Empyreal Administration Limited
A member of the Empyreal Group

Swap termination date:

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Wednesday, 30 June, 2010

June 09 value?

Dear Investor,

We apologize for the delay in providing valuations for the Archimedes and Pythagoras funds (the "funds"). As mentioned in our last letter we decided to recast accounts for the funds from first principals basis final valuations received in May from JP Morgan Markets Limited ("JPMM") (previously, Bear Stearns International Limited, "BSIL").

On 26 May 2010 the funds executed Settlement Agreements with JPMM, having successfully negotiated commercial terms for the wind-down of the assets (effectively mortgagee in possession). Under the original terms of the swaps with BSIL (now JPMM), JPMM's obligations to provide settlement to the funds ceased in June 2010. Considering significant payments are still due to JPMM, this would have potentially left JPMM with millions in assets and the funds with nothing.

Under the 26 May 2010 Settlement Agreements the funds have until 31 December 2011[1] to repay all monies outstanding to JPMM, at which point (termed the, "Positive Balance Date") the funds may pursue (under certain restrictions) transfer of underlying assets from JPMM. This time extension has been granted without any additional cost to the funds and the interest rate on outstanding monies remains at 140 basis points above LIBOR, which is approximately half the spread currently being paid by participants in this market. Also, the option of physical transfer did not even exist within the original swap contracts that the funds held with BSIL.

The move to offer physical settlement provided the negotiations with the most significant complexities. Some of these complexities include conversions[2] and payments in-kind[3] and issues surrounding marketable versus non-marketable securities as well as issues of non-USD denomination of potential proceeds. This along with the other reasons, such as those stated above, caused the negotiations to take many months to complete.

At the current rate of cash-flow receipts the funds look to achieve a Positive Balance Date some time around 31 December 2011. However, with many of the swap exposures moving to liquidating share classes[4] or simply coming out of lock-up, receipts are expected to rapidly accelerate into and through 2011.

THE ACCOUNTS

The current valuations for the funds have been constructed directly from asset valuations provided by JPMM without any reference to previous valuations by Prime Fund Solutions ("PFS") (previously, Fortis Prime Fund Solutions (Asia)), however, we have relied on the PFS calculations for numbers of shares issued.

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1 There is also an option to extend this period of settlement to 30 June 2012 at additional cost to the funds. JPMM will also continue to act as Valuation Agent for the swap throughout this period.

2 For example, one fund exposure has converted interests to publicly traded shares (currently in lock-up).

3 Payments in-kind are when a fund distributes securites in lieu of cash.

4 Many funds have created liquidating share classes so that shareholders who wish to remain in the portfolio are not disadvantaged by the losses that may be experienced by liquidating assets into dysfunctional markets to support the liquidity requirements of redeeming investors. The need for this structure is a symptom of the Global Financial Crisis where value of a debt asset, if held to maturity, is typically far higher than what the market is currently willing to pay for such an asset.

The valuations from JPMM have been prepared basis valuations they have received from underlying Fund Managers and their Administrators. Although the Managers and Administrators report the fair value of their assets, the future value of certain assets may be compromised by the move to liquidate assets into the market as opposed to holding them to maturity.

With this in mind the directors have seen fit to include an allowance for losses expected from liquidations[5] over the following accounting period (2010 calendar year). This liquidation allowance will not be increased or decreased (i.e. backing out realized losses) through this calendar year. This allowance for losses will be reevaluated 31 December 2010.

Other events that could impact future valuations are the ability to transfer all remaining assets from JPMM, once a Positive Balance Date is obtained, and the ability to continue to liquidate in an orderly manner. If we are unable to transfer assets from JPMM for any reason, the funds lose all rights to those assets. Also, if assets are sold into the Secondary Market[6] returns from the sale of these assets could be substantially lower than their booked valuation.

VALUATION

The most current values we have for the funds are for 31 December 2009. The valuation for the Archimedes Segregated Portfolio is A$2,117.42 and for Pythagoras Segregated Portfolio is A$2,323.17. The next valuation we are looking to provide is March 2010 valuation.

REDEMPTION POLICY

There has been no change to the redemption policy. Once the funds are closer to being deleveraged and are able to offer liquidity, we anticipate offering investors feasible options to redeem their investment. We appreciate your confidence in Empyreal as we continue to take the necessary steps to protect all investors as much as possible given these extremely challenging circumstances.

If there are any questions, please don't hesitate to contact us

Kind regards,

PHILIP M YORK
Director

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5 The principal factor causing liquidation losses is that debt instruments can have two values, a value that would be realized if 'Held to Maturity' (which assets are currently valued at) and a value if sold into the current illiquid and somewhat dysfunctional capital market (which we are looking to do). It is this disparity which was, and continues to be, a major factor in the Global Financial Crisis (e.g. insurance companies are allowed to now value most debt instruments at 'Held to Maturity' values to save declaring themselves undercapitalized).

6 Secondary Market refers to the market for hedge-fund interests. Consider for example, a hedge-fund may hold a portfolio of corporate loans. The fund manager may sell these loans in the market at 80 cents in the dollars, however, if he does not (as it could significantly hurt remaining shareholders), redeeming shareholder may be forced to seek buys for the shares in the hedge-fund, which may only be traded as 50-60 cents in the dollar.

Archimedes Segregated Portfolio (USD)

Balance Sheet

As of December 2009

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Assets		
Current Assets		
JP Morgan Swap	$5,553,442.29	
Trade Debtors	$149,050.72	
Less Prov'n for Doubtful Debts	($1,225,000.00)	
Total Current Assets	$4,477,493.01	
Total Assets		$4,477,493.01
Liabilities		
Current Liabilities		
Ernst & Young	$18,024.50	
Ogier	$4,569.50	
Fortis Prime Fund Solutions	$20,902.82	
Directors' Fees	$30,000.00	
Administration	$76,000.00	
Management Fees	$256,709.06	
Performance Fees	$58,062.13	
Loan Interest	$2,239.06	
Total Current Liabilities	$466,507.07	
Total Liabilities		$466,507.07
Net Assets		$4,010,985.94
Equity		
Historical Balancing	$4,010,985.94	
Total Equity		$4,010,985.94

Pythagoras Segregated Portfolio (USD)

Balance Sheet

As of December 2009

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Assets		
Current Assets		
Trade Debtors	$149,294.72	
JP Morgan Swap	$5,000,891.08	
Less Prov'n for Doubtful Debts	($850,000.00)	
Total Current Assets	$4,300,185.80	
Total Assets		$4,300,185.80
Liabilities		
Current Liabilities		
Ernst & Young	$18,024.50	
Ogier	$4,569.50	
Fortis Prime Fund Solution	$17,747.14	
Directors' Fees	$30,000.00	
Administration	$76,000.00	
Management Fees	$226,782.93	
Performance Fees	$56,610.97	
Interest	$2,239.06	
Total Current Liabilities	$431,974.10	
Total Liabilities		$431,974.10
Net Assets		$3,868,211.70
Equity		
Historical Balancing	$3,868,211.70	
Total Equity		$3,868,211.70