

Ariel Fund Limited

Financial Statements
Year Ended December 31, 2007

Ariel Fund Limited

Financial Statements
Year Ended December 31, 2007

Ariel Fund Limited

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Independent Auditors' Report

The Shareholders
Ariel Fund Limited
Grand Cayman, Cayman Islands

We have audited the accompanying statement of assets and liabilities of Ariel Fund Limited (the "Fund"), including the condensed schedule of investments, as of December 31, 2007, and the related statements of income, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, Summary of Significant Accounting Policies, the financial statements include investments and investments sold, not yet purchased aggregating \$509,705,953 (approximately 69% of net assets), whose values have been estimated by the Investment Advisor in the absence of readily ascertainable market values. We have reviewed the procedures used by the Investment Advisor in arriving at its estimate of value of such securities and have inspected underlying documentation and we believe the procedures are reasonable and the documentation appropriate. These values may be higher or lower than the values that would have been used had a ready market for the investments existed, and the differences could be material.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ariel Fund Limited as of December 31, 2007, and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

BDO Tortuga
Grand Cayman, Cayman Islands

June 27, 2008

Ariel Fund Limited

Statement of Assets and Liabilities (Expressed in U.S. Dollars)

December 31, 2007

Assets

Investments, at fair value (Notes 2, 3 and 4) (cost \$870,758,429)	\$895,030,860
Investments purchased under agreement to resell (Note 2)	16,065,944
Other investments, at fair value (Notes 2 and 5) (cost \$15,929,500)	26,470,748
Cash and cash equivalents held at brokers (Notes 2 and 3)	237,070,319
Interest and other receivables	1,926,540
Prepaid expenses	14,550
Total assets	1,176,578,961

Liabilities

Investments sold, not yet purchased, at fair value (Notes 2 and 3) (proceeds \$79,783,459)	83,700,551
Investments sold under agreements to repurchase (Note 2)	7,453,040
Deferred incentive fees (Note 5)	323,235,465
Redemptions payable (Note 6)	29,491,104
Subscriptions received in advance (Note 6)	5,980,000
Accrued expenses	1,672,716
Interest payable	452,269
Total liabilities	451,985,145

Commitments (Note 9)

Net assets (Note 6)	\$724,593,816
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Net asset values per share are disclosed in Note 6

See accompanying notes to financial statements.

Ariel Fund Limited

Condensed Schedule of Investments (Expressed in U.S. Dollars)

December 31, 2007

Number of shares/face value	Description	% of net assets of \$724,593,816	Fair value
Investments:			
Common stock:			
United States:			
	Auto parts and equipment	0.15%	\$ 1,096,703
	Banks	0.09	649,104
	Coal	0.07	518,435
	Commercial services	0.06	417,332
	Diversified financial services	0.33	2,379,238
	Electric	0.07	543,664
	Healthcare	0.10	724,169
	Index	0.07	501,631
	Insurance	0.12	903,954
	Internet	0.28	1,994,220
	Manufacturing	0.10	733,066
	Media	0.09	616,012
	Mining	0.17	1,200,453
	Oil and gas	0.06	467,722
	Pharmaceuticals	0.12	844,277
	Real estate investment trusts	0.06	420,714
	Retail	0.40	2,914,665
	Semiconductors	0.11	791,986
	Telecommunications	0.28	2,022,795
	Other	0.27	2,003,288
	Total United States (cost \$25,088,683)	3.00	21,743,428
Austria:			
	Other (cost \$42,476)	0.01	45,649
Bermuda:			
	Oil and Gas (cost \$404,881)	0.06	399,072

See accompanying notes to financial statements.

Ariel Fund Limited

Condensed Schedule of Investments (Expressed in U.S. Dollars)

December 31, 2007

Number of shares/face value	Description	% of net assets of \$724,593,816	Fair value
Investments (continued):			
Common stock (continued):			
Canada:			
	Other (cost \$1,063,525)	0.03%	\$ 224,475
France:			
	Financial services (cost \$613,227)	0.07	518,032
Great Britain:			
	Other (cost \$79,465)	0.01	78,279
Germany:			
	Banks (cost \$381,479)	0.06	444,722
Hong Kong:			
	Banks (cost \$1,987,314)	0.34	2,470,477
Israel:			
	Banks	4.72	34,179,975
	Computers	0.12	862,130
	Total Israel (cost \$27,105,681)	4.84	35,042,105
Italy:			
	Other (cost \$340,934)	0.04	319,164
Japan:			
	Other (cost \$478,028)	0.07	507,003
Norway:			
	Food processing	0.06	448,828
	Other	0.08	595,613
	Total Norway (cost \$996,440)	0.14	1,044,441
Russia:			
	Oil and Gas (cost \$-0-)	0.02	138,284
Ukraine:			
	Other (cost \$145,147)	0.00	20,843
	Total common stock (cost \$58,727,280)	8.69	62,995,974

See accompanying notes to financial statements.

Ariel Fund Limited

Condensed Schedule of Investments (Expressed in U.S. Dollars)

December 31, 2007

Number of shares/face value	Description	% of net assets of \$724,593,816	Fair value
Investments (continued):			
Preferred stock:			
United States:			
	Automotive	0.26%	\$ 1,830,562
	Home builders	0.12	865,975
	Leisure products	0.78	5,631,972
	Media	0.19	1,391,785
	Real estate investment trusts	0.06	442,376
	Retail	0.20	1,478,853
	Other	0.00	16,990
Total United States (cost \$15,042,362)		1.61	11,658,513
Canada:			
	Airline (cost \$2,668,138)	1.02	7,380,468
Total preferred stock (cost \$17,710,500)		2.63	19,038,981
Debt securities:			
United States:			
	Airlines	0.05	342,630
	Auto manufacturers	0.42	3,038,890
	Auto parts and equipment	0.45	3,273,550
	Banks	1.45	10,498,538
	Commercial services	0.33	2,389,060
	Distribution	0.19	1,402,950
	Electronics	0.10	720,268
	Energy-alternate sources	0.13	947,765
	Entertainment	0.10	719,730
	Food distributors	0.15	1,055,484
	Food processing	0.11	790,130
	Healthcare	0.12	858,690
	Household products/wares	0.45	3,269,218
	Insurance	0.07	527,575
	Iron/steel	0.06	439,450

See accompanying notes to financial statements.

Ariel Fund Limited

Condensed Schedule of Investments (Expressed in U.S. Dollars)

December 31, 2007

Number of shares/face value	Description	% of net assets of \$724,593,816	Fair value
Investments (continued):			
Debt securities (continued):			
United States (continued):			
	Manufacturing	0.06%	\$ 470,000
	Media	0.21	1,542,420
	Miscellaneous manufacturers	0.06	419,475
	Multi-utilities	0.23	1,634,570
	Oil and gas	0.25	1,786,000
	Packaging and containers	0.13	969,375
	Semiconductors	0.21	1,498,550
Sovereign:			
21,875,000	U.S. Treasury Bill, Due 02/21/08	3.01	21,782,031
21,875,000	U.S. Treasury Bill, Due 02/28/08	3.00	21,767,812
21,875,000	U.S. Treasury Bill, Due 03/06/08	3.00	21,754,688
21,875,000	U.S. Treasury Bill, Due 03/13/08	3.00	21,739,813
21,875,000	U.S. Treasury Bill, Due 03/20/08	3.00	21,722,750
21,875,000	U.S. Treasury Bill, Due 03/27/08	3.00	21,707,438
25,000	U.S. Treasury Bill, Due 04/03/08	0.00	24,787
21,875,000	U.S. Treasury Bill, Due 04/10/08	2.99	21,679,219
21,875,000	U.S. Treasury Bill, Due 04/17/08	2.99	21,668,938
21,875,000	U.S. Treasury Bill, Due 04/24/08	2.99	21,653,406
21,875,000	U.S. Treasury Bill, Due 05/01/08	2.99	21,634,813
21,875,000	U.S. Treasury Bill, Due 05/08/08	2.98	21,621,906
21,875,000	U.S. Treasury Bill, Due 05/15/08	2.98	21,607,250
9,000,000	U.S. Treasury Bill, Due 02/14/08	1.24	8,967,263
14,500,000	U.S. Treasury Note 4.625%, Due 03/31/08	2.01	14,600,023
	Other	0.98	7,046,466
	Telecommunications	0.67	4,822,305
	Transportation	0.13	987,000
	Other	0.35	2,620,949
Total United States (cost \$347,314,417)		46.64	338,003,175

See accompanying notes to financial statements.

Ariel Fund Limited

Condensed Schedule of Investments (Expressed in U.S. Dollars)

December 31, 2007

Number of shares/face value	Description	% of net assets of \$724,593,816	Fair value
Investments (continued):			
Debt securities (continued):			
Argentina:			
	Sovereign (cost \$550,000)	0.08%	\$ 549,900
Canada:			
	Other (cost \$241,938)	0.03	199,638
Germany:			
	Auto parts and equipment	0.73	5,301,102
	Industrial machinery	0.10	717,563
	Real estate	4.52	32,712,351
	Total Germany (cost \$39,164,373)	5.35	38,731,016
Great Britain:			
	Other (cost \$46,060)	0.04	307,606
Italy:			
	Financial services (cost \$2,719,167)	0.31	2,279,045
Japan:			
	Nonperforming loans	0.10	694,245
	Real estate	0.45	3,269,951
	Resorts	0.96	6,991,671
	Thriffs and mortgage finance	0.05	349,896
	Total Japan (cost \$1,359,387)	1.56	11,305,763
Mexico:			
	Other (cost \$-0-)	0.01	40,156
	Total debt securities (cost \$391,395,342)	54.02	391,416,299

See accompanying notes to financial statements.

Ariel Fund Limited

Condensed Schedule of Investments (Expressed in U.S. Dollars)

<i>December 31, 2007</i>			
Number of shares/face value	Description	% of net assets of \$724,593,816	Fair value
Investments (continued):			
Private equity:			
United States:			
Auto parts and equipment:			
59,758,129	Chrysler Holding LLC	8.25%	\$ 59,758,129
	Other	0.65	4,764,274
	Automobile manufacturers	1.82	13,160,902
	Automotive retail	0.19	1,363,164
	Building products	0.25	1,814,490
	Diversified capital markets	1.03	7,470,996
Diversified financial services:			
62,000,000	General Motors Acceptance Company LLC	7.02	50,855,806
	Financial services	3.31	24,004,280
	Healthcare equipment	0.11	816,401
	Movies and entertainment	0.24	1,718,853
	Paper products	1.24	8,954,270
	Pharmaceuticals	1.44	10,424,547
	Real estate	1.86	13,468,317
	Wireless telecommunication services	0.16	1,146,628
	Other	0.22	1,657,298
Total United States (cost \$194,617,219)		27.79	201,378,355
Austria:			
Commercial banks:			
3,992,642	Bawag P.S.K (cost \$37,621,546)	5.57	40,357,270
Bermuda:			
	Reinsurance (cost \$21,841,218)	3.01	21,841,419
Canada:			
	Real Estate (cost \$21)	0.00	21
China:			
	Construction (cost \$10,210,477)	1.35	9,794,902

See accompanying notes to financial statements.

Ariel Fund Limited

Condensed Schedule of Investments (Expressed in U.S. Dollars)

December 31, 2007

Number of shares/face value	Description	% of net assets of \$724,593,816	Fair value
Investments (continued):			
Private equity (continued):			
Germany:			
	Real estate management (cost \$574,454)	0.32%	\$ 2,336,777
Great Britain:			
	Application software	1.61	11,675,323
	Asset management and custody banks	0.36	2,598,953
	Consumer electronics	0.11	780,719
	Department stores	0.29	2,092,287
	Total Great Britain (cost \$16,231,656)	2.37	17,147,282
Japan:			
	Advertising	0.14	988,767
	Financial services	0.84	6,069,143
	Real estate	2.29	16,619,487
	Other	0.05	372,373
	Total Japan (cost \$11,952,164)	3.32	24,049,770
Taiwan:			
	Real estate (cost \$1,293,851)	0.19	1,324,500
	Total private equity (cost \$294,342,606)	43.92	318,230,296
Limited partnerships:			
United States:			
	Airlines	0.22	1,632,347
	Real estate	0.06	425,494
Diversified distressed investments:			
	Cerberus Institutional Partners, L.P. – Series 2	1.85	13,434,640
	Cerberus Institutional Partners, L.P. – Series 3	5.09	36,873,599
	Cerberus Institutional Partners, L.P. – Series 4	1.89	13,688,994
	Other	2.17	15,713,436
	Total limited partnerships (cost \$47,098,128)	11.28	81,768,510

See accompanying notes to financial statements.

Ariel Fund Limited

Condensed Schedule of Investments (Expressed in U.S. Dollars)

December 31, 2007

Number of shares/face value	Description	% of net assets of \$724,593,816	Fair value
	Loan participations:		
	United States:		
	Pharmaceuticals	0.05%	\$ 375,728
	Telecommunications	0.53	3,824,526
	Other	0.03	230,213
	Total United States (cost \$46,550,587)	0.61	4,430,467
	Hong Kong:		
	Other (cost \$-0-)	0.04	310,137
	Japan:		
	Diversified banks (cost \$2,062,514)	0.29	2,062,514
	Total loan participations (cost \$48,613,101)	0.94	6,803,118
	Call options:		
	United States:		
	Index	0.23	1,639,340
	Other	0.11	801,975
	Total United States (cost \$2,728,382)	0.34	2,441,315
	Bermuda:		
	Other (cost \$357,752)	0.03	228,915
	Total call options (cost \$3,086,134)	0.37	2,670,230
	Put options:		
	United States:		
	Other (cost \$54,512)	0.01	108,240
	Forward currency contracts:		
	Various currencies (cost \$-0-)	0.01	70,262
	Mortgage-backed securities:		
	United States:		
	Real estate management	1.26	9,088,909
	Real estate investment trusts	0.31	2,276,776
	Other	0.01	87,323
	Total mortgage-backed securities (cost \$11,468,730)	1.58	11,453,008

See accompanying notes to financial statements.

Ariel Fund Limited

Condensed Schedule of Investments (Expressed in U.S. Dollars)

December 31, 2007

Number of shares/face value	Description	% of net assets of \$724,593,816	Fair value
Investments (continued):			
Credit default swaps:			
United States:			
	Diversified financial services	0.10%	\$ 693,833
	Mortgage real estate investment trusts	0.06	478,839
	Thriffs and mortgage finance	0.09	629,503
	Other	0.00	21,543
	Total United States (cost \$85,009)	0.25	1,823,718
Credit default swaps (continued):			
Great Britain:			
	Other (cost \$-0-)	0.00	20,867
	Total credit default swaps (cost \$85,009)	0.25	1,844,585
Index swaps:			
United States:			
	Other (cost -\$2,335,474)	(0.30)	(2,205,702)
Europe:			
	Other (cost \$37,765)	0.00	2,356
	Total index swaps (cost -\$2,297,709)	(0.30)	(2,203,346)
Warrants:			
United States:			
	Internet (cost \$474,796)	0.07	483,294
China			
	Other (cost \$-0-)	0.05	351,409
	Total warrants (cost \$474,796)	0.12	834,703
	Total investments (cost \$870,758,429)	123.52%	\$ 895,030,860
Other investments:			
	Investment funds	3.65	26,470,748
	Total other investments (cost \$15,929,500)	3.65%	\$ 26,470,748

See accompanying notes to financial statements.

Ariel Fund Limited

Condensed Schedule of Investments (Expressed in U.S. Dollars)

December 31, 2007

Number of shares/face value	Description	% of net assets of \$724,593,816	Fair value
Investments sold, not yet purchased:			
Common stock:			
United States:			
	Asset management and custody banks	0.10%	\$ 687,932
	Banks	0.18	1,270,662
	Diversified financial services	3.37	24,446,087
	Index	2.38	17,267,903
	Real estate investment trusts	0.40	2,902,251
	Other	0.28	2,058,697
	Total United States (proceeds \$47,281,155)	6.71	48,633,532
	Germany:		
	Other (proceeds \$294,003)	0.04	304,114
	Great Britain:		
	Building products	0.18	1,262,863
	Thriffs and mortgage finance	0.40	2,908,865
	Total Great Britain (proceeds \$4,975,745)	0.58	4,171,728
	Total common stock (proceeds \$52,550,903)	7.33	53,109,374
Debt securities:			
United States:			
	Broadcasting and cable TV	0.08	611,942
	Building materials	0.05	346,823
	Commercial services	0.10	735,280
	Computer and electronics retail	0.06	419,837
	Healthcare	0.07	526,016
	Publishing	0.06	404,793
	Restaurants	0.07	465,871
	Retail	0.22	1,600,286

See accompanying notes to financial statements.

Ariel Fund Limited

Condensed Schedule of Investments (Expressed in U.S. Dollars)



December 31, 2007

Number of shares/face value	Description	% of net assets of \$724,593,816	Fair value
Investments sold, not yet purchased			
(continued):			
Debt securities (continued):			
United States (continued):			
	Sovereign	2.18%	\$ 15,780,938
	Utilities	0.39	2,846,000
	Other	0.27	1,984,228
	Total United States (proceeds \$25,980,092)	3.55	25,722,014
	Mexico:		
	Banks (proceeds \$366,911)	0.05	366,911
	Total debt securities (proceeds \$26,347,003)	3.60	26,088,925
	Forward currency contracts:		
	Various currencies	0.50	3,615,038
	Call options:		
	United States:		
	Other (proceeds \$285,515)	0.01	58,992
	Put options:		
	United States:		
	Diversified financial services	0.05	393,770
	Other	0.01	68,660
	Total put options (proceeds \$436,698)	0.06	462,430

See accompanying notes to financial statements.

Ariel Fund Limited

Condensed Schedule of Investments (Expressed in U.S. Dollars)



December 31, 2007

Number of shares/face value	Description	% of net assets of \$724,593,816	Fair value
Investments sold, not yet purchased (continued):			
Preferred stock:			
United States:			
	Telecommunications (proceeds \$-0-)	0.00	1,000
Credit default swaps:			
United States:			
	Diversified financial services	0.17	1,255,760
	Other	0.00	(1,443)
	Total credit default swaps (net proceeds \$656,804)	0.17	1,254,317
Index swaps:			
United States:			
	Other (proceeds -\$493,464)	(0.12)	(889,525)
	Total investments sold, not yet purchased (proceeds \$79,783,459)	11.55%	\$ 83,700,551

See accompanying notes to financial statements.

Ariel Fund Limited

Statement of Income (Expressed in U.S. Dollars)

Year ended December 31, 2007

Investment income:	
Interest	\$ 15,690,086
Dividends, net of foreign withholding taxes of \$761,834	6,263,915
Total investment income	21,954,001
Expenses:	
Incentive fee (Note 5)	11,177,668
Professional fees (Note 7)	9,806,858
Administrative expenses (Note 7)	8,512,920
Management fee (Note 5)	5,951,193
Interest	2,447,293
Dividends on investments sold, not yet purchased	595,351
Clearing related expenses	66,046
Total expenses	38,557,329
Net investment loss	(16,603,328)
Net realized gain on investments	100,232,667
Net change in unrealized gain on investments	(28,726,032)
Net earnings, including change in unrealized appreciation, from investments in limited partnerships and other investments	21,544,325
Appreciation on deferred incentive fees (Note 5)	(29,630,841)
Net income (Note 8)	\$46,816,791

See accompanying notes to financial statements.

Ariel Fund Limited

Statement of Changes in Net Assets (Expressed in U.S. Dollars)

Year ended December 31, 2007

Change in net assets from operations:	
Net investment loss	\$(16,603,328)
Net realized gain on investments	100,232,667
Net change in unrealized gain on investments	(28,726,032)
Net earnings, including change in unrealized appreciation, from investments in limited partnerships and other investments	21,544,325
Appreciation on deferred incentive fees	(29,630,841)
Net increase in net assets resulting from operations	46,816,791
Change in net assets from capital transactions:	
Shares subscribed	56,837,822
Shares redeemed	(50,210,844)
Net decrease in net assets resulting from capital transactions	6,626,978
Increase in net assets	53,443,769
Net assets:	
Beginning of year	671,150,047
End of year	724,593,816

See accompanying notes to financial statements.

Ariel Fund Limited

Statement of Cash Flows (Expressed in U.S. Dollars)

Year ended December 31, 2007

Cash flows from operating activities:	
Net income	\$ 46,816,791
Adjustments to reconcile net income to net cash used in operating activities:	
Net realized gain on investments	(100,232,667)
Net change in unrealized gain on investments	28,726,032
Net earnings, including change in unrealized appreciation, from investments in limited partnerships and other investments	(21,544,326)
Appreciation of deferred incentive fees	29,630,841
(Increase) decrease in:	
Investments purchased under agreements to resell	(16,065,944)
Purchase of investments	(3,630,405,649)
Proceeds from sale of investments	3,560,007,699
Interest and other receivables	989,507
Prepaid expenses	367
Increase (decrease) in:	
Investments sold under agreements to repurchase	7,453,040
Purchases of investments to cover investments sold, not yet purchased	(225,693,469)
Proceeds from investments sold, not yet purchased	216,641,440
Deferred incentive fees payable	11,177,668
Accrued expenses	841,075
Interest payable	349,751
Net cash used in operating activities	(91,307,844)
Cash flows from financing activities:	
Proceeds from issuance of shares	56,837,822
Proceeds from subscriptions received in advance	5,980,000
Payments on shares redeemed	(20,719,740)
Net cash provided by financing activities	42,098,082
Net decrease in cash and cash equivalents held at brokers	(49,209,762)
Cash and cash equivalents held at brokers, beginning of year	286,280,081
Cash and cash equivalents held at brokers, end of year	\$ 237,070,319
Supplemental disclosure of cash flow information:	
Interest paid	\$ 2,097,542
Noncash financing activity:	
Redemptions payable	\$ 29,491,104

See accompanying notes to financial statements.

Ariel Fund Limited

Notes to Financial Statements (Expressed in U.S. Dollars)

1. Business

Ariel Fund Limited (the “Fund”) is an exempted company incorporated under the laws of the Cayman Islands. The registered office of the Fund is c/o M&C Corporate Services Limited, Uglan House, South Church Street, George Town, Grand Cayman, Cayman Islands.

The Fund’s investment objective is to provide shareholders with a total return on their investments consisting of capital appreciation and income by investing in a diverse portfolio of securities.

Gabriel Capital Corporation (the “Investment Advisor”) serves as the investment advisor to the Fund and earns fees in accordance with the terms of the Investment Advisory Agreement.

2. Summary of Significant Accounting Policies

Basis of preparation

The financial statements of the Fund are prepared in conformity with accounting principles generally accepted in the United States of America and are stated in United States (U.S.) dollars (\$).

Cash and Cash Equivalents

The Fund considers all highly liquid instruments purchased with an initial maturity of one month or less to be cash equivalents.

Investment Transactions and Portfolio Valuation

The Fund records investment transactions on a trade date basis. Revenues and expenses are recorded using the accrual method. Unrealized gains and losses are reflected in the statement of income.

Investments and Investments Sold, Not Yet Purchased

Investments listed on a national exchange are valued at the last sales price on the date of valuation. Investments not listed on a national exchange are valued at their last sales price on the date of valuation or, if such price is not available, the investments are valued based on the low “bid” price (for investments) and on the high “ask” price (for investments sold, not yet purchased) at the close of business. Investments are made in both marketable and not readily marketable financial instruments directly, and also through the use of investment partnerships and sub-advisors.

Ariel Fund Limited

Notes to Financial Statements (continued) (Expressed in U.S. Dollars)

2. Summary of Significant Accounting Policies (continued)

Investments and Investments Sold, Not Yet Purchased (continued)

Investments in certain equity and debt securities, limited partnership interests, private equity, preferred stock and loan participations are not readily marketable and are stated at fair value as determined by the Investment Advisor. These fair values may be higher or lower than the values that would have been used had a ready market existed, and the differences could be material. Investments and investments sold, not yet purchased, in not readily marketable securities at December 31, 2007 amounted to:

	Investments	Investments sold, not yet purchased
Call options	\$ 1,639,340	\$ -
Common stock	461,937	-
Debt securities	71,610,712	366,911
Mortgage-backed securities	11,453,008	-
Private equity	318,230,296	-
Preferred stock	18,106,943	1,000
Limited partnerships	81,768,510	-
Loan participations	6,803,118	-
Totals	\$ 510,073,64	\$367,911

Investments Purchased Under Agreements to Resell and Investments Sold Under Agreements to Repurchase

Transactions involving purchases (“reverse repurchase agreements”) of investments under agreements to resell or sales of investments under agreements to repurchase (“repurchase agreements”) are treated as collateralized financing transactions and are recorded at their contracted resale or repurchase amounts plus accrued interest, as specified in the respective agreements. These investments include U.S. Treasury obligations and mortgage-backed securities and represent short-term collateralized financing transactions that are carried in the statement of assets and liabilities at their contractual amounts.

Ariel Fund Limited

Notes to Financial Statements (continued) (Expressed in U.S. Dollars)

2. Summary of Significant Accounting Policies (continued)

Investments Purchased Under Agreements to Resell and Investments Sold Under Agreements to Repurchase (continued)

As of December 31, 2007, the Fund pledged collateral consisting of investments worth \$15,780,938 on open reverse repurchase agreements of \$16,065,944. In addition, the Fund held collateral consisting of investments worth \$9,088,909 on open repurchase agreements of \$7,453,040 at December 31, 2007.

Investments in Limited Partnerships

The limited partnerships invest and trade in United States and other foreign debt and equity securities and derivative products.

Financial Instruments With Off-balance Sheet Risk

The Fund and certain limited partnerships and investment funds in which it invests enter into various transactions involving derivatives and other financial instruments. These financial instruments include, but are not limited to, forward foreign currency contracts and credit default, index and equity swaps. These derivative financial instruments are used to conduct trading activities and manage market risks and are, therefore, subject to varying degrees of market and credit risk. Derivative transactions are entered into for trading purposes or to hedge other positions or transactions.

These activities may expose the Fund and/or the partnerships and funds to risk that the counterparty is unable to fulfill its contracted obligations and the Fund and/or partnerships and funds may have to purchase or sell the financial instrument underlying the contract at a loss.

Ariel Fund Limited

Notes to Financial Statements (continued) (Expressed in U.S. Dollars)

2. Summary of Significant Accounting Policies (continued)

Foreign Currency Contracts

The Fund and certain limited partnerships and investment funds in which it invests may enter into forward foreign currency exchange contracts primarily to hedge against foreign currency exchange rate risks on its non-U.S. dollar denominated investment securities. When entering into a forward exchange currency contract, the Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed-upon future date. These contracts are valued daily, and the Fund's net equity therein, representing unrealized gain or loss on the contract is measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in the Fund's statements of assets and liabilities.

Credit Default, Index and Equity Swaps

Upon entering into a credit default or equity swap, the Fund is required to transfer to the counterparty an amount of cash, U.S. Government securities, or other assets, equal to a certain percentage of the contract amount (initial margin deposit). Subsequent payments known as "Variation Margin" may be made or received by the Fund depending on the fluctuations in the fair value of the underlying security. The Fund recognizes a gain or loss equal to the changes in the underlying asset. These instruments involve market risk, credit risk, or both kinds of risk, in excess of the amounts recognized in the statement of assets and liabilities. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency, securities values and interest rates.

Ariel Fund Limited

Notes to Financial Statements (continued) (Expressed in U.S. Dollars)

2. Summary of Significant Accounting Policies (continued)

Credit Default, Index and Equity Swaps (continued)

The Fund enters into credit default swap contracts which are agreements in which the Fund pays fixed periodic payments to a counterparty in consideration for the right to sell the debt of the debtor named in the agreement to the counterparty at par value of the referenced debt instrument in the event that the debtor defaults in payment. Risks arise from the possible inability of counterparties to meet the terms of their contracts. The unrealized gains or losses on open credit default swap contracts are included in the statement of assets and liabilities, with net changes in unrealized gains or losses included in the statement of income.

Total Return Swaps

The Fund utilizes total return swap contracts as an economic substitute for certain investments in securities. Total return swap contracts are arrangements whose valuation and resultant gain or loss are based upon the fair value fluctuations of underlying securities. These instruments involve both market risk and credit risk in excess of the amounts recognized in the statement of assets and liabilities. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities values and interest rates. The unrealized gains or losses on open total return swaps are included in the statement of assets and liabilities, with net changes in unrealized gains or losses in the statement of income.

Investments Sold, Not Yet Purchased

The Fund and certain limited partnerships and investment funds in which it invests have sold investments they do not own in anticipation of a decline in the fair values of those investments. A gain, limited to the price at which the Fund sold the investment short, or a loss, unlimited in amount, will be recognized upon the termination of a short sale. These obligations are recorded on the Fund's financial statements at the December 31, 2007 fair value of these investments. There is an element of market risk in that, if the investments increase in value, it will be necessary to purchase the investments at a cost in excess of the price reflected in the statement of assets and liabilities.

Ariel Fund Limited

Notes to Financial Statements (continued) (Expressed in U.S. Dollars)

2. Summary of Significant Accounting Policies (continued)

Option Writing

When the Fund writes an option, an amount equal to the premium received by the Fund is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated as realized gains from investments by the Fund on the expiration date. The difference between the premium and the amount paid on effecting a closing purchase transaction, including the brokerage commissions, is also treated as a realized gain, or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security or currency in determining a realized gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities. The Fund as writer of an option bears the market risk of an unfavorable change in the price of the security underlying the written option.

Foreign Currency

Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions.

The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments.

Subscriptions received in advance

Subscriptions received in advance represent subscriptions received with an effective date of January 1, 2008.

Redemptions payable

Redemptions payable represent the unpaid portion of redemptions as of December 31, 2007.

Ariel Fund Limited

Notes to Financial Statements (continued) (Expressed in U.S. Dollars)

2. Summary of Significant Accounting Policies (continued)

Income Taxes

The Fund is not subject to taxes on income or gains under section 6 of the Cayman Islands Tax Concessions Law (Revised).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements”. This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. As of December 31, 2007, the Fund does not believe the adoption of SFAS No. 157 will impact the amounts reported in the financial statements. However, additional financial presentations and disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of income for a fiscal year.

Ariel Fund Limited

Notes to Financial Statements (continued) (Expressed in U.S. Dollars)

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2. **Summary of Significant Accounting Policies (continued)** In June 2006, the FASB issued FASB Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes”, which establishes that a tax position taken or expected to be taken in a tax return is to be recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. FIN 48 is effective for fiscal years beginning after December 15, 2007. The Fund does not believe that the adoption of FIN 48 will have a material impact on its results of operations or its financial position.
3. **Brokerage Agreements** The Fund has prime brokerage agreements and, along with limited partnerships in which it invests, agreements with various brokerage firms to carry their accounts as a customer. The brokers have custody of the Fund’s or partnerships’ investments and, from time to time, cash balances which may be due from these brokers.
- These securities and/or cash positions serve as collateral for any amounts due to brokers or as collateral for the open swap contracts, investments sold, not yet purchased or investments purchased on margin. The securities and/or cash positions also serve as collateral for potential defaults of the Fund.
- The Fund is subject to credit risk if the brokers are unable to repay balances due or deliver securities in their custody.
4. **Related Party Transaction** The president of the Investment Advisor serves as Chairman of the Board of Directors of General Motors Acceptance Company LLC, an investee company.
5. **Management Fees, Incentive Fees and Other Investments** The Investment Advisor earns a management fee equal to 1% of net asset value attributable to each series of shares as of the first day of the fiscal year, or the date issued for shares issued during any year. In addition, for certain series, the Investment Advisor earns an incentive fee equal to 20% of the increase in the net asset value attributable to each series of shares as of the last business day of the fiscal year.

Ariel Fund Limited

Notes to Financial Statements (continued) (Expressed in U.S. Dollars)

- 5. Management Fees, Incentive Fees and Other Investments (continued)**

Management and incentive fees for the year ended December 31, 2007 amounted to \$5,951,193 and \$11,177,668, respectively.

The Investment Advisor has deferred its incentive fees due for the period 1995 to 2007. As at December 31, 2007, the amount deferred plus appreciation thereon totaled \$323,235,465. The appreciation on deferred incentive fees for the year ended December 31, 2007 amounted to \$29,630,841. The payment of a portion of deferred incentive fees commences on January 1, 2010 and occurs annually thereafter.

The deferred incentive fees and appreciation thereon are reinvested in the Fund *pari passu* with the shares of the participating shareholders, net of other investments of \$26,470,748.

Other investments represent specific investments designated to the deferred account of the Investment Advisor. All income and losses attributable to the investments in other investments are allocated to the Investment Advisor.

- 6. Share Capital Transactions**

Share Capital

The authorized capital of the Fund is \$16,000, divided into 1,000 ordinary (Founders) voting shares of \$1.00 par value and 1,500,000 non-voting participating shares of \$0.01 par value. At December 31, 2007, 100 Founders shares and 680,355.31 participating shares were outstanding.

The Founders shares, which possess the voting rights, are held by a Trust formed to hold these shares. The Founders shares are not entitled to participate in the appreciation of the Fund's assets but are entitled to a return of par value upon winding up or dissolution.

The Fund currently has two classes of non-voting participating shares outstanding. Class A Shares are held by shareholders who invested in the Fund prior to February 1, 2006 and Class B Shares are held by shareholders who invested in the Fund subsequent to February 1, 2006.

Ariel Fund Limited

Notes to Financial Statements (continued) (Expressed in U.S. Dollars)

6. Share Capital Transactions (continued)

Class A Shares may be redeemed at the Net Asset Value per share of the Fund on the last business day of each calendar quarter upon 30 days prior written notice to the Fund. In addition, up to 25% of the net asset value of Class A Shares may be designated as Special Investments. Class B Shares may not be redeemed until the end of the calendar quarter after the two-year anniversary of the date such Class B Shares were purchased and, thereafter, on each anniversary of the first redemption date upon 30 days prior written notice to the Fund. In addition, up to 40% of the net asset value of Class B Shares may be designated as Special Investments.

The Fund may purchase investments for which there is no ready market and which the Investment Advisor, in its sole discretion, determines should be treated as a Special Investment. A separate series of Special Investment Shares will be issued to reflect a particular Special Investment. Such Shares are not redeemable. As at December 31, 2007, the Fund had no Special Investment Shares outstanding.

The Fund will redeem all shares not previously redeemed on the earlier of:

- i) The incapacity or death of the owner of the Investment Advisor;
- ii) The termination of the investment advisory agreement if no subsequent agreement is reached;
- iii) a determination by the directors that the Fund should be dissolved; or
- iv) December 31, 2033

The Fund may also redeem shares on 30 days prior notice to any shareholder when it is deemed by the Directors to be in the best interests of the Fund.

On January 1, 2007, shares designated Series J through M were redesignated Series N. Holders of these shares received a number of Series N shares equivalent to their original holding plus accumulated earnings thereon at a price of \$1,000. The redesignation of share value to \$1,000 per share requires a capital adjustment to the number of shares.

Ariel Fund Limited

Notes to Financial Statements (continued) (Expressed in U.S. Dollars)

6. **Share Capital Transactions (continued)** The following table reconciles the number of outstanding participating shares at the beginning of the year to the balance at the end of the year:

	Class A	Class B	Total
Outstanding shares, beginning of year	532,212.32	39,253.27	571,465.59
Capital adjustments on redesignated shares	95,488.69	4,195.67	99,684.36
Shares subscribed for during the year	-	56,837.82	56,837.82
Shares redeemed during the year	(47,632.46)	-	(47,632.46)
Outstanding shares, end of year	580,068.55	100,286.76	680,355.31

The net asset value of the participating shares at December 31, 2007 is:

	Number of outstanding shares	Net asset value per share
<u>Class A</u>		
Series N - 07	450,585.44	1,064.62
Series N1 - 07	40,729.10	1,076.62
Series N2 - 07	88,754.01	1,072.62
<u>Class B</u>		
Series NN - 07	66,648.94	1,064.62
Series O - 07	30,598.00	1,040.64
Series P - 07	2,439.82	1,001.52
Series Q - 07	600.00	1,003.71

Subsequent capital transactions

Between January 1, 2008 and June 27, 2008, the Fund received subscriptions and paid redemptions of \$180,430,000 and \$42,327,033, respectively.

Ariel Fund Limited

Notes to Financial Statements (continued) (Expressed in U.S. Dollars)

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- 7. Administrative and Other Expenses** The Fund shares office space and various expenses with other related entities, which allocate a pro rata portion of these expenses to the Fund. Such allocated expenses aggregated \$18,119,252 for the year ended December 31, 2007 and are comprised of \$8,512,920 in administrative expenses and \$9,606,332 in professional fees.
- 8. Allocation of Net Income** The Fund allocates income and expenses (excluding class specific fees as defined in note 5) to each class and series pro rata based on the net asset value per share of the applicable class or series at the beginning of the calculation period.
- 9. Commitments** At December 31, 2007, the Fund is committed to invest up to \$17,094,000 of additional capital in one limited partnership. The Fund invests in one limited partnership which has a lock-up date through December 31, 2009. The Fund may not withdraw all or any portion of its investment prior to December 31, 2009.
- 10. Financial Highlights** The financial highlights represent the Fund's financial performance for the year ended December 31, 2007. The per share operating performance reflects the: (1) beginning of the year total net assets over the beginning of the year outstanding number of shares; (2) net investment income/(loss) for the year over the weighted average shares outstanding during the year; (3) net realized and change in unrealized gain/(loss) for the year over the weighted average shares outstanding during the year; (4) appreciation on deferred advisory fees for the year over the weighted average shares outstanding during the year; and (5) year end total net assets over the outstanding shares at year end.

Ariel Fund Limited

Notes to Financial Statements (continued) (Expressed in U.S. Dollars)

10. Financial Highlights (continued)

An individual shareholder's performance may vary based on timing of capital transactions.

Total return is computed based on the change in the net asset value per share during the year.

The net investment income ratio excludes the effect of incentive fees.

	Class A Series N-07	Class B Series NN-07
Per share operating performance:		
Net asset value per share, beginning of year	\$1,000.00	\$1,000.00
Income from investment operations:		
Net investment loss	(22.92)	(22.92)
Net realized and change in unrealized gain on investments	128.44	128.44
Appreciation of deferred incentive fees	(40.90)	(40.90)
Total from investment operations	64.62	64.62
Net asset value per share, end of year	\$1,064.62	\$1,064.62
Total return before incentive fees	8.08%	8.08%
Incentive fees	(1.62)	(1.62)
Total return after incentive fees	6.46%	6.46%
Ratios to average net assets:		
Operating expense ratio	6.40%	6.38%
Incentive fee	1.55	1.55
Total operating expenses and incentive fee	7.95%	7.93%
Investment income ratio	3.65%	3.63%