NB Distressed Debt Investment Fund Limited

Financial Statements

For the years ended

31 December 2014 and 31 December 2013

KPMG

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, 2014 and 2013, 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.

KPMG

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, 2014 and 2013, 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 27, 2015

NB Distressed Debt Investment Fund Limited

Consolidated Statement of Assets and Liabilities

As at 31 December 2014 and 31 December 2013

(Expressed in United States Dollars)

Assets		**31 December 2014**		**31 December 2013**
Investments, at fair value	$	632,375,300	$	553,543,404
(2014: cost of $655,526,949; 2013: cost of $507,887,695)				
Forward currency contracts		1,923,298		224,257
Cash and cash equivalents		59,305,660		31,307,207
	$	693,604,258	$	585,074,868
Other assets:				
Interest receivables		2,001,400		1,221,658
Receivables for investments sold		9,055,267		15,781,861
Other receivables and prepayments		807,138		1,615,551
Total assets	**$**	**705,468,063**	**$**	**603,693,938**
Liabilities				
Payables for investments purchased	$	56,963,558	$	17,456,481
Credit default swap		23,055		33,864
Accrued expenses and other liabilities		706,272		506,147
Payables to Investment Manager and affiliates		728,720		2,176,922
Deferred tax liability		4,800,424		1,998,684
Total liabilities	**$**	**63,222,029**	**$**	**22,172,098**
Net Assets	**$**	**642,246,034**	**$**	**581,521,840**
Net asset value per Extended Life Share	**$**	**1.1909**	**$**	**1.2218**
Net assets attributable to Extended Life Shares	**$**	**395,281,487**	**$**	**430,177,579**
Net asset value per Ordinary Share	**$**	**1.2521**	**$**	**1.2189**
Net assets attributable to Ordinary Shares	**$**	**93,920,322**	**$**	**151,344,261**
Net asset value per New Global Share	**£**	**0.8860**	**£**	**-**
Net assets attributable to New Global Shares	**£**	**98,152,965**	**£**	**-**
Net asset value per New Global Share (USD equivalent)	**$**	**1.3814**	**$**	**-**
Net assets attributable to New Global Shares (USD equivalent)	**$**	**153,044,225**	**$**	**-**

The consolidated financial statements were approved and authorized for issue by the Board of Directors on 27 April 2015.

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

NB Distressed Debt Investment Fund Limited

Consolidated Schedule of Investments

As at 31 December 2014
(Expressed in United States Dollars)

		Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	New Global Shares % (i)	Total Fund % (i)
Distressed Portfolio							
Bank Debt Investments	$	234,718,477	204,634,050	20.08	30.62	42.31	31.85
Commercial Mortgage		4,357,084	4,219,287	1.26	0.77	-	0.66
Fixed Rate Bonds		1,578,591	1,081,300	0.61	0.13	-	0.17
Limited Partnership Units		43,797,289	44,865,563	13.35	8.18	-	6.99
Ownership in Senior Living Facility		9,814,920	13,665,456	4.07	2.49	-	2.13
Private Equity		163,782,583	178,621,070	28.80	30.00	21.54	27.80
Private Equity: Real Estate Development		13,556,555	20,263,099	6.03	3.69	-	3.16
Private Note		33,093,404	31,950,069	1.57	6.69	2.62	4.97
Private Placement Bonds		3,866,324	3,063,979	0.91	0.56	-	0.48
Public Equity		30,766,717	32,853,494	7.60	5.94	1.47	5.12
Public Note		32,207,642	16,563,822	0.18	3.28	2.25	2.58
Trade Claim (ii)		13,066,759	10,859,649	3.23	1.98	-	1.69
		584,606,345	562,640,838	87.69	94.33	70.19	87.60
Temporary Investments							
U.S. Government and agency obligations		22,999,307	22,999,693	5.32	4.55	-	3.58
UK Treasury Bills		47,921,297	46,734,769	-	-	30.54	7.28
		70,920,604	69,734,462	5.32	4.55	30.54	10.86
Total Investments		**655,526,949**	**632,375,300**	**93.01**	**98.88**	**100.73**	**98.46**
Extended Life Shares		395,852,704	390,869,864	**-**	98.88	-	-
Ordinary Shares		82,953,535	87,358,217	93.01	-	-	-
New Global Shares		176,720,710	154,147,219	**-**	-	100.73	-
		655,526,949	**632,375,300**	**93.01**	**98.88**	**100.73**	**98.46**
Credit Default Swap							
Extended Life Shares		(75,088)	(16,571)	-	-	-	-
Ordinary Shares		(29,357)	(6,484)	(0.01)	-	-	-
New Global Shares		-	-	-	-	-	-
		(104,445)	**(23,055)**	**(0.01)**	**-**	**-**	**-**
Forward Currency Contracts							
Extended Life Shares		-	1,561,314	-	0.39	-	-
Ordinary Shares		-	361,984	0.38	-	-	-
New Global Shares		-	-	-	-	-	-
		-	**1,923,298**	**0.38**	**0.39**	**-**	**0.30**

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

Consolidated Schedule of Investments (continued)

As at 31 December 2013
(Expressed in United States Dollars)

		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
Total Investments		**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	94.60	-	-
		507,887,695	**553,543,404**	**94.60**	**95.39**	**95.19**
Credit Default Swap						
Extended Life Shares		(67,264)	(24,400)	-	-	-
Ordinary Shares		(26,090)	(9,464)	-	-	-
		(93,354)	**(33,864)**	**-**	**-**	**-**
Forward Currency Contracts						
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 Fund 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

Consolidated Schedule of Investments (continued)

As at 31 December 2014 and 31 December 2013

(Expressed in United States Dollars)

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

31 December 2014	Country	Industry	Nominal	Cost	Fair Value	Ordinary Shares % (ii)	Extended Life Shares % (ii)	New Global Shares % (ii)	Total Fund % (ii)
				$	$				
Temporary Investments									
UK Treasury Bill 0% 14-02/03/2015	United Kingdom	Government	20,000,000	32,249,391	31,163,009	-	-	20.36	4.85
UK Treasury Bill 0% 14-13/04/2015	United Kingdom	Government	5,000,000	7,836,413	7,786,387	-	-	5.09	1.21
UK Treasury Bill 0% 14-20/04/2015	United Kingdom	Government	5,000,000	7,835,493	7,785,373	-	-	5.09	1.21
				47,921,297	**46,734,769**	**-**	**-**	**30.54**	**7.27**

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**	**17.84**	**6.97**	**9.80**

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

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

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

NB Distressed Debt Investment Fund Limited

Consolidated Schedule of Investments (continued)

As at 31 December 2014

(Expressed in United States Dollars)

		Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	New Global Shares % (i)	Total Fund % (i)
Geographic diversity of Portfolio							
Distressed Portfolio							
Australia	$	24,111,071	20,228,350	5.20	3.41	1.23	3.15
Brazil		13,066,759	10,859,649	3.23	1.98	-	1.69
Cayman Islands		22,474,074	24,459,098	7.28	4.46	-	3.81
Denmark		16,460,107	13,103,188	-	1.84	3.81	2.04
Germany		24,703,099	20,699,939	6.16	3.77	-	3.22
Greece		2,789,643	1,630,896	0.49	0.30	-	0.25
Japan		486,440	-	-	-	-	-
Luxembourg		2,553,851	9,429,139	2.81	1.72	-	1.47
Marshall Islands		22,324,958	18,465,963	-	3.33	3.46	2.88
Netherlands		14,411,324	12,562,664	-	1.41	4.57	1.96
Norway		5,958,127	5,697,422	1.13	0.87	0.78	0.89
Spain		30,124,929	23,583,503	-	2.22	9.67	3.67
United Kingdom		11,286,045	12,275,081	0.81	1.50	34.18	1.91
United States (U.S.A.)		393,855,918	389,645,946	60.58	67.52	12.49	60.66
Temporary Investments							
United Kingdom		47,921,297	46,734,769	-	-	30.54	7.28
United States (U.S.A.)		22,999,307	22,999,693	5.32	4.55	-	3.58
	$	**655,526,949**	**632,375,300**	**93.01**	**98.88**	**100.73**	**98.46**

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

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

NB Distressed Debt Investment Fund Limited

Consolidated Schedule of Investments (continued)

As at 31 December 2013
(Expressed in United States Dollars)

		Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	Total Fund % (i)
Geographic diversity of Portfolio						
Distressed Portfolio						
Australia	$	21,191,867	19,580,235	3.62	3.29	3.37
Belgium		628,357	21,124	-	-	-
Brazil		13,066,759	10,601,910	1.96	1.78	1.82
Cayman Islands		3,744,639	6,888,420	1.27	1.15	1.18
Germany		35,757,322	48,492,957	8.95	8.12	8.34
Great Britain		1,143,270	1,683,601	0.31	0.28	0.29
Greece		3,195,850	3,513,450	0.65	0.59	0.60
India		362,110	369,355	0.07	0.06	0.06
Japan		486,440	-	-	-	-
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		-	-	-	-	-
Switzerland		-	-	-	-	-
United States (U.S.A.)		360,443,399	386,793,494	58.03	69.50	66.53
Temporary Investments						
United States (U.S.A.)		56,992,681	56,997,146	17.84	6.97	9.80
	$	**507,887,695**	**553,543,404**	**94.60**	**95.39**	**95.19**

(i) This represents the percentage of Fair Value attributed to total Fund 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

Consolidated Schedule of Investments (continued)

As at 31 December 2014

(Expressed in United States Dollars)

		Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	New Global Shares % (i)	Total Fund % (i)
Industry diversity of Portfolio							
Distressed Portfolio							
Air Transport	$	4,922,800	5,161,000	1.54	0.94	-	0.80
Building and Development		31,419,962	42,315,911	9.87	6.66	4.40	6.59
Chemicals and Plastics		1,502,373	2,063,330	-	-	1.35	0.32
Commercial Mortgage		41,875,908	41,511,494	1.26	8.43	4.57	6.46
Containers and Packaging		3,697,121	12,164,124	3.62	2.22	-	1.89
Financial Intermediary		73,185,404	71,188,011	15.53	14.32	-	11.08
Forest Products		3,866,324	3,063,979	0.91	0.56	-	0.48
Healthcare		9,814,920	13,665,456	4.07	2.49	-	2.13
Industrial		24,388,486	8,561,859	0.18	1.51	1.58	1.33
Lodging and Casinos		80,606,090	74,577,805	8.23	11.29	14.51	11.62
Non Ferrous Metals/Minerals		13,184,646	13,569,875	-	2.16	3.29	2.11
Oil and Gas		25,828,536	22,803,632	-	4.13	4.23	3.55
Real Estate Development		13,556,555	20,263,099	6.03	3.69	-	3.16
Real Estate Investment Trust		21,029,175	23,647,260	7.04	4.31	-	3.68
Shipping		57,270,377	48,103,703	2.18	7.97	9.51	7.49
Surface Transport		52,051,809	43,146,646	3.23	5.04	13.20	6.72
Utilities		126,405,859	116,833,654	24.00	18.61	13.55	18.19
Temporary Investments							
UK Treasury		47,921,297	46,734,769	-	-	30.54	7.28
US Government and Agency		22,999,307	22,999,693	5.32	4.55	-	3.58
	$	**655,526,949**	**632,375,300**	**93.01**	**98.88**	**100.73**	**98.46**

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

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

NB Distressed Debt Investment Fund Limited

Consolidated Schedule of Investments (continued)

As at 31 December 2013

(Expressed in United States Dollars)

		Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	Total Fund % (i)
Industry diversity of Portfolio						
Distressed Portfolio						
Air Transport	$	4,994,413	5,359,500	0.99	0.90	0.92
Broadcasting		6,834,331	7,405,133	1.37	1.24	1.27
Building and Development		23,223,511	35,224,733	6.08	6.05	6.06
Commercial Mortgage		36,919,814	36,280,081	2.44	7.58	6.24
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
Forest Products		10,140,441	8,159,689	1.51	1.37	1.40
Healthcare		14,147,401	19,067,682	3.52	3.19	3.28
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
Non Ferrous Metals/Minerals		2,701,650	2,506,350	-	0.58	0.43
Real Estate Development		39,073,097	45,067,302	8.32	7.55	7.75
Real Estate Investment Trust		21,029,175	22,481,550	4.15	3.77	3.87
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
Utilities		126,551,501	120,231,099	21.62	20.34	20.68
Temporary Investments						
US Government and Agency		56,992,681	56,997,146	17.84	6.97	9.80
	$	**507,887,695**	**553,543,404**	**94.60**	**95.39**	**95.19**

(i) This represents the percentage of Fair Value attributed to total Fund 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

Consolidated Statement of Operations

31 December 2014 and 31 December 2013
(Expressed in United States Dollars)

		31 December 2014		31 December 2013
Income				
Interest income	$	15,465,745	$	14,360,675
Dividend income net of withholding tax: (2014; $329,396 2013; $15,140)	$	769,507	$	27,652
Expenses				
Investment management fee	$	8,925,513	$	8,097,558
Performance fee	$	(1,444,064)	$	1,444,064
Professional and other expenses	$	2,423,572	$	3,415,932
Administration fees	$	698,811	$	545,623
Loan administration and custody fees	$	446,648	$	314,444
Directors' fees and expenses	$	324,552	$	209,719
	$	11,375,032	$	14,027,340
Net investment income	**$**	**4,860,220**	$	**360,987**
Realised and unrealised gains from investments and foreign exchange				
Net realised gain on investments, credit default swap and forward currency transactions	$	30,249,273	$	14,901,126
Non cash gain on investment restructuring transactions	$	4,884,841	$	-
Net change in unrealised (loss)/gain on investments, credit default swap and forward currency transactions	$	(69,980,893)	$	54,108,085
Income taxes from net realised/unrealised gains on investments	$	(4,291,505)	$	(4,104,769)
Realised and unrealised (loss)/gains from investments and foreign exchange	**$**	**(39,138,284)**	**$**	**64,904,442**
Net (decrease)/increase in net assets resulting from operations	**$**	**(34,278,064)**	**$**	**65,265,429**

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

NB Distressed Debt Investment Fund Limited

Consolidated Statement of Changes in Net Assets

31 December 2014
(Expressed in United States Dollars)

		31 December 2014 Ordinary Shares	31 December 2014 Extended Life Shares	31 December 2014 New Global Shares	31 December 2014 Aggregated
Net assets at the beginning of the year	$	151,344,261	430,177,579	-	581,521,840
Net investment income		1,765,296	2,598,487	496,437	4,860,220
Net realised gain / (loss) on investments, credit default swap and forward currency transactions		9,272,410	22,332,610	(1,355,747)	30,249,273
Non cash gain / (loss) on investment restructuring transactions		1,638,268	4,446,347	(1,199,774)	4,884,841
Net change in unrealised (loss) on investments, credit default swap and forward currency transactions		(8,064,448)	(36,452,107)	(25,464,338)	(69,980,893)
Income taxes from net realised/unrealised gains from investments		(1,069,619)	(2,762,623)	(459,263)	(4,291,505)
Net proceeds from issuance of shares		-	-	181,026,910	181,026,910
Distribution		(60,965,846)	(25,058,806)	-	(86,024,652)
Net assets at the end of the year	$	**93,920,322**	**395,281,487**	**153,044,225**	**642,246,034**

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

NB Distressed Debt Investment Fund Limited

Consolidated Statement of Changes in Net Assets

31 December 2013

(Expressed in United States Dollars)

		31 December 2013 Ordinary Shares	31 December 2013 Extended Life Shares	31 December 2013 Aggregated
Net assets at beginning of year	$	478,265,391	-	478,265,391
Net increase in asset before Share Class split on 12 April 2013				
Net investment income		1,311,662	-	1,311,662
Net realised gain on investments, derivatives and forward foreign currency contracts		2,934,434	-	2,934,434
Net change in unrealised gain on investments, derivatives and forward foreign currency contracts		21,827,953	-	21,827,953
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**

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

Consolidated Statement of Cash Flows

31 December 2014 and 31 December 2013
(Expressed in United States Dollars)

		31 December 2014		31 December 2013
Cash flows from operating activities:				
Net (decrease)/increase in assets resulting from operations	$	(34,278,064)		65,265,429
Adjustment to reconcile net (decrease)/increase in net assets resulting from operations to net cash flow (used in)/provided by operations:				
Net realised gain on investments		(30,249,273)		(14,901,126)
Non cash gain on restructuring		(4,884,841)		-
Net change in unrealised gain on investments and forward foreign currency transactions		69,980,893		(54,108,085)
Accretion of discount on loans and bonds		(4,356,332)		(1,937,392)
Changes in interest receivables		(779,742)		1,222,738
Changes in receivables for investments sold		6,726,594		(13,180,689)
Changes in other receivables and prepayments		808,414		(1,561,512)
Changes in payables for investments purchased		39,507,077		(42,638,493)
Changes in payables, accrued expenses and other liabilities		(1,248,077)		1,449,998
Change in deferred tax liability		2,801,740		1,998,684
Credit default swap		100,811		305,320
Cash received/(paid) on settled forward foreign currency contracts		2,649,678		(269,494)
Purchase of investments		(226,249,309)		(150,797,224)
Sale of investments		132,296,808		162,379,709
Net purchase of short term investments		(16,939,339)		(15,007,953)
Net cash used in operating activities	$	(64,112,962)	$	(61,780,090)
Cash flows from financing activities:				
Net proceeds from issuance of shares		181,026,910		37,991,020
Distributions paid		(86,024,652)		-
Net cash provided by financing activities	$	95,002,258	$	37,991,020
Net increase/(decrease) in cash and cash equivalents	**$**	**30,889,296**	**$**	**(23,789,070)**
Cash and cash equivalents at the beginning of the year		31,307,207		55,096,277
Effect of exchange rate changes on cash and cash equivalents		(2,890,843)		-
Cash and cash equivalents at the end of the year	**$**	**59,305,660**	**$**	**31,307,207**

Supplemental non-cash flow operating activities

During the year $67,253,782 (31 December 2013: $Nil) is excluded from purchases of and proceeds from sales of investments related to the value of non-cash investment transactions, including reorganisations and exchanges. Tax paid during the year was $1,489,765 (31 December 2013; $2,106,085).

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

Notes to the Consolidated Financial Statements

Note 1 – Description of Business

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

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

The Company's share capital is denominated in U.S Dollars for Ordinary Shares (Ordinary Share and Extended Life Share) and Pound Sterling for New Global Shares.

New Global Share Class

The creation of a New Global Share Class has not impacted the structure or strategy of the existing Ordinary Share Class and Extended Life Share Class.

Issue costs for the New Global Share Class were USD 3,694,427 (GBP 2,215,716) which were netted against share capital.

Distribution Policy

Income

The Company will pay out for each year, in respect of each share class, all net income received on investments of the Company attributable to such share class, as appropriate. It is not anticipated that income on the portfolio will be material and therefore any dividends may be on an ad-hoc basis. It is a requirement of an exception to the United Kingdom offshore fund rules that all income from the Company's portfolio (after deduction of reasonable expenses) is to be paid to investors. This dividend policy should ensure that this requirement will be met. The exact amount of such dividend in respect of any class of Shares will be variable depending on the amounts of income received by the Company attributable to such share class and will only be made available in accordance with applicable law at the relevant time, including the Companies (Guernsey) Law, 2008 ("Companies Law") (and, in particular, will be subject to the Company passing the solvency test contained in the Companies Law at the relevant time). The amount of dividends paid in respect of one class of Shares may be different from that of another class.

Capital

Following the expiry of any investment period the capital proceeds attributable to the corresponding share class (as determined by the Directors in accordance with the Articles), will, at such times and in such amounts as the Directors shall in their absolute discretion determine, be distributed to Shareholders of that class pro rata to their respective holdings of the relevant Shares. The amount and timing of any such return of capital will be solely within the discretion of the Directors to determine.

Any capital return will only be made by the Company in accordance with the articles of incorporation of the Company and 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).

Although the Directors intend to return capital to shareholders in such manner so that shareholders who are ordinarily resident in the United Kingdom, or who carry on business in the United Kingdom through a branch, agency or permanent establishment with which their investment in the Company is connected, may be liable to United Kingdom tax on chargeable gains on such distributions, they may, at their sole discretion, return capital to shareholders by way of a dividend in circumstances where, in the opinion of the Directors, it would be reasonably practicable to do so.

Notes to the Consolidated Financial Statements (continued)

Note 1 – Description of Business (continued)

Distributions

Set out below are details of the distributions made during the year:

	Ordinary Share Class		Extended Life Share Class		New Global Share Class	
	Distribution Amount	**Per Share Amount**	**Distribution Amount**	**Per Share Amount**	**Distribution Amount**	**Per Share Amount**
12 February 2014	$28.0 million	$0.2255	$20.9 million	$0.0593	-	-
16 May 2014	$15.0 million	$0.1481	-	-	-	-
27 August 2014	$7.0 million	$0.0785	$4.2 million	$0.0125	-	-
15 December 2014	$11.0 million	$0.1316	-	-	-	-
Total	**$61.0 million**	**-**	**$25.1 million**	-	-	-

Note 2 - Summary of significant accounting policies

Basis of Preparation

The consolidated financial statements ("the financial statements") have been presented on a going concern basis and give a true and fair view of the assets, liabilities, financial position and return and are prepared in conformity with US generally accepted accounting principles ("US GAAP") and Companies Law. The functional and reporting currency is the United States Dollar ("USD").

Basis of Consolidation

The financial statements include the results of the Company and its wholly owned subsidiaries.

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 Randolph Holdco LLC, London Washington Holdco LLC, London Jackson Holdco LLC, London Tides Holdco LLC, London Wacker LLC, London Granite Ridge (Global) LLC, London Madison (Global) LLC and London Dearborn (Global) LLC are incorporated in Delaware and operate in the United States.

The wholly owned subsidiary London American Homes LP is incorporated in the Cayman Islands.

During the year, wholly owned subsidiaries, London Lake Michigan LP and London Lake Michigan (Global) LP were incorporated in the Cayman Islands. In addition, on 27 June 2014, wholly owned subsidiaries, London Lux Masterco 1 S.a.r.l., London Lux Debtco 1 S.a.r.l. and London Lux Propco 1 S.a.r.l. were incorporated in Luxembourg.

During the year ended 31 December 2014, no subsidiaries were cancelled.

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 2014 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.

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 and bonds. Discounts received or premiums paid in connection with the acquisition of loans and bonds are amortised into interest income using the effective interest method over the contractual life of the related loan and bond. If a loan pays off prior to maturity, the recognition of the fees and costs is accelerated as appropriate. The Company raises a provision when the collection of interest is deemed doubtful.

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 the 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 Investment 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.

For the year ended 31 December 2014, $4,356,332 (31 December 2013: $1,937,392) 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 2014, the Company held cash balances in various currencies to the value of $59,305,660 (31 December 2013: $31,307,207). These balances consisted of Sterling: $22,475,305 (31 December 2013: $15,201), Euro: $1,077,408 (31 December 2013: $2,978,790), U.S. Dollar: $31,170,757 (31 December 2013: $28,148,055), and Australian Dollar: $4,582,190 (31 December 2013: $165,161).

Valuation of Investments

The Company carries investments on its Consolidated Statement of Assets and Liabilities 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. The Investment Manager believes that bid price is the best estimate of fair value and is in line with the valuation policy adopted by the Company.

Notes to the Consolidated Financial Statements (continued)

Note 2 - Summary of significant accounting policies (continued)

Valuation of Investments (continued)

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 Investment Manager determines the valuation based on its 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;
- Valuation utilising the net asset valuations provided by the underlying private investment companies/partnerships as a practical expedient;
- The financial statements of the issuer; and
- The nature and duration of any restriction on disposition of the security.

Derivative Financial Instruments

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.

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

Forward currency 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.

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.

Notes to the Consolidated Financial Statements (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

Realised and Unrealised 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.

Unrealised gains and losses on an investment are the difference between the cost if purchased during the year or fair value at the previous year end and the fair value at the current year end. Unrealised gains and losses are included in the Consolidated Statement of Operations.

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 the Extended Life Share Class and the New Global Share Class, each Share Class will bear their respective pro rata share based on their respective NAVs of the ongoing costs and expenses of the Company. Each Share Class will also bear all costs and expenses of the Company determined by the Directors to be attributable solely to it.

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, foreign currency sales and purchases transactions are recorded and translated at the spot exchange rate at the transaction date and for all other transactions the average rate is applied. 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. These fluctuations are included in the net realised gain and net change in unrealised gain/(loss) on investments, credit default swap and forward currency transactions in the Consolidated Statements of Operations.

Payables on Investments Purchased

At 31 December 2014, the amount payable on investments purchased represents amounts due for investments purchased that have been contracted for but not settled on the Consolidated Statement of Assets and Liabilities date.

Issuance cost

In line with the Prospectus, the expenses incurred for the initial placing of the Extended Life Share Class in 2013 and the New Global Share Class in 2014 were capped at 2% of the Gross Issue Proceeds. These expenses include placing fees and commissions; registration, listing and admission fees; the cost of settlement and escrow arrangements; printing, advertising and distribution costs; legal fees, and any other applicable expenses incurred in connection with the offering of shares.

All such expenses are charged to capital, reducing the issue proceeds received.

Notes to the Consolidated Financial Statements (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

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 Consolidated Statement of Operations. 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 2014 or 31 December 2013. The Company is subject to examination for US Federal and state tax returns for calendar years 2011 – 2014.

During the year ended 31 December 2014, the Company recorded current income tax expense of $1,489,765 (31 December 2013: $2,106,085). 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 2014 is equal to $2,801,740 (31 December 2013: $1,998,684). Total income tax expense for the year ended 31 December 2014 was $4,291,505 (31 December 2013: $4,104,769).

Note 3 – Recent Standards and Pronouncements

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) require the following additional disclosures: (a) the fact that the entity is an investment company and is applying the guidance in Topic 946, (b) information about changes, if any, in an entity's status as an investment company, and (c) information about financial support provided or contractually required to be provided by an investment company to any of its investees. The Company does not provide any financial support to its investees.

This guidance is effective for the current financial year.

The Company meets the required characteristics to qualify as an investment company and the adoption of this guidance did not have a material impact on the Company's financial results and consolidated financial statements.

Note 4 – Material Agreements and Related Parties

Investment Management Fees

Per the Investment Management Agreement dated 17 July 2014 and in relation to the Ordinary and Extended Life Shares 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”).

Per the Investment Management Agreement dated 17 July 2014 and in relation to the New Global Shares the management fee, which shall accrue daily, and be payable monthly in arrears, at a rate of 0.125 per cent. per month of the NAV of the New Global Share Class Fund (excluding, until such time as the New Global Share Class Fund is 85 per cent. invested, any cash balances (or cash equivalents)) calculated as at the last business day of the relevant month.

For the year ended 31 December 2014, the management fee expense was $8,925,513 (31 December 2013: $8,097,558). As at 31 December 2014, the investment manager fee payable was $728,720 (31 December 2013: $732,858).

Performance Fees

In addition, the Investment Manager is entitled to a performance fee. The performance fee for Ordinary, Extended Life and New Global Shares (the “Shareholders”) will only become payable once the Company has made aggregate distributions in cash to the Shareholders (which shall include the aggregate price of all Shares repurchased or redeemed by the company) equal to the aggregate gross proceeds of issuing Shares (the “Contributed Capital”) plus such amounts as will result in the 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 the 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 Shareholders.

The preferred rate of return for Ordinary Shares is an annualised 6%, Extended Life Shares is an annualised 8% and New Global Shares is an annualised 8% . For the purposes of financial reporting the performance fee is recognised on an accrual basis.

The cumulative performance fee for the Ordinary, Extended Life and New Global Share of Nil (31 December 2013: $1,444,064), $Nil (31 December 2013: $Nil), and $Nil (31 December 2013: Nil) respectively would be payable if the Company was to realise all investments at the Consolidated Statement of Assets and Liabilities date. For the year ended 31 December 2014, the performance fee expense for the Ordinary, Extended Life and New Global Share was $(1,444,064) (31 December 2013: $1,444,064), $Nil (31 December 2013: $Nil), and $Nil (31 December 2013: Nil) respectively. The performance fee of $1,444,064 accrued as at 31 December 2013, was reversed during the year to 31 December 2014 based on the performance of the Ordinary Share Class.

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

Administration and Custody Agreement

During the year, BNP Paribas Securities Services S.C.A., Guernsey Branch (“BNPP”) was the Administrator, Custodian and Designated Manager of the Company pursuant to the Administration and Custody Agreement.

BNPP was the Secretary of the Company pursuant to the Administration and Custody Agreement until 10 December 2014. On 11 December 2014, C.L. Secretaries Limited, a wholly owned subsidiary of Carey Commercial Limited was appointed as Company Secretary.

Notes to the Consolidated Financial Statements (continued)

Note 4 – Material Agreements and Related Parties (continued)

Administration and Custody Agreement (continued)

BNPP was the Administrator, Custodian and Designated Manager until 28 February 2015. Please see Note 12 – Subsequent Events for further details.

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. 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.

For the period to 10 December 2014, the Secretary was entitled to an annual fee of £36,000 plus fees for ad-hoc board meetings and services. From 11 December 2014, the Secretary is entitled to an annual fee of £50,800, an annual compliance fee of £250 plus fees for ad-hoc board meetings and services.

The Custodian is entitled to a fee of 0.02 percent for transactions on the U.S. Market and Euroclear; or 0.04 per cent for unlisted equities of the Market Value of the portfolio subject to 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 2014, the administration fee expense was $698,811 (31 December 2013: $545,623), the secretarial fee was $59,378 (31 December 2013: $56,614) and the custodian and loan administration fee expense was $446,648 (31 December 2013: $314,444). As at 31 December 2014, the administration fee payable is $179,330 (31 December 2013: $150,478), the secretarial fee payable is $14,147 (31 December 2013: $15,028) and the custodian and loan administration fee payable is $124,636 (31 December 2013: $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). With the launch of the New Global Share Class it was agreed that the Directors' remuneration would increase by £10,000 each per annum and they would be entitled to a one off payment of £10,000 in regard to additional work on the New Global Share Class. 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 2014, the directors' fees and travel expenses amounted to $324,552 (31 December 2013: $209,719). As at 31 December 2014, the directors' fee payable is $60,493 (31 December 2013: $50,411).

Other Interests

During the year the Company acquired a loan in the shipping industry on behalf of itself and the "2013 Series" of NB Distressed Debt Master Fund LP (the "Master Fund"), a fund also managed by the Investment Manager. To satisfy the minimum transfer agreement set forth in the credit agreement of the loan, the Company purchased a face value of $8,200,000 and transferred an economic participation of the Loan with a face value of $2,054,795 to the Master Fund for $750,000 in cash. The Company retains the voting rights over the portion of the loan that it transferred to the Private Fund.

There were no other interests for the year ended 31 December 2014.

Notes to the Consolidated Financial Statements (continued)

Note 5 – Derivatives

The Company may enter into credit default swap agreements and forward 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 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 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 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. Offsetting of financial assets and financial liabilities is permitted only when:

- The parties owe each other determinable amounts
- There is a right and intention to set-off
- The right of set-off is enforceable by law

Forward 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 on the following page.

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 2014 and 31 December 2013 is representative of the exposure over the period/year (or similar).

31 December 2014		**Notional**			
	Buy/Sell Currency	**Foreign Currency**	**USD**	**Fair Value / USD Equivalent**	**Settlement Date Month/Year**
Forward currency contracts (i)	1. EUR/USD	788,834	971,127	(16,531)	January 2015
	2. USD/BRL	28,879,784	11,319,635	509,717	January 2015
	3. USD/EUR	25,599,388	32,304,025	1,325,241	January 2015
	4. USD/GBP	4,708,781	7,445,855	104,871	January 2015
				1,923,298	
Credit default swap (purchased protection) Federal Republic of Brazil 12.25% 06/03/2030 (ii)	n/a	n/a	(12,800,000)	**(23,055)**	September 2015

31 December 2013		**Notional**			
	Buy/Sell Currency	**Foreign Currency**	**USD**	**Fair Value / USD Equivalent**	**Settlement Date Month/Year**
Forward currency contracts	5. USD/BRL	24,406,306	10,827,997	508,725	January 2014
	6. USD/EUR	16,942,660	23,093,393	(252,596)	January 2014
	7. USD/GBP	1,303,693	2,109,326	(49,685)	January 2014
	8. USD/BRL	874,200	389,307	19,689	January 2014
	9. 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

(i) The counterparties for the forward currency contracts are Royal Bank of Canada (3 and 5), UBS AG (2, 4, 5, 6, 7, 8, and 9) and Societe Generale (1, 3, 4, 6 and 7).

The Company is subject to enforceable ISDA netting agreements with certain counterparties. These agreements govern the terms of certain transactions, and reduce the counterparty risk associated with relevant transactions by specifying offsetting mechanisms and collateral posting arrangements at prearranged exposure levels.

There were no collateral agreements during the year.

(ii) The counterparty for the credit default swap is Bank of America Merrill Lynch.

Notes to the Consolidated Financial Statements (continued)

Note 5 – Derivatives (continued)

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 in Consolidated Statement of Operations	Amount of gain/(loss) recognised in income on derivative (US$) 31 December 2014	31 December 2013
Credit			
Credit default swap	Net change in unrealised gain/(loss) on investments, credit default swap and forward currency contracts	18,266	503,113
Credit default swap	Net realised gain/ (loss) on investments, credit default swap and forward currency contracts	93,354	(471,333)
Foreign Currency			
Forward currency contracts	Net change in unrealised gain/(loss) on investments, credit default swap and forward currency contracts	1,699,041	505,890
Forward currency contracts	Net realised gain/(loss) on investments, credit default swap and forward currency contracts	2,649,678	(269,494)
Total		**4,460,339**	**268,176**

The following table presents, as of 31 December 2014 and 31 December 2013, 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 Consolidated Statement of Assets and Liabilities	Net amounts offset in the Consolidated Statement of Assets and Liabilities
31 December 2014			
Forward Currency Contracts	1,939,829	(16,531)	1,923,298
31 December 2013			
Forward Currency Contracts	528,414	(304,157)	224,257

Offsetting of derivative liabilities	Gross amounts of recognised liabilities	Gross amounts offset in the Consolidated Statement of Assets and Liabilities	Net amounts offset in the Consolidated Statement of Assets and Liabilities
31 December 2014			
Forward Currency Contracts	16,531	(16,531)	-
Credit Default Swap	23,055	-	(23,055)
	39,586	**(16,531)**	**(23,055)**
31 December 2013			
Forward Currency Contracts	304,157	(304,157)	-
Credit Default Swap	33,864	-	33,864
	338,021	**(304,157)**	**33,864**

Notes to the Consolidated Financial Statements (continued)

Note 6 – Unfunded Loan Commitments

As at 31 December 2014, 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.

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 2014 and 31 December 2013 to estimate the fair value of each class of financial instruments:

- Cash and cash equivalents - The carrying value reasonably approximates 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 & 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 Investment Manager determines the valuation based on the 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 and Accrued expenses and other liabilities - The carrying value reasonably approximates fair value.

- Forward currency contracts are revalued using the exchange rate prevailing at the Consolidated Statement of Assets and Liabilities date.

- Investments in private investment companies/partnerships are valued utilising the net asset valuations provided by the underlying private investment companies/partnerships as a practical expedient. The Company applies the practical expedient consistently in its portfolio unless it is probable that the Company will sell a portion of an investment at an amount different from the net asset valuation.

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

Notes to the Consolidated Financial Statements (continued)

Note 7 – Fair Value of Financial Instruments (continued)

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.

The table below details the Company's investments that were accounted for at fair value as at 31 December 2014.

Investments at Fair Value as at 31 December 2014				
	Level 1	**Level 2**	**Level 3**	**Total**
Bank Debt Investments	-	99,737,403	104,896,647	204,634,050
Commercial Mortgage	-		4,219,287	4,219,287
Limited Partnership Units	-	-	44,865,563	44,865,563
Private Equity	-	78,909,997	99,711,073	178,621,070
Private Equity: Real Estate Development	-	-	20,263,099	20,263,099
Private Placement Bonds	-	-	3,063,979	3,063,979
Fixed Rate Bonds	-	1,081,300	-	1,081,300
U.S. Government and Agency Obligations	-	22,999,693	-	22,999,693
UK Treasury Bills	-	46,734,769	-	46,734,769
Public Equity	32,853,494	-	-	32,853,494
Public Note	-	16,563,822	-	16,563,822
Trade Claim	-	-	10,859,649	10,859,649
Ownership in Senior Living Facility	-	-	13,665,456	13,665,456
Private Note	-	-	31,950,069	31,950,069
Total investments that are accounted for at fair value	**32,853,494**	**266,026,984**	**333,494,822**	**632,375,300**

Notes to the Consolidated Financial Statements (continued)

Note 7 – Fair Value of Financial Instruments (continued)

Investments at Fair Value as at 31 December 2013				
	Level 1	**Level 2**	**Level 3**	**Total**
Bank Debt Investments	-	105,755,222	64,504,795	170,260,017
Commercial Mortgage	-	-	13,183,956	13,183,956
Limited Partnership Units	-	-	51,996,494	51,996,494
Private Equity	-	43,085,074	59,160,083	102,245,157
Private Equity: Real Estate Development	-	-	45,067,302	45,067,302
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**

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 2014. The table is not intended to be all-inclusive, but instead captures the significant unobservable inputs relevant to our determination of fair values.

Type	Sector	Fair Value ($)	Primary Valuation Technique	Unobservable inputs	Range Input	Weighted Average
Bank Debt Investments	Commercial Mortgage	4,219,287	Discounted Cash Flow (“DCF”)	WACC and Price per Sq Foot	7.9% and $181 per sq. foot	N/A
Bank Debt Investments	Lodging and Casinos	9,098,425	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Surface Transport	17,927,955	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Air Transport	5,161,000	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Shipping	47,232,376	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Utilities	12,914,227	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Commercial Mortgage	12,562,664	Market Information	Unadjusted Broker Quote	N/A	N/A
Limited Partnership Units	Financial Intermediaries	44,865,563	Net Assets Value	Net Asset Value	N/A	N/A
Ownership In Senior Living Facility	Healthcare	13,665,456	Scenario Analysis	Blended Weighted Scenario Avg DCF, BIDS, and Purchase and Sale Terms	30% at 11.3MM, 50% at 13.0MM and 20% at 18.7MM	N/A
Private Equity	Commercial Mortgage	24,729,543	DCF	WACC and Price per Sq Foot	10% and $437 per sq. foot	N/A
Private Equity	Financial Intermediaries	968,792	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Lodging and Casinos	27,670,065	Comps	Price per Acre	$2,500,000 per acre	N/A
Private Equity	Real Estate Development	18,570,819	DCF	WACC and Price per Sq Foot	10% and $347 per sq. foot - 10% and $493 per sq. foot	10% and $383 per sq. foot
Private Equity	Real Estate Development	1,692,280	Expected Transaction	Sales Offer and Cash on Hand	N/A	N/A
Private Equity	Utilities	30,732,251	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Building and Development	3,446,298	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Containers and Packaging	12,164,124	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Note	Financial Intermediaries	19,908,381	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Note	Lodging and Casinos	12,041,688	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Placement Bonds	Forest Products	3,063,979	Comps	EBITDA Multiple	5.92	N/A
Trade Claim	Surface Transport	10,859,649	Market Information	Unadjusted Broker Quote	N/A	N/A
	Total	**333,494,822**				

Notes to the Consolidated Financial Statements (continued)

Note 7 – Fair Value of Financial Instruments (continued)

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 Investment Manager. For single broker quotes, the Investment Manager uses unobservable inputs to assess the reasonableness of the broker quote. For good faith valuations, the Investment Manager directly uses unobservable inputs to produce valuations. The significant unobservable inputs used in Level 3 assets are outlined in the table on the previous page. 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. 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, will result in increases/(decreases) to investment value.

From 1 January 2014, investments in private investment companies/partnerships are valued utilising the net asset valuations provided by the underlying private investment companies/partnerships as a practical expedient. The Company applies the practical expedient consistently in its portfolio unless it is probable that the Company will sell a portion of an investment at an amount different from the net asset valuation. Prior to 1 January 2014 certain underlying investments in private companies/partnerships were subject to good faith valuation by the Investment Manager. This change is due to the maturing of the underlying assets and no significant differences resulted from good faith valuations.

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.

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.

Type	Sector	Fair Value ($)	Primary Valuation Technique	Unobservable inputs	Range Input	Weighted Average
Bank Debt Investments	Aircraft	5,359,500	Market Information	Unadjusted Broker Quote	N/A	N/A
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	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Leisure	20,570,313	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Other	303,726	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Shipping	11,894,150	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Utilities	5,760,170	Market Information	Unadjusted Broker Quote	N/A	N/A
Limited Partnership Units	Financial Intermediaries	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	11% discount to Third Party Valuations
Ownership in Senior Living Facility	Healthcare	12,203,418	Discounted Cash Flow (DCF)	Third Party Appraisal	9.75%	N/A
Private Equity	Commercial Mortgage	23,075,000	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Building and Development	3,350,568	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Containers and Packaging	11,964,162	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Financial Intermediaries	1,574,287	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Real Estate Development	45,067,302	DCF	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	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Note	Financial Intermediaries	21,089,387	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Placement Bond	Forest Products	7,855,963	Market Information	Unadjusted Broker Quote	N/A	N/A
Trade Claim	Surface Transport	10,601,910	Market Information	Unadjusted Broker Quote	N/A	N/A
	Total	**285,663,308**				

NB Distressed Debt Investment Fund Limited

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 2014

	Bank Debt Investments	Private Equity	Private Equity: Real Estate Development	Private Placement Bonds	Limited Partnership Units	Trade Claim	Private Note
Balance, 31 December 2013	$ **64,504,795**	$ **59,160,083**	$ **45,067,302**	$ **7,855,963**	$ **51,996,494**	$ **10,601,910**	$ **21,089,387**
Purchases	101,521,530	9,079,077	-	-	-	-	-
Sales and distributions	(26,104,279)	-	(27,663,800)	(7,119,143)	(1,715,279)	-	-
Restructuring assets	(27,670,065)	27,670,065	-	-	-	-	-
Non cash gain on restructuring	9,070,140	-	-	330,834	-	-	-
Realised gain/(loss) on sale of investments	4,027,862	(8,836)	2,147,260	811,971	13,810,661	-	-
Unrealised gain/(loss) on investments	(20,378,427)	3,810,684	712,337	1,184,354	(19,226,313)	257,739	(764,568)
Transfers into or (out of) level 3	(74,909)	-	-	-	-	-	11,625,250
Balance, 31 December 2014	$ **104,896,647**	$ **99,711,073**	$ **20,263,099**	$ **3,063,979**	$ **44,865,563**	$ **10,859,649**	$ **31,950,069**
Change in unrealised gain/(loss) on investments included in Consolidated Statement of Operation for Level 3 investments held as of 31 December 2014	$ **(15,963,977)**	$ **3,810,684**	$ **712,337**	$ **(775,651)**	$ **(19,219,068)**	$ **257,738**	$ **(764,568)**

	Ownership in Senior Living Facility	Commercial Mortgage	Total
Balance, 31 December 2013	$ **12,203,418**	$ **13,183,956**	$ **285,663,308**
Purchases	121,408	-	110,722,015
Sales and distributions	-	(9,786,121)	(72,388,622)
Restructuring assets	-	-	-
Non cash gain on restructuring	-	-	9,400,974
Realised gains/(loss) on sale of investments	-	821,452	21,610,370
Unrealised gain/(loss) on investments	1,340,630	-	(33,063,564)
Transfers into or (out of) level 3	-	-	11,550,341
Balance, 31 December 2014	$ **13,665,456**	$ **4,219,287**	$ **333,494,822**
Change in unrealised gain/(loss) on investments included in Consolidated Statement of Operation for Level 3 investments held as of 31 December 2014	$ **1,340,630**	$ **-**	$ **(30,601,875)**

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.

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	(306,667)	1,051,991	-	-	1,496,561	-	-
Unrealised gain/(loss) on investments	5,202,265	10,384,476	4,088,825	(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	**$ 64,504,795**	**$ 59,160,083**	**$ 45,067,302**	**$ 7,855,963**	**$ 51,996,494**	**$ 10,601,910**	**$ 21,089,387**
Change in unrealised gain/(loss) on investments included in Consolidated Statement of Operation for Level 3 investments held as of 31 December 2013	**$ 5,219,731**	**$ 9,040,425**	**$ 4,088,824**	**$ (1,998,949)**	**$ 2,120,391**	**$ (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	2,057,139
Unrealised gain/(loss) on investments	(554,409)	1,694,778	1,761,130	643,053	-	22,335,293
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 Consolidated 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 8 – Risks

The Company is subject to various risks, including, but not limited to, market risk, credit risk and liquidity risk. The Investment Manager monitors and seeks to 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.

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 2014 are disclosed in the 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.

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.

Notes to the Consolidated Financial Statements (continued)

Note 8 – Risks (continued)

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.

Note 9 – Share Capital

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, Extended Life Share Classes and New Global Shares) and or Subscription Shares (each of which carry limited voting rights) or Capital Distributions Shares.

The issued share capital of the Company is denominated in U.S. Dollars which consists of Ordinary Shares and Class A Shares and in Pound Sterling which consists of New Global Shares. Ordinary Shareholders and New Global Shareholders have the right to attend and vote at any general meeting of the Company. Class A Shareholders do not have the right to attend and vote at a general meeting of the Company save where there are no other shares of the Company is issue. The Class A Shares are held by the Trustee pursuant to a purpose trust established under Guernsey law. Under the terms of the Trust Deed, the Trustee holds the Class A Shares for the purpose of exercising the rights conferred by such shares in the manner it considers, in its absolute discretion, to be in the best interests of the Ordinary Shareholders as a whole.

The 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).

On 27 February 2014, the Company issued 110,785,785 New Global Shares.

Note 9 – Share Capital (continued)

As at the 31 December 2014, the Company had the following number of shares in issue:

	31 December 2014	31 December 2013
Issued and fully paid up:		
Class A Shares	2	2
Ordinary Shares Class of no par value	75,011,865	124,160,471
Extended Life Share Class of no par value	331,917,856	352,088,814
New Global Share Class of no par value	110,785,785	-

Reconciliation of number of shares in issue in each class:

	Ordinary Shares	Extended Life Shares	New Global Shares	Total
Balance as at 31 December 2013	124,160,471	352,088,814	-	476,249,285
Shares issued during the period	-	-	110,785,785	110,785,785
Shares redeemed during the period	(49,148,606)	(20,170,958)	-	(69,319,564)
Balance as at 31 December 2014	**75,011,865**	**331,917,856**	**110,785,785**	**517,715,506**

Notes to the Consolidated Financial Statements (continued)

Note 10 – Financial Highlights

	Ordinary Shares	Extended Life Shares	New Global Shares	Ordinary Shares	Extended Life Shares
	USD	USD	GBP	USD	USD
Per share operating performance	Year ended 31 December 2014	Year ended 31 December 2014	4 March 2014 to 31 December 2014	Year ended 31 December 2013	12 April 2013 to 31 December 2013
Opening Balance	**1.2189**	**1.2218**	**0.9800**	**1.0765**	**1.1353**
Impact of capital distributions	(0.0051)	(0.0015)	-	-	0.0021
Income/(loss) from investment operations (i)					
Net investment (loss)/income	0.0191	0.0077	0.0028	(0.0031)	(0.0006)
Net realised and unrealised gain / (loss) from investments and foreign exchange	0.0192	(0.0371)	(0.0968)	0.1455	0.0850
Total from investment operations	**0.0383**	**(0.0294)**	**(0.0940)**	**0.1424**	**0.0844**
Net asset value per share at the end of the period/year	**1.2521**	**1.1909**	**0.8860**	**1.2189**	**1.2218**

(i) Weighted average numbers of shares outstanding were used for calculation.

Notes to the Consolidated Financial Statements (continued)

Note 10 – Financial Highlights (continued)

Total return* (ii)	**Ordinary Shares**	**Extended Life Shares**	**New Global Shares**	**Ordinary Shares**	**Extended Life Shares**
	Year ended 31 December 2014	**Year ended 31 December 2014**	**4 March 2014 to 31 December 2014**	**Year ended 31 December 2013**	**12 April 2013 to 31 December 2013**
Total return before performance fees	1.44%	(2.53)%	(9.59)%	14.31%	7.62%
Performance fees	1.28%	-	-	(1.08)%	-
Total return after performance fees	**2.72%**	**(2.53)%**	**(9.59)%**	**13.23%**	**7.62%**
Ratios to average net assets (ii)					
Net investment income after performance fee	1.56%	0.62%	0.24% (iii)	(0.26)%	0.19% (iii)
Expenses before performance fee	(2.20)%	(2.09)%	(0.75)% (iii)	(2.08)%	(2.42)% (iii)
Performance fee	1.27%	-	-	(0.99)%	-
Total expenses after performance fees	(0.93)%	(2.09)%	(0.75)% (iii)	(3.07)%	(2.42)% (iii)

(ii) An individual shareholder's return may vary from these returns based on the timing of the shareholder's subscriptions.

(iii) These ratios have been annualized to be comparable across share classes.

*Total return is calculated for the Ordinary, Extended Life Share and New Global 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. Class A shares are not presented as they are not profit participating shares.

Notes to the Consolidated Financial Statements (continued)

Note 11 – Reconciliation of Net Assets Value to Published Net Asset Value

In preparing the consolidated financial statements, there were post year end adjustments relating to investment valuations and deferred taxes. The impact of these adjustments on the NAV per Ordinary Share, Extended Life Share and New Global Share is detailed below:

	Ordinary Share Class Net Assets ($)	Ordinary Share Class NAV per Share ($)	Extended Life Share Class Net Assets ($)	Extended Life Share Class NAV per Share ($)	New Global Share Class Net Assets (£)	New Global Share Class NAV per Share (£)
Published Net Assets at 31 December 2014	94,462,728	1.2593	399,300,724	1.2030	99,651,315	0.8995
Deferred Tax Adjustment	21,821	0.0003	56,263	0.0001	(260,706)	(0.0024)
Valuation Adjustments	(564,227)	(0.0075)	(4,075,500)	(0.0122)	(1,237,644)	(0.0111)
Net Assets consolidated financial statements	93,920,322	1.2521	395,281,487	1.1909	98,152,965	0.8860

Note 12 - Subsequent Events

The following subsequent events are for the period 1 January 2015 to 27 April 2015.

Change in Service Providers

From 1 March 2015, the new service providers are as follows:

The administrator is US Bancorp Fund Services (Guernsey) Limited

The sub-administrator is Quintillion Limited

The custodian is US Bank National Association

The principal bankers are US Bank National Association

Share Buy Back

Between 23 January 2015 and 10 February 2015, 542,000 Extended Life Shares were re-purchased for cancellation by the Company for gross consideration of $608,552.

Capital Return

A capital return by way of a compulsory partial redemption was paid on 4 March 2015:

- $5.0 million in relation to the Ordinary share class (equivalent to approximately $0.0667 per Ordinary share); and

- $8.9 million in relation to the Extended Life share class (equivalent to approximately $0.0270 per Extended share).

On 27 April 2015 it was announced that further capital distributions will be made in relation to the Ordinary share class and the Extended Life share class of approximately $12.5 million and $4.0 million respectively.