

Montreux Natural Resources Fund

Circular to investors

26th March 2018

Dear Shareholder

We are writing to inform you that, in accordance with the authority granted to us by the provisions of the Articles of Association of Montreux Natural Resources Fund (the **Fund**), on 26 March 2018 we resolved to cease the determination of the Net Asset Value for the foreseeable future and to close the Fund to the subscription for and redemptions of Shares in the Fund. This decision was made in conjunction with the Investment Manager on the basis that it is in the best interests of the Fund and its Shareholders to do so in order to commence an orderly wind-down of the Fund and to maximize investor value.

The primary objective of this decision is to ensure that the Fund generates sufficient liquidity such that it remains in a position to meet its liabilities while an asset disposal program is devised and implemented.

In order to ensure that the Fund obtains the best value for its portfolio, while recognising the inability of the Fund to generate the significant capital required to develop these assets to a state where there will create attractive sales opportunities, the Board has considered the various options available to it.

The Board have decided that the sale of one of the Fund's two portfolio assets to an affiliate of the Investment Manager represents the best option currently available to it. The affiliate will purchase the Fund's interest in GRB Mining Ltd (**GRB**) at its current market value plus a significant deferred payment generated from future anticipated production by the asset which is significantly more than its current market value as independently determined by an independent valuation firm.

The benefits of this sale of GRB include:

- The Fund will dispose of an asset that it is unlikely to be able to fund to production due to the significant capital required to do so;
- The Fund will receive the first payment under the sale and purchase agreement of \$2.65m, which will ensure that the Fund can meet its ongoing liabilities and have sufficient liquidity to make an initial distribution to Shareholders;
- allow the Fund to raise sufficient funds to allow it to fund the remaining assets, Siguri and Conakry, to achieve production and to thereby enhance the prospects of being able to sell this asset whilst retaining value for the Fund's Shareholders.

Registered No. AP-275452

Registered Office: One Artillery Court, 161a Shedden Road, George Town, Grand Cayman KY1-1001, Cayman Islands

Directors: Olivier Harris • David Lloyd • Barry Monks • Mike Parton

Steps

An affiliate of the Investment Manager shall purchase the Fund's entire shareholding in GRB Mining Limited at a fixed price of its current market value plus a significant deferred payment payable from future production of the asset. This value will be based on a report commissioned for this purpose in March 2018 by an independent valuation firm following a visit by this entity to the Tanzanian site which occurred in early February.

Following receipt of this report the affiliate is proposing to pay for the asset as follows:

- an initial cash payment of \$2.65m which represents the current market value of the asset; and
- a deferred payment of \$12.35m to the Fund from the purchasing entity for a significant premium over current market value.

As a result of the above, the Fund's holdings will pass in their entirety to the purchasing entity. The holding will then be converted into a combination of cash and a deferred payment.

Subsequently to the above purchase, it is anticipated that an external bank will refinance the Fund's existing loan to GRB of \$4.7m, generating further liquidity for the fund. The loan can only be financed once the project is fully funded and in production.

It should be noted that the market value of this asset has suffered due to a number of extraordinary events, namely

- an increase in royalty payments levied by the Tanzanian government from 4% of output to 7%;
- an announcement that the Tanzanian government intends to acquire a 16% holding in all active mining projects through a nationalisation program; and
- general uncertainty in the market following the imposition of a significant fine on a large mining entity by the Tanzanian government.

Benefits to the Fund

The Fund currently holds two assets which both require on going funding in order to bring to production:

- GRB requires significant investment which the Fund is not able to access and therefore there is significant risk that the joint venture partner will be frustrated and may seek to force the Fund to sell its holding to a third party. This would likely result in a significant loss to the Fund based

on the current independent valuation as to what can be achieved through a third party market sale, particularly in light of the recent changes highlighted above.

- Conakry/Siguiri also requires funding but at a lower value and has the benefit that Conakry is generating monthly revenue and has the potential to provide significantly more from refining fees once capacity is increased.

The two assets are currently being carried at a similar amount in the accounts of the Fund.

By selling GRB the Fund will:

- Retain a significant portion of the carrying value of one of its assets at a significant premium to its current market value thus retaining earlier gains recorded for investors.
- generate sufficient cash to fund the further development of Conakry/Siguiri and to provide some liquidity to the Feeder Fund, which will allow the Feeder Fund to meet its liquidity requirements.

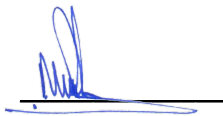
After careful consideration of the Fund's current situation, the above action, on the recommendation of the Investment Manager and in the view of the board of the Fund, represents the best possible opportunity for the Fund to realise a portion of its assets at carrying cost, to the benefit of its shareholders, while allowing it to continue to develop its remaining asset with a reasonable expectation that this will achieve further asset growth for shareholders.

It is anticipated that this process will take approximately two years to achieve but distributions will be made in the interim from cash being generated during this period.

We thank you for your patience, trust, and continued confidence in the Fund through this difficult time. The Fund's management remains fully committed to you and will continue to seek to protect your assets and maximize recovery. We will be providing a further update to investors in due course.

If you have any questions in relation to the foregoing, please contact the Investment Manager.

Yours faithfully,



Director

On behalf of the board of Directors of the Company