

July 25, 2007

Dear Investor:

We have previously reported to investors that the U.S. Commodity Futures Trading Commission (the “CFTC”) and the U.S. Federal Energy Regulatory Commission (the “FERC”) were investigating Amaranth’s trading of natural gas futures. Today, we have two significant developments to report relating to the activities of these agencies.

The CFTC

The CFTC today commenced a cease and desist action against Amaranth Advisors L.L.C. and Amaranth Advisors (Calgary) ULC (collectively, “Amaranth”) and Brian Hunter.¹ In its action, the CFTC has alleged that Amaranth and Mr. Hunter attempted to manipulate the NYMEX natural gas futures market on two specific days in 2006 and that Amaranth inaccurately described its trading activities to the NYMEX. Although Amaranth has cooperated fully and voluntarily with the CFTC’s investigation, the CFTC did not propose any settlement or offer to entertain settlement discussions prior to bringing this action. We are disappointed that the CFTC has chosen this path and intend to defend the action vigorously.

The simple fact is that Amaranth did not attempt to manipulate the natural gas futures market or any other market, nor did Amaranth make any false statements to the NYMEX, the CFTC or any other regulator. The allegations made by the CFTC today, while certain to attract extensive media attention, lack any basis in the evidence or the law. We have explained our position to the CFTC and believe that the court will ultimately reject the CFTC’s arguments.

Before addressing the CFTC’s specific allegations, it is worth noting the allegations that the CFTC chose *not* to make. As explained in a press briefing this morning, the CFTC has been investigating Amaranth’s trading for over a year now. The enforcement staff has reviewed hundreds of thousands of documents and interviewed numerous witnesses, including former Amaranth employees and other market participants. In light of this extensive fact-gathering and analysis, one could reasonably draw significant inferences about the available body of evidence from the allegations that were *not* made today.

- The CFTC *did not* allege that Amaranth manipulated the natural gas futures market on any date. In fact, CFTC Director of Enforcement Gregory Mocek explained in a press briefing this morning that the two alleged attempts to manipulate natural gas futures prices addressed in the complaint were “*unsuccessful*” and did not create an artificial price.

¹ U.S. Commodity Futures Trading Commission v. Amaranth Advisors L.L.C., Amaranth Advisors (Calgary) ULC and Brian Hunter, 07 Civ 6682, filed in the U.S. District Court for the Southern District of New York.

- The CFTC *did not* allege that Amaranth’s trading in any way created artificially high prices. In fact, the central allegations in the complaint were that Amaranth unsuccessfully attempted to *reduce* natural gas futures prices.
- The CFTC *did not* allege that Amaranth manipulated, attempted to manipulate or otherwise “propped up” summer/winter spreads or any other natural gas futures prices other than two specific contracts on two specific dates.
- The CFTC *did not* allege that Amaranth engaged in “excessive speculation,” that it “dominated” the markets or that its positions were otherwise too big for the market.
- The CFTC *did not* make any allegations relating to the losses experienced by Amaranth in September 2006 or profits made earlier in 2006. In fact, the CFTC does not allege that Amaranth profited in any way from its supposed attempt to manipulate the market, which the CFTC has admitted was unsuccessful.
- The CFTC *did not* present any “smoking gun” or other direct evidence that any Amaranth personnel intended to manipulate the market. Rather, the CFTC relies on inferences that certain trading conduct can only be understood as an attempt to manipulate.
- The CFTC *did not* allege that Amaranth was in violation of applicable position limits on the two trading days addressed in its complaint.
- The CFTC *did not* name the Amaranth Funds as defendants in the action, nor has the CFTC indicated that it will seek disgorgement of profits from the Amaranth Funds—to do so would obviously be highly inappropriate.

The CFTC’s central allegations are that Amaranth attempted to *reduce* the settlement price of expiring NYMEX futures contracts during the final 30 minutes of trading on two specific days—February 24 and April 26, 2006—allegedly in order to benefit corresponding short positions in swaps traded on the IntercontinentalExchange or “ICE.” Even if the CFTC’s allegations were true—which they are not—the net impact on Amaranth of this trading—taking into account both futures and swaps trading—would have been a *loss* of approximately \$1.1 million.

In addition, the CFTC alleges that in a letter dated August 15, 2006, responding to a NYMEX inquiry, Amaranth made false statements about its trading activities. Amaranth has voluntarily provided the CFTC with significant testimony and evidence regarding the subject matter of this letter, all of which we believe to be consistent with the explanation offered in the letter. Nevertheless, the CFTC’s complaint refers to this letter as a “cover up.” The suggestion is that by making a good faith effort to explain the legitimate purpose of our trading activities, rather than simply confessing to the CFTC’s unproven allegations, Amaranth has made a “false statement.” Our extensive and voluntary cooperation with the CFTC’s investigation can hardly be characterized as a “cover up.”

The FERC

Separately, we understand that Brian Hunter filed an action on Monday against the FERC, asking a federal court in Washington, D.C., to enjoin the FERC from bringing a threatened enforcement action against him. Amaranth is not a party to Mr. Hunter’s suit. However, as we understand it, the action threatened against him by FERC would essentially involve the same trading in

NYMEX natural gas futures on the same dates included in the CFTC's complaint. Amaranth never traded physical natural gas. The notion that our NYMEX futures trading manipulated or attempted to manipulate prices in the *physical* natural gas market that FERC oversees is disingenuous and wrong.

Amaranth agrees with Mr. Hunter that the FERC, by bringing such an action, would brazenly overstep its legal authority. Congress has unambiguously granted exclusive jurisdiction over the *futures* markets—including natural gas futures—to the Commodity Futures Trading Commission, not the FERC. Although the Energy Policy Act of 2005 gave the FERC limited authority to punish manipulation of the *physical* natural gas markets, it also reaffirmed the CFTC's exclusive jurisdiction over the *futures* markets. In light of its investigation, the FERC understands very well that Amaranth has never purchased or sold a single molecule of natural gas in the *physical* markets and that Amaranth never made or took delivery of natural gas in connection with its futures trading. As a result, the only misconduct the FERC could allege would relate to Amaranth's *futures* trading, which FERC utterly lacks the power to police.

It is incomprehensible to us that nearly two years after Congress enacted the Energy Policy Act of 2005, the FERC would choose to bring such a case against Mr. Hunter (or Amaranth for that matter) as the first test case of its anti-manipulation authority. We expect that the courts will ultimately agree.

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We will keep you apprised of the progress of these cases and will report separately on the potential impact on the remaining NAV of the funds after further analysis.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Nick Maounis", written in a cursive style.

Nick Maounis