NB Distressed Debt Investment Fund Limited

Consolidated Financial Statements

December 31, 2013 and 2012

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

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of NB Distressed Debt Investment Fund Limited, which comprise the consolidated statements of assets and liabilities, including the condensed consolidated schedules of investments, as of December 31, 2013 and 2012, and the related consolidated statements of operations, 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 audit 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, 2013 and 2012, and the results of their operations, change 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 25, 2014

NB Distressed Debt Investment Fund Limited
For the year ended 31 December 2013 and 31 December 2012

Consolidated Statement of Assets and Liabilities
As at 31 December 2013 and 31 December 2012
(Expressed in United States Dollars)

		31 December 2013		31 December 2012
Assets				
Investments, at fair value	$	553,543,404	$	479,439,510
(2013: cost of $507,887,695; 2012: cost of $486,882,889)				
Credit Default Swap		-		239,676
Forward Currency Contracts		224,257		-
Cash and cash equivalents		31,307,207		55,096,277
	$	585,074,868	$	534,775,463
Other assets:				
Interest receivables		1,221,658		2,444,396
Receivables for investments sold		15,781,861		2,601,172
Other receivables and prepayments		1,615,551		54,039
Total assets	**$**	**603,693,938**	**$**	**539,875,070**
Liabilities				
Payables for investments purchased	$	17,456,481	$	60,094,975
Credit Default Swap		33,864		-
Forward Currency Contracts		-		281,633
Accrued expenses and other liabilities		506,147		615,333
Payables to Investment Manager and affiliates		2,176,922		617,738
Deferred tax liability		1,998,684		-
Total liabilities	**$**	**22,172,098**	**$**	**61,609,679**
Net Assets	**$**	**581,521,840**	**$**	**478,265,391**
Analysis of Net Assets:				
Class A Shares	$	2	$	2
(2 shares issued)				
Ordinary Shares		122,032,926		436,657,543
(2013: 124,160,471; 2012: 444,270,312)				
Extended Life Shares		352,615,637		-
(2013: 352,088,814: 2012: Nil)				
Accumulated earnings		106,873,275		41,607,846
Net Assets	**$**	**581,521,840**	**$**	**478,265,391**
Net asset value per Extended Life Share	**$**	**1.2218**	**$**	**-**
Net asset attributable to Extended Life Shares	**$**	**430,177,579**	**$**	**-**
Net asset value per Ordinary Share	**$**	**1.2189**	**$**	**1.0765**
Net asset attributable to Ordinary Shares	**$**	**151,344,261**	**$**	**478,265,391**

The financial statements on pages 42 to 73 were approved and authorised for issue by the Board of Directors on 24 April 2014, and signed on its behalf by:

Robin Monro-Davies
Director

John Hallam
Director

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

NB Distressed Debt Investment Fund Limited
For the year ended 31 December 2013 and 31 December 2012

Condensed Consolidated Schedule of Investments
As at 31 December 2013 and 31 December 2012
(Expressed in United States Dollars)

31 December 2013		Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	Total Fund % (i)
Distressed Portfolio						
Bank Debt Investments	$	177,299,881	170,260,017	26.54	30.23	29.28
Private Equity		78,649,532	102,245,157	13.44	19.03	17.58
Limited Partnership Units		31,701,905	51,996,494	9.60	8.71	8.94
Private Equity: Real Estate Development		39,073,097	45,067,302	8.32	7.55	7.75
Fixed Rate Bonds		19,461,567	23,428,780	3.57	4.19	4.03
Public Equity		21,029,175	22,481,550	4.15	3.77	3.87
Private Note		21,464,317	21,089,387	1.03	4.54	3.63
Public Note		16,455,344	16,132,324	2.00	3.05	2.77
Ownership in Senior Living Facility		9,693,512	12,203,418	2.26	2.04	2.10
Commercial Mortgage		13,183,956	13,183,956	2.44	2.21	2.27
Trade Claim (ii)		13,066,759	10,601,910	1.96	1.78	1.82
Private Placement Bonds		9,815,969	7,855,963	1.45	1.32	1.35
		450,895,014	496,546,258	76.76	88.42	85.39
Temporary Investments						
U.S. Government and agency obligations		56,992,681	56,997,146	17.84	6.97	9.80
		507,887,695	**553,543,404**	**94.60**	**95.39**	**95.19**
Extended Life Shares		377,486,203	410,378,281	**-**	**95.39**	**-**
Ordinary Shares		130,401,492	143,165,123	**94.59**	-	**-**
		507,887,695	**553,543,404**	**94.60**	**95.39**	**95.19**
Credit Default Swap		(93,354)	(33,864)	**-**	**-**	**-**
Extended Life Shares		(67,264)	(24,400)	-	-	-
Ordinary Shares		(26,090)	(9,464)	-	-	-
		(93,354)	**(33,864)**	**-**	**-**	**-**
Forward Currency Contracts			224,257	0.01	0.03	0.04
Extended Life Shares		-	161,029	-	0.03	-
Ordinary Shares		-	63,228	0.01	-	-
		-	**224,257**	**0.01**	**0.03**	**0.04**

(i) This represents the percentage of Fair Value attributed to total Net Asset Value, Ordinary Share Net Asset Value and Extended Life Share 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 2013 and 31 December 2012

Condensed Consolidated Schedule of Investments (continued)
As at 31 December 2013 and 31 December 2012
(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 (ii)		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
		444,898,160	437,440,914	91.47
Temporary Investments				
U.S. Government and agency obligations		41,984,729	41,998,596	8.78
		41,984,729	41,998,596	8.78
		486,882,889	**479,439,510**	**100.25**
Credit Default Swaps		683,299	239,676	0.05
Forward Currency Contracts		-	(281,633)	(0.06)

(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.

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Condensed Consolidated Schedule of Investments (continued)
As at 31 December 2013 and 31 December 2012
(Expressed in United States Dollars)

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

31 December 2013	Country	Industry	Nominal	Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	Total Fund % (i)
				$	$			
Temporary Investments								
US Treasury Bill 0% 13-13/03/2014	United States	Government	35,000,000	34,996,185	34,997,277	9.91	4.65	6.02
US Treasury Bill 0% 13-23/01/2014	United States	Government	15,000,000	14,998,692	14,999,913	6.61	1.16	2.58
US Treasury Bill 0% 13-09/01/2014	United States	Government	5,000,000	4,998,240	4,999,985	-	1.16	0.86
US Treasury Bill 0% 13-06/02/2014	United States	Government	2,000,000	1,999,564	1,999,971	1.32	-	0.34
				56,992,681	**56,997,146**	**17.849**	**6.97**	**9.80**

31 December 2012	Country	Industry	Nominal	Cost	Fair Value	% (il)
			$	$		
Temporary Investments						
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
				41,984,729	41,998,596	8.78
Private Equity: Real Estate Development						
Grant Park 2 GP LLC	United States	Real Estate Development	225,710	32,414,552	32,574,467	6.81
				74,399,281	**74,573,063**	**15.59**

(i) This represents the percentage of Fair Value attributed to total Net Asset Value, Ordinary Share Net Asset Value and Extended Life Share Net Asset Value.

(Ii) 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 2013 and 31 December 2012
(Expressed in United States Dollars)

		Cost 31 December 2013	Fair Value 31 December 2013	Ordinary Shares % (ii)	Extended Life Shares % (ii)	Total Fund % (ii)	Cost 31 December 2012	Fair Value 31 December 2012	% (i)
Geographic diversity of Portfolio									
Distressed Portfolio									
Australia	$	21,191,867	19,580,235	3.62	3.29	3.37	21,842,331	19,623,099	4.10
Belgium		628,357	21,124	-	-	-	649,716	20,902	-
Brazil		13,066,759	10,601,910	1.96	1.78	1.82	13,066,759	11,233,247	2.33
Cayman Islands		3,744,639	6,888,420	1.27	1.15	1.18	4,094,512	7,272,124	1.52
Germany		35,757,322	48,492,957	8.95	8.12	8.34	35,939,450	50,061,838	10.47
Great Britain		1,143,270	1,683,601	0.31	0.28	0.29	7,039,395	7,055,821	1.48
Greece		3,195,850	3,513,450	0.65	0.59	0.60	-	-	-
India		362,110	369,355	0.07	0.06	0.06	353,137	522,407	0.11
Japan		486,440	-	-	-	-	486,440	33,358	0.01
Luxembourg		2,553,851	10,280,562	1.90	1.72	1.77	-	-	-
Marshall Islands		8,321,150	8,321,150	-	1.93	1.43	-	-	-
Netherlands		-	-	-	-	-	8,951,015	9,223,088	1.93
Switzerland		-	-	-	-	-	21,187,850	21,011,650	4.39
United States (U.S.A.)		360,443,399	386,793,494	58.03	69.50	66.53	331,287,555	311,383,380	65.12
Temporary Investments									
United States (U.S.A.)		56,992,681	56,997,146	17.84	6.97	9.80	41,984,729	41,998,596	8.78
	$	**507,887,695**	**553,543,404**	**94.60**	**95.39**	**95.19**	**486,882,889**	**479,439,510**	**100.25**

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

(ii) This represents the percentage of Fair Value attributed to total Net Asset Value, Ordinary Share Net Asset Value and Extended Life Share Net Asset Value.

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

NB Distressed Debt Investment Fund Limited
For the year ended 31 December 2013 and 31 December 2012

Condensed Consolidated Schedule of Investments (continued)
As at 31 December 2013 and 31 December 2012

(Expressed in United States Dollars)

Industry diversity of Portfolio		Cost 31 December 2013	Fair Value 31 December 2013	Ordinary Shares % (ii)	Extended Life Shares % (ii)	Total Fund % (ii)	Cost 31 December 2012	Fair Value 31 December 2012	% (i)
Distressed Portfolio									
Air Transport	$	4,994,413	5,359,500	0.99	0.90	0.92	1,303,941	660,791	0.14
Broadcasting		6,834,331	7,405,133	1.37	1.24	1.27	25,536,683	24,586,754	5.14
Building and Development		23,223,511	35,224,733	6.08	6.05	6.06	20,396,638	19,522,184	4.08
Commercial Mortgage		36,919,814	36,280,081	2.44	7.58	6.24	811,132	20,902	-
Containers and Glass Products		-	-	-	-	-	16,002,604	16,278,909	3.40
Containers and Packaging		3,697,121	11,964,162	2.21	2.00	2.06	-	-	-
Financial Intermediary		61,090,020	80,179,697	11.02	14.76	13.79	36,036,461	58,673,423	12.27
Food Products		-	-	-	-	-	1,638,626	1,690,981	0.35
Forest Products		10,140,441	8,159,689	1.51	1.37	1.40	11,479,219	11,519,360	2.41
Healthcare		14,147,401	19,067,682	3.52	3.19	3.28	15,161,193	16,524,050	3.45
Industrial		11,805,524	11,708,840	1.99	2.02	2.01	-	-	-
Leisure		18,932,072	20,570,313	3.80	3.44	3.54	-	-	-
Lodging and Casinos		31,869,045	34,277,028	3.80	6.63	5.89	38,344,933	38,335,750	8.02
Non Ferrous Metals/Minerals		2,701,650	2,506,350	-	0.58	0.43	-	-	-
Oil and Gas		-	-	-	-	-	21,187,850	21,011,650	4.39
Publishing		-	-	-	-	-	5,847,290	5,833,203	1.22
Real Estate Development		39,073,097	45,067,302	8.32	7.55	7.75	65,236,357	67,168,150	14.04
Real Estate Trust		21,029,175	22,481,550	4.15	3.77	3.87	17,798,953	17,893,500	3.74
Shipping		24,819,139	25,461,189	1.98	5.22	4.38	-	-	-
Surface Transport		13,066,759	10,601,910	1.96	1.78	1.82	45,128,250	28,139,973	5.88
Utilities		126,551,501	120,231,099	21.62	20.34	20.68	122,988,030	109,581,334	22.94
Temporary Investments									
US Government and Agency		56,992,681	56,997,146	17.84	6.97	9.80	41,984,729	41,998.596	8.78
	$	**507,887,695**	**553,543,404**	**94.60**	**95.39**	**95.19**	**486,882,889**	**479,439,510**	**100.25**

(i) This represents the percentage of Fair Value to total Net Asset Value.
(ii) This represents the percentage of Fair Value attributed to total Net Asset Value, Ordinary Share Net Asset Value and Extended Life Share Net Asset Value.

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

Consolidated Statement of Operations
31 December 2013 and 31 December 2012
(Expressed in United States Dollars)

		31 December 2013		31 December 2012
Income				
Interest income	$	14,360,675	$	13,030,790
Dividend income (net of withholding tax: 2013; $15,140 :2012; $58,299)	$	27,652	$	549,318
Expenses				
Investment management fee	$	8,097,558	$	6,772,363
Performance fee	$	1,444,064	$	-
Professional and other expenses	$	3,415,932	$	1,634,340
Administration fees	$	545,623	$	494,131
Loan administration and custody fees	$	314,444	$	312,763
Directors' fees	$	209,719	$	214,709
	$	14,027,340	$	9,428,306
Net investment income	**$**	**360,987**	$	**4,151,802**
Realised and unrealised gains from investments and foreign exchange				
Net realised gain on investments, derivatives and forward foreign currency contracts	$	14,901,126	$	15,852,602
Gain on non-cash reorganisations	$	-	$	17,237,321
Net change in unrealised gain on investments, derivatives and forward foreign currency contracts	$	54,108,085	$	11,735,188
Income taxes from net realised/unrealised gains on investments	$	(4,104,769)	$	(413,904)
Net realised and unrealised gains	**$**	**64,904,442**	**$**	**44,825,111**
Net increase in net assets resulting from operations	**$**	**65,265,429**	**$**	**48,563,009**

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

NB Distressed Debt Investment Fund Limited
For the year ended 31 December 2013 and 31 December 2012

Consolidated Statement of Changes in Net Assets
31 December 2013 and 31 December 2012
(Expressed in United States Dollars)

		31 December 2013 Ordinary Shares	31 December 2013 Extended Life Shares	31 December 2013 Aggregated		31 December 2012
Net assets at beginning of year	$	478,265,391	-	478,265,391	$	429,702,382
Net increase in asset before Share Class split on 12 April 2013						-
Net investment income		1,311,662	-	1,311,662		3,737,898
Net realised gain on investments, derivatives and forward foreign currency contracts		2,934,434	-	2,934,434		15,852,602
Net change in unrealised gain on investments, derivatives and forward foreign currency contracts		21,827,953	-	21,827,953		11,735,188
Gain on non-cash reorganisations		-	-	-		17,237,321
Transfer of Net Assets from Ordinary to Extended Life Share Class		(363,391,416)	363,391,416	-		-
Net increase in asset after Share Class split on 12 April 2013						
Net investment (loss)		(751,615)	(199,062)	(950,677)		-
Net realised gain on investments, derivatives and forward foreign currency contracts		3,447,782	8,518,913	11,966,695		-
Net change in unrealised gain on investments, derivatives and forward foreign currency contracts		8,847,234	23,432,897	32,280,131		-
Income taxes from net realised/unrealised gains from investments		(1,147,164)	(2,957,605)	(4,104,769)		-
Net proceeds from issue of Extended Life Shares		-	37,991,020	37,991,020		-
Net assets at the end of the year	$	**151,344,261**	**430,177,579**	**581,521,840**	$	**478,265,391**

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

Consolidated Statement of Cash Flows
31 December 2013 and 31 December 2012
(Expressed in United States Dollars)

		31 December 2013		31 December 2012
Cash flows from operating activities:				
Net increase in net assets resulting from operations	$	65,265,429		48,563,009
Adjustment to reconcile net increase/(decrease) in net assets resulting from operations to net cash flow (used in)/provided by operations:				
Net realised gain on investments		(14,901,126)		(15,852,602)
Gain on non-cash reorganisations		-		(17,237,321)
Net change in unrealised (gain) on investments and forward foreign currency contracts		(54,108,085)		(11,735,188)
Accretion of discount on loans and bonds		(1,937,392)		(2,009,090)
Changes in interest receivables		1,222,738		(922,589)
Changes in receivables for investments sold		(13,180,689)		(1,933,027)
Changes in other receivables and prepayments		(1,561,512)		(21,831)
Changes in payables for investments purchased		(42,638,493)		16,999,574
Changes in payables, accrued expenses and other liabilities		1,449,998		212,925
Change in deferred tax liability		1,998,684		-
Credit default swap		305,320		(356,000)
Cash paid on settled forward foreign currency contracts		(269,494)		-
Purchase of investments		(277,770,961)		(401,099,811)
Sale of investments		274,345,493		389,223,335
Net cash (used in)/provided by operating activities	$	(61,780,090)	$	3,831,384
Cash flows from financing activities:				
Net proceeds from issuance of Extended Life shares	$	37,991,020	$	-
Net cash provided by financing activities	$	37,991,020	$	-
Net (decrease)/increase in cash and cash equivalents	**$**	**(23,789,070)**	**$**	**3,831,384**
Cash and cash equivalents at the beginning of the year		55,096,277		51,264,893
Cash and cash equivalents at the end of the year	**$**	**31,307,207**	**$**	**55,096,277**

Supplemental non-cash flow operating activities

During the year $Nil (31 December 2012: $68,277,338) is excluded from purchases of and proceeds from sales of investments 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 Securities Exchange ("CISE") on 10 June 2010.

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

The 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 and further amended and restated on 6 March 2013.

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.

The Company's share capital is denominated in U.S Dollars.

Restructuring of the fund

During the period, the Board of the Company after consulting the Investment Manager announced their intention to extend the investment period for 21 months to 31 March 2015. On 6 March 2013, the Company published the prospectus in connection with the creation of the Extended Life Share class ("the new share").

Following the resolution proposed on 8 April 2013, 320,109,841 Ordinary Shares were converted to 320,109,841 Extended Life Shares with an extended investment period to 31 March 2015. The end of the investment period of the Ordinary Shares remained 10 June 2013. The Extended Life Shares are subject to new capital return policy, new discount policy and increased preferred return. Following this admission, the Company had 124,160,471 Ordinary Shares and 320,109,841 Extended Life Share in issue. The Extended Life Shares trade under the code "NBDX" and the Ordinary Shares continue to trade under the code "NBDD".

Following the admission of the Extended Life Shares, the Company issued 31,978,973 Extended Life Shares under the tap program on 4 July 2013, raising additional gross proceeds of $38.4 million and net proceeds of $38.0 million.

Allocation of assets between the Ordinary Shares and the Extended Life Shares

Assets and liabilities of the Company on the Effective Date (12 April 2013) worth in aggregate (as at the NAV Calculation Date immediately preceding the Effective Date) an amount equal to the Net Asset Value (at the same date) attributable to the Ordinary Shares were converted into Extended Life Shares pursuant to the Proposals and were allocated to the Extended Life Share Class Fund.

Notes to the Consolidated Financial Statements (continued)

Note 1 – Description of business (continued)

The remaining assets and liabilities of the Company were allocated to the Ordinary Share Class Fund.

The allocation of assets and liabilities of the Company to the Extended Life Share Class Fund and the Ordinary Share Class Fund was determined as follows:

(1) cash assets were allocated pro rata to the cash held in the Company Portfolio, provided that the Directors, in their absolute discretion, adjusted the proportion of cash to be allocated so that it would be equitable to both those shareholders retaining Ordinary Shares and those shareholders whose Ordinary Shares were converted into Extended Life Shares; and

(2) the Directors selected non-cash assets in the Company Portfolio to be allocated with a view to ensuring that, in so far as practicable, there was a pro rata allocation of such assets between the Extended Life Share Class Fund and the Ordinary Share Class Fund, provided that the Directors, in their absolute discretion, adjusted such allocation so that it would be equitable to both those shareholders retaining Ordinary Shares and those shareholders whose Ordinary Shares were converted into Extended Life Shares. Any liabilities comprised in the Company Portfolio as at the Effective Date were allocated between the Share Class Funds on a pro-rata basis save for the costs of the Proposals to be allocated as set below.

Consequently, from the Effective Date, the NAV per Ordinary Share as at any NAV Calculation Date were equal to the NAV of the Ordinary Share Class Fund divided by the number of Ordinary Shares in issue at such date. Similarly, the NAV per Extended Life Share as at any NAV Calculation Date will be equal to the NAV of the Extended Life Share Class Fund divided by the number of Extended Life Shares in issue as at such date.

Following the expiry of the Current Investment Period on 10 June 2013, whenever the Company exits an asset held at the end of this period, the proportion of the net realisation proceeds of such exit attributable to the Ordinary Share Class Fund will be returned to Ordinary Shareholders, whereas the proportion of the net realisation proceeds attributable to the Extended Life Share Class Fund (less any capital profits which will be available for distribution in accordance with the Company's capital return policy in respect of the Extended Life Shares) will be reinvested in accordance with the Company's investment policy.

In the period from Admission to the end of the Current Investment Period 10 June 2013, any investments made by the Company were allotted pro rata between the Ordinary Share Class and the Extended Life Shares Class. Any asset acquired after the expiry of the Current Investment Period were attributable solely to the Extended Life Shares and were therefore allocated solely to the Extended Life Share Class Fund.

The net realisation proceeds of an exit attributable to the Extended Life Share Class Fund will be distributed only to the holders of Extended Life Shares. Any distributions will only be made by the Company in accordance with applicable law at the relevant time, including the Companies Law (and, in particular, will be subject to the Company passing the solvency test contained in the Companies Law at the relevant time).

Operating expenses

The Share Class Funds will bear their respective pro rata share of the ongoing costs and expenses of the Company. The Extended Life Share Class Fund will also bear all costs and expenses of the Company determined by the Directors to be attributable solely to the Extended Life Shares and the Ordinary Share Class Fund will also bear all costs and expenses of the Company determined by the Directors to be attributable to the Ordinary Shares.

The total expenses relating to restructuring (i.e. creation of Extended Life Share Class Fund) attributable solely to the Extended Life Shares were $1.3 million.

Notes to the Consolidated Financial Statements (continued)

Note 2 - Summary of significant accounting policies

Basis of Preparation

The consolidated financial statements give a true and fair view of the assets, liabilities, financial position and return and are in conformity with US generally accepted accounting principles ("US GAAP"). 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 Ridge LLC, London Jackson LLC, London Madison LLC, London Mayslake LLC, London Randolph LLC, London Wabash LLC, London Washington LLC, London Tides LLC, London Wacker LLC and London Randolph Holdco LLC, London Washington Holdco LLC, London Jackson Holdco LLC, London Tides Holdco LLC. Each of these wholly owned subsidiaries, incorporated in Delaware, operate in the United States.

During the year ended 31 December 2013, the following subsidiaries were cancelled; London Monroe LLC, London O Homes LLC and London Quincy LLC.

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

Reclassifications

Certain amounts in these annual financial statements have been reclassified to conform to the 2013 presentation.

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.

Valuation of Investments accounting policy and Note 7 'Fair Valuation of Financial Instruments' discloses further detail on the use of estimates.

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 average cost method.

For the year ended 31 December 2013, $1,937,392 (31 December 2012: $2,009,090) was recorded to reflect accretion of discount on loans and bonds during the period.

Notes to the Consolidated Financial Statements (continued)

Note 2 - Summary of significant accounting policies (continued)

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 2013, the Company held cash balances in various currencies to the value of $31,307,207 (31 December 2012: $55,096,277). These balances consisted of Sterling: $15,201 (31 December 2012: $9,595), Euro: $2,978,790 (31 December 2012: $4,011,649), U.S. Dollar: $28,148,055 (31 December 2012: $51,062,665), and Australian Dollar: $165,161 (31 December 2012: $12,368).

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.

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 ask 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 unrealised gains or losses are recorded daily. Forward contracts are generally categorised in Level 2 of the fair value hierarchy.

Credit default swaps are entered into 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.

Notes to the Consolidated Financial Statements (continued)

Note 2 - Summary of significant accounting policies (continued)

Valuation of Investments (continued)

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 categorised 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 categorised 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.

Following the creation of Extended Life Share Class, both Share Classes will bear their respective pro rata share of the ongoing costs and expenses of the Company. The Extended Life Share Class Fund will also bear all costs and expenses of the Company determined by the Directors to be attributable solely to the Extended Life Shares and the Ordinary Share Class Fund will also bear all costs and expenses of the Company determined by the Directors to be attributable solely to the Ordinary Shares.

Performance Fee

Performance fee amounts (see note 4) are computed and accrued daily 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 translated 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.

Notes to the Consolidated Financial Statements (continued)

Note 2 - Summary of significant accounting policies (continued)

Payables on investments purchased

At 31 December 2013, the amount payable on investments purchased represents amounts due for investments purchased that have been contracted for but not settled on the Statement of Assets and Liabilities date.

Income taxes

The Company is not subject to income taxes in Guernsey; however it may be subject to taxes imposed by other countries on income it derives from investments. Such taxes are reflected in the Statement of Operations. During the year ended 31 December 2013, the Company recorded current income tax expense of $2,106,085 (2012: $413,904). Deferred taxes are recorded to reflect the tax consequences of future years' differences between the tax basis of assets and their financial reporting basis. The amount of deferred tax expense for the year ended 31 December 2013 is equal to $1,998,684. Total income tax expense for the year ended 31 December 2013 was $4,104,769 (2012: $413,904).

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 pronouncement 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. There were no uncertain tax positions as at 31 December 2013 or 31 December 2012. The Company is subject to examination for US Federal and state tax returns for calendar years 2011 – 2013.

Note 3 – Recent standards and pronouncements

In December 2011, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update 2011-11, Disclosures about Offsetting Assets and Liabilities ("ASU 2011-11"). The disclosure requirements are intended to help investors and other financial statement users better assess the effect or potential effect of offsetting arrangements on a company's financial position. They also improve transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received.

In addition, ASU 2011-11 facilitates comparison between those entities that prepare their financial statements on the basis of US GAAP and those entities that prepare their financial statements on the basis of International Financial Reporting Standards ("IFRS"). ASU 2011-11 requires entities to: disclose both gross and net information about both instruments and transactions eligible for offset in the financial statements; and disclose instruments and transactions subject to an agreement similar to a master netting agreement.

Notes to the Consolidated Financial Statements (continued)

Note 3 – Recent standards and pronouncements (continued)

In January 2013, FASB issued Accounting Standard Update 2013-01, Balance Sheet (Topic 210),Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, which clarifies that the scope of ASU 2011-11 applies to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement.

The provisions of ASU 2011-11 and ASU 2013-01 are effective for interim and annual reporting periods beginning on or after January 1, 2013. The impact of this pronouncement is disclosed in note 5.

In June 2013, the FASB issued ASU 2013-08, Financial Services — Investment Companies Topic 946 ("ASU 2013-08") which amends the scope, measurement, and disclosure requirements for investment companies. ASU 2013-08:

(i) amends the criteria for an entity to qualify as an investment company,

(ii) requires an investment company to measure non-controlling ownership interests in other investment companies at fair value rather than using the equity method of accounting, and

(iii) introduces new disclosures. This guidance is effective for the Company's fiscal year beginning January 1, 2014. Earlier application is prohibited.

The adoption of this guidance is not expected to have a material impact on the Company's financial results and consolidated annual 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 2013, the management fee expense was $8,097,558 (31 December 2012: $6,772,363). As at 31 December 2013, the investment manager fee payable was $732,858 (31 December 2012 $617,738).

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 and Extended Life 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 and Extended Life Shares (the "Contributed Capital") plus such amounts as will result in Ordinary and Extended Life 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 and Extended Life 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. The preferred rate of return for Ordinary Shares is an annualised 6% and for Extended Life Share was initially 6% which has subsequently been increased to 8% with effect from 12 April 2013 when the Ordinary Share class was split into Extended and Ordinary. For the purposes of financial reporting the performance fee is recognised on an accrual basis.

Notes to the Consolidated Financial Statements (continued)

Note 4 – Material agreements and related parties (continued)

Performance Fees (continued)

Considering the net asset value of the Company as at 31 December 2013, the performance fee for the Extended Life and Ordinary Share of $Nil (31 December 2012: $Nil) and $1,444,064 (31 December 2012: $Nil) respectively would be payable if the Company was to realise all investments at the Statement of Assets and Liabilities ("SAL") date.

The performance fee is included in the Statement of Operations. The performance fee outstanding is included in payables to investment manager and affiliates in the Statement of Assets and Liabilities.

Administration and Custody Agreement

The Company has appointed BNP Paribas Securities Services S.C.A., Guernsey Branch (formerly BNP Paribas Fund Services (Guernsey) Limited) as an 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 publication 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.

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 2013, the administration fee expense was $545,623 (31 December 2012: $494,131), the secretarial fee was $56,614 (31 December 2012: $57,813) and the custodian and loan administration fee expense was $314,444 (31 December 2012: $312,763). As at 31 December 2013, the administration fee payable is $150,478 (31 December 2012 $252,453), the secretarial fee payable is $15,028 (31 December 2012 $29,499) and the custodian and loan administration fee payable is $69,665 (31 December 2012 $123,005).

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 period ended 31 December 2013, the directors' fees and travel expenses amounted to $209,719 (31 December 2012: $214,709). As at 31 December 2013, the director's fee payable is $50,411 (31 December 2012 $50,411).

Other interests

In 2013, the Company transferred 10.35% of its interest in a loan to Meridian Sunrise Village LLC to the NB Distressed Debt Master Fund LP (the "Private Fund"), a fund managed by the Sub-Investment Manager, for $1,121,857. Also in 2013, the Company assigned 35% of its interest in units of GV Holdings, LLC to the Private Fund for $1,225,000.

Notes to the Consolidated Financial Statements (continued)

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 and foreign currency 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.

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 realised gains or losses are recognised 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 and market risk. Forward foreign exchange contracts result in exposure to market risk based on the changes in foreign currency exchange rates relative to contracted amounts. As a result, a relatively small foreign currency exchange rates movement may result in substantial losses to the Company. 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.

Notes to the Consolidated Financial Statements (continued)

Note 5 – Derivatives (continued)

The following table presents the fair values of derivative instruments:
The notional outstanding as at 31 December 2013 is representative of the exposure over the year (or similar)

31 December 2013		**Notional**			
	Buy/Sell Currency	**Foreign Currency**	**USD**	**Fair Value / USD Equivalent**	**Settlement Date Month/Year**
Forward foreign currency contracts	USD/BRL	24,406,306	10,827,997	508,725	January 2014
	USD/EUR	16,942,660	23,093,393	(252,596)	January 2014
	USD/GBP	1,303,693	2,109,326	(49,685)	January 2014
	USD/BRL	874,200	389,307	19,689	January 2014
	USD/EUR	720,918	991,520	(1,876)	January 2014
				224,257	
Credit default swap (purchased protection) Federal Republic of Brazil 12.25% 06/03/2030	n/a	n/a	(12,100,000)	**(33,864)**	June 2014

31 December 2012		**Notional**			
	Buy/Sell Currency	**Foreign Currency**	**USD**	**Fair Value / USD Equivalent**	**Settlement Date Month/Year**
	USD/BRL	5,700,573	2,688,315	(81,977)	February 2013
Forward foreign currency contracts	USD/EUR	10,000,954	12,986,489	(199,656)	February 2013
				(281,633)	
Credit default swap (purchased protection) Federal Republic of Brazil 12.25% 06/03/2030	n/a	n/a	(36,000,000)	**239,676**	May 2013

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$)**	
		31 December 2013	**31 December 2012**
Credit			
Credit default swap	Net change in unrealised gain/(loss) on investments, derivatives and forward foreign currency contracts	503,113	(832,119)
Credit default swap	Net realised (loss) on investments, derivatives and forward foreign currency contracts	(471,333)	(595,000)
Foreign Currency			
Forward foreign currency contracts	Net change in unrealised gain/(loss) on investments, derivatives and forward foreign currency contracts	505,890	(281,633)
Forward foreign currency contracts	Net realised (loss) on investments, derivatives and forward foreign currency contracts	(269,494)	-
Total		**268,176**	**(1,708,752)**

Notes to the Consolidated Financial Statements (continued)

Note 5 – Derivatives (continued)

The following table presents, as of 31 December 2013 and 31 December 2012, the gross and net derivatives assets and liabilities by contract type and amount for those derivatives contracts for which netting is permissible under U.S. GAAP. Derivatives assets and liabilities have been netted with respect to those assets as to which the netting requirements have been met.

Offsetting of derivative assets	Gross amounts of recognised assets	Gross amounts offset in the Statement of Assets and Liabilities	Net amounts offset in the Statement of Assets and Liabilities
31 December 2013			
Forward Foreign Currency Contracts	528,414	(304,157)	224,257
31 December 2012			
Credit Default Swap	239,676	-	239,676

Offsetting of derivative liabilities	Gross amounts of recognised liabilities	Gross amounts offset in the Statement of Assets and Liabilities	Net amounts offset in the Statement of Assets and Liabilities
31 December 2013			
Forward Foreign Currency Contracts	304,157	(304,157)	-
Credit Default Swap	33,864	-	33,864
	338,021	**(304,157)**	**33,864**
31 December 2012			
Forward Foreign Currency Contracts	281,633	-	281,633

Note 6 – Unfunded Loan Commitments

As at 31 December 2013, the Company has no unfunded loan commitments.

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.

Notes to the Consolidated Financial Statements (continued)

Note 7 – Fair Value of Financial Instruments (continued)

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 2013 and 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 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

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.

Notes to the Consolidated Financial Statements (continued)

Note 7 – Fair Value of Financial Instruments (continued)

The table below details the Company's investments that were accounted for at fair value as at 31 December 2013.

Investments at Fair Value as at 31 December 2013	Level 1	Level 2	Level 3	Total
Bank Debt Investments	-	105,755,221	65,636,251	171,391,472
Commercial Mortgage	-	-	13,183,956	13,183,956
Limited Partnership Units	-	-	51,996,494	51,996,494
Private Equity	-	43,085,075	58,028,628	101,113,703
Private Equity: Real Estate Development	-	-	45,067,301	45,067,301
Private Placement Bonds	-	-	7,855,963	7,855,963
Fixed Rate Bonds	-	23,428,780	-	23,428,780
U.S. Government and Agency Obligations	-	56,997,146	-	56,997,146
Public Equity	22,481,550	-	-	22,481,550
Public Note	-	16,132,324	-	16,132,324
Trade Claim	-	-	10,601,910	10,601,910
Ownership in Senior Living Facility	-	-	12,203,418	12,203,418
Private Note	-	-	21,089,387	21,089,387
Total investments that are accounted for at fair value	**22,481,550**	**245,398,546**	**285,663,308**	**553,543,404**
Forward contracts	-	224,257	-	224,257
Credit Default Swap	-	(33,864)	-	(33,864)

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
Total investments that are accounted for at fair value	**$905,548**	**$248,928,140**	**$229,605,822**	**$479,439,510**
Forward contracts	-	(281,633)	-	(281,633)
Credit Default Swaps	-	239,676	-	239,676

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 2013. 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
Bank Debt Investments: Aircraft	5,359,500	Broker Pricing	Aircraft Liquidation Value	$4MM - $35MM Per Aircraft	$20MM Per Aircraft
Bank Debt Investments: Commercial Mortgage	13,183,956	Third Party Appraisal Market Comp Analysis	Third Party Appraisal Market Comp Analysis	8% - 14% and $53 - $264 per square foot	12% and approx. $74 per square foot
Bank Debt Investments: Land	20,616,936	Broker Pricing	Comparable sales	1.5MM - 2.00MM per acre	1.75MM per acre
Bank Debt Investments: Leisure	20,570,313	Broker Pricing	Sale of Company	Implied Enterprise Value of $342MM	N/A
Bank Debt Investments: Other	303,726	Broker Pricing	EBITDA Multiple	5.0x	N/A
Bank Debt Investments: Shipping	11,894,150	Broker Pricing	EBITDA Multiple or Fleet Appraisal	9X for EBITDA Multiple, Fleet Valued at 125% of loan	N/A
Bank Debt Investments: Utilities	5,760,170	Broker Pricing	EBITDA Multiple or $/kW	7.0Xx for EBITDA Multiple, 575 $/kW	N/A
Limited Partnership Units	51,996,494	Third Party Valuations Adjusted Using Management Assumptions	Third Party Valuations; Adjustments to Third Party Values	0%-30% Discount of Third Party Valuation	15% discount to Third Party Valuations
Ownership in Senior Living Facility	12,203,418	Discounted Cash Flow (DCF)	Third Party Appraisal	9.75%	N/A
Private Equity: Commercial Mortgage	23,075,000	Broker Pricing	Price to Book Value	$350-450 per square foot	$400
Private Equity: Building and Development	3,350,568	Broker Pricing	Price to Book Value	1.50x - 2.50x	1.69x
Private Equity: Containers and Packaging	11,964,162	Broker Pricing	EBITDA Multiple	4.75 - 6x	5.82x
Private Equity: Financial Intermediaries	1,574,287	Broker Pricing	Purchase Offer	$26 per share	N/A
Private Equity: Real Estate Development	45,067,302	Discounted Cash Flow	Third Party Appraisal Market Comp Analysis	9%-11% and $200 - $500 per square foot	10% and approx. $345 per square foot
Private Equity: Utilities	19,196,066	Broker Pricing	$/kW multiple	400-465 $/kW	443 $/kW
Private Note: Financial Intermediaries	21,089,387	Broker Pricing	Expected Recovery	16-33 Cents on the Dollar	23 Cents on the Dollar
Private Placement Bond	7,855,963	Broker Pricing	EBITDA Multiple	5X	N/A
Trade Claim: Surface Transport	10,601,910	Broker Pricing	Discount Rate & Weighted Average Life	20% discount rate and 5.83 WAL	N/A
Total	**285,663,308**				

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 table summarises the significant unobservable inputs the Company used to value its investments categorised within Level 3 as of 31 December 2012.

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	Reorganisation 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 Appraisal	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 Appraisal 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**				

NB Distressed Debt Investment Fund Limited
For the year ended 31 December 2013 and 31 December 2012

Notes to the Consolidated Financial Statements (continued)

Note 7 – Fair value of financial instruments (continued)

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 2013

	Bank Debt Investments	Private Equity	Private Equity: Real Estate Development	Private Placement Bonds	Limited Partnership Units	Trade Claim	Private Note
Balance, 31 December 2012	$ 30,234,768	$ 48,088,830	$ 67,168,150	$ 9,854,912	$ 50,093,828	$ 11,233,247	$ -
Purchases	42,380,337	30,710,009	-	-	-	-	21,464,317
Sales and distributions	(13,005,908)	(8,593,673)	(26,189,673)	-	(1,714,286)	-	-
Realised gain/(loss) on sale of investments	824,789	(79,464)	-	-	1,496,561	-	-
Unrealised gain/(loss) on investments	5,202,265	10,384,476	4,088,824	(1,998,949)	2,120,391	(631,337)	(374,930)
Transfers into or (out of) level 3	-	(22,481,550) [i]	-	-		-	-
Balance, 31 December 2013	**$ 65,636,251**	**$ 58,028,628**	**$ 45,067,301**	**$ 7,855,963**	**$ 51,996,494**	**$ 10,601,910**	**$ 21,089,387**
Change in unrealised gain/(loss) on investments included in Statement of Operation for Level 3 investments held as of 31 December 2013	**$ 5,219,731**	**$ 9,040,425**	**$ 4,088,825**	**$ (1,998,949)**	**$ 2,120,390**	**$ (631,337)**	**$ (374,930)**

	Bankruptcy Claim	Ownership in Senior Living Facility	Fixed Rate Bonds	Asset Backed Securities	Commercial Mortgage	Total
Balance, 31 December 2012	$ 686,341	$ 10,098,587	$ 1,486,368	$ 660,791	$ -	229,605,822
Purchases	239,586	410,053	166,069	17	25,710,269	121,080,657
Sales and distributions	(371,518)	-	(3,413,567)	(520,499)	(13,124,929)	(66,934,053)
Realised gains/(loss) on sale of investments	-	-	-	(783,362)	598,616	2,057,140
Unrealised gain/(loss) on investments	(554,409)	1,694,778	1,761,130	643,053	-	22,335,292
Transfers into or (out of) level 3	-	-	-	-	-	(22,481,550)
Balance, 31 December 2013	**$ -**	**$ 12,203,418**	**$ -**	**$ -**	**$ 13,183,956**	**285,663,308**
Change in unrealised gain/(loss) on investments included in Statement of Operation for Level 3 investments held as of 31 December 2013	**$ -**	**$ 1,694,779**	**$ -**	**$ -**	**$ -**	**19,158,934**

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 1 from level 3 in the year due to public offering of equity security.

Notes to the Consolidated Financial Statements (continued)

Note 7 – Fair value of financial instruments (continued)

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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 (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)[i]	-	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 2 from level 3 in the year due to level 2 pricing sources becoming available.

There were no transfers between level 1 and level 2 during the year ended 31 December 2013 and the year ended 31 December 2012.

Notes to the Consolidated Financial Statements (continued)

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 2013.

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 2013 are disclosed in the condensed consolidated schedule of investments. Each separate investment exceeding 5% of net assets is 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.

Notes to the Consolidated Financial Statements (continued)

Note 8 – Risks (continued)

Liquidity Risk (continued)

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 original investment period expired on 10 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.

Following this meeting and with the Ordinary Shareholders approval of the extension, a new Extended Life Share class was created (the "Extended Life Shares") which consists of 72% of initial Investors who elected to convert their Ordinary Shares to Extended Life Shares. The rest of investors remain invested on the basis of the current investment period.

The Extended Life Share class 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).

The Company's share capital consists of:

10,000 Class A Shares authorised, of par value $1 each (which carry extensive voting rights); and,
an unlimited number of shares of no par value which may upon issue be designated as Ordinary Shares (Ordinary Share and Extended Life Share Classes) and or Subscription Shares (each of which carry limited voting rights) or Capital Distributions Shares.

The Ordinary and Extended Life Share Classes (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 2013, the Company had following shares in issue:

	31 December 2013	31 December 2012
Issued and fully paid up:		
Class A Shares	2	2
Extended Life Share Class of no par value	352,088,814	-
Ordinary Shares Class of no par value	124,160,471	444,270,312

Reconciliation of shares in issue in each class:

	Extended Life Shares	Ordinary Shares	Total
Balance as at 31 December 2012	-	444,270,312	444,270,312
Shares issued during the period	31,978,973	-	31,978,973
Transfer of shares between classes	320,109,841	(320,109,841)	-
Balance as at 31 December 2013	**352,088,814**	**124,160,471**	**476,249,285**

Note 10 – Financial highlights

	Extended Life Shares	Ordinary Shares	Ordinary Shares
	12 April 2013 to 31 December 2013	Year ended 31 December 2013	Year ended 31 December 2012
Opening Balance	1.1353	1.0765	0.9672
Per share operating performance			
Proceeds from Extended Life Share Class tap programme	0.0021	-	-
Income/(loss) from investment operations (i)			
Net investment (loss)/income	(0.0006)	(0.0031)	0.0085
Net realised and unrealised gain from investments	0.0850	0.1455	0.1008
Total increase from operations	**0.0844**	**0.1424**	**0.1093**
Net asset value per share at the end of the year	**1.2218**	**1.2189**	**$1.0765**

Notes to the Consolidated Financial Statements (continued)

Note 10 – Financial highlights (continued)

Total return* (ii)	**Extended Life Shares** **12 April 2013 to 31 December 2013**	**Ordinary Shares** **Year ended 31 December 2013**	**Ordinary Shares** **Year ended 31 December 2012**
Total return before performance fees	7.62%	14.31%	11.30%
Performance fees	-	(1.08)%	-
Total return after performance fees	**7.62%**	**13.23%**	**11.30%**
Ratios to average net assets (ii)			
Net investment income after performance fee	0.19%	(0.26)%	0.33%
Expenses before performance fee	(2.42)%	(2.08)%	(2.18)%
Performance fee	-	(0.99)%	-
Expenses	(2.42)%	(3.07)%	(2.18)%

(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 and Extended Life 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 10 – Financial highlights (continued)

In preparing the consolidated financial statements, the Investment Manager carried out an assessment of deferred tax expense and made an accrual as of 31 December 2013. This accrual also had an impact on the performance fee calculation for the Ordinary Share Class. The impact of this valuation adjustment on the NAV per Ordinary Share and Extended Life Share is detailed below:

	Ordinary Share Class Net Assets ($)	Ordinary Share Class NAV per Share ($)	Extended Life Share Class Net Assets ($)	Extended Life Share Class NAV per Share ($)
Initial Net Assets at 31 December 2013	151,344,261	1.2189	431,617,689	1.2259
Deferred Tax Adjustment	(558,574)	(0.0045)	(1,440,110)	(0.0041)
Performance Fee Adjustment	558,574	0.0045	-	
Net Assets as at 31 December 2013 per consolidated financial statements	151,344,261	1.2189	430,177,579	1.2218

Note 11 - Subsequent events

On 29 January 2014 (the "Redemption Date"), the Company made its maiden capital distributions for the Ordinary Share Class ("NBDD") and the Extended Life Share Class ("NBDX"). The Company returned a total (before expenses) of $48,885,179 to shareholders:

- $28,000,000 in relation to the NBDD share class (equivalent to approximately $0.2255 per NBDD share); and

- $20,885,179 in relation to the NBDX share class (equivalent to approximately $0.0593 per NBDX share).

On the Redemption Date the existing ISIN number GG00B64GWK95 for the NBDD shares and the existing ISIN number GG00B9CBV553 for the NBDX shares were disabled in CREST and expired. The new ISIN number for the NBDD shares is GG00BJ05NQ40 and the new ISIN number for the NBDX shares is GG00BJ05NR56 in respect of the remaining shares which have not been redeemed. The new ISIN numbers were enabled and available for transactions from and including 30 January 2014.

Notes to the Consolidated Financial Statements (continued)

Note 11 - Subsequent events (continued)

New Global Shares Class

On 27 February 2014, the Company raised gross proceeds of approximately £110 million through the issue of 110,785,785 New Global Shares. On 4 March 2014, 109,519,377 New Global Shares were admitted to trading on the SFM and the official list of the Channel Islands Securities Exchange. Following the admission, the Company has 101,252,892 Ordinary Shares; 335,188,578 Extended Life Shares; and 110,785,785 New Global Shares in issue.

The New Global Share Class will be similar to the existing share classes save for a broader geographic focus. Key features of the New Global Shares are set out below:

- The New Global Shares will be subject to an investment period commencing on the date of Admission and ending on 31 March 2017 following which the New Global Share Portfolio will be placed into runoff.
- Following the end of the Investment Period all capital and profits from realisations will be returned to shareholders.
- The New Global Share Class will have a greater focus on Europe where the Investment Manager is seeing a number of attractive opportunities. The New Global Share Class will have a minimum exposure of 80 per cent. to Europe, North America and Australia.
- Cash fully deployed in 6 to 9 months with no fees charged on cash until the proceeds of the Issue are 85 per cent. invested.
- The New Global Share Class will be the subject of a share buyback programme in order to seek to restrict any discount to less than 5 per cent. in normal market conditions, subject to available cash resources.
- The New Global Share Class will be denominated in Sterling.

The creation of a New Global Share Class is not expected to impact the structure or strategy of the existing Ordinary Share Class and Extended Life Share Class.

The Company has resolved to return a total (before expenses) of $15,000,000 to shareholders by way of a capital distribution for NBDD. The redemption date is 2 May 2014 and the payment of redemption monies is 16 May 2014.

There have been no other subsequent events since 31 December 2013 to the date these financial statements were approved by the directors that requires recognition or disclosure in the consolidated financial statements.