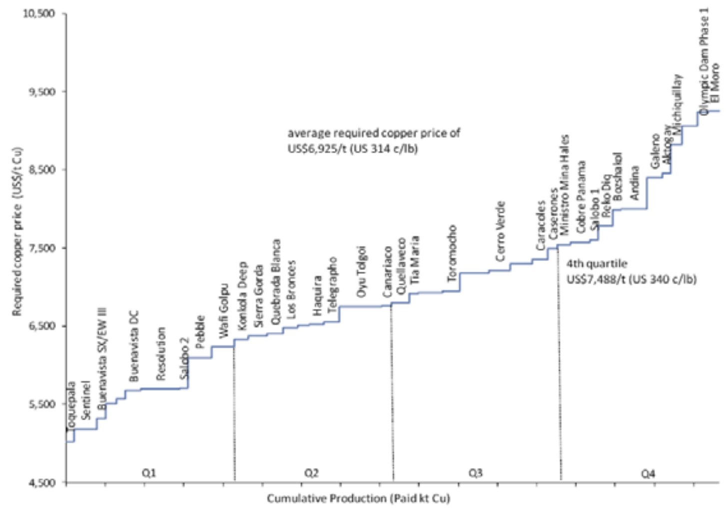
Investment Commentary *(Cont'd)*

During the month the Fund took the opportunity to capitalise on the strong markets in order to realise cash. The Fund sold around 33% of its position in New Millennium Iron Corp, which had risen from C$2.02/share at the beginning of the month to a peak of $3.23 – a 60% rise, and a 223% increase from its low at the beginning of October 2011. This performance was on the back of an announcement that the company's joint venture with Tata Steel was progressing on time to produce direct shipping ore by year-end. Another position the Fund looked to take a partial profit on was Trevali Mining. The company has continued to perform strongly by following up its announcement regarding initial production at its Halfmile Mine in New Brunswick with a promising update with regards to production at its zinc-lead Santander project in Peru. Subsequent to that announcement the company announced a US$18m investment by Glencore into the company, representing a 7.8% interest. Since the Fund's investment in November, the company's share price has risen by 67% to the end of February, and the listed warrants have risen 338% in value.

The main contributors to positive performance for the Fund were African Minerals, Falkland Oil & Gas, Madagascar Oil, Trevali Mining and Red Island Minerals Ltd ("RIM"). Madagascar Oil rose 28.9% as the company looked to raise US$26.5m in a private placing. That company issued 59.9m shares at £0.28/share in order to accelerate its active work programme in Madagascar. In particular funds will be used to complete the testing phase of the Tsimiroro steam flood pilot through to August 2014; conduct additional development drilling on Tsimiroro; undertake a Fugro airborne gravity gradiometry survey; and fund the acquisition of additional seismic data. The performance from RIM was the result of the recent completion of a deal between RIM's shareholders PTT Asia Pacific Mining Pty ("PTTAPM") whereby PTTAPM purchased the remaining 66.5% of RIM (they already owned 33.5%) for $50.16m in cash. RIM holds an interest in the Sakoa thermal coal project in Madagascar via its operating subsidiary. This transaction represented a significant value uplift for the Fund and, whilst completion of this process took longer than we had hoped, we believe it to be a successful example of the model adopted by the Fund in terms of identifying companies with world scale deposits of natural resources, investing in them through the exploration and appraisal stages of their development and ultimately realising the significant value added at the end of this period.

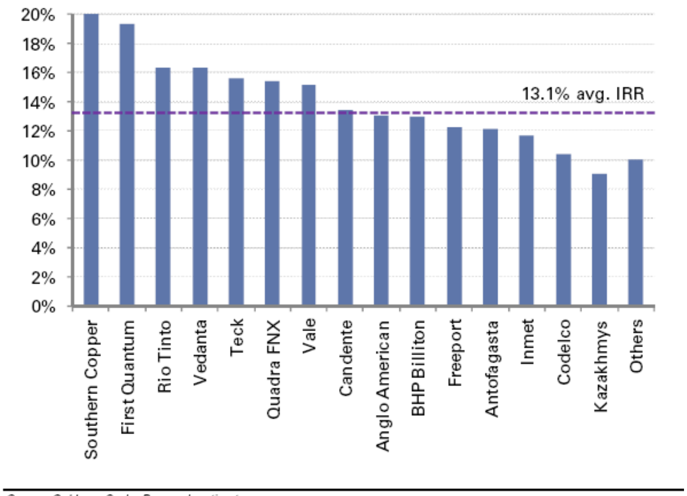
On the downside the worst performing positions were Beximco Pharmaceuticals, Royal Nickel, Royal Resources, Selwyn Resources and Victoria Gold. Again the majority of these positions fell on little or no news, however Victoria Gold released highlights of its feasibility study, which raised project financing concerns in the market. The feasibility study focused on a 2.3moz reserve producing 186koz per annum for 9 years at a cash cost of US$615/oz with a 72.6% recovery rate, an initial capital expenditure of C$400m and an ongoing capital expenditure over the life of mine of C$197m (including C$64.2m closure costs). This resulted, using US$1,325/oz gold price (at month end the mid-price of gold was US$1,696.85/oz), in a project pre-tax NPV of C$381m. Given that the company has a market capitalisation of around C$140m and around C$25m of cash, there are concerns that the company will need to issue a substantial number of shares to finance the project. However we are hopeful that not only will the company be able to arrange project financing and liquidate non-core assets to help finance the capital expenditure, it will also begin a planned expansion study to enable the company to increase the scale of the project and perhaps incorporate more of the remaining 4moz that are currently only classified as indicated and inferred resources into the project dynamics.

Copper:- Recently Goldman Sachs issued a report ("GS Copper 40"; March 2nd 2012) highlighting the main factors that were due to impact copper and create a support as far as incentive price was concerned. In the report it highlighted that rising project capital expenditure, and as a consequence capital intensity, will support copper prices. The rise in capital intensity is driven by two main factors: 1) the ongoing decline in copper grades, meaning that larger and more efficient mining and milling techniques are required; 2) an increasing proportion of projects are located in developing economies and remote areas with little or no existing infrastructure. Accordingly Goldman Sachs estimate that the average required copper price to support copper production going forward is around US$6,925/T. Below is a chart highlighting the required copper price as estimated by Goldman Sachs for 40 companies, representing circa 80% of announced potential projects:



Source: Goldman Sachs Research estimates.

This increase in capital intensity has also had a clear impact on the expected internal rate of return for future projects, with Goldman Sachs estimating a fairly underwhelming average IRR of 13.1%, as indicated in the chart below:



Source: Goldman Sachs Research estimates.

At the time of writing in March mining indices are all down between -10% and -15% from their February highs. Clearly markets are discounting a slowdown in China, and maybe worldwide due to higher oil prices. But strangely this has happened while broad indices are rising. Our view is that our chosen investments in natural resources represent outstanding value and are too cheap right now; we hope to reap the benefit over the next year or so. This hopefully will include a positive result from Falkland Oil and Gas which should report on drilling Loligo in August and Scotia in October. We believe investors could benefit in a major way from any success.

Philip Richards and Team