NB Distressed Debt Investment Fund Limited

Annual Report and Financial Statements

For the year ended 31 December 2011 and period ended 31 December 2010

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

Independent Auditors' Report

The Shareholders and Board of Directors
NB Distressed Debt Investment Fund Limited:

We have audited the accompanying consolidated statements of assets and liabilities of NB Distressed Debt Investment Fund Limited (the Company), including the condensed consolidated schedules of investments, as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in net assets, and cash flows for the year ended December 31, 2011 and the period April 20, 2010 (date of incorporation) to December 31, 2010. These consolidated financial statements are the responsibility of the Company. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 audits provide 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 Limited as of December 31, 2011 and 2010, and the results of its operations, changes in its net assets, and its cash flows for the year ended December 31, 2011 and the period April 20, 2010 to December 31, 2010, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

April 20, 2012

NB Distressed Debt Investment Fund Limited
For the year ended 31 December 2011 and period ended 31 December 2010

Consolidated Statement of Assets and Liabilities
As at 31 December 2011 and 2010
(Expressed in United States dollars)

Assets		2011		2010
Investments, at fair value	$	420,330,876	$	470,739,677
(2011: cost of $440,234,699. 2010: cost of $472,557,325)				
Cash and cash equivalents		51,264,893		21,808,522
	$	471,595,769	$	492,548,199
Other assets:				
Interest receivables		1,521,807		572,543
Receivables for investments sold		668,145		6,614,558
Other receivables and prepayments		32,208		75,640
Total assets	**$**	**473,817,929**	**$**	**499,810,940**
Liabilities				
Payables for investments purchased	$	43,095,401	$	69,616,129
Payables to Investment Manager and affiliates		537,300		536,691
Accrued expenses and other liabilities		482,846		317,683
Total liabilities	**$**	**44,115,547**	**$**	**70,470,503**
Class A shares	$	2	$	2
(2 shares issued)				
Ordinary shares		436,657,543		432,556,527
(2011: 444,270,312 shares issued, 2010: 440,169,296)				
Accumulated Deficit		(6,955,163)		(3,216,092)
Total net assets	**$**	**429,702,382**	**$**	**429,340,437**
Total liabilities and net assets	**$**	**473,817,929**	**$**	**499,810,940**
Net asset value per ordinary share	**$**	**0.9672**	**$**	**0.9754**

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

NB Distressed Debt Investment Fund Limited
For the year ended 31 December 2011 and period ended 31 December 2010

Condensed Consolidated Schedule of Investments
As at 31 December 2011 and 2010
(Expressed in United States dollars)

31 December 2011		Cost	Fair Value	% (1)
Distressed Portfolio				
Bank Debt Investments	$	212,793,315	194,361,201	45.23
Private Equity		46,883,966	46,200,674	10.75
Limited Partnership Units		33,328,436	42,270,650	9.84
Fixed Rate Bonds		41,571,577	36,177,458	8.42
Public Equity		22,733,013	19,964,845	4.65
Trade Claim (2)		11,984,428	10,441,238	2.43
Ownership in Senior Living Facility		8,926,540	8,900,000	2.07
Floating rate corporate loan notes		3,009,026	3,039,231	0.71
Credit Default Swaps		922,299	1,310,795	0.31
Asset Backed Securities		1,570,288	1,112,528	0.26
Bankruptcy Claim		265,351	265,351	0.06
		383,988,239	364,043,971	84.73
Temporary Investments				
U.S. Government and agency obligations		32,196,500	32,211,308	7.50
Floating rate corporate loan notes		24,049,960	24,075,597	5.60
		56,246,460	56,286,905	13.10
	$	**440,234,699**	**420,330,876**	**97.83**

31 December 2010		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				
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 trade claim was structured through a fully funded total return swap with a major US financial institution.

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

Condensed Consolidated Schedule of Investments (continued)

As at 31 December 2011 and 2010

(Expressed in United States dollars)

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

31 December 2010	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 05/12/2011	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**

There were no issuers comprising greater than 5% of Net Asset Value as at 31 December 2011.

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

Condensed Consolidated Schedule of Investments (continued)
As at 31 December 2011 and 2010
(Expressed in United States dollars)

		Cost 31 December 2011	Fair Value 31 December 2011	Cost 31 December 2010	Fair Value 31 December 2010
Geographic diversity of Portfolio					
Distressed Portfolio					
Australia	$	29,924,411	28,233,594	9,670,105	9,982,350
Belgium		4,684,942	4,197,023	-	-
Brazil		12,906,727	11,752,033	-	-
Cayman Islands		3,454,873	4,784,001	2,832,198	2,832,198
Germany		37,829,849	43,840,689	16,274,854	16,134,254
Great Britain		8,278,614	8,177,118	7,989,938	8,184,156
India		414,425	626,315	143,824	143,824
Ireland		387,786	495,923	110,466	110,466
Japan		841,489	457,670	443,917	443,917
United States (U.S.A.)		285,265,123	261,479,605	95,551,956	93,443,100
Temporary Investments					
United States (U.S.A.)		56,246,460	56,286,905	339,540,067	339,465,412
	$	**440,234,699**	**420,330,876**	**472,557,325**	**470,739,677**

NB Distressed Debt Investment Fund Limited
For the year ended 31 December 2011 and period ended 31 December 2010

Condensed Consolidated Schedule of Investments (continued)
As at 31 December 2011 and 2010
(Expressed in United States dollars)

		Cost 31 December 2011	Fair Value 31 December 2011	Cost 31 December 2010	Fair Value 31 December 2010
Industry diversity of Portfolio					
Distressed Portfolio					
Air Transport	$	1,570,288	1,112,528	2,487,203	2,447,433
Broadcasting		30,962,835	26,744,467	-	-
Building and Development		18,423,129	16,190,077	6,158,470	5,866,886
Commercial Mortgage		41,213,412	40,962,806	33,413,571	32,211,070
Containers and Glass products		11,537,822	10,920,000	4,362,500	4,221,900
Financial Intermediary		56,161,527	66,047,415	20,081,998	19,719,498
Food Products		5,043,920	2,868,169	4,585,344	2,820,810
Healthcare		12,961,297	12,962,050	8,738,675	8,736,250
Lodging and Casinos		36,132,277	34,194,972	7,907,445	7,884,100
Real Estate Trust		12,247,340	12,223,387	9,670,105	9,982,350
Surface Transport		41,454,034	30,518,797	16,225,166	17,792,802
Telecommunications		10,444,113	10,084,491	11,367,894	11,659,156
Utilities		105,836,245	99,214,812	8,018,887	7,932,010
Temporary Investments					
Financial Intermediary		41,249,390	41,287,922	170,393,344	170,338,752
US Government and Agency		14,997,070	14,998,983	169,146,723	169,126,660
	$	**440,234,699**	**420,330,876**	**472,557,325**	**470,739,677**

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

NB Distressed Debt Investment Fund Limited
For the year ended 31 December 2011 and period ended 31 December 2010

Consolidated Statement of Operations
(Expressed in United States dollars)

		31 December 2011		20 April 2010 to 31 December 2010
Interest income	$	12,936,927	$	2,760,523
Expenses				
Investment management and services	$	6,621,447	$	2,305,838
Professional and other expenses	$	2,026,793	$	562,562
Administration fees	$	483,257	$	194,380
Loan administration and custody fees	$	398,392	$	160,481
Directors' fees and travel expenses	$	209,836	$	149,118
	$	9,739,725	$	3,372,379
Net investment income / (loss)	$	**3,197,202**	$	**(611,856)**
Realised and unrealised gains and losses				
Net realised gain/(loss) on investments	$	11,149,900	$	(786,587)
Net change in unrealised gain/(loss) on investments		(18,086,173)		(1,817,649)
Net realised and unrealised losses	**$**	**(6,936,273)**	**$**	**(2,604,236)**
Net decrease in net assets resulting from operations	**$**	**(3,739,071)**	**$**	**(3,216,092)**
Loss per ordinary share	**$**	**(0.0085)**	**$**	**(0.0114)**

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

Consolidated Statement of Changes in Net Assets
For the year ended 31 December 2011 and period ended 31 December 2010
(Expressed in United States dollars)

		31 December 2011		20 April 2010 to 31 December 2010
Net assets at beginning of year / period	**$**	429,340,437	**$**	**-**
Proceeds from issuance of ordinary shares		4,101,016		432,556,529
Net decrease in net assets resulting from operations	$	(3,739,071)	$	(3,216,092)
Net assets at end of year / period	**$**	**429,702,382**	**$**	**429,340,437**

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

Consolidated Statement of Cash Flows
For the year ended 31 December 2011 and period ended 31 December 2010
(Expressed in United States dollars)

		31 December 2011		20 April 2010 to 31 December 2010
Cash flows from operating activities:				
Net decrease in net assets resulting from operations	$	(3,739,071)		(3,216,092)
Adjustment to reconcile net increase/ (decrease) in net assets resulting from operations:				
Net realised (gain) / loss on investments		(11,149,900)		512,887
Net change in unrealised loss on investments		18,086,173		1,817,649
Accretion of discount on loans and bonds		(1,708,911)		(1,063,086)
Changes in receivables for investments sold		5,946,413		(6,614,558)
Changes in interest receivables		(949,264)		(572,543)
Changes in other receivables and prepayments		43,432		(75,640)
Changes in payables for investments purchased		(26,520,728)		69,616,129
Changes in payables, accrued expenses and other liabilities		165,772		854,374
Credit default swap payments		(922,299)		-
Purchase of investments		(391,743,142)		(738,671,714)
Sale of investments		437,846,880		266,664,587
Net cash provided by/(used in) operating activities	$	25,355,355	$	(410,748,007)
Cash flows from financing activities:				
Proceeds from issuance of ordinary shares	$	4,101,016	$	432,556,529
Net cash provided by financing activities	$	4,101,016	$	432,556,529
Net increase in cash and cash equivalents	**$**	**29,456,371**	**$**	**21,808,522**
Cash and cash equivalents at beginning of year / period		21,808,522		-
Cash and cash equivalents at end of year / period	**$**	**51,264,893**	**$**	**21,808,522**

Supplemental non-cash flow operating activities

Purchases of, and proceeds from sales of, investments exclude $62,084,233, related to the value of non-cash investment transactions, including reorganizations and exchanges.

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

Notes to the Consolidated Financial Statements

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 (as amended), 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 listing and trading on the Channel Islands Stock Exchange ("CISX") on 10 June 2010.

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 restated on 17 June 2010.

The Investment Manager of the Company is Neuberger Berman Europe Limited, an indirect wholly-owned subsidiary of Neuberger Berman Group ("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.

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.

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 ("US GAAP"). The financial statements give a true and fair view and are in compliance with The Companies (Guernsey) Law, 2008 (as amended). The functional and reporting currency of the Company is the United States Dollar ("USD").

Principles of Consolidation
The consolidated financial statements include the results of the Company and its wholly owned subsidiaries, Lasalle Dearborn LLC, Lasalle Wabash LLC, London Adams LLC, London Dearborn LLC, London Granite LLC, London Jackson LLC, London Madison LLC, London Mayslake LLC, London Monroe LLC, London O Homes LLC, London Quincy LLC, London Randolph LLC, London Wabash LLC, London Washington LLC, together the Group. Each of these wholly owned subsidiaries, incorporated in Delaware, operate in the United States.

During the year ended 31 December 2011, London Granite LLC, London Mayslake LLC, London Monroe LLC, London O Homes LLC and London Quincy LLC had commenced operations.

All inter-company balances have been eliminated fully on consolidation.

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. 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.

Notes to the Consolidated Financial Statements

Note 2 - Summary of significant accounting policies (continued)

Revenue recognition (continued)
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. Dividend income is recognised on the ex-dividend date. Realised gains and losses are determined using the specific identification method.

At 31 December 2011 an adjustment of $1,078,911 (2010: $1,029,427) was made to reflect an accretion of discount on loans and bonds during the year.

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 of cash and so near maturity that they represent insignificant risk of changes in value.

At 31 December 2011, the Company held cash balances in various currencies to the value of $51,264,893 (2010: $21,808,522). These balances consisted of Sterling: $51,084 (2010: $39,816), Euro: $48,062 (2010: $NIL), U.S. Dollar: $50,884,904 (2010: $21,808,522), and Australian Dollar: $280,843 (2010: $NIL).

Valuation of Investments
The Company carries investments on its books at fair value in accordance with US 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, 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.

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.

Notes to the Consolidated Financial Statements

Note 2 - Summary of significant accounting policies (continued)

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. On 15 December 2011, 4,101,106 ordinary shares were admitted to trading on the Specialist Fund Market of the London Stock Exchange and the Official List of the Channel Islands Stock Exchange. The issue of equity was a result of the conversion of 4,101,016 subscription shares, with proceeds raised of $4,101,016 (2010: $432,556,529). There were no issue costs incurred as a result in 2011 (2010: issue costs incurred 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.

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.

The Company does not separate the changes relating to currency exchange rates from those relating to changes in fair value of the investments held. These fluctuations are included in the net realised gain/(loss) and net change in unrealised gain/(loss) on investments in the Consolidated Statements of Operations.

Payables on investments purchased
At 31 December 2011, 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.

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 US 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

Notes to the Consolidated Financial Statements

Note 2 - Summary of significant accounting policies (continued)

Income taxes (continued)
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 Consolidated Statement of Operations.

As of 31 December 2011, 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 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.

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 and the requirement to disclose information about purchases, sales, issuances and settlements in the reconciliation of recurring Level 3 measurements on a gross basis. We have adopted this guidance in these financial statements.

In May 2011, the FASB issued the ASU 2011 – 04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs”. The guidance clarifies how a principal market is determined, addresses the fair value measurement of instruments with offsetting market or counterparty credit risks and the concept of valuation premise and highest and best use, extends the prohibition on blockage factors to all three levels of the fair value hierarchy, and requires additional disclosures.

For Level 3 fair value measurements, the ASU requires these additional disclosures:

- Quantitative information about significant unobservable inputs used for all Level 3 measurements;
- A qualitative discussion about the sensitivity of the fair value measurement to changes in the unobservable inputs and the interrelationship between inputs (required only for public entities); and
- A description of the entity’s valuation process.

The amendments in ASU 2011-04 are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after 15 December 2011.

Notes to the Consolidated Financial Statements

Note 4 – Material agreements and related parties

Investment Management Fees

The Investment Manager is entitled to a management fee, which shall accrue daily, and be payable monthly in arrears, at a rate of 0.125 percent per month of the Company's Net Asset Value ("NAV"). For the year ended 31 December 2011, the management fee expense was $6,621,447 (2010: $2,305,838).

Performance Fees

In addition, the Investment Manager is entitled to a performance fee. 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, 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 purposes of financial reporting the performance fee is recognised on an accrual basis; no such accrual is required in these financial statements as the IRR, as described above, has not been reached.

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 ad-hoc 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 year ended 31 December 2011, the administration fee expense was $483,257 (2010: $194,380) the secretarial fee was $56,919 (2010: $38,078) and the custodian and loan administration fee expense was $398,392 (2010: $160,481).

Directors' remuneration and other interests

The Directors are related parties and are remunerated for their services at a fee of $45,000 each 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 J. Holmberg and Patrick H. Flynn, the non-independent Directors, have waived their fees for their services as Directors. For the year ended 31 December 2011, the directors' fees and travel expenses amounted to $209,836 (2010: $149,118).

The Director's shareholdings as at 31 December 2011 are disclosed on page xx.

Notes to the Consolidated Financial Statements (continued)

Note 5 – Derivatives

The Company may be subject to credit risk in the normal course of pursuing its investment objective. Credit default swap agreements involve one party making a stream of payments (referred to as the buyer of protection) to another party (the seller of protection) in exchange for the right to receive a specified return if a credit event occurs for the referenced entity, obligation or index. A credit event is defined under the terms of each swap agreement and may include, but is not limited to, underlying entity default, bankruptcy, write-down, principal shortfall, or interest shortfall.

The Company can be either a seller or buyer of protection when entering into a credit default swap agreement. If a Fund is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will either receive from the seller of protection an amount equal to the notional amount of the swap and deliver the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or receive a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index. Until a credit event occurs, recovery values are determined by market makers considering either industry standard recovery rates or entity specific factors and considerations. When a credit event occurs, the recovery value is determined by a facilitated auction, administered by ISDA, whereby a minimum number of allowable broker bids, together with a specified valuation method, are used to calculate the settlement value.

Either as a seller of protection or a buyer of protection of a credit default swap agreement, a Fund's maximum risk of loss from counterparty risk is the fair value of the agreement.

During the year, the Company entered into a single credit default swap agreement only, in order to provide a measure of protection against defaults of a sovereign issue.

The following table presents the fair values of derivative instruments:

	Asset Derivatives			
	31 December 2011		31 December 2010	
	Statement of Assets and Liabilities location	**Fair Value US$**	**Statement of Assets and Liabilities location**	**Fair Value US$**
Primary underlying risk: Credit				
Credit default swap	Investments	1,310,795	-	-
Total derivatives		**1,310,795**	**-**	**-**

The following table presents the impact of derivative instruments on the Consolidated Statement of Operations in conformity with US GAAP:

Primary underlying risk	**Location of gain recognised on Statement of Operations**	**Amount of gain recognised in income on derivative US$**	
Credit		**31 December 2011**	**31 December 2010**
Credit default swap	Net change in unrealised gain	388,496	-
Total		**388,496**	**-**

Note 6 – Unfunded Loan Commitments

As at 31 December 2011, the Company has no unfunded loan commitments.

Notes to the Consolidated Financial Statements (continued)

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 2011 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 reflect 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 2011, with the exception of $42,270,650 (2010: $24,719,498) Level 3 investments valued using good faith valuation and $107,323,178 (2010: $32,211,070) priced from single broker source. As at 31 December 2011, the fair value of the distressed investments was $364,043,971 (2010: $131,274,265). Temporary investments were valued at their bid prices derived from independent pricing services at the relevant reporting date.

- 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

Notes to the Consolidated Financial Statements (continued)

Note 7 – Fair Value of Financial Instruments (continued)

The following table details the Company's investments that were accounted for at fair value as at 31 December 2011.

Investments at Fair Value as at 31 December 2011

	Level 1	Level 2	Level 3	Total
Bank Debt Investments	-	153,398,395	40,962,806	194,361,201
Private Equity	-	7,173,830	39,026,844	46,200,674
Limited Partnership Units	-	-	42,270,650	42,270,650
Fixed Rate Bonds	-	29,563,047	6,614,411	36,177,458
U.S. Government and agency obligations	-	32,211,308	-	32,211,308
Floating rate corporate loan notes	-	27,114,828	-	27,114,828
Public Equity	13,292,812	6,672,033	-	19,964,845
Trade Claim	-	-	10,441,238	10,441,238
Ownership in Senior Living Facility	-	-	8,900,000	8,900,000
Asset Backed Securities	-	-	1,112,528	1,112,528
Bankruptcy Claim	-	-	265,351	265,351
Credit Default Swaps	-	1,310,795	-	1,310,795
Total investments that are accounted for at fair value	**$13,292,812**	**$257,444,236**	**$149,593,828**	**$420,330,876**

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
Fixed Rate Bonds	-	3,736,250	-	3,736,250
Floating rate corporate loan notes	-	161,468,180	-	161,468,180
Fixed rate corporate loan notes	-	8,870,572	-	8,870,572
U.S. Government and agency obligations	-	169,126,660	-	169,126,660
Total investments that are accounted for at fair value	**-**	**$413,809,109**	**$56,930,568**	**$470,739,677**

Notes to the Consolidated Financial Statements (continued)

Note 7 – Fair Value of Financial Instruments (continued)

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:

For the year ended 31 December 2011

	Bank Debt Investments	Private Equity	Limited Partnership Units	Trade Claim	Bankruptcy Claim
Balance, 31 December 2010	$ 40,911,070	$ -	$ 16,019,498	$ -	$ -
Purchases	13,564,448	37,692,424	17,308,937	11,984,428	265,351
Sales and distributions	(13,795,741)	-	-	-	-
Realised gains on sale of investments	540,641	-	-	-	-
Unrealised (loss)/gain on investments	(257,612)	1,334,420	8,942,214	(1,543,190)	-
Transfers in and/or (out) of level 3	-	-	-	-	-
Balance, 31 December 2011	**$ 40,962,806**	**$ 39,026,844**	**$ 42,270,649**	**$ 10,441,238**	**$ 265,351**
Change in unrealised gain / (loss) on investments included in Statement of Operation for Level 3 investments held as of 31 December 2011	**$ 944,889**	**$ 1,334,420**	**$ 8,942,214**	**$ (1,543,190)**	**$ -**

	Ownership in Senior Living Facility	Fixed Rate Bonds	Asset Backed Securities	Total
Balance, 31 December 2010	$ -	$ -	$ -	$ 56,930,568
Purchases	8,926,540	9,000,630	-	98,742,758
Sales and distributions	-	-	(1,804,507)	(15,600,248)
Realised gains on sale of investments	-	-	887,593	1,428,234
Unrealised (loss)/gain on investments	(26,540)	(2,386,219)	(457,760)	5,605,313
Transfers in and/or (out) of level 3	-	-	2,487,203	2,487,203
Balance, 31 December 2011	**$ 8,900,000**	**$ 6,614,411**	**$ 1,112,529**	**$ 149,593,828**
Change in unrealised gain / (loss) on investments included in Statement of Operation for Level 3 investments held as of 31 December 2011	**$ (26,540)**	**$ (2,386,219)**	**$ (457,760)**	**$ 6,807,814**

Notes to the Consolidated Financial Statements (continued)

Note 7 – Fair Value of Financial Instruments (continued)

For the year ended 31 December 2010

		Bank Debt Investments		Private Equity		Limited Partnership Units		Trade Claim		Bankruptcy Claim
Opening Balance	$	-	$	-	$	-	$	-	$	-
Purchases		42,113,571		-		16,019,498		-		-
Sales and distributions		-		-		-		-		-
Realised gains on sale of investments		-		-		-		-		-
Unrealised loss on investments		(1,202,501)		-		-		-		-
Transfers in and/or (out) of level 3		-		-		-		-		-
Balance, 31 December 2010	$	**40,911,070**	$	**-**	$	**16,019,498**	$	**-**	$	**-**
Unrealised loss on investments included in Statement of Operation for Level 3 investments held as of 31 December 2010	$	**(1,202,501)**	$	**-**	$	**-**	$	**-**	$	**-**

		Ownership in Senior Living Facility		Fixed Rate Bonds		Asset Backed Securities		Total
Opening Balance	$	-	$	-	$	-	$	-
Purchases		-		-		-		58,133,069
Sales and distributions		-		-		-		-
Realised gains on sale of investments		-		-		-		-
Unrealised loss on investments		-		-		-		(1,202,501)
Transfers in and/or (out) of level 3		-		-		-		-
Balance, 31 December 2010	$	**-**	$	**-**	$	**-**	$	**56,930,568**
Unrealised loss on investments included in Statement of Operation for Level 3 investments held as of 31 December 2010	$	**-**	$	**-**	$	**-**	$	**(1,202,501)**

There were no transfers between level 1 and level 2 during the years ended 31 December 2011 and 2010. The Company accounts for transfers at the end of the reporting period in which such transfers occur.

Note 8 – 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 2011.

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.

Notes to the Consolidated Financial Statements (continued)

Note 8 – Risks (continued)

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.

Note 9 – 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.

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

The issued share capital of the Company is denominated in U.S. Dollars and consists of Ordinary Shares (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.

Notes to the Consolidated Financial Statements (continued)

Note 9 – Share Capital (continued)

As at the 31 December 2011, the Company had following shares in issue:

	31 December 2011	31 December 2010
Issued and fully paid up:		
Class A Shares	2	2
Ordinary shares of no par value (a)	444,270,312	440,169,296
Subscriptions shares of no par value (b)	-	39,437,205

(a) On 15 December 2011, 4,101,106 ordinary shares were admitted to trading on the Specialist Fund Market of the London Stock Exchange and the Official List of the Channel Islands Stock Exchange. The issue of equity was a result of the conversion of 4,101,016 subscription shares, with proceeds raised of $4,101,016 (2010: $432,556,529). There were no issue costs incurred as a result (2010: issue costs incurred of $8,827,683).

(b) On 2 November 2011 the Board of the Company announced that it had sent to holders of subscription shares in the Company a subscription share notice reminding them of their entitlement to subscribe in cash for ordinary shares in the company by 9 December 2011 (the “Subscription Share Exercise Date“) at a subscription price of US$1.00 per ordinary share.

Following the Subscription Share Exercise Date, the Subscription Shares that remained unexercised did not carry any rights to any future benefit and as such the Subscription Shares were cancelled from trading on the Specialist Fund Market of the London Stock Exchange. Such cancellation became effective on 12 December 2011. In addition, the admission of the Subscription Shares on the Official List of the Channel Island Stock Exchange and trading of the Subscription Share on the Channel Island Stock Exchange was cancelled, effective on 9 December 2011.

Notes to the Consolidated Financial Statements (continued)

Note 10 – Financial highlights

	Year ended 31 December 2011 Ordinary Share Class	Period 20 April 2010 to 31 December 2010 Ordinary Share Class
Opening Balance	0.9754	-
Per share operating performance		
Net proceeds per share at the initial offering	-	0.9800
Impact of conversion of subscription shares to ordinary shares	0.0003	-
Impact of second offering	-	0.0068
Income / loss from investment operations (a)		
Net investment income / (loss)	0.0072	(0.0022)
Net realised and unrealised loss from investments	(0.0157)	(0.0092)
Total loss from operations	(0.0085)	(0.0114)
Net asset value per share at the end of the year / period	**$0.9672**	**$0.9754**

Total return* (b)	**31 December 2011 Ordinary Share Class**	**31 December 2010 Ordinary Share Class**
Total return before performance fees	(0.84)%	(0.47)%
Performance fees	-	-
Total return after performance fees	(0.84)%	(0.47)%

Ratios to average net assets (b)	**31 December 2011 Ordinary Share Class**	**31 December 2010 Ordinary Share Class**
Net investment income / (loss) (c)	0.72%	(0.40)%
Expenses (c)	(2.21)%	(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.

Notes to the Consolidated Financial Statements (continued)

Note 11 - Subsequent events

Management has evaluated subsequent events for the Company through 20 April 2012, 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 financial statements other than those listed below.

The Board of the Company announced that at the Extraordinary General Meeting of the Company held on 26 January 2012, Shareholders passed the following ordinary resolution:

That, pursuant to Article 7 of the Company's articles of incorporation, this meeting approves the continuance of the Company as a closed-ended investment company.

All votes cast were in favour of the ordinary resolution.

On 1 February 2012, the Board of the Company announced that, pursuant to the Company's prospectuses dated 5 May 2010 and 23 September 2010, a board meeting was held to consider whether it would be in the best interests of the Company and the Ordinary Shareholders as a whole to implement a tender offer (the "Tender Offer").

The Board concluded that implementing the Tender Offer would not be in the best interests of the Company and its Shareholders as a whole for the following reasons:

- At the time of the Board meeting on 1 February 2012, the Company's Share Price is trading at a narrow discount to Net Asset Value of -1.92% and, since inception, the Company's Share Price has traded at an average premium to Net Asset Value of 5.32%. The Board does not believe that the current discount between the Share Price of the Company and its Net Asset Value is of sufficient size to warrant the implementation of the Tender Offer.

- Since inception, the Investment Manager has maintained strict price discipline and has been able to assemble a portfolio with the potential to generate strong investment returns. These investment returns have not yet been reflected in the Company's Net Asset Value due to the nature of distressed debt investments. The Investment Manager anticipates that a number of investments within the portfolio will generate material investment returns in the near future and that this should lead to a significant increase in the Company's Net Asset Value. The Board believes that it is in the best interests of the Ordinary Shareholders as a whole to maintain continued exposure to these investments rather than to return capital before these investment opportunities have been realised.

The Board continues to monitor the Company's Share Price and its relationship to Net Asset Value, and will take such action that it believes is necessary to minimise the discount to Net Asset Value.