NEUBERGER | BERMAN

NB Distressed Debt Investment Fund Limited

Annual Report December 2010

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report

To the Shareholders and Board of Directors
NB Distressed Debt Investment Fund:

We have audited the accompanying consolidated statement of assets and liabilities and the condensed schedule of investments of NB Distressed Debt Investment Fund Limited (the Company) as of December 31, 2010, and the related consolidated statement of operations, changes in net assets, and cash flows for the period from April 20, 2010 (date of incorporation) to December 31, 2010. These financial statements are the responsibility of the Company'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 Company'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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NB Distressed Debt Investment Fund as of December 31, 2010, and the results of its operations, changes in its net assets, and its cash flows for the period from April 20, 2010 to December 31, 2010, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

April 13, 2011

Consolidated Statement of Assets and Liabilities
As at 31 December 2010
(Expressed in United States dollars)

Assets		**31 December 2010**
Investments, at fair value	$	470,739,677
(cost of $ 472,557,325)		
Cash and cash equivalents		21,808,522
	$	492,548,199
Other assets:		
Receivables for Investments sold		6,614,558
Interest receivables		572,543
Other receivables and prepayments		75,640
Total assets	**$**	**499,810,940**
Liabilities		
Payables for Investments purchased	$	69,616,129
Payables to Investment Manager and affiliates		536,691
Accrued expenses and other liabilities		317,683
Total liabilities	**$**	**70,470,503**
Ordinary shares	$	432,556,529
440,169,296 shares issued		
Accumulated deficit		(3,216,092)
Total net assets	**$**	**429,340,437**
Total liabilities and net assets	**$**	**499,810,940**
Net asset value per ordinary share	**$**	**0.9754**

The accompanying notes are an integral part of the consolidated financial statements

Condensed Consolidated Schedule of Investments
As at 31 December 2010
(Expressed in United States dollars)

		Cost	Fair Value	% (1)
Distressed Portfolio				
Bank Debt Investments	$	110,409,382	109,071,085	25.40
Limited Partnership Units		16,019,498	16,019,498	3.73
Fixed Rate Bonds		4,101,175	3,736,250	0.87
Asset Backed Securities		2,487,203	2,447,432	0.57
		133,017,258	131,274,265	30.57
Temporary Investments (2)				
Floating rate corporate loan notes		161,521,958	161,468,180	37.61
Fixed rate corporate loan notes		8,871,386	8,870,572	2.07
U.S. Government and agency obligations		169,146,723	169,126,660	39.39
		339,540,067	339,465,412	79.07
	$	**472,557,325**	**470,739,677**	**109.64**

(1) This represents the percentage of Fair Value to total Net Asset Value.

(2) the surplus cash in the Company has been invested in cash, cash equivalents, money market instruments, government securities and other investment grade securities with short term maturities. All of these investments are issued by United States government and agencies, banks and other financial institutions.

The accompanying notes are an integral part of the consolidated financial statements

Condensed Consolidated Schedule of Investments (continued)
As at 31 December 2010
(Expressed in United States dollars)

Investments with the following issuers comprising greater than 5% of Net Asset Value:

	Country	Industry	Nominal	Cost	Fair Value	%
Floating rate corporate loan notes						
Bank of America Corporation FRN (maturity dates ranging from 02/12/2011 through to 30/04/2012)	United States	Financial Services	34,500,000	34,742,095	34,743,899	8.09
JP Morgan Chase & Co FRN (maturity dates ranging from 23/02/2011 through to 26/12/2012)	United States	Financial Services	32,150,000	32,322,648	32,296,684	7.52
Goldman Sachs FRN 12/05/2011	United States	Financial Services	28,000,000	28,221,827	28,217,924	6.57
Morgan Stanley FRN (maturity dates ranging from 22/09/2011 through to 13/03/2012)	United States	Financial Services	22,000,000	22,075,975	22,067,927	5.14
			116,650,000	117,362,545	117,326,434	27.32
U.S. Government and agency obligations						
U.S. Treasury Bill (maturity dates ranging from 03/03/2011 through to 21/04/2011)	United States	Government and agency	57,000,000	56,972,516	56,978,350	13.27
Federal Farm Credit Bank FRN (maturity dates ranging from 25/01/2012 through to 13/08/2012)	United States	Government and agency	35,000,000	34,986,823	34,973,570	8.15
Federal National Mortgage Association FRN (maturity dates ranging from 24/01/2011 through to 17/09/2012)	United States	Government and agency	27,200,000	27,198,544	27,190,780	6.33
Federal Home Loan Mortgage Corporation FRN (maturity dates ranging from 11/01/2012 through to 29/12/2011)	United States	Government and agency	25,000,000	24,995,379	24,994,910	5.82
Federal Home Loan Bank FRN 08/01/2011	United States	Government and agency	25,000,000	24,993,461	24,989,050	5.82
			169,200,000	169,146,723	169,126,660	39.39

The accompanying notes are an integral part of the consolidated financial statements

Condensed Consolidated Schedule of Investments (continued)
As at 31 December 2010
(Expressed in United States dollars)

		Cost	Fair Value
Geographic diversity of Distressed Portfolio			
Australia	$	9,670,105	9,982,350
Cayman Islands		2,832,198	2,832,198
Germany		16,274,854	16,134,254
Great Britain		7,989,938	8,184,156
India		143,824	143,824
Ireland		110,466	110,466
Japan		443,917	443,917
United States (U.S.A.)		95,551,956	93,443,100
	$	**133,017,258**	**131,274,265**

		Cost	Fair Value
Industry diversity of Distressed Portfolio			
Air Transport	$	2,487,203	2,447,433
Building and Development		6,158,470	5,866,886
Commercial Mortgage		33,413,571	32,211,070
Containers and glass products		4,362,500	4,221,900
Financial Intermediary		20,081,998	19,719,498
Food Products		4,585,344	2,820,810
Healthcare		8,738,675	8,736,250
Lodging and Casinos		7,907,445	7,884,100
Real estate trust		9,670,105	9,982,350
Surface Transport		16,225,166	17,792,802
Telecommunications		11,367,894	11,659,156
Utilities		8,018,887	7,932,010
	$	**133,017,258**	**131,274,265**

The accompanying notes are an integral part of the consolidated financial statements

Consolidated Statement of Operations
For the period from 20 April 2010 to 31 December 2010
(Expressed in United States dollars)

		20 April 2010 to 31 December 2010
Interest income	$	2,760,523
Expenses		
Investment management and services		2,305,838
Directors' fees and travel expenses		149,118
Administration and professional		917,423
		3,372,379
Net loss	**$**	**(611,856)**
Realised and unrealised gains and losses		
Net realised loss on investments	$	(512,887)
Net change in unrealised loss on investments		(1,817,649)
Realised loss on foreign currency		(273,700)
Net realised and unrealised gains and losses	**$**	**(2,604,236)**
Net decrease in net assets resulting from operations	**$**	**(3,216,092)**
Loss per ordinary share	**$**	**(0.0114)**

The accompanying notes are an integral part of the consolidated financial statements

Consolidated Statement of Changes in Net Assets
For the period from 20 April 2010 to 31 December 2010
(Expressed in United States dollars)

		20 April 2010 to 31 December 2010
Net assets at beginning of period	**$**	**-**
Proceeds from issuance of ordinary shares (net of $8,827,683 of offering costs)		432,556,529
Net decrease in net assets resulting from operations	$	(3,216,092)
Net assets at end of period	**$**	**429,340,437**

The accompanying notes are an integral part of the consolidated financial statements

Consolidated Statement of Cash Flows
For the period from 20 April 2010 to 31 December 2010
(Expressed in United States dollars)

		20 April 2010 to 31 December 2010
Cash flows from operating activities:		
Net decrease in net assets resulting from operations	$	(3,216,092)
Adjustment to reconcile net decrease in net assets resulting from operations:		
Net realised loss on investments	$	512,887
Net change in unrealised loss on investments		1,817,649
Accretion of discount on loans and bonds		(1,029,427)
PIK interest		(33,659)
Changes in receivables for investments sold		(6,614,558)
Changes in interest receivables		(572,543)
Changes in other receivables and prepayments		(75,640)
Changes in payables for investments purchased		69,616,129
Changes in accrued expenses and other liabilities		854,374
Purchase of investments	$	(738,671,714)
Sale of investments		266,664,587
Net cash used in operating activities	$	(410,748,007)
Cash flows from financing activities:		
Proceeds from issuance of ordinary shares (net of $8,827,683 of offering costs)	$	432,556,529
Net cash provided by financing activities	$	432,556,529
Net increase in cash and cash equivalents	**$**	**21,808,522**
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at end of period	**$**	**21,808,522**

The accompanying notes are an integral part of the consolidated financial statements

Notes to the Consolidated Financial Statements
For the period from 20 April 2010 to 31 December 2010

Note 1 – Description of business

NB Distressed Debt Investment Fund Limited (the "Company") is a closed-ended investment company registered and incorporated in Guernsey under the Companies (Guernsey) Law, 2008 on 20 April 2010, with registration number 51774. The Company's shares were admitted to the Specialist Fund Market of the London Stock Exchange (the "SFM") and to the Channel Islands Stock Exchange ("CISX") on 10 June 2010.

The Initial Public Offering of the Company took place in June 2010, raising gross proceeds of approximately $197.2 million. Subsequently, the Company raised further gross proceeds of approximately $244.2 million at a price of $1.005 per ordinary share by means of a Secondary Placing in October 2010.

The Company's investment objective is to provide investors with attractive risk-adjusted returns through long-biased, opportunistic stressed, distressed and special situation credit-related investments while seeking to limit downside risk.

The share capital of the Company is denominated in U.S. Dollars and consists of Ordinary Shares and Subscription Shares (both of which carry limited voting rights) and Class A Shares (which carry extensive voting rights). The Class A Shares are held by the Trustee pursuant to a purpose trust established under Guernsey law. Under the terms of the Trust Deed, the Trustee holds the Class A Shares for the purpose of exercising the rights conferred by such shares in the manner it considers, in its absolute discretion, to be in the best interests of the Ordinary Shareholders as a whole.

The Ordinary Shares (and not the Subscription Shares or the Class A Shares) carry rights to receive all income and capital returns distributed by the Company.

Note 2 - Summary of significant accounting policies

Basis of preparation

The accompanying consolidated financial statements have been presented on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. The financial statements give a true and fair view and are in compliance with The Companies (Guernsey) Law, 2008. The functional and reporting currency of the Company is the United States Dollar.

In June 2009, the Financial Accounting Standards Board (FASB) codified its standards and accounting principles for financial statements issued for the period ending after September 15,2009. Starting with the accompanying consolidated financial statements, the Company will make reference to U.S. generally accepted accounting principles (U.S. GAAP) issued by the FASB as Accounting Standards Codification (ASC).

Principles of Consolidation

The consolidated financial statements include the results of the Company and its wholly owned subsidiaries, London Granite Ridge LLC and London Mayslake LLC, together the Group. All inter-company balances have been eliminated.

Note 2 - Summary of significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires that the Directors make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Such estimates and associated assumptions are generally based on historical experience and various other factors that are believed to be reasonable under the circumstances, and form the basis of making the judgments about attributing values of assets and liabilities that are not readily apparent from other sources. Actual results may vary from such accounting estimates in amounts that may have a material impact on the Financial Statements of the Company.

Revenue recognition

Interest earned on debt instruments is accounted for, gross of applicable withholding taxes and it is recognised as income over the terms of the loans. All fees earned and direct costs incurred in connection with the origination of loans are capitalized and amortised as an adjustment to interest income over the life of the related loan using the effective interest rate method. Discounts received or premiums paid in connection with the acquisition of loans are amortized into interest income using the effective interest method over the contractual life of the related loan. If a loan pays off prior to maturity, the recognition of the fees and costs is accelerated as appropriate. Payment-in-kind (PIK) interest is computed at the contractual rate specified in the loan agreement for any portion of the interest which may be added to the principal balance of a loan rather than paid in cash by obligator on the scheduled interest payment date. PIK interest is periodically added to the principal balance of the loan and recorded as interest income. The Manager places a receivable on non accrual status when the collection of principal or interest is deemed doubtful. Divided income is recognised on the ex-dividend date. Realised gains and losses are determined using the specific identification method.

Cash and cash equivalents

The Company's cash and cash equivalents comprise cash on hand and demand deposits and highly liquid investments with original maturities of less than 90 days that are both readily convertible to known amounts or cash and so near maturity that they represent insignificant risk of changes in value.

Valuation of Investments

The Company carries investments on its books at fair value in accordance with U.S. GAAP, with changes in fair value recognised within the Consolidated Statement of Operations in each reporting period. Quoted investments are valued according to their bid price as at the close of the relevant reporting date. Investments in private securities are priced at the bid price using a pricing service for private loans. If a price cannot be ascertained from the above sources, the Company will seek bid prices from third party broker/dealer quotes for the investments.

In cases where no third party price is available and for investments in Limited Partnership Units, or where the Investment Manager determines that the provided price is not an accurate representation of the fair value of the investment, the Sub-Investment Manager determines the valuation based on the Sub-Investment Manager's fair valuation policy.

The overall criterion for fair value is a price at which a round lot of the securities involved would change hands in a transaction between a willing buyer and a willing seller, neither being under compulsion to buy or sell and both having the same knowledge of the relevant facts.

Notes to the Consolidated Financial Statements
For the period from 20 April 2010 to 31 December 2010

Note 2 - Summary of significant accounting policies (continued)

Consistent with the above criterion, the following criteria is considered when applicable:

- Valuation of other securities by the same issuer for which market quotations are available;
- Reasons for absence of market quotations;
- The soundness of the security, its interest yield, the date of maturity, the credit standing of the issue and the current general interest rates;
- Recent sales prices and/or bid and asked quotations for the security;
- Value of similar securities of issuers in the same or similar industries for which market quotations are available;
- Economic outlook of the industry;
- Issuer's position in the industry;
- The financial statements of the issuer; and
- The nature and duration of any restriction on disposition of the security.

Realised Gains and Losses on Investments
All investment transactions are recorded on a trade date basis. Upon sale or maturity, the difference between the consideration received and the cost of the investment is recognised as a realised gain or loss. The cost is determined based on the average cost method.

Operating expenses
Operating expenses are recognised on an accruals basis. Operating expenses include amounts directly or indirectly incurred by the Company as part of its operations.

Issuance cost
In line with the Prospectus, all expenses incurred for the initial and secondary placing were borne by the Company up to a maximum of 2 percent of the Gross Issue Proceeds. Any expenses exceeding this amount were paid by the Investment Manager. These expenses includes placing fees and commissions; registration, listing and admission fees; the cost of settlement and escrow arrangements; printing, advertising and distribution costs; legal fees, and any other applicable expenses incurred in connection with the offering of shares.

All such expenses are charged to capital, reducing the issue proceeds received. During 2010, there were 440,169,297 ordinary shares issued, with proceeds raised of $432,556,529, net of issue costs of $8,827,683.

Performance fee
Performance fee amounts due on investments (see note 4) are computed and accrued at each period end date based on period-to-date results in accordance with the terms of the agreements.

Note 2 - Summary of significant accounting policies (continued)

Currency translation
Monetary assets and liabilities denominated in a currency other than U.S. dollars are translated into U.S. dollar equivalents using spot rates as at the period end date. On initial recognition, a foreign currency transaction is recorded and translates at the spot exchange rate at the transaction date. Non monetary assets and liabilities are translated at the historic exchange rate.

Payables on investments purchased

At 31 December 2010, the amount payable on investments purchased represents amounts due for investments purchased that have been contracted for but not settled on the balance sheet date.

Note 3 – Recent standards and pronouncements

On 21 January 2010, the FASB issued the ASU 2010 – 06, "Improving Disclosures about Fair Value Measurement," an amendment to Subtopic 820 – 10 which requires the following disclosures upon the fair value of investments:-

1) a reporting entity should disclose the amounts of significant transfers in and/or out of Level I and Level 2 fair value measurements and the reason for the transfers;

2) the reasons for any transfers in and out of Level 3; and

3) Information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis.

In addition to these new disclosure requirements, the ASU also amends ASC 820 to clarify that reporting entities are required to provide fair value measurement disclosures for each class of assets and liabilities. Prior to the issuance of ASU 2010 - 06, the guidance in ASC 820 required separate fair value disclosures for each major category of assets and liabilities.

ASU 2010 - 06 also clarifies the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements, except for the requirement to disclose information about purchases, sales, issuances and settlements in the reconciliation of recurring Level 3 measurements on a gross basis, which are not yet effective.

Note 4 – Agreements and related parties

Investment Management Agreement

The Board is responsible for managing the business affairs of the Company but has delegated certain functions to the Investment Manager under the Investment Management Agreement dated 5 May 2010, subsequently amended and revised on 17 June 2010.

The investment manager of the Company is Neuberger Berman Europe Limited, an indirect wholly-owned subsidiary of NB Group. Under the Sub-Investment Management Agreement dated 9 June 2010, the Investment Manager has delegated certain of its responsibilities and functions to the Sub-Investment Manager, Neuberger Berman Fixed Income LLC, also an indirect wholly-owned subsidiary of NB Group (together the "Investment Managers").

The Investment Managers are responsible for the discretionary management of the assets held in the Company Portfolio and will conduct the day-to-day management of the Company's assets (including un-invested cash). The Investment Managers are not required to and generally will not submit individual investment decisions for approval by the Board.

Note 4 – Agreements and related parties (continued)

The Investment Manager is entitled to a management fee, which shall accrue daily, and be payable monthly in arrear, at a rate of 0.125 percent per month of the Company's NAV. For the period ended 31 December 2010, the management fee expense was $2,305,838.

In addition, the Investment Manager is entitled a performance fee by the Company. The performance fee will only become payable once the Company has made aggregate distributions in cash to Ordinary Shareholders (which shall include the aggregate price of all Shares repurchased or redeemed by the company) equal to the aggregate gross proceeds of issuing Ordinary Shares (the "Contributed Capital") plus such amounts as will result in Ordinary Shareholders having received a realised (cash-paid) IRR in respect of the Contributed Capital equal to preferred Return (6 percent), following which there will be a 100 percent catch up to the Investment Manager until the Investment Manager has received 20 percent of all amounts in excess of Contributed Capital distributed to Ordinary Shareholders and paid to the Investment Manager as a performance fee with, thereafter, all amounts distributed by the Company 20:80 between the Investment Manager's performance fee and the cash distributed to the Ordinary Shareholders respectively. For the period ended 31 December 2010, the performance fee expense was nil.

Administration and Custody Agreement

The Company has appointed BNP Paribas Fund Services (Guernsey) Limited as Administrator, Secretary, Custodian and Designated Manager of the Company pursuant to the Administration and Custody Agreement. In such capacity, the Administrator is responsible for the day–to-day administration of the Company (including but not limited to the calculation and publications of the estimated daily Net Asset Value), general secretarial functions (including but not limited to the maintenance of the Company's accounting and statutory records) and certain safekeeping and custody services. The Administrator is entitled to a fee based on 0.11 percent per annum of the net asset value of the Company subject to an annual minimum of £100,000.

The Secretary is entitled to an annual fee of £36,000 plus fees for adhoc board meetings and services. The Custodian is entitled to a fee of 0.02 percent of the Market Value of the portfolio or a minimum annual fee of £20,000 and a fee of 0.08 percent per annum of the net asset value, minimum annual fee of £75,000 in respect of portfolio and loan administration.

For the period ended 31 December 2010, the administration fee expense was $194,380, the secretarial fee was $38,078 and the custodian and loan administration fee expense was $160,481.

Note 5 – Directors' remuneration and other interests

The Directors are related parties and are remunerated for their services at a fee of $45,000 per annum ($60,000 for the Chairman). In addition, the chairman of the Audit Committee receives an additional $5,000 for his services in this role. Each of Michael Holmberg and Patrick Flynn, the non-independent Directors, has waived their fees for their services as Directors. For the period ended 31 December 2010, the directors' fees and travel expenses amounted to $149,118.

The Director's shareholdings as at 31 December 2010 are disclosed on page 15.

Note 6 - Bank Debt Investments

The Company generally purchases bank debt investments in the secondary market. Bank debt consists primarily of senior term loans, revolvers and second lien loans. The Company primarily purchases bank debt of borrowers which are experiencing varying degrees of financial distress. The loans purchased by the Company are generally marketable and traded in the secondary market for distressed bank debt. Loans purchased by the Company are typically senior in the issuer's capital structure.

The following table summarises the bank debt investments balance at 31 December 2010.

		31 December 2010
Senior Secured loans		101,113,286
Second lien secured loans		7,957,799
Mezzanine loans		-
	$	**109,071,085**

Note 7 – Fair Value of Financial Instruments

A financial instrument is defined by ASC 825, *Disclosures about Fair Value of Financial Instruments*, as cash, evidence of an ownership interest in an entity, or a contract that creates a contractual obligation or right to deliver to or receive cash or another financial instrument from a second entity on potentially favourable terms. Fair value estimates are made at a discrete point in time, based on relevant market data, information about the financial instruments, and other factors.

Fair value was determined using available market information and appropriate valuation methodologies. Estimates of fair value of financial instruments without quoted market prices are subjective in nature and involve various assumptions and estimates that are matters of judgement. Accordingly, fair values are not necessarily indicative of the amounts realised on disposition of financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on estimated fair value amounts.

The following estimates and assumptions were used at 31 December 2010 to estimate the fair value of each class of financial instruments:

- Cash and cash equivalents – The carrying value is a reasonable estimate of fair value due to the short-term nature of these instruments.

- Receivables for Investments Sold – The carrying value reasonably approximates fair value as they reflects the value at which investments are sold to a willing buyer and settlement period on their balances is short term.

- Interest receivables – The carrying value reasonably approximates fair value.

- Other receivables and prepayments – The carrying value reasonably approximates fair value.

- The valuation of distressed investments is estimated based on bid levels in the secondary market based on independent pricing services, at 31 December 2010, with the exception of $24,719,498 Level 3 investments valued using good faith valuation and $32,211,070 priced from single broker source. As at 31 December 2010, the fair value of the distressed investments was $131,274,265. Temporary investments were valued at their bid prices derived at the relevant reporting date.

Notes to the Consolidated Financial Statements (continued)
For the period from 20 April 2010 to 31 December 2010

Note 7 – Fair Value of Financial Instruments (continued)

- Payables for Investments Purchased – The carrying value reasonably approximates fair value as they reflect the value at which investments are purchased from a willing seller and settlement period on their balances is short term.

- Payables to Investment Manager and affiliates - The carrying value reasonably approximates fair value.

- Accrued expenses and other liabilities – The carrying value reasonably approximates fair value.

The Company categorises its investments as follows based on the inputs used in valuation techniques:

Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2: Inputs other than quoted prices included in Level 1 that are observable either directly or indirectly; and

Level 3: Significant unobservable inputs

The following table details the Company's investments that were accounted for at fair value as at 31 December 2010.

Investments at Fair Value as at 31 December 2010

	Level 1	**Level 2**	**Level 3**	**Total**
Bank debt investments	-	68,160,015	40,911,070	109,071,085
Limited Partnership Units	-	-	16,019,498	16,019,498
Asset Backed Securities	-	2,447,432	-	2,447,432
Loans notes and bonds	-	343,201,662	-	343,201,662
Total investments that are accounted for at fair value	**-**	**$413,809,109**	**$56,930,568**	**$ 470,739,677**

The following is a reconciliation of beginning and ending balances of assets and liabilities measured at fair value on a recurring basis using Level 3 inputs:

	31 December 2010
Balance, beginning of the period	-
Purchases	58,133,069
Total unrealised losses	(1,202,501)
Fair value, end of the period	**$ 56,930,568**
Net change in unrealised loss on investments held as of 31 December 2010	**$ (1,202,501)**

Note 8 – Unfunded Loan Commitments

As at 31 December 2010, the Company has no unfunded loan commitments.

Note 9 – Risks

The Company is subject to various risks, including, but not limited to, market risk, credit risk and liquidity risk. The Investment Manager attempts to monitor and manage these risks on an ongoing basis. While the Investment Manager generally seeks to hedge certain portfolio risks, the Investment Manager is not required and may not attempt to hedge all market or other risks in the portfolio, and it may decide to only partially hedge certain risks. The Company does not have any material exposure to currency risk as at 31 December 2010.

Market Risk
Market risk is the potential for changes in the value of investments. Categories of market risk include, but are not limited to interest rates. Interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates and credit spreads.

Credit Risk
The Company may invest in a range of corporate and other bonds and other credit sensitive securities. Until such investments are sold or are paid in full at maturity, the Company is exposed to credit risk relating to whether the issuer will meet its obligations when the securities come due. Distressed debt securities by nature are securities in companies which are in default or are heading into default and will expose the Company to a higher than normal amount of credit risk.

The cash and other liquid securities held can subject the Company to a concentration of credit risk. The Investment Manager attempts to mitigate the credit risk that exists with cash deposits and other liquid securities by regularly monitoring the credit ratings of such financial institutions and at times attempting to hold a significant amount of the Company's cash and cash equivalents in U.S. Treasuries or other highly liquid securities.

Credit risk is the risk of losses due to the failure of counterparty to perform according to the terms of a contract. Since the Company does not clear all of its own securities transactions, it has established accounts with other financial institutions for this purpose. This can, and often does, result in a concentration of credit risk with one or more of these institutions. Such risk, however, is partially mitigated by the obligation of certain of these financial institutions to comply with rules and regulations governing financial institutions in countries where they conduct their business activities.

These rules and regulations generally require maintenance of minimum net capital and may also require segregation of customers' funds and financial instruments from the holdings of the financial institutions themselves. The Company actively reviews and attempts to manage exposures to various financial institutions in an attempt to mitigate these risks.

Liquidity Risk
Liquidity risk is the risk that the Company will not be able to meet its obligations as and when these fall due. Liquidity risk is managed by the Investment Manager so as to ensure that the Company maintains sufficient working capital in cash or near cash form so as to be able to meet the Company's ongoing requirements as these are budgeted for.

Other Risks
Legal, tax and regulatory changes could occur during the term of the Company that may adversely affect the Company. The regulatory environment for alternative investment vehicles is evolving, and changes in the regulation of alternative investment vehicles may adversely affect the value of investments held by the Company or the ability of the Company to pursue its trading strategies. The effect of any future regulatory change on the Company could be substantial and adverse.

Notes to the Consolidated Financial Statements (continued)
For the period from 20 April 2010 to 31 December 2010

Note 10 – Income taxes

The Company is exempt from Guernsey tax on income derived from non-Guernsey sources. However, certain of its underlying investments may generate income that is subject to tax in other jurisdictions, principally in the United States.

In accordance with U.S. GAAP Management is required to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognised is measured as the largest amount of benefit that is greater than fifty percent likely of being realised upon ultimate settlement. De-recognition of a tax benefit previously recognised could result in the Company recording a tax liability that would reduce net assets. This policy also provides guidance on thresholds, measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition that is intended to provide better financial statement comparability among different entities.
Income derived from investments may be subject to withholding or other taxes imposed by the US or other countries. Such taxes are reflected in the Statement of Operations.

As of 31 December 2010, the Company has recorded no liability for net unrecognised tax benefits relating to uncertain tax positions they have taken or expect to take in future tax returns.

Note 11 – Financial highlights

		Ordinary Share Class
Per share operating performance		
Net proceeds per share at the initial offering	**$**	0.9800
Impact of second offering		0.0068
Income from investment operations (a)		
Net loss		(0.0022)
Net realised and unrealised loss from investments		(0.0092)
Total loss from operations		(0.0114)
Net asset value per share at the end of the period	**$**	**0.9754**

Total return* (b)	**Ordinary Share Class**
Total return before performance fees	(0.47)%
Performance fees	-
Total return after performance fees	(0.47)%

Ratios to average net assets (b)	**Ordinary Share Class**
Net loss (c)	(0.40%)
Expenses (c)	(2.20%)

(a) Average shares outstanding were used for calculation
(b) An individual shareholder's return may vary from these returns based on the timing of the shareholder's subscriptions.
(c) Annualized.

*Total return is calculated for the ordinary share class only, which is calculated based on movement in the net asset value, and does not reflect any movement in the market value. An ordinary shareholder's return may vary from these returns based on participation in new issues, the timing of capital transactions etc. Subscription shares are not presented as they are not profit participating shares.

Note 12 – Share Capital

The Company's share capital consist of (a) 10,000 Class A Shares authorised, of par value $1 each (which carry extensive voting rights); and (b) an unlimited number of shares of no par value which may upon issue by designated as Ordinary Shares or Subscription Shares (each of which carry limited voting rights) or Capital Distributions Shares.

As at the 31 December 2010, the Company had following shares in issue:

(a) two Class A Shares issued and fully paid up;

(b) 440,169,296 ordinary shares of no par value in issue, with proceeds raised of $432,556,529, net of issue costs of $8,827,683.

(c) 39,437,205 subscriptions shares of no par value in issue. Each subscription share carries the right to subscribe in cash for one ordinary share on or around 9 December 2011 at the relevant subscription price as set out in the prospectus dated 23 September 2011.

Note 13 - Subsequent events

Management has evaluated subsequent events for the Company through 13 April 2011, the date the consolidated financial statements are available to be issued, and had concluded there are not any material events that require disclosure or adjustment of the consolidated financial statements other than those listed below.