NB Distressed Debt Investment Fund Limited

Annual Report and Financial Statements

For the year ended

31 December 2012 and 31 December 2011

KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of NB Distressed Debt Investment Fund Limited (the Fund), which comprise the consolidated statements of assets and liabilities, including the condensed consolidated schedules of investments, as of December 31, 2012 and 2011, and the related consolidated statements of operations, statements of changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, and the results of their operations, changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Chicago, Illinois
April 19, 2013

NB Distressed Debt Investment Fund Limited
For the year ended 31 December 2012 and 31 December 2011

Consolidated Statement of Assets and Liabilities
As at 31 December 2012 and 2011
(Expressed in United States Dollars)

Assets		**2012**		**2011**
Investments, at fair value	$	479,679,186	$	420,330,876
(2012: cost of $487,566,188, 2011: cost of $440,234,699)				
Cash and cash equivalents		55,096,277		51,264,893
	$	534,775,463	$	471,595,769
Other assets:				
Interest receivables		2,444,396		1,521,807
Receivables for investments sold		2,601,172		668,145
Other receivables and prepayments		54,039		32,208
Total assets	**$**	**539,875,070**	**$**	**473,817,929**
Liabilities				
Payables for investments purchased	$	60,094,975	$	43,095,401
Accrued expenses and other liabilities		896,966		482,846
Payables to Investment Manager and affiliates		617,738		537,300
Total liabilities	**$**	**61,609,679**	**$**	**44,115,547**
Net Assets	**$**	**478,265,391**	**$**	**429,702,382**
Analysis of Net Assets:				
Class A shares	$	2	$	2
(2 shares issued)				
Ordinary shares		436,657,543		436,657,543
(2012: 444,270,312, 2011: 444,270,312)				
Accumulated earnings/(deficit)		41,607,846		(6,955,163)
Net assets	**$**	**478,265,391**	**$**	**429,702,382**
Net asset value per ordinary share	**$**	**1.0765**	**$**	**0.9672**

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

NB Distressed Debt Investment Fund Limited
For the year ended 31 December 2012 and 31 December 2011

Condensed Consolidated Schedule of Investments
As at 31 December 2012 and 2011
(Expressed in United States Dollars)

31 December 2012		Cost	Fair Value	% (i)
Distressed Portfolio				
Bank Debt Investments	$	170,805,379	156,942,644	32.82
Private Equity		73,659,593	72,117,602	15.08
Private Equity: Real Estate Development		65,236,357	67,168,149	14.04
Fixed Rate Bonds		63,971,343	52,804,069	11.04
Limited Partnership Units		31,973,961	50,093,828	10.48
Trade Claim (2)		13,066,759	11,233,247	2.35
Ownership in Senior Living Facility		9,282,370	10,098,587	2.11
Private Placement Bonds		9,815,969	9,854,912	2.06
Public Equity		5,610,958	5,780,744	1.21
Bankruptcy Claim		171,530	686,341	0.14
Asset Backed Securities		1,303,941	660,791	0.14
Credit Default Swaps		683,299	239,676	0.05
		445,581,459	437,680,590	91.52
Temporary Investments				
U.S. Government and agency obligations		41,984,729	41,998,596	8.78
		41,984,729	41,998,596	8.78
	$	**487,566,188**	**479,679,186**	**100.30**

31 December 2011		Cost	Fair Value	% (i)
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 (ii)		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**

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

(ii) 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

NB Distressed Debt Investment Fund Limited
For the year ended 31 December 2012 and 31 December 2011

Condensed Consolidated Schedule of Investments (continued)
As at 31 December 2012 and 2011
(Expressed in United States Dollars)

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

31 December 2012	Country	Industry	Nominal	Cost	Fair Value	%
Fixed Rate Bonds						
US Treasury Bill 0% 12-31/01/2013	United States	Government	32,000,000	31,991,440	31,999,356	6.69
US Treasury Bill 0% 12-21/03/2013	United States	Government	10,000,000	9,993,289	9,999,240	2.09
			42,000,000	**41,984,729**	**41,998,596**	**8.78**
Private Equity: Real Estate Development						
Grant Park 2, LLC	United States	Real Estate Development	225,710	32,414,552	32,574,467	6.81
			225,710	**32,414,552**	**32,574,467**	**6.81**
			42,225,710	**74,399,281**	**74,573,063**	**15.59**

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 2012 and 2011
(Expressed in United States Dollars)

		Cost 31 December 2012	Fair Value 31 December 2012	% (i)	Cost 31 December 2011	Fair Value 31 December 2011	% (i)
Geographic diversity of Portfolio							
Distressed Portfolio							
Australia	$	21,842,331	19,623,099	4.10	29,924,411	28,233,594	6.57
Belgium		649,716	20,902	0.00	4,684,942	4,197,023	0.98
Brazil		13,750,058	11,472,923	2.40	12,906,727	11,752,033	2.73
Cayman Islands		4,094,512	7,272,124	1.52	3,454,873	4,784,001	1.11
Germany		35,939,450	50,061,838	10.47	37,829,849	43,840,689	10.2
Great Britain		7,039,395	7,055,821	1.48	8,278,614	8,177,118	1.90
India		353,137	522,407	0.11	414,425	626,315	0.15
Ireland		-	-	0.00	387,786	495,923	0.12
Japan		486,440	33,358	0.01	841,489	457,670	0.11
Netherlands		8,951,015	9,223,088	1.93	-	-	0.00
Switzerland		21,187,850	21,011,650	4.39	-	-	0.00
United States (U.S.A.)		331,287,555	311,383,380	65.11	285,265,123	261,479,605	60.85
Temporary Investments							
United States (U.S.A.)		41,984,729	41,998,596	8.78	56,246,460	56,286,905	13.10
	$	**487,566,188**	**479,679,186**	**100.30**	**440,234,699**	**420,330,876**	**97.82**

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

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

Condensed Consolidated Schedule of Investments (continued)
As at 31 December 2012 and 2011
(Expressed in United States Dollars)

		Cost 31 December 2012	Fair Value 31 December 2012	Cost 31 December 2011	Fair Value 31 December 2011
Industry diversity of Portfolio					
Distressed Portfolio					
Air Transport	$	1,303,941	660,791	1,570,288	1,112,528
Broadcasting		25,536,683	24,586,754	30,962,835	26,744,467
Building and Development		20,396,638	19,522,184	18,423,129	16,190,077
Commercial Mortgage		811,132	20,902	41,213,412	40,962,806
Containers and Glass products		16,002,604	16,278,909	11,537,822	10,920,000
Financial Intermediary		36,036,461	58,673,423	56,161,527	66,047,415
Food Products		1,638,626	1,690,981	5,043,920	2,868,169
Forest Products		11,479,219	11,519,360	-	-
Healthcare		15,161,193	16,524,050	12,961,297	12,962,050
Lodging and Casinos		38,344,933	38,335,750	36,132,277	34,194,972
Oil and Gas		21,187,850	21,011,650	-	-
Publishing		5,847,290	5,833,203	-	-
Real Estate Development		65,236,357	67,168,150	-	-
Real Estate Trust		17,798,953	17,893,500	12,247,340	12,223,387
Surface Transport		45,811,549	28,379,649	41,454,034	30,518,797
Telecommunications		-	-	10,444,113	10,084,491
Utilities		122,988,030	109,581,334	105,836,245	99,214,812
Temporary Investments					
Financial Intermediary		-	-	41,249,390	41,287,922
US Government and Agency		41,984,729	41,998,596	14,997,070	14,998,983
	$	**487,566,188**	**479,679,186**	**440,234,699**	**420,330,876**

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

NB Distressed Debt Investment Fund Limited

For the year ended 31 December 2012 and 31 December 2011

Consolidated Statement of Operations

(Expressed in United States Dollars)

		31 December 2012		31 December 2011
Income				
Interest income	$	13,030,790	$	12,936,927
Dividend income ((net of withholding tax $58,299) (2011: nil))	$	549,318	$	-
Expenses				
Investment management and services	$	6,772,363	$	6,621,447
Professional and other expenses	$	1,634,340	$	2,026,793
Administration fees	$	494,131	$	483,257
Loan administration and custody fees	$	312,763	$	398,392
Directors' fees and travel expenses	$	214,709	$	209,836
	$	9,428,306	$	9,739,725
Net investment income before tax	**$**	**4,151,802**	$	**3,197,202**
Income taxes		(413,904)		-
Net investment income after tax		**3,737,898**		**3,197,202**
Realised and unrealised gains and losses from investments and foreign exchange				
Net realised gain on investments	$	15,852,602	$	11,587,957
Gain/(loss) on non-cash reorganisations		17,237,321		(438,057)
Net change in unrealised gain/(loss) on investments and forward foreign currency contracts		11,735,188		(18,086,173)
Net realised and unrealised gains/(losses)	**$**	**44,825,111**	**$**	**(6,936,273)**
Net increase/(decrease) in net assets resulting from operations	**$**	**48,563,009**	**$**	**(3,739,071)**

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 2012 and 31 December 2011
(Expressed in United States Dollars)

		31 December 2012		31 December 2011
Net assets at beginning of year	**$**	429,702,382	**$**	429,340,437
Proceeds from issuance of ordinary shares		-		4,101,016
Net investment income after tax		3,737,898		3,197,202
Net realised gain on investments		15,852,602		11,587,957
Gain/(loss) on non-cash reorganisations		17,237,321		(438,057)
Net change in unrealised gain/(loss) on investments and forward foreign currency contracts		11,735,188		(18,086,173)
Net assets at end of year	**$**	**478,265,391**	**$**	**429,702,382**

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

Consolidated Statement of Cash Flows
For the year ended 31 December 2012 and 2011

(Expressed in United States Dollars)

		31 December 2012		31 December 2011
Cash flows from operating activities:				
Net increase/(decrease) in net assets resulting from operations	$	48,563,009		(3,739,071)
Adjustment to reconcile net increase/(decrease) in net assets resulting from operations:				
Net realised gain on investments		(15,852,602)		(11,587,957)
Gain/(loss) on non-cash reorganisations		(17,237,321)		438,057
Net change in unrealised (gain)/loss on investments and forward foreign currency contracts		(11,735,188)		18,086,173
Accretion of discount on loans and bonds		(2,009,090)		(1,708,911)
Changes in interest receivables		(922,589)		(949,264)
Changes in receivables for investments sold		(1,933,027)		5,946,413
Changes in other receivables and prepayments		(21,831)		43,432
Changes in payables for investments purchased		16,999,574		(26,520,728)
Changes in payables, accrued expenses and other liabilities		212,925		165,772
Credit default swap		(356,000)		(922,299)
Purchase of investments		(401,099,811)		(391,743,142)
Sale of investments		389,223,335		437,846,880
Net cash provided by operating activities	$	3,831,384	$	25,355,355
Cash flows from financing activities:				
Proceeds from issuance of ordinary shares	$	-	$	4,101,016
Net cash provided by financing activities	$	-	$	4,101,016
Net increase in cash and cash equivalents	**$**	**3,831,384**	**$**	**29,456,371**
Cash and cash equivalents at beginning of year		51,264,893		21,808,522
Cash and cash equivalents at end of year	**$**	**55,096,277**	**$**	**51,264,893**

Supplemental non-cash flow operating activities

Purchases of, and proceeds from sales of, investments exclude $68,277,338 (31 December 2011: $62,084,233), related to the value of non-cash investment transactions, including reorganisations 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" or the “Fund”) 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 US 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, 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, London Tides LLC, together the Group. Each of these wholly owned subsidiaries, incorporated in Delaware, operate in the United States.

During the year ended 31 December 2012, London Washington LLC, London Jackson LLC, London Tides LLC, London Wacker LLC and London Randolph LLC had commenced operations including their respective holding companies, London Washington Holdco LLC, London Jackson Holdco LLC, London Tides Holdco LLC, and London Randolph Holdco LLC .

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

Reclassifications

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation.

Notes to the Consolidated Financial Statements (continued)

Note 2 - Summary of significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with US 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 judgements 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, net 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 amortised into interest income using the effective interest method over the contractual life of the related loan.

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.

For the year ended 31 December 2012, $2,009,090 (2011: $1,708,911) was recorded to reflect 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 2012, the Company held cash balances in various currencies to the value of $55,096,277 (2011: $51,264,893). These balances consisted of Sterling: $9,595 (2011: $51,084), Euro: $4,011,649 (2011: $48,062), U.S. Dollar: $51,062,665 (2011: $50,884,904), and Australian Dollar: $12,368 (2011: $280,843).

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.

Notes to the Consolidated Financial Statements (continued)

Note 2 - Summary of significant accounting policies (continued)

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

Consistent with the above criterion, the following criteria are 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.

As part of the Company's investment strategy, the Company enters into over-the-counter ("OTC") derivative contracts which include forward foreign currency exchange contracts and credit default swaps.

Forward foreign currency exchange contracts ("forward contracts") are valued at the prevailing forward exchange rate of the underlying currencies on the reporting date and unrealized gains or losses are recorded daily. Forward contracts are generally categorized in Level 2 of the fair value hierarchy.

Credit default swaps are traded on the OTC market. The fair value for a credit default swap contract is derived using a pricing model that is widely accepted by marketplace participants. The pricing model takes into account multiple inputs including specific contract terms, interest rate yield curves, interest rates, credit curves, recovery rates, and current credit spreads obtained from swap counterparties and other market participants. Many inputs into the model do not require material subjectivity as they are observable in the marketplace or set per the contract. Other than the contract terms, valuation is heavily determined by the difference between the contract spread and the current market spread. The contract spread (or rate) is generally fixed and the market spread is determined by the credit risk of the underlying debt or reference entity. If the underlying debt is liquid and the OTC market for the current spread is active, credit default swaps are categorized in Level 2 of the fair value hierarchy. If the underlying debt is illiquid and the OTC market for the current spread is not active, credit default swaps are categorized in Level 3 of the fair value hierarchy.

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.

All transactions relating to the reorganisation of current investments are recorded at the date of such reorganisation. The difference between the fair value of the new consideration received and the cost of the original investment is recognised as a gain or loss and presented separately on the Consolidated Statement of Operations in the line "Gain on non-cash reorganisations".

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.

Notes to the Consolidated Financial Statements (continued)

Note 2 - Summary of significant accounting policies (continued)

Performance fee

Performance fee amounts due on investments (see note 4) are computed and accrued at each accounting year end date based on year-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 year 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 and net change in unrealised gain/(loss) on investments in the Consolidated Statements of Operations.

Payables on investments purchased

At 31 December 2012, 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

Although the Company is not directly subject to income taxes, certain of the investments are held in U.S. corporations which are subject to U.S. Federal and state income taxes. During the year ended 31 December 2012, the Company recorded current income tax expense of $413,904 related to tax payments made during the year. As of 31 December 2012, the Investment Manager has determined the amounts of assets or liabilities associated with additional current or deferred income taxes are immaterial and no provision for such amounts has been made.

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 previously recognised could result in the Company recording a tax liability that would reduce net assets. This pronoucement 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.

Note 3 – Recent standards and pronouncements

In May 2011, the FASB issued the ASU 2011 - 04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US 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.

Notes to the Consolidated Financial Statements (continued)

Note 3 – Recent standards and pronouncements (continued)

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.

These disclosure requirements have been fully implemented for the year ended 31 December 2012.

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 2012, the management fee expense was $6,772,363 (2011: $6,621,447). The amount outstanding at the year end was $617,738 (2011: $537,300).

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.

Considering the net asset value of the Company as at 31 December 2012, a performance fee would not be payable as the level of return required for such fees would not be reached if the Company was to realise all investments at the balance sheet date.

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. From 1 October 2012, the Administrator is entitled to a fee based on 0.10 percent per annum of the net asset value of the Company subject to an annual minimum of £100,000. The percent per annum basis prior to 1 October 2012 was 0.11, subject to the same annual minimum.

The Secretary is entitled to an annual fee of £36,000 plus fees for ad-hoc board meetings and services.

Notes to the Consolidated Financial Statements (continued)

Note 4 – Material agreements and related parties (continued)

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. The loan administration fee is 0.08 percent per annum of the average market value of the loan assets with a minimum annual fee of £75,000 in respect of portfolio and loan administration.

For the year ended 31 December 2012, the administration fee expense was $494,131 (2011: $483,257) the secretarial fee was $57,813 (2011: $56,919) and the custodian and loan administration fee expense was $312,763 (2011: $398,392). The amount outstanding at the year end was $404,957 (2011: $230,117)

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 2012, the directors' fees and travel expenses amounted to $214,709 (2011: $209,836). The amount outstanding at the year end was $50,411 (2011: $50,822)

Note 5 – Derivatives

The Company may enter into credit default swap agreements and forward foreign currency contracts in the normal course of pursuing its investment objective. As a result of these the Company may be subject to credit risk.

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 may use credit default swap agreements on corporate or sovereign issues to provide a measure of protection against defaults of the issuers (i.e., to reduce risk where a Company owns or has exposure to the referenced obligation). During the period, the Company entered into a single credit default swap agreement to provide a measure of protection against defaults of a sovereign issue.

The Company can be either a seller or buyer of protection when entering into a credit default swap agreement. If the Company is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Company 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. Either as a seller of protection or a buyer of protection of a credit default swap agreement, The Company's maximum risk of loss from counterparty risk is the fair value of the agreement.

In a forward foreign currency contract, the Company agrees to receive or deliver a fixed quantity of one currency for another, at a pre-determined price at a future date.

Notes to the Consolidated Financial Statements (continued)

Note 5 – Derivatives (continued)

Purchases and sales of forward foreign currency contracts having the same notional value, settlement date and counterparty are generally offset (which result in a net foreign currency position of zero with the counterparty) and any realized gains or losses are recognized on settlement date. The fair value of forward foreign currency contracts is based on the price at which a new forward foreign currency contract of the same notional value, currency and maturity could be affected at the close of business in the principal currency markets in which these currencies are traded.

The Company may, from time to time, hold derivative financial instruments for the purposes of hedging foreign currency exposure. These derivatives are measured at fair value in accordance with US GAAP, with changes in fair value recognised within the Consolidated Statement of Operations in each reporting period.

Forward foreign exchange contracts are subject to credit risk. Credit risk is where the financial condition of an issuer of a security or instrument may cause it to default or become unable to pay interest or principal due on the security. Any trading counterparty to a derivative contract might default on their obligations. The effect of such derivative instruments on the Company's financial position and financial performance as reflected in the Consolidated Statement of Assets and Liabilities and Consolidated Statement of Operations are presented in the summary below.

The following table presents the fair values of derivative instruments:

	Asset Derivatives			
	31 December 2012		31 December 2011	
Primary underlying risk:	**Location**	**Fair Value US$**	**Location**	**Fair Value US$**
Credit				
Credit default swap	Investments at fair value	239,676	Investments at fair value	1,310,795
Foreign Currency				
Forward foreign currency contract	Other liabilities	(281,633)	Other liabilities	-
Total derivatives		**(41,957)**		**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/(loss) recognised on Statement of Operations**	**Amount of gain/(loss) recognised in income on derivative (US$)**	
Credit		**31 December 2012**	**31 December 2011**
Credit default swap	Net change in unrealised gain/(loss) on investments & forward foreign currency contracts	(832,119)	388,496
Credit default swap	Net realised gains on investments	(595,000)	-
Foreign Currency Forward foreign currency contracts	Net change in unrealised gain/(loss) on investments & forward foreign currency contracts	(281,633)	-
Total		**(1,708,752)**	**388,496**

Note 6 – Unfunded Loan Commitments

As at 31 December 2012, 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, 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 2012 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.

- 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.

- 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.

- Forward foreign currency contracts are revalued using the exchange rate prevailing at the Consolidated Statement of Assets and Liabilities date. The forward foreign currency contracts liability of $281,633 is categorised as level 2 as defined below.

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

Notes to the Consolidated Financial Statements (continued)

Note 7 – Fair Value of Financial Instruments (continued)

Level 3: Significant unobservable inputs

Further to using the above inputs in investment valuations, the Company employs the net asset valuation policy approved by the board of directors that is consistent with ASC 820-10. The sources of inputs are evaluated in line with the Company's valuation policy. This includes any markets in which the Company's investments are trading, or any markets in which securities with similar attributes are trading, in determining fair value. The Company's valuation policy considers the fact that unobservable inputs must be used to determine the fair value of investments where there is not a readily available market valuation.

The table below details the Company's investments that were accounted for at fair value as at 31 December 2012.

Investments at Fair Value as at 31 December 2012	Level 1	Level 2	Level 3	Total
Bank Debt Investments	-	126,707,876	30,234,768	156,942,644
Private Equity	-	24,028,771	48,088,830	72,117,601
Private Equity: Real Estate Development	-	-	67,168,150	67,168,150
Private Placement Bonds	-	-	9,854,912	9,854,912
Limited Partnership Units	-	-	50,093,828	50,093,828
Fixed Rate Bonds	-	51,317,701	1,486,368	52,804,069
U.S. Government and Agency Obligations	-	41,998,596	-	41,998,596
Public Equity	905,548	4,875,196	-	5,780,744
Trade Claim	-	-	11,233,247	11,233,247
Ownership in Senior Living Facility	-	-	10,098,587	10,098,587
Asset Backed Securities	-	-	660,791	660,791
Bankruptcy Claim	-	-	686,341	686,341
Credit Default Swaps	-	239,676	-	239,676
Total investments that are accounted for at fair value	**$905,548**	**$249,167,816**	**$229,605,822**	**$479,679,186**

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**

Notes to the Consolidated Financial Statements (continued)

Note 7 – Fair value of financial instruments (continued)

The following table summarises the significant unobservable inputs the Company used to value its investments categorised within Level 3 as of 31 December 2012. The table is not intended to be all-inclusive, but instead captures the significant unobservable inputs relevant to our determination of fair values.

Category	Fair Value ($)	Primary Valuation Technique	Unobservable inputs	Range	Weighted Average
Asset Backed securities	660,791	Broker Pricing	Aircraft Liquidation Value	$1.50MM - $6.00MM Per Aircraft	$3.5MM Per Aircraft
Bank Debt Investments: Commercial Mortgage	20,902	Broker Pricing	Letter of Intent	Sale at 89% of outstanding principal	N/A
Bank Debt Investments: Land	20,595,749	Broker Pricing	Comparable sales	1.5MM - 2.00MM per acre	1.75MM per acre
Bank Debt Investments: Utilities	897,847	Broker Pricing	$/kW multiple	573 $/k W	N/A
Bank Debt Investments: Other	8,720,270	Broker Pricing	EBITDA Multiple	4-6X	5.4X
Bankruptcy claim: Broadcasting	131,941	Discounted Cash Flow	Reorganization Recovery Estimate	0.092 cents of recovery on bank debt claim	N/A
Bankruptcy claim: Financial Intermediaries	554,400	Broker Pricing	Claim Liquidation Value	1.75% of Claim Value	N/A
Fixed Rate Bonds	1,486,368	Broker Pricing	EBITDA Multiple	7x	N/A
Limited Partnership Units	50,093,828	Third Party Valuations Adjusted Using Management Assumptions	Third Party Valuations; Adjustments to Third Party Values	0-98% of Third Party Valuation	26% discount to Third Party Valuations
Ownership in Senior Living Facility	10,098,587	Discounted Cash Flow (DCF)	Third Party Apprasial	12.0%	N/A
Private Equity: Building and Development	2,230,714	Broker Pricing	Price to Book	1.69X	N/A
Private Equity: Containers and Packaging	9,223,086	Broker Pricing	EBITDA Multiple	7x	N/A
Private Equity: Real Estate Development	67,168,150	Discounted Cash Flow	Third Party Apprasial Market Comp Analysis	9%-11% $200 - $500 per square foot	10% approx. $375 per square foot
Private Equity: REITs/REOCs	17,893,500	Broker Pricing	Portfolio yield on underlying properties	6.5% - 8.5%	7.5%
Private Equity: Utilities	18,741,530	Broker Pricing	$/kW multiple	400-650 $/k W	443.20 $/k W
Private Placement Bond	9,854,912	Broker Pricing	EBITDA Multiple	5X	N/A
Trade Claim: Surface Transport	11,233,247	Broker Pricing	Discount Rate & Weighted Average Life	20% discount rate and 6.33 WAL	N/A
Total	**229,605,822**				

Changes in any of the above inputs may positively or adversely impact the fair value of the relevant investments.

Level 3 assets are valued using single bid-side broker quotes or by good faith methods of the manager. For single broker quotes, the manager uses unobservable inputs to assess the reasonableness of the broker quote. For good faith valuations, the manager directly uses unobservable inputs to produce valuations. The significant unobservable inputs used in Level 3 assets are outlined in the table above. These inputs vary by asset class. For example, real estate asset valuations may utilise discounted cash flow models using an average value per square foot and appropriate discount rate. Energy assets may be based primarily on average value per kilowatt. Other assets may be based on analysis of the liquidation of the underlying assets. In general, increases/(decreases) to per unit valuation inputs such as value per square foot, kilowatt, etc. will result in increases/(decreases) to investment value.

Notes to the Consolidated Financial Statements (continued)

Note 7 – Fair value of financial instruments (continued)

Similarly, increases/ (decreases) of asset realisation inputs (liquidation estimate, letter of intent, etc.) will also result in increases/ (decreases) in value. In situations where discounted cash flow models are used, increasing/ (decreasing) discount rates or increasing/ (decreasing) weighted average life, in isolation, will generally result in decreased/ (increased) valuations.

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

For the year ended 31 December 2012

	Bank Debt Investments	Private Equity	Private Equity: Real Estate Development	Private Placement Bonds	Limited Partnership Units	Trade Claim
Balance, 31 December 2011	$ 40,962,806	$ 39,026,844	$ -	$ -	$ 42,270,649	$ 10,441,238
Purchases	9,505,480	41,856,820	11,552,447	9,815,969	-	1,082,331
Sales and distributions	(4,035,226)	(37,241,519)	-	-	(2,965,676)	-
Restructured assets	(53,289,641)	-	53,289,641	-	-	-
Non-cash gain on restructuring	15,299,517	-	-	-	-	-
Realised gains on sale of investments	162,355	6,305,443	-	-	1,611,203	-
Unrealised (loss)/gain on investments	1,033,727	(1,858,758)	2,326,062	38,943	9,177,652	(290,322)
Transfers into or (out of) level 3	20,595,750[i]	-	-	-	-	-
Balance, 31 December 2012	**$ 30,234,768**	**$ 48,088,830**	**$ 67,168,150**	**$ 9,854,912**	**$ 50,093,828**	**$ 11,233,247**
Change in unrealised gain/(loss) on investments included in Statement of Operation for Level 3 investments held as of 31 December 2012	**$ 1,943,529**	**$ (764,099)**	**$ 2,326,062**	**$ 38,943**	**$ 9,285,790**	**$ (290,322)**

	Bankruptcy Claim	Ownership in Senior Living Facility	Fixed Rate Bonds	Asset Backed Securities	Total
Balance, 31 December 2011	$ 265,351	$ 8,900,000	$ 6,614,411	$ 1,112,529	$ 149,593,828
Purchases	171,530	355,831	1,037,265	-	75,377,673
Sales and distributions	(271,571)	-	-	(524,176)	(45,038,168)
Restructured assets	-	-	-	-	-
Non-cash gain on restructuring	-	-	-	-	15,299,517
Realised gains on sale of investments	6,220	-	-	257,829	8,343,050
Unrealised (loss)/gain on investments	514,811	842,756	(3,809,135)	(185,391)	7,790,345
Transfers into or (out of) level 3	-	-	(2,356,173)[ii]	-	18,239,577
Balance, 31 December 2012	**$ 686,341**	**$ 10,098,587**	**$ 1,486,368**	**$ 660,791**	**$ 229,605,822**
Change in unrealised gain/(loss) on investments included in Statement of Operation for Level 3 investments held as of 31 December 2012	**$ 538,764**	**$ 842,756**	**$ (1,534,565)**	**$ (185,391)**	**$ 12,201,467**

The Company's policy is to recognise transfers into and out of various levels as of the actual date of the event or change in circumstances that caused the transfer.

i) Transferred to level 3 from level 2 in the year due to the reduction in availability of pricing sources.
ii) Transferred to level 2 from level 3 in the year due to level 2 pricing sources becoming available.

Notes to the Consolidated Financial Statements (continued)

Note 7 – Fair value of financial instruments (continued)

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 into 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 into or (out of) level 3	-	-	2,487,203[i]	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**

i) Transferred from level 2 to level 3 in the period due to revised pricing sources.

There were no transfers between level 1 and level 2 during the year ended 31 December 2012 and the year ended 31 December 2011.

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

Notes to the Consolidated Financial Statements (continued)

Note 8 – Risks (continued)

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 2012.

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. Details of the Company's investment portfolio at 31 December are disclosed in the condensed consolidated schedule of investments. Each separate investment exceeding 5% of net assets id disclosed separately.

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.

The credit risk relating to derivatives is detailed in note 5.

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)

Note 9 – Share capital

The Company's share capital consists of;

(i) 10,000 Class A Shares authorised, of par value $1 each (which carry extensive voting rights); and,
(ii) 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.

As at the 31 December 2012, the Company had following shares in issue:

	31 December 2012	31 December 2011
Issued and fully paid up:		
Class A Shares	2	2
Ordinary shares of no par value	444,270,312	444,270,312

Note 10 – Financial highlights

	Year ended 31 December 2012 Ordinary Share Class	Year ended 31 December 2011 Ordinary Share Class
Opening Balance	**0.9672**	**0.9754**
Per share operating performance		
Impact of conversion of subscription shares to ordinary shares	-	0.0003
Income/loss from investment operations (i)		
Net investment income after tax	0.0085	0.0072
Net realised and unrealised gain/(loss) from investments	0.1008	(0.0157)
Total gain/(loss) from operations	**0.1093**	**(0.0085)**
Net asset value per share at the end of the year	**$1.0765**	**$0.9672**

Notes to the Consolidated Financial Statements (continued)

Note 10 – Financial highlights (continued)

Total return* (ii)	**31 December 2012 Ordinary Share Class**	**31 December 2011 Ordinary Share Class**
Total return before performance fees	11.30%	(0.84)%
Performance fees	-	-
Total return after performance fees	11.30%	(0.84)%

Ratios to average net assets (ii)	**31 December 2012 Ordinary Share Class**	**31 December 2011 Ordinary Share Class**
Net investment income after tax	0.85%	0.72%
Expenses	(2.18)%	(2.21)%

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

*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.

As discussed in Note 2, 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.

When publishing the NAV per Ordinary Share on a daily basis, the Company utilises the best available information on such date. However, prior to the issuance of financial statements, U.S. GAAP requires that the Company recognise the effects of all subsequent events that provide additional evidence about conditions that existed as of the date of the consolidated financial statements. Consequently, in preparing the consolidated financial statements, the Investment Manager adjusted the fair valuations assigned to certain investments based on newly available information that provided additional fair value information as of 31 December 2012. The impact of this valuation adjustment on the Company's NAV and NAV per ordinary share is detailed below:

	Total ($)	**Per Ordinary Share (%)**
Initial Net Assets at 31 December 2012	478,290,641	1.0766
Net Valuation Adjustments	(25,250)	0.0001
Net Assets as at 31 December 2012 per consolidated financial statements	478,265,391	1.0765

Notes to the Consolidated Financial Statements (continued)

Note 11 - Subsequent events

The original investment period was due to expire in June 2013 and a proposal was made to Ordinary Shareholders to extend the investment period by 21 months to 31 March 2015. A vote was held at a class meeting of Shareholders on 8 April 2013 where the majority of shareholders voted in favour of the proposed extension.

With the Ordinary Shareholders approval of the extension, a new extended share class was created (the “Extended Life Shares”). Investors who wished to invest in the Extended Life Shares were allowed to convert their Ordinary Shares to Extended Life Shares while investors who wished to remain invested on the basis of the current investment period were given the opportunity to do so.

Approximately 72% of the fund’s Ordinary Shares were converted to Extended Life Shares.

The Extended Life Shares are subject to a new capital return policy pursuant to which the Company will seek to return to the holders of Extended Life Shares all capital profits arising from the exit of any assets attributable to the Extended Life Shares (net of any amount that the directors estimate may become payable as performance fee), at least every six months, with the first such distribution expected to be made for the period ending on 31 December 2013. Any capital return will only be made by the Company in accordance with applicable law at the relevant time, including the Companies Law.