

**NB Distressed Debt Investment Fund Limited**

**Annual Report and Consolidated Financial Statements**

**For the year ended 31 December 2016**



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

## Independent Auditors' Report

The Board of Directors and Shareholders  
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, 2016 and 2015, 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, 2016 and 2015, 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 10, 2017

## CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

**At 31 December 2016 and 31 December 2015**  
(Expressed in U.S. Dollars except where stated otherwise)

	31 December 2016	31 December 2015
<b>Assets</b>		
Investments, at fair value (2016: cost of \$389,791,409; 2015: cost of \$543,795,215)	330,728,123	420,511,732
Forward currency contracts	1,766,317	453,177
Credit default swap (2015: cost of \$24,883)	-	58,892
Warrants (2016: cost of \$752,955 ; 2015: cost of \$371,508)	440,230	210,523
Cash and cash equivalents	38,615,044	17,168,855
	<b>371,549,714</b>	<b>438,403,179</b>
<b>Other assets</b>		
Interest receivables	1,002,567	1,908,701
Receivables for investments sold	4,693,490	4,629,030
Other receivables and prepayments	1,161,989	355,202
Deferred tax asset	2,987,074	-
	<b>381,394,834</b>	<b>445,296,112</b>
<b>Liabilities</b>		
Payables for investments purchased	9,507,381	169,673
Credit default swap (2016: cost of \$45,648)	28,813	-
Forward currency contracts	6,813	-
Accrued expenses and other liabilities	455,438	451,962
Payables to Investment Manager and affiliates	461,858	553,726
Deferred tax liability	-	3,220,787
	<b>10,460,303</b>	<b>4,396,148</b>
	<b>370,934,531</b>	<b>440,899,964</b>
<b>Net assets</b>		
<b>Net assets attributable to Ordinary Shares (shares 2016: 35,218,587; 2015: 48,830,771)</b>	<b>37,271,106</b>	<b>54,610,406</b>
<b>Net asset value per Ordinary Share</b>	<b>1.0583</b>	<b>1.1184</b>
<b>Net assets attributable to Extended Life Shares (shares 2016: 215,873,854; 2015: 270,733,913)</b>	<b>216,628,260</b>	<b>270,818,231</b>
<b>Net asset value per Extended Life Share</b>	<b>1.0035</b>	<b>1.0003</b>
<b>Net assets attributable to New Global Shares (shares 2016: 100,575,785; 2015: 106,720,785)</b>	<b>£94,715,465</b>	<b>£78,344,071</b>
<b>Net asset value per New Global Share</b>	<b>£0.9417</b>	<b>£0.7341</b>
<b>Net assets attributable to New Global Shares (USD equivalent)</b>	<b>117,035,165</b>	<b>115,471,327</b>
<b>Net asset value per New Global Share (USD equivalent)</b>	<b>1.1637</b>	<b>1.0820</b>

*The accompanying notes are an integral part of the Financial Statements.*

## CONSOLIDATED STATEMENT OF OPERATIONS

31 December 2016 and 31 December 2015

(Expressed in U.S. Dollars)

	31 December 2016	31 December 2015
<b>Income</b>		
Interest income	13,114,532	15,137,050
Dividend income net of withholding tax (2016: \$506,473; 2015: \$83,265)	3,394,883	7,365,982
	<b>16,509,415</b>	<b>22,503,032</b>
<b>Expenses</b>		
Investment management fee	5,837,063	8,421,436
Professional and other expenses	2,313,235	2,199,282
Administration fee	357,463	582,390
Loan administration and custody fees	183,060	240,499
Directors' fees and expenses	289,955	266,840
	<b>8,980,776</b>	<b>11,710,447</b>
<b>Net investment income</b>	<b>7,528,639</b>	<b>10,792,585</b>
<b>Realised and unrealised gain/(loss) from investments and foreign exchange</b>		
Net realised (loss)/gain on investments, credit default swap, warrants and forward currency transactions	(11,233,015)	23,847,442
Loss on non-cash investment transactions	(45,501,723)	(24,262,850)
Net change in unrealised gain/(loss) on investments, credit default swap, warrants and forward currency transactions	65,205,964	(105,524,819)
Income taxes from net realised/unrealised loss on investments	(832,659)	(1,280,308)
<b>Realised and unrealised gain/(loss) from investments and foreign exchange</b>	<b>7,638,567</b>	<b>(107,220,535)</b>
<b>Net increase/(decrease) in net assets resulting from operations</b>	<b>15,167,206</b>	<b>(96,427,950)</b>

The accompanying notes are an integral part of the Financial Statements.

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

**31 December 2016**

(Expressed in U.S. Dollars)

	31 December 2016 Ordinary Shares	31 December 2016 Extended Life Shares	31 December 2016 New Global Shares	31 December 2016 Aggregated
<b>Net assets at the beginning of the year</b>	54,610,406	270,818,231	115,471,327	440,899,964
Net investment income	586,847	5,175,762	1,766,030	7,528,639
Net realised loss on investments, credit default swap and forward currency transactions	(272,874)	(7,361,874)	(3,598,267)	(11,233,015)
Loss on non-cash investment transactions	(2,502,542)	(29,790,961)	(13,208,220)	(45,501,723)
Net change in unrealised gain on investments, credit default swap, warrants and forward currency transactions	2,774,411	38,401,344	24,030,209	65,205,964
Income taxes from net realised/unrealised gains from investments	(156,437)	(298,783)	(377,439)	(832,659)
Dividends	(2,792,834)	(7,576,079)	(1,302,596)	(11,671,509)
Net cost of share buybacks	-	(2,771,595)	(5,745,879)	(8,517,474)
Shares redeemed during the year	(14,975,871)	(49,967,785)	-	(64,943,656)
<b>Net assets at the end of the year</b>	<b>37,271,106</b>	<b>216,628,260</b>	<b>117,035,165</b>	<b>370,934,531</b>

*The accompanying notes are an integral part of the Financial Statements.*

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

**31 December 2015**

(Expressed in U.S. Dollars)

	31 December 2015 Ordinary Shares	31 December 2015 Extended Life Shares	31 December 2015 New Global Shares	31 December 2015 Aggregated
<b>Net assets at the beginning of the year</b>	<b>93,920,322</b>	<b>395,281,487</b>	<b>153,044,225</b>	<b>642,246,034</b>
Net investment income	1,271,991	7,540,690	1,979,904	10,792,585
Net realised gain on investments, credit default swap and forward currency transactions	6,801,140	21,472,097	(4,425,795)	23,847,442
Loss on non-cash investment transactions	(3,500,079)	(14,272,194)	(6,490,577)	(24,262,850)
Net change in unrealised loss on investments, credit default swap, warrants and forward currency transactions	(11,087,463)	(70,345,560)	(24,091,796)	(105,524,819)
Income taxes from net realised/unrealised gains from investments	(327,692)	(863,804)	(88,812)	(1,280,308)
Net cost of share buybacks	-	(2,574,727)	(4,455,822)	(7,030,549)
Shares redeemed during the year	(32,467,813)	(65,419,758)	-	(97,887,571)
<b>Net assets at the end of the year</b>	<b>54,610,406</b>	<b>270,818,231</b>	<b>115,471,327</b>	<b>440,899,964</b>

*The accompanying notes are an integral part of the Financial Statements.*

## CONSOLIDATED STATEMENT OF CASH FLOWS

**31 December 2016 and 31 December 2015**  
(Expressed in U.S. Dollars)

	31 December 2016	31 December 2015
<b>Cash flows from operating activities:</b>		
Net increase/(decrease) in net assets resulting from operations	15,167,206	(96,427,950)
<i>Adjustment to reconcile net decrease in net assets resulting from operations to net cash flow provided by/(used in) operations:</i>		
Net realised loss/(gain) on investments	11,233,015	(23,847,442)
Loss on non-cash investment transactions	45,501,723	24,262,850
Net change in unrealised (gain)/loss on investments and forward currency transactions	(65,205,964)	105,524,819
Accretion of discount on loans and bonds	(2,079,112)	(1,435,084)
Changes in interest receivable	906,134	92,699
Changes in receivables for investments sold	(64,460)	4,426,237
Changes in other receivables and prepayments	(806,787)	451,936
Change in deferred taxes	(6,207,861)	(1,579,637)
Changes in payables for investments purchased	9,337,708	(56,793,885)
Changes in payables, accrued expenses and other liabilities	(88,392)	(429,304)
Cash (paid)/received on settled forward currency contracts	(3,350,032)	6,397,892
Purchase of investments	(41,848,593)	(97,509,141)
Sale of investments	108,320,709	175,407,206
Net sale/(purchase) of short term investments	35,909,126	23,156,008
<b>Net cash provided by operating activities</b>	<b>106,724,420</b>	<b>61,697,204</b>
<b>Cash flows from financing activities:</b>		
Net cost of share buybacks	(8,517,474)	(4,455,822)
Shares redeemed during the year	(64,943,656)	(100,462,298)
Dividends	(11,671,509)	-
<b>Net cash provided used in financing activities</b>	<b>(85,132,639)</b>	<b>(104,918,120)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>21,591,781</b>	<b>(43,220,916)</b>
Cash and cash equivalents at the beginning of the year	17,168,855	59,305,660
Effect of exchange rate changes on cash and cash equivalents	(145,592)	1,084,111
<b>Cash and cash equivalents at the end of the year</b>	<b>38,615,044</b>	<b>17,168,855</b>

### Supplemental cash flow information

\$27,933,872 (31 December 2015: \$43,179,488) related to the value of non-cash investment transactions, including reorganisations and exchanges and is excluded from purchases of and proceeds from sales of investments. Net tax paid during the year was \$7,040,520 (31 December 2015: \$2,859,945).

*The accompanying notes are an integral part of the Financial Statements.*



## CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS

At 31 December 2016

(Expressed in U.S. Dollars)

	Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	New Global Shares % (i)	Total Company % (i)
<b>Portfolio of Distressed Investments</b>						
Bank Debt Investments	131,743,761	89,462,184	13.09	21.72	32.07	24.12
Private Bond	19,285,351	13,661,412	2.06	4.20	3.24	3.68
Private Equity	138,122,077	142,382,636	44.24	38.19	36.89	38.39
Private Equity: Real Estate Development	2,585,916	3,600,871	2.70	1.20	-	0.97
Private Note	33,484,723	18,451,483	2.41	7.13	1.79	4.97
Public Bond	7,990,556	6,505,825	-	1.30	3.16	1.75
Public Equity	35,553,686	36,692,442	4.86	8.26	14.51	9.89
Trade Claim (ii)	13,032,089	11,979,270	8.98	3.98	-	3.23
	381,798,159	322,736,123	78.34	85.98	91.66	87.00
<b>Temporary Investments</b>						
US Treasury Bills	7,993,250	7,992,000	-	3.69	-	2.15
	7,993,250	7,992,000	-	3.69	-	2.15
<b>Total Investments</b>	<b>389,791,409</b>	<b>330,728,123</b>	<b>78.34</b>	<b>89.67</b>	<b>91.66</b>	<b>89.15</b>
Ordinary Shares	32,765,088	29,204,266	78.34	-	-	-
Extended Life Shares	229,387,485	194,247,898	-	89.67	-	-
New Global Shares	127,638,835	107,275,959	-	-	91.66	-
	389,791,409	330,728,123	78.34	89.67	91.66	89.15
<b>Credit Default Swap</b>						
Ordinary Shares	(12,722)	(8,030)	(0.02)	-	-	-
Extended Life Shares	(32,926)	(20,783)	-	(0.01)	-	(0.01)
	(45,648)	(28,813)	(0.02)	(0.01)	-	(0.01)
<b>Forward Currency Contracts</b>						
Ordinary Shares	-	315,578	0.85	-	-	0.09
Extended Life Shares	-	1,443,926	-	0.67	-	0.39
	-	1,759,504	0.85	0.67	-	0.47
<b>Warrants</b>						
Extended Life Shares	478,733	305,746	-	0.14	-	0.08
New Global Shares	274,222	134,484	-	-	0.11	0.04
	752,955	440,230	-	0.14	0.11	0.12

(i) This represents the percentage of Fair Value attributed to total Company NAV, Ordinary Share NAV, Extended Life Share NAV and New Global Share NAV.

(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 Financial Statements.

## CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS (CONTINUED)

**At 31 December 2015**  
(Expressed in U.S. Dollars)

	Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	New Global Shares % (i)	Total Company % (i)
<b>Portfolio of Distressed Investments</b>						
Bank Debt Investments	182,029,312	114,834,083	16.55	24.99	33.01	26.05
Investment Partnership	11,303,825	6,307,236	3.23	1.68	-	1.43
Private Bond	28,392,971	20,338,524	1.32	3.53	8.70	4.61
Private Equity	165,829,026	161,927,803	42.06	39.01	28.81	36.73
Private Equity: Real Estate Development	2,793,046	4,787,223	2.45	1.27	-	1.09
Private Note	33,286,313	21,302,871	1.95	6.62	2.01	4.83
Public Bond	22,149,082	7,254,764	0.73	2.10	1.02	1.65
Public Equity	39,486,775	29,241,385	5.33	6.72	7.05	6.63
Trade Claim (ii)	13,032,089	9,267,308	4.74	2.47	-	2.10
	<b>498,302,439</b>	<b>375,261,197</b>	<b>78.36</b>	<b>88.39</b>	<b>80.60</b>	<b>85.12</b>
<b>Temporary Investments</b>						
US Treasury Bills	37,881,401	37,881,521	17.72	10.41	-	8.59
UK Treasury Bills	7,611,375	7,369,014	-	-	6.38	1.67
	<b>45,492,776</b>	<b>45,250,535</b>	<b>17.72</b>	<b>10.41</b>	<b>6.38</b>	<b>10.26</b>
<b>Total Investments</b>	<b>543,795,215</b>	<b>420,511,732</b>	<b>96.08</b>	<b>98.80</b>	<b>86.98</b>	<b>95.38</b>
Ordinary Shares	58,628,292	52,473,234	96.08	-	-	-
Extended Life Shares	340,112,220	267,596,946	-	98.80	-	-
New Global Shares	145,054,703	100,441,552	-	-	86.98	-
	<b>543,795,215</b>	<b>420,511,732</b>	<b>96.08</b>	<b>98.80</b>	<b>86.98</b>	<b>95.38</b>
<b>Credit Default Swap</b>						
Ordinary Shares	7,147	16,916	0.03	-	-	-
Extended Life Shares	17,736	41,976	-	0.02	-	0.01
	<b>24,883</b>	<b>58,892</b>	<b>0.03</b>	<b>0.02</b>	<b>-</b>	<b>0.01</b>
<b>Forward Currency Contracts</b>						
Ordinary Shares	-	134,086	0.25	-	-	0.03
Extended Life Shares	-	319,091	-	0.12	-	0.07
	<b>-</b>	<b>453,177</b>	<b>0.25</b>	<b>0.12</b>	<b>-</b>	<b>0.10</b>
<b>Warrants</b>						
Extended Life Shares	206,269	116,887	-	0.04	-	0.03
New Global Shares	165,239	93,636	-	-	0.08	0.02
	<b>371,508</b>	<b>210,523</b>	<b>-</b>	<b>0.04</b>	<b>0.08</b>	<b>0.05</b>

(i) This represents the percentage of Fair Value attributed to total Company NAV, Ordinary Share NAV, Extended Life Share NAV and New Global Share NAV.

(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 Financial Statements.*

## CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS (CONTINUED)

**At 31 December 2016 and 31 December 2015**

(Expressed in U.S. Dollars)

Investments with the following issuers comprised of greater than 5% of Total Company NAV:

31 December 2016	Country	Industry	Nominal	Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	New Global Shares % (i)	Total Company % (i)
<b>Securities</b>									
Five Point Holdings LLC (formally known as Newhall Holding Company, LLC)	United States	Building & Development	10,891,404	23,945,425	27,228,510	13.18	6.69	6.69	7.34
Harko LLC	United States	Lodging & Casinos	2,517,756	35,195,155	33,989,706	18.67	8.28	7.76	9.16
			<b>59,140,580</b>	<b>61,218,216</b>	<b>61,218,216</b>	<b>31.85</b>	<b>14.97</b>	<b>14.45</b>	<b>16.50</b>

31 December 2015	Country	Industry	Nominal	Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	New Global Shares % (i)	Total Company % (i)
<b>Securities</b>									
Newhall Holding Company, LLC	United States	Building & Development	9,988,960	21,595,838	27,469,640	9.89	5.89	5.30	6.23
Granite Ridge Holdings, LLC	United States	Utilities	132,017	20,885,571	31,684,080	12.62	6.56	6.09	7.19
Harko LLC	United States	Lodging & Casinos	1,844,671	27,670,065	24,903,059	12.74	6.63	-	5.65
<b>Temporary Investments</b>									
US Treasury Bills	United States	Government	37,890,000	37,881,400	37,881,521	17.72	10.42	-	8.59
			<b>108,032,874</b>	<b>121,938,300</b>	<b>121,938,300</b>	<b>52.97</b>	<b>29.50</b>	<b>11.39</b>	<b>27.66</b>

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

*The accompanying notes are an integral part of the Financial Statements.*

## CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS (CONTINUED)

**At 30 December 2016**  
(Expressed in U.S. Dollars)

	Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	New Global Shares % (i)	Total Company % (i)
<b>Geographic diversity of Portfolio</b>						
<b>Portfolio of Distressed Investments</b>						
Australia	19,227,424	15,203,066	7.69	3.41	4.23	4.10
Brazil	13,032,089	11,979,270	8.98	3.98	-	3.23
Denmark	17,263,111	13,993,794	-	2.28	7.73	3.77
Germany	-	1,413,480	1.06	0.47	-	0.38
Greece	357,242	122,108	0.09	0.04	-	0.03
Luxembourg	-	9,865,066	7.40	3.28	-	2.66
Marshall Islands	13,729,243	13,764,140	-	4.53	3.37	3.71
Netherlands	14,428,683	12,169,351	-	2.49	5.79	3.28
Spain	28,335,085	12,242,942	-	1.74	7.24	3.30
United Kingdom	852,354	2,060,319	1.54	0.69	-	0.56
United States	274,572,928	229,922,587	51.58	63.07	63.30	61.98
<b>Temporary Investments</b>						
United States	7,993,250	7,992,000	-	3.69	-	2.15
	<b>389,791,409</b>	<b>330,728,123</b>	<b>78.34</b>	<b>89.67</b>	<b>91.66</b>	<b>89.15</b>

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

*The accompanying notes are an integral part of the Financial Statements.*

## CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS (CONTINUED)

**At 31 December 2015**

(Expressed in U.S. Dollars)

	Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	New Global Shares % (i)	Total Company % (i)
<b>Geographic diversity of Portfolios</b>						
<b>Portfolio of Distressed Investments</b>						
Australia	19,260,795	13,858,775	5.63	3.26	1.68	3.14
Brazil	13,032,089	9,267,308	4.74	2.47	-	2.10
Cayman Islands	3,535,143	3,558,537	1.82	0.95	-	0.81
Denmark	13,433,868	14,926,190	-	2.88	6.18	3.39
Germany	11,121,873	6,289,344	3.22	1.67	-	1.43
Greece	357,242	74,484	0.04	0.02	-	0.02
Japan	486,440	-	-	-	-	-
Luxembourg	2	4,710,617	2.41	1.25	-	1.07
Marshall Islands	24,609,267	16,483,758	-	4.34	4.09	3.74
Netherlands	14,428,683	11,277,900	-	1.85	5.44	2.56
Spain	28,335,086	13,012,381	-	1.43	7.91	2.95
United Kingdom	1,131,455	3,055,344	1.55	0.81	-	0.69
United States	368,570,496	278,746,559	58.95	67.46	55.30	63.22
<b>Temporary Investments</b>						
United Kingdom	7,611,375	7,369,014	-	-	6.38	1.67
United States	37,881,401	37,881,521	17.72	10.41	-	8.59
	<b>543,795,215</b>	<b>420,511,732</b>	<b>96.08</b>	<b>98.80</b>	<b>86.98</b>	<b>95.38</b>

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

*The accompanying notes are an integral part of the Financial Statements.*

## CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS (CONTINUED)

**At 31 December 2016**  
(Expressed in U.S. Dollars)

	Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	New Global Shares % (i)	Total Company % (i)
<b>Industry diversity of Portfolios</b>						
<b>Portfolio of Distressed Investments</b>						
Air Transport	820,337	1,913,688	0.66	0.55	0.41	0.52
Auto Components	20,369,766	13,247,128	1.66	4.05	3.29	3.57
Building & Development	27,555,817	27,499,755	13.38	6.78	6.69	7.41
Chemicals & Plastics	1,525,664	568,746	-	-	0.49	0.15
Commercial Mortgage	23,801,120	27,898,917	3.32	9.18	5.79	7.52
Containers & Packaging	852,354	11,925,384	8.94	3.97	-	3.21
Financial Intermediaries	21,464,320	12,147,487	2.41	5.19	-	3.27
Forest Products	-	1,413,480	1.06	0.47	-	0.38
Lodging & Casinos	81,951,854	80,953,291	18.66	18.31	29.33	21.84
Nonferrous Metals/Minerals	20,099,773	16,509,108	-	4.19	6.35	4.45
Oil & Gas	32,144,372	30,937,890	-	7.57	12.43	8.34
Real Estate Development	2,585,916	3,600,871	2.70	1.20	-	0.97
Shipping	37,104,844	40,060,791	0.86	10.19	15.09	10.80
Surface Transport	32,564,456	17,108,599	8.98	5.17	2.18	4.61
Utilities	78,957,566	36,950,988	15.71	9.16	9.61	9.96
<b>Temporary Investments</b>						
US Treasury Bills	7,993,250	7,992,000	-	3.69	-	2.15
	<b>389,791,409</b>	<b>330,728,123</b>	<b>78.34</b>	<b>89.67</b>	<b>91.66</b>	<b>89.15</b>

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

*The accompanying notes are an integral part of the Financial Statements.*

## CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS (CONTINUED)

**At 31 December 2015**  
(Expressed in U.S. Dollars)

	Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	New Global Shares % (i)	Total Company % (i)
<b>Industry diversity of Portfolios</b>						
<b>Portfolio of Distressed Investments</b>						
Air Transport	7,219,919	8,141,822	2.89	2.00	0.99	1.85
Auto Components <sup>(ii)</sup>	18,777,343	14,825,074	1.38	3.60	3.74	3.36
Building & Development	25,206,230	28,255,599	10.30	6.10	5.30	6.41
Chemicals & Plastics	1,525,664	713,964	-	-	0.62	0.16
Commercial Mortgage	33,630,470	36,821,722	2.30	10.81	5.44	8.35
Containers & Packaging	1,131,456	7,765,960	3.97	2.07	-	1.76
Financial Intermediaries	40,691,941	26,226,694	5.90	8.49	-	5.95
Forest Products	3,839,631	3,540,645	1.81	0.94	-	0.80
Lodging & Casinos	81,259,283	68,957,816	12.74	14.11	20.58	15.64
Nonferrous Metals/Minerals	18,417,593	14,154,056	-	3.35	4.40	3.21
Oil & Gas	50,068,849	18,148,995	-	3.86	6.66	4.12
Real Estate Development	2,793,046	4,787,223	2.45	1.27	-	1.09
Real Estate Investment Trusts	9,008,143	9,908,536	5.06	2.64	-	2.25
Shipping	55,087,895	35,816,608	0.27	8.43	11.14	8.12
Surface Transport	40,494,663	22,092,009	4.74	3.74	8.11	5.01
Utilities	109,150,313	75,104,474	24.55	16.97	13.62	17.04
<b>Temporary Investments</b>						
UK Treasury Bills	7,611,375	7,369,014	-	-	6.38	1.67
US Treasury Bills	37,881,401	37,881,521	17.72	10.42	-	8.59
	<b>543,795,215</b>	<b>420,511,732</b>	<b>96.08</b>	<b>98.80</b>	<b>86.98</b>	<b>95.38</b>

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

(ii) In 2014 this industry was categorised as "Industrials".

*The accompanying notes are an integral part of the Financial Statements.*

## NOTE 1 – DESCRIPTION OF BUSINESS

NB Distressed Debt Investment Fund Limited (the “Company”) is a closed-ended investment company registered and incorporated in Guernsey under the provisions of the Companies (Guernsey) Law, 2008 (as amended) (the “Companies Law”) with registration number 51774. The Company’s shares were admitted to the Specialist Fund Segment (“SFS”) of the London Stock Exchange (“LSE”) and to The International Stock Exchange (“TISE”) (formerly The Channel Islands Securities Exchange) on 10 June 2010. The Company was delisted from the TISE on 30 August 2016. The Board took the view that there was no material commercial or regulatory benefit to the Company or its shareholders in retaining its listing on the TISE and that cost savings could be made for the Company as a result of cancelling the listing in addition to other efficiencies. This action has no impact on the Company’s admission to the SFS.

The Company’s 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 by, amongst other things, focusing on senior and senior secured debt with both collateral and structural protection.

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

Investment management services are provided to the Company by Neuberger Berman Investment Advisers LLC (the “AIFM”) and Neuberger Berman Limited (the “Manager”), collectively the “Investment Manager”.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Recent Standards and Pronouncements

In May 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2015-07, Fair value measurement (Topic 820), Disclosures for Investments in Certain entities that Calculate Net Asset Value per share (or its equivalent). ASU 2015-07 removes the requirement to categorise within the fair value hierarchy all investments for which fair value is measured using Net Asset Value per share practical expedient. The Company has adopted ASU 2015-07 for the period beginning 1 January 2016 and applied the guidance retrospectively for all periods presented.

### Basis of Preparation

Having assessed the Company’s principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the Financial Statements. The Financial Statements give a true and fair view of the assets, liabilities, financial position and return and are prepared in conformity with U.S. Generally Accepted Accounting Principles (“US GAAP”) and Companies Law. The Company is regarded as an Investment Company and it follows the accounting and reporting requirements of FASB Accounting Standards Codification (“ASC 946”). Management believes that the underlying assumptions are appropriate and that the Company’s Financial Statements therefore present a true and fair view of the financial position of the Company. The functional and reporting currency is the U.S. Dollar.

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 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, London Dearborn (Global) LLC and London Wabash (Global) LLC (incorporated 18 November 2016) are incorporated in Delaware and operate in the United States.

Wholly-owned subsidiaries, London American Homes LP (dissolved 24 January 2017), London Lake Michigan LP, London Lake Michigan (Global) LP, London Lake Erie LP and London Lake Erie (Global) LP are incorporated in the Cayman Islands.

Wholly-owned subsidiaries, London Lux Masterco 1 S.a.r.l., London Lux Debtco 1 S.a.r.l., London Lux Propco 1 S.a.r.l. and London (Lux) PropCo 2 S.a.r.l. (incorporated on 2 August 2016) are incorporated in Luxembourg.

Partially owned indirect subsidiaries NB Distressed Debt Aggregating Inc. and Chicago Aircraft Fund LLC are incorporated in Delaware and operate in the United States.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Basis of Preparation (continued)

During the year ended 31 December 2016, no subsidiaries were wound up. All inter-company balances have been eliminated fully on consolidation.

#### 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 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 6 “Fair Valuation of Financial Instruments” discloses further detail on the use of estimates in the valuation of investments.

#### 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 is repaid 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 net of withholding tax.

For the year ended 31 December 2016, \$2,079,112 (31 December 2015: \$1,435,084) 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 an insignificant risk of changes in value. At 31 December 2016, the Company held cash balances in various currencies to the value of \$38,615,044 (31 December 2015: \$17,168,855). These balances consisted of Pound Sterling: \$9,719,133 (31 December 2015: \$6,365,768), Euro: \$658,690 (31 December 2015: \$601,624), U.S. Dollar: \$ 28,029,403 (31 December 2015: \$9,478,650), and Australian Dollar: \$ 207,818 (31 December 2015: \$722,813).

#### 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 in the Consolidated Statement of Operations in each reporting period. Fair value is defined as the price that would be received on the sale of an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

Quoted investments are valued according to their bid price 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.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Valuation of Investments (continued)**

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.

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 Administrator will value such investments with the input of the Investment Manager who will determine the valuation based on its fair valuation policy. As part of the investment fair valuation policy, the Investment Manager prepares a fair valuation memorandum for each such investment presenting the methodology and assumptions used to derive the price. This analysis is presented to the Investment Manager's Valuation Committee for approval.

The following criteria are considered when applicable:

- The valuation of other securities by the same issuer for which market quotations are available;
- The 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;
- Any recent sales prices and/or bid and ask quotations for the security;
- The value of similar securities of issuers in the same or similar industries for which market quotations are available;
- The economic outlook of the industry;
- The 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 economically hedging foreign currency exposure. These derivatives are measured at fair value in accordance with US GAAP with changes in fair value recognised in 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 may include forward currency contracts, credit default swap and warrants.

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.

The credit default swap has been entered into on the OTC market. The fair value of the credit default swap contract is derived using a pricing service provided by Markit Partners. Markit Partners use a pricing model that is widely accepted by marketplace participants. Their 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 mainly 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.

The Company also holds six warrants (2015: one warrant) which it prices based on the bid price provided by a third party broker/dealer quote.

## 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 restructuring of current investments are recorded at the date of such restructuring. The difference between the fair value of the new consideration received and the cost of the original investment is recognised as a realised 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. Each share class will bear its respective pro-rata share based on its 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 3) are computed and accrued daily in accordance with the terms of the Investment Management Agreement (“IMA”).

#### **Currency Translation**

Monetary assets and liabilities denominated in a currency other than U.S. Dollar are translated into U.S. Dollar equivalents using spot rates at the year 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, warrants and forward currency transactions in the Consolidated Statements of Operations.

#### **Payables/Receivables on Investments Purchased/Sold**

At 31 December 2016, the amount payable/receivable on investments purchased/sold represents amounts due for investments purchased/sold that have been contracted for but not settled on the Consolidated Statement of Assets and Liabilities date.

#### **Cost of Buybacks**

Any costs incurred by a share buyback are charged to that share class.

#### **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. US GAAP 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.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Income Taxes (continued)**

There were no uncertain tax positions at 31 December 2016 or 31 December 2015. The Company is subject to examination for US Federal and state tax returns for calendar years 2011–2016.

During the year ended 31 December 2016, the Company recorded current income tax from realised gain on investments of \$7,040,520 (31 December 2015: \$2,859,945). 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 benefit for the year ended 31 December 2016 is equal to \$6,207,861 (31 December 2015: (\$1,579,637)). The net total income tax from realised/unrealised gains/(losses) on investments for the year ended 31 December 2016 was \$832,659 (31 December 2015: \$1,280,308).

**NOTE 3 – MATERIAL AGREEMENTS AND RELATED PARTIES****Investment Management Agreement**

The Board is responsible for managing the business affairs of the Company but delegates certain functions to the Investment Manager under an IMA dated 9 June 2010 (as amended).

On 17 July 2014, the Company, the Manager and the AIFM made certain classificatory amendments to their contractual arrangements for the purposes of the AIFM Directive. The Sub-Investment Management Agreement was terminated on 17 July 2014 and Neuberger Berman Investment Advisers LLC (formerly Neuberger Berman Fixed Income LLC), which was the Sub-Investment Manager, was appointed as the AIFM per the amended and restated IMA dated 17 July 2014. Under this agreement, the AIFM is responsible for risk management and day-to-day discretionary management of the Company's Portfolios (including un-invested cash). The risk management and discretionary portfolio management functions are performed independently of each other within the AIFM structure. The AIFM is not required to, and generally will not, submit individual investment decisions for approval by the Board. The Manager, Neuberger Berman Europe Limited, was appointed under the same IMA to provide, amongst other things, certain administrative services to the Company.

Per the IMA and in relation to the Ordinary Shares and Extended Life Shares, the Manager is entitled to a management fee, which shall accrue daily, and be payable monthly in arrears, at a rate of 0.125% per month of the respective NAVs of the Ordinary Share and Extended Life Share classes. Soft commissions are not used.

Per the IMA and in relation to the New Global Shares, the Manager is entitled to a management fee, which accrues daily, and is payable monthly in arrears, at a rate of 0.125% per month of the NAV of the New Global Share Class (excluding, until such time as the New Global Share Class is 85% invested, any cash balances (or cash equivalents)). The 85% threshold was crossed on 16 June 2015 and the Company is now being charged 0.125% per month on the NAV of the New Global Share Class.

For the year ended 31 December 2016, the management fee expense was \$5,837,063 (31 December 2015: \$8,421,436). At 31 December 2016, the management fee payable was \$461,858 (31 December 2015: \$553,726).

The Manager pays a fee to the AIFM out of the management fee received from the Company. The Company does not pay any fees to the AIFM.

**Performance Fee**

In addition, the Manager is entitled to a performance fee. The performance fee for Ordinary Shares, Extended Life Shares and New Global Shares (collectively the "Shares") will only become payable once the Company has made aggregate distributions in cash to the shareholders of the Shares (which shall include the aggregate price of all Shares repurchased or redeemed by the Company) equal to the aggregate gross proceeds from 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% catch up payable to the Manager until the Manager has received 20% of all amounts in excess of Contributed Capital distributed to the shareholders and paid to the Manager as a performance fee with, thereafter, all amounts distributed by the Company 20:80 between the Manager's performance fee and the cash distributed to shareholders.

**NOTE 3 – MATERIAL AGREEMENTS AND RELATED PARTIES (CONTINUED)****Performance Fee (continued)**

The preferred rate of return for Ordinary Shares is an annualised 6%, for Extended Life Shares was an annualised 6% from 2010 to April 2013 and is 8% from April 2013 to date and for New Global Shares is an annualised 8%. For the purposes of financial reporting, the performance fee is recognised on an accruals basis.

For the year ended 31 December 2016, the performance fee expense for the Ordinary Shares, Extended Life Shares and New Global Shares was \$Nil (31 December 2015: \$Nil), \$Nil (31 December 2015: \$Nil), and \$Nil (31 December 2015: \$Nil) respectively. The cumulative performance fee for the Ordinary Shares, Extended Life Shares and New Global Shares of \$Nil (31 December 2015: \$Nil), \$Nil (31 December 2015: \$Nil), and \$Nil (31 December 2015: \$Nil) respectively would be payable if the Company was to realise all investments at the year end.

Soft commissions are not used to pay for services used by the Investment Manager.

**Administration, Company Secretarial and Custody Agreements**

Effective 1 March 2015, the Company entered into an Administration and Sub-Administration Agreement with U.S. Bancorp Fund Services (Guernsey) Limited and Quintillion Limited, a wholly-owned subsidiary of U.S. Bancorp (“the “Administration Agreement”). Under the terms of the Administration Agreement, Sub-Administration services are delegated to Quintillion Limited (the “Sub-Administrator”).

The Sub-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 NAV).

Under the terms of the Administration Agreement, the Sub-Administrator is entitled to a fee of 0.09% for the first US\$500m of net asset value, 0.08% for the next US\$500m and 0.07% for any remaining balance, accrued daily and paid monthly in arrears and subject to an annual minimum of \$100,000.

Effective 1 March 2015, the Company entered into a Custody Agreement with US Bank National Association (the “Custodian”) to provide loan administration and custody services to the Company. Under the terms of the Custody Agreement the Custodian is entitled to an annual fee of 0.025% of net asset value with a minimum annual fee of \$25,000.

C.L. Secretaries Limited, a wholly-owned subsidiary of Carey Commercial Limited, as Company Secretary is entitled to an annual fee of £65,800, an annual compliance fee of £250 plus fees for ad-hoc board meetings and additional services.

For the year ended 31 December 2016, the administration fee expense was \$357,463 (31 December 2015: \$582,390), the secretarial fee was \$180,252 of which \$43,997 was in relation to the administration of the ongoing buyback programme, (31 December 2015: \$194,334) and the loan administration and custody fee expense was \$183,060 (31 December 2015: \$240,499). At 31 December 2016, the administration fee payable is \$27,186 (31 December 2015: \$33,214), the secretarial fee payable is \$2,160 (31 December 2015: \$134) and the loan administration and custody fee payable is \$111,321 (31 December 2015: \$50,593).

**Directors’ Remuneration and Other Interests**

The Directors are related parties and are remunerated for their services at a fee of \$45,000 plus £10,000 each per annum (\$60,000 plus £10,000 for the Chairman). With the launch of New Global Share Class in March 2014 it was agreed that the Directors’ remuneration would increase by £10,000 each per annum. In addition the Chairman of the Audit Committee receives an additional \$5,000 for his/her services in this role. Michael J. Holmberg, the non-independent Director, has waived the fees for his services as a Director. For the year ended 31 December 2016, the Directors’ fees and travel expenses amounted to \$289,955 (31 December 2015: \$266,840).

**Other Interests**

There were no other related party interests for the year ended 31 December 2016.



**NOTE 4 – DERIVATIVES**

In the normal course of business, the Company uses derivative contracts in connection with its proprietary trading activities. Investments in derivative contracts are subject to additional risks that can result in a loss of all or part of the derivative investment. The Company's derivative activities and exposure to derivative contracts are classified by the following primary underlying risks: foreign currency exchange rate, credit, and equity price. In addition to its primary underlying risks, the Company is also subject to additional counterparty risk due to inability of its counterparties to meet the terms of their contracts.

**Forward Contracts**

The Company enters into forwards for the purposes of hedging foreign currency exposure.

Forward currency transactions are contracts or agreements for delayed delivery of specific currencies in which the seller agrees to make delivery at a specified future date of specified currencies. Risks associated with forward currency contracts are the inability of counterparties to meet the terms of their respective contracts and movements in exchange rates. As a result a relatively small foreign currency exchange rates movement may result in substantial losses to the Company.

**Credit Default Swap**

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). The Company has entered into a single credit default swap agreement to provide a measure of protection against defaults of a sovereign issue.

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

The Company can be either a seller or buyer of protection when entering into a credit default swap agreement. If 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. The fair value of open swaps reported in the Consolidated Statement of Assets and Liabilities may differ from that which would be realised in the event the Company terminated its position in the contract. Risks may arise as a result of the failure of the counterparty to the swap contract to comply with the terms of the swap contract. The loss incurred by the failure of a counterparty is generally limited to the aggregate fair value of swap contracts in an unrealised gain position as well as any collateral posted with the counterparty. The risk is mitigated by the posting of collateral by the counterparty to the Company to cover the Company's exposure to the counterparty. The Company considers the creditworthiness of each counterparty to a swap contract in evaluating potential credit risk. Additionally risks may arise from unanticipated movements in the fair value of the underlying investments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 – DERIVATIVES (CONTINUED)

#### Warrants

The Company received warrants in 2015 and 2016. These warrants provide the Company with exposure and potential gains upon the appreciation of the underlying equity's share price.

The value of a warrant has two components: time value and intrinsic value. A warrant has a limited life and expires on a certain date. As the expiration date of a warrant approaches the time value of a warrant will decline. In addition if the stock underlying the warrant declines in price, the intrinsic value of an "in the money" warrant will decline. Further, if the price of the stock underlying the warrant does not exceed the strike price of the warrant on the expiration date, the warrant will expire worthless. As a result there is the potential for the Company to lose its entire investment in a warrant.

The Company is exposed to counterparty risk from the potential failure of an issuer of warrants to settle its exercised warrants. The maximum risk of loss from counterparty risk to the Company is the fair value of the contracts. The Company considers the effects of counterparty risk when determining the fair value of its investments in warrants.

#### Derivative activity

For the year ended 31 December 2016 and 31 December 2015 the volume of the Company's derivative activities based on their notional amounts and number of contracts, categorised by primary underlying risk, are as follows:

31 December 2016		Long exposure		Short exposure	
Primary underlying risk	Notional amounts	Number of Contracts	Notional Amounts	Number of Contracts	
<b>Foreign currency exchange rate</b>					
Forward currency contracts	\$49,356,116	9	\$632,447		4
<b>Credit</b>					
Purchased protection					
Credit default swap	12,200,000	1	-		-
<b>Total</b>	<b>\$61,556,116</b>	<b>10</b>	<b>\$632,447</b>		<b>4</b>
<b>Equity price</b>					
Warrants	265,347	6	-		-
31 December 2015		Long exposure		Short exposure	
Primary underlying risk	Notional amounts	Number of Contracts	Notional amounts	Number of Contracts	
<b>Foreign currency exchange rate</b>					
Forward currency contracts	\$48,568,118	7	\$(5,102,998)		2
<b>Credit</b>					
Purchased protection					
Credit default swap	9,400,000	1	-		-
<b>Total</b>	<b>\$57,968,118</b>	<b>8</b>	<b>\$(5,102,998)</b>		<b>2</b>
<b>Equity price</b>					
Warrants	96,416	1	-		-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 – DERIVATIVES (CONTINUED)

#### Derivative activity (continued)

The following tables show, at 31 December 2016 and 31 December 2015, the fair value amounts of derivative contracts included in the Consolidated Statement of Assets and Liabilities, categorised by primary underlying risk. Balances are presented on a gross basis prior to application of the impact of counterparty and collateral netting. Total derivative assets and liabilities are adjusted on an aggregate basis to take into account the effects of master netting arrangements and, where applicable, have been adjusted by the application of cash collateral receivables and payables with its counterparties. The tables also identify, at 31 December 2016 and 31 December 2015, the realised and unrealised gain and loss amounts included in the Consolidated Statement of Operations, categorised by primary underlying risk:

#### 31 December 2016

Primary underlying risk	Derivative Assets (\$)	Derivative Liabilities (\$)	Realised gain (loss) (\$)	Unrealised gain (loss) (\$)
<b>Foreign currency exchange rate</b>				
Forward currency contracts	\$1,776,142	\$(16,638)	\$(3,133,593)	\$1,306,327
<b>Credit</b>				
Purchased protection				
Credit default swap	-	(28,813)	(24,884)	(17,174)
<b>Equity price</b>				
Warrants	440,230	-	-	(151,739)
<b>Total</b>	<b>\$2,216,372</b>	<b>\$(45,451)</b>	<b>\$(3,158,477)</b>	<b>\$1,137,414</b>

#### 31 December 2015

Primary underlying risk	Derivative Assets (\$)	Derivative Liabilities (\$)	Realised gain (loss) (\$)	Unrealised loss (\$)
<b>Foreign currency exchange rate</b>				
Forward currency contracts	\$472,322	\$(19,145)	\$8,438,888	\$(1,470,121)
<b>Credit</b>				
Purchased protection				
Credit default swap	58,892	-	(144,589)	(47,381)
<b>Equity price</b>				
Warrants	210,523	-	-	(160,985)
<b>Total</b>	<b>\$741,737</b>	<b>\$(19,145)</b>	<b>\$8,294,299</b>	<b>\$(1,678,487)</b>

#### Offsetting assets and liabilities

Amounts due from and to brokers are presented on a net basis, by counterparty, to the extent the Company has the legal right to offset the recognised amounts and intends to settle on a net basis.

The Company presents on a net basis the fair value amounts recognised for OTC derivatives executed with the same counterparty under the same master netting agreement.

The Company is required to disclose the impact of offsetting assets and liabilities presented in the Consolidated Statement of Assets and Liabilities to enable users of the Financial Statements to evaluate the effect or potential effect of netting arrangements on its financial position for recognised assets and liabilities.

These recognised assets and liabilities include financial instruments and derivative contracts that are either subject to an enforceable master netting arrangement or similar agreement or meet the following right of set-off criteria:

- each of the two parties owes the other determinable amounts;
- the Company has the right to set-off the amounts owed with the amounts owed by the other party;
- the Company intends to set-off; and
- the Company's right of set-off is enforceable at law.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 – DERIVATIVES (CONTINUED)

#### Offsetting assets and liabilities (continued)

The Company is subject to enforceable master netting agreements with its counterparties of credit default swap with Bank of America Merrill Lynch (\$28,813) (31 December 2015: \$58,892), and foreign currency exchange contracts with Royal Bank of Canada (\$1,746,284) (31 December 2015: (\$1,801)), Societe Generale (\$6,813), (31 December 2015: (\$7,688)) and UBS AG (\$20,033) (31 December 2015: \$462,666). 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 pre-arranged exposure levels. There were no collateral arrangements during the year.

The following tables show, at 31 December 2016 and 31 December 2015, the gross and net derivatives assets and liabilities by contract type and amount for those derivatives contracts for which netting is permissible.

#### 31 December 2016

Description	Gross Amounts of Recognised Assets (\$)	Gross Amounts Offset in the Statements of Assets and Liabilities (\$)	Net Amounts of Recognised Assets Presented in the Consolidated Statement of Assets and Liabilities (\$)
Forward Currency Contracts	1,776,142	(9,825)	1,766,317
Warrant	440,230	-	440,230
Total	2,216,372	(9,825)	2,206,547

Description	Gross Amounts of Recognised Liabilities (\$)	Gross Amounts Offset in the Statements of Assets and Liabilities (\$)	Net Amounts of Recognised Assets Presented in the Consolidated Statement of Assets and Liabilities (\$)
Forward Currency Contracts	(16,638)	9,825	(6,813)
Credit Default Swap	(28,813)	-	(28,813)
Total	(45,451)	9,825	(35,626)

#### 31 December 2015

Description	Gross Amounts of Recognised Assets (\$)	Gross Amounts Offset in the Statements of Assets and Liabilities (\$)	Net Amounts of Recognised Assets Presented in the Consolidated Statement of Assets and Liabilities (\$)
Forward Currency Contracts	472,322	(19,145)	453,177
Credit Default Swap	58,892	-	58,892
Warrant	210,523	-	210,523
Total	741,737	(19,145)	722,592

Description	Gross Amounts of Recognised Liabilities (\$)	Gross Amounts Offset in the Statements of Assets and Liabilities (\$)	Net Amounts of Recognised Assets Presented in the Consolidated Statement of Assets and Liabilities (\$)
Forward Currency Contracts	(19,145)	19,145	-
Total	(19,145)	19,145	-

### NOTE 5 – UNFUNDED LOAN COMMITMENTS

At 31 December 2016 and 31 December 2015, the Company has no unfunded loan commitments.

### NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Fair value is 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 2016 and 31 December 2015 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 it reflects the value at which investments are sold to a willing buyer and the settlement period on their balances is short term.
- Interest receivables and other receivables and prepayments - The carrying value reasonably approximates fair value.
- Quoted investments are valued according to their bid price 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.
- Warrants are priced using third party market quotes.
- 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. Further information on valuations is provided in Note 2, “Valuation of Investments”, on pages 74 and 75.
- 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 the 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 forward 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 Portfolios unless it is probable that the Company will sell a portion of an investment at an amount different from the net asset valuation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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 FASB 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.

#### Investments at Fair Value at 31 December 2016

(Expressed in U.S. Dollars)	Level 1	Level 2	Level 3	Total
Bank Debt Investments		39,692,993	49,769,191	89,462,184
Private Bond	-	13,060,440	600,972	13,661,412
Private Equity	-	49,286,688	93,095,948	142,382,636
Private Equity: Real Estate Development	-	-	3,600,871	3,600,871
Private Note	-	6,303,996	12,147,487	18,451,483
Public Bond	-	6,505,825	-	6,505,825
Public Equity	12,807,661	23,884,781	-	36,692,442
Trade Claim	-	-	11,979,270	11,979,270
US Treasury Bills	-	7,992,000	-	7,992,000
Warrants	-	157,100	283,130	440,230
Credit Default Swap	-	(28,813)	-	(28,813)
Forward currency contracts	-	1,759,504	-	1,759,504
<b>Total investments that are accounted for at fair value</b>	<b>12,807,661</b>	<b>148,614,514</b>	<b>171,476,869</b>	<b>332,899,044</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

#### Investments at Fair Value at 31 December 2015

(Expressed in U.S. Dollars)	Level 1	Level 2	Level 3	Investments measured at net asset value	Total
Bank Debt Investments	-	42,189,405	72,644,678	-	114,834,083
Investment Partnership	-	-	-	6,307,236	6,307,236
Private Bond	-	20,338,524	-	-	20,338,524
Private Equity	-	56,800,455	105,127,348	-	161,927,803
Private Equity: Real Estate Development	-	-	4,787,223	-	4,787,223
Private Note	-	21,302,871	-	-	21,302,871
Public Bond	-	7,254,764	-	-	7,254,764
Public Equity	29,241,385	-	-	-	29,241,385
Trade Claim	-	-	9,267,308	-	9,267,308
UK Treasury Bills	-	7,369,014	-	-	7,369,014
US Treasury Bills	-	37,881,521	-	-	37,881,521
Credit Default Swap	-	58,892	-	-	58,892
Forward currency contracts	-	453,177	-	-	453,177
Warrants	-	-	210,523	-	210,523
<b>Total investments that are accounted for at fair value</b>	<b>29,241,385</b>	<b>193,648,623</b>	<b>192,037,080</b>	<b>6,307,236</b>	<b>421,234,324</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 – 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 at 31 December 2016. 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	Significant unobservable Inputs	Range Input	Weighted Average
Bank Debt Investments	Air Transport	876,185	Market Information	Value of remaining Aeroplanes	\$12.4 million	N/A
Bank Debt Investments	Building & Development	271,244	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Commercial Mortgage	4,423,540	Discounted Cash Flow (DCF)	WACC	24% discount rate on loan payments	N/A
Bank Debt Investments	Commercial Mortgage	12,169,352	Discounted Cash Flow (DCF)	WACC	15% discount rate on loan payments	N/A
Bank Debt Investments	Forest Products	1,413,480	Market Comparables	EBITDA Multiple	7.1	N/A
Bank Debt Investments	Lodging & Casinos	7,113,613	Market Comparables	EBITDA Multiple	13.5	N/A
Bank Debt Investments	Shipping	12,765,944	Market Information	Value of Shipping Vessels	\$8.5 million per vessel	N/A
Bank Debt Investments	Shipping	3,062,792	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Surface Transport	5,129,328	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Utilities	2,543,713	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Bond	Utilities	600,972	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Air Transport	1,037,503	Discounted Cash Flow (DCF)	WACC Value of remaining Aeroplanes	20% \$1.25 million	N/A
Private Equity	Commercial Mortgage	11,306,026	Discounted Cash Flow (DCF)	WACC Price per square foot	10% \$452 per sq foot	N/A
Private Equity	Containers & Packaging	9,865,065	Market Comparables	Enterprise Value Multiple	7.75	N/A
Private Equity	Containers & Packaging	2,060,319	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Lodging & Casinos	328,950	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Lodging & Casinos	33,989,705	Market Comparables	Land value per acre	\$2.3 million per acre	N/A
Private Equity	Nonferrous Metals/Minerals	16,509,108	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Oil & Gas	15,475,501	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Real Estate Development	3,600,871	Market Comparables	Price per square foot	\$355 per sq foot	N/A
Private Equity	Shipping	998,207	Market Information	Value of Shipping Vessels	\$7.3 million per vessel	N/A
Private Equity	Utilities	1,525,564	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Note	Financial Intermediaries	12,147,487	Market Information	Unadjusted Broker Quote	N/A	N/A
Trade Claim	Surface Transport	11,979,270	Market Information	Unadjusted Broker Quote	N/A	N/A
Warrants	Oil & Gas	228,422	Market Information	Unadjusted Broker Quote	N/A	N/A
Warrants	Shipping	54,708	Market Information	Unadjusted Broker Quote	N/A	N/A
<b>Total</b>		<b>171,476,869</b>				

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6—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 at 31 December 2015. 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	Significant unobservable inputs	Range Input	Weighted Average
Bank Debt Investments	Lodging & Casinos	7,932,805	Market Comparables	EBITDA Multiple	12.80	N/A
Bank Debt Investments	Shipping	16,483,758	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Surface Transport	9,969,120	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Air Transport	5,651,160	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Building & Development	406,867	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Utilities	12,882,199	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Commercial Mortgage	11,277,901	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Healthcare	9	Expected Realisable Value	N/A	N/A	N/A
Bank Debt Investments	Forest Products	3,540,645	Market Comparables	EBITDA Multiple	5.92	N/A
Bank Debt Investments	Commercial Mortgage	4,500,214	Discounted Cash Flow (DCF)	WACC	17% discount rate on loan amortisation payments	N/A
Private Equity	Auto Components <sup>(i)</sup>	303,522	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Auto Components <sup>(i)</sup>	23	N/A - 0 Value	N/A - 0 Value	N/A - 0 Value	N/A
Private Equity	Containers & Packaging	4,710,616	Market Comparables	Enterprise Value Multiple	N/A	N/A
Private Equity	Air Transport	19,328	Scenario Analysis	Value of CAF and cash/accruals	20% discount rate on lease payments and cash held	N/A
Private Equity	Air Transport	2,471,334	Discounted Cash Flow (DCF)	Sale Leaseback Revenue and WACC	20% discount rate on lease payments and cash held	N/A
Private Equity	Nonferrous Metals/Minerals	14,154,056	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Financial Intermediaries	1,816,485	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Utilities	32,270,880	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Commercial Mortgage	21,043,608	Discounted Cash Flow (DCF)	WACC Price per square foot	10% \$452 per sq foot	N/A
Private Equity	Lodging & Casinos	24,903,059	Market Comparables	Sales Offer	\$2,500,000 per acre	N/A
Private Equity	Containers & glass products	3,055,344	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Building & Development	379,093	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity: Real Estate Development	Real Estate Development	4,787,223	Discounted Cash Flow (DCF)	WACC Price per square foot	5% \$556 per sq foot	N/A
Trade Claim	Surface Transport	9,267,308	Market Information	Unadjusted Broker Quote	N/A	N/A
Warrants	Shipping	210,523	Market Information	Unadjusted Broker Quote	N/A	N/A
<b>Total</b>		<b>192,037,080</b>				

(i) In 2015 this industry was categorised as "Industrials".

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 – 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.

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.

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 Portfolios unless it is probable that the Company will sell a portion of an investment at an amount different from the net asset valuation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 – 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 2016

(Expressed in U.S. Dollars)

	Bank Debt Investments	Private Bond	Private Equity	Private Equity: Real Estate Development	Trade Claim	Warrants
Balance, 31 December 2015	72,644,678	-	105,127,348	4,787,223	9,267,308	210,523
Purchases	2,241,773	600,972	9,149,890	-	-	-
Sales and distributions	(15,090,781)	-	(50,749,233)	(207,133)	-	-
Restructuring transactions	(364,656)	-	1,494,794	-	-	318,384
Loss on non-cash investment transactions	(10,694,561)	-	-	-	-	-
Realised gain/(loss) on sale of investments	2,742,065	-	14,812,130	-	-	-
Unrealised (loss)/gain on investments	(1,603,181)	-	(2,707,131)	(979,219)	2,711,962	(245,777)
Transfers into or (out of) Level 3	(106,146)	-	15,968,150	-	-	-
<b>Balance, 31 December 2016</b>	<b>49,769,191</b>	<b>600,972</b>	<b>93,095,948</b>	<b>3,600,871</b>	<b>11,979,270</b>	<b>283,130</b>
<b>Change in unrealised (loss)/gain on investments included in Consolidated Statement of Operation for Level 3 investments held as of 31 December 2016</b>	<b>(10,839,234)</b>	<b>-</b>	<b>(239,033)</b>	<b>(979,223)</b>	<b>2,711,963</b>	<b>(245,777)</b>
	<b>Private Note</b>	<b>Total</b>				
Balance, 31 December 2015	-	192,037,080				
Purchases	-	11,992,635				
Sales and distributions	-	(66,047,147)				
Restructuring transactions	-	1,448,522				
Loss on non-cash investment transactions	-	(10,694,561)				
Realised gain/(loss) on sale of investments	-	17,554,195				
Unrealised (loss)/gain on investments	-	(2,823,346)				
Transfers into or (out of) Level 3	12,147,487	28,009,491				
<b>Balance, 31 December 2016</b>	<b>12,147,487</b>	<b>171,476,869</b>				
<b>Change in unrealised (loss)/gain on investments included in Consolidated Statement of Operation for Level 3 investments held as of 31 December 2016</b>	<b>-</b>	<b>(9,591,304)</b>				

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. During the year the Company did not have any transfers between Level 1 and Level 2 of the fair value hierarchy.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 – 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 2015

(Expressed in U.S. Dollars)

	Bank Debt Investments	Commercial Mortgage	Ownership in Senior Living Facility	Private Equity	Private Placement Bonds	Private Equity: Real Estate Development
Balance, 31 December 2014	104,896,647	4,219,287	13,665,456	99,711,073	3,063,979	20,263,099
Purchases	11,441,645	-	-	7,812,937	-	-
Sales and distributions	(18,874,426)	-	(18,522,439)	(11,416,223)	-	(13,197,987)
Restructuring transactions	(14,860,514)	-	-	747,710	-	-
Loss on non-cash investment transactions	(2,967,399)	-	-	-	-	-
Realised (loss)/gain on sale of investments	1,356,286	-	8,836,140	1,032,595	-	2,879,750
Unrealised gain/(loss) on investments	(18,573,886)	-	(3,979,157)	(6,330,491)	476,666	(5,157,639)
Reclassification within Level 3 categories	7,759,932	(4,219,287)	-	-	(3,540,645)	-
Transfers into or (out of) Level 3	2,466,393	-	-	13,569,747	-	-
<b>Balance, 31 December 2015</b>	<b>72,644,678</b>	<b>-</b>	<b>-</b>	<b>105,127,348</b>	<b>-</b>	<b>4,787,223</b>
<b>Change in unrealised (loss)/gain on investments included in Consolidated Statement of Operation for Level 3 investments held as of 31 December 2015</b>	<b>(26,282,761)</b>	<b>-</b>	<b>-</b>	<b>522,069</b>	<b>-</b>	<b>(5,157,639)</b>

	Private Note	Trade Claim	Warrants	Total
Balance, 31 December 2014	31,950,069	10,859,649	-	288,629,259
Purchases	-	-	-	19,254,582
Sales and distributions	-	-	-	(62,011,075)
Restructuring transactions	-	-	371,508	(13,741,296)
Loss on non-cash investment transactions	-	-	-	(2,967,399)
Realised (loss)/gain on sale of investments	(664,681)	-	-	13,440,090
Unrealised gain/(loss) on investments	(4,902,918)	(1,592,341)	(160,985)	(40,220,751)
Reclassification within Level 3 categories	-	-	-	-
Transfers into or (out of) Level 3	(26,382,470)	-	-	(10,346,330)
<b>Balance, 31 December 2015</b>	<b>-</b>	<b>9,267,308</b>	<b>210,523</b>	<b>192,037,080</b>
<b>Change in unrealised (loss)/gain on investments included in Consolidated Statement of Operation for Level 3 investments held as of 31 December 2015</b>	<b>-</b>	<b>(1,592,341)</b>	<b>(160,985)</b>	<b>(32,671,657)</b>

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. During the year the Company did not have any transfers between Level 1 and Level 2 of the fair value hierarchy.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 – 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 only to 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 2016 and 31 December 2015 are disclosed in the Consolidated Condensed 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 Company maintains positions in a variety of securities, derivative financial instruments and cash and cash equivalents in accordance with its investment strategy and guidelines. The Company's trading activities expose the Company to counterparty credit risk from brokers, dealers and other financial institutions (collectively, "counterparties") with which it transacts business. "Counterparty credit risk" is the risk that a counterparty to a trade will fail to meet an obligation that it has entered into with the Company, resulting in a financial loss to the Company. The Company's policy with respect to counterparty credit risk is to minimise its exposure to counterparties with perceived higher risk of default by dealing only with counterparties that meet the credit standards set out by the Investment Manager.

All the Company's cash and investment assets other than derivative financial instruments are held by the Custodian. The Custodian segregates the assets of the Company from the Custodian's assets and other Custodian clients. Management believes the risk is low with respect to any losses as a result of this concentration. The Company conducts its trading activities with respect to non-derivative positions with a number of counterparties. Counterparty credit risk borne by these transactions is mitigated by trading with multiple counterparties.

In addition the Company may trade in OTC derivative instruments and in derivative instruments which trade on exchanges with generally a limited number of counterparties. The Company is subject to counterparty credit risk related to the potential inability of counterparties to these derivative transactions to perform their obligations to the Company. The Company's exposure to counterparty credit risk associated with counterparty non-performance is generally limited to the fair value (derivative assets and liabilities) of OTC derivatives reported as net assets, net of collateral received or paid, pursuant to agreements with each counterparty. The Investment Manager attempts to reduce the counterparty credit risk of the Company by establishing certain credit terms in its ISDA Master Agreements (with netting terms) with counterparties, and through credit policies and monitoring procedures. Under ISDA Master Agreements in certain circumstances (e.g. when a credit event such as a default occurs) all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions. The Company receives and gives collateral in the form of cash and marketable securities and it is subject to the ISDA Master Agreement Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction. The terms also give each party the right to terminate the related transactions on the other party's failure to post collateral. Exchange-traded derivatives generally involve less counterparty exposure because of the margin requirements of the individual exchanges.

### NOTE 7 – RISKS (CONTINUED)

#### ***Credit Risk (continued)***

Generally, these contracts can be closed out at the discretion of the Investment Manager and are governed by the futures and options clearing agreements signed with the future commission merchants (“FCMs”). FCMs have capital requirements intended to assure that they have sufficient capital to protect their customers in the event of any inadequacy in customer funds arising from the default of one or more customers, adverse market conditions, or for any other reason.

The credit risk relating to derivatives is detailed further in Note 4.

#### ***Liquidity Risk***

Liquidity risk is the risk that the Company will not be able to meet its obligations as and when these fall due.

Liquidity risk is managed by the Investment Manager so as to ensure that the Company maintains sufficient working capital in cash or near cash form so as to be able to meet the Company’s ongoing requirements as these are budgeted for.

#### ***Other Risks***

Legal, tax and regulatory changes could occur during the term of the Company that may adversely affect the Company. The regulatory environment for alternative investment vehicles is evolving, and changes in the regulation of alternative investment vehicles may adversely affect the value of investments held by the Company or the ability of the Company to pursue its trading strategies.

### NOTE 8 – SHARE CAPITAL

The Company’s authorised share capital consists of:

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

The issued share capital of the Company, which is denominated in U.S. Dollars, consists of Ordinary Shares, Class A Shares and Extended Life Shares and in Pound Sterling consists of New Global Shares. Shareholders of Ordinary Shares, Extended Life Shares and New Global Shares 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 in 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 Company’s 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 class, Extended Life Shares, was created and the Extended Life Shares were issued to 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 Shares are subject to a 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).

New Global Share Class was created in March 2014 and its investment period ended on 31 March 2017.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 8 – SHARE CAPITAL (CONTINUED)

At 31 December 2016, the Company had the following number of shares in issue:

	31 December 2016	31 December 2015
Issued and fully paid up:		
Class A Shares	2	2
Ordinary Share Class of no par value (Nil in treasury)	35,218,587	48,830,771
Extended Life Share Class of no par value (Nil in treasury)	215,873,854	270,733,913
New Global Share Class of no par value (10,210,000 in treasury; 2015: 4,065,000)	110,785,785	110,785,785

Reconciliation of the number of shares in issue in each class at 31 December 2016:

	Ordinary Shares	Extended Life Shares	New Global Shares	New Global Treasury Shares	Total
Balance at 31 December 2015	48,830,771	270,733,913	106,720,785	4,065,000	430,350,469
Shares redeemed during the year	(13,612,184)	(51,890,380)	-	-	(65,502,564)
Buybacks (Shares repurchased)	-	(2,969,679)	(6,145,000)	6,145,000	(2,969,679)
Balance at 31 December 2016	35,218,587	215,873,854	100,575,785	10,210,000	361,878,226

Reconciliation of the number of shares in issue in each class at 31 December 2015:

	Ordinary Shares	Extended Life Shares	New Global Shares	New Global Treasury Shares	Total
Balance at 31 December 2014	75,011,865	331,917,856	110,785,785	-	517,715,506
Shares redeemed during the year	(26,181,094)	(58,730,177)	-	-	(84,911,271)
Buybacks (Shares repurchased)	-	(2,453,766)	(4,065,000)	4,065,000	(2,453,766)
Balance at 31 December 2015	48,830,771	270,733,913	106,720,785	4,065,000	430,350,469

### Distributions

Set out below are details of the capital returns by way of a compulsory partial redemptions made during the year.

2016	Ordinary Share Class			Extended Life Share Class			New Global Share Class		
	Distribution Amount	Number of Shares	Per Share Amount	Distribution Amount	Number of Shares	Per Share Amount	Distribution Amount	Number of Shares	Per Share Amount
29 February 2016	\$6,991,959	6,484,844	\$1.0782	\$19,991,948	21,162,219	\$0.9447	-	-	-
28 April 2016	\$4,491,953	4,080,255	\$1.1009	\$10,991,949	11,628,001	\$0.9453	-	-	-
16 June 2016	\$3,491,959	3,047,085	\$1.1460	\$7,991,945	8,130,158	\$0.9830	-	-	-
06 December 2016	-	-	-	\$10,991,943	10,970,002	\$1.0020	-	-	-
	<b>\$14,975,871</b>	<b>13,612,184</b>	<b>-</b>	<b>\$49,967,785</b>	<b>51,890,380</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

2015	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
4 March 2015	\$4,991,952	\$0.0666	\$8,943,952	\$0.0270	-	-
8 May 2015	\$12,491,954	\$0.1760	\$3,991,937	\$0.0123	-	-
27 August 2015	\$6,991,956	\$0.1143	\$17,491,936	\$0.0547	-	-
1 December 2015	\$7,991,951	\$0.1441	\$34,991,935	\$0.1152	-	-
<b>Total</b>	<b>\$32,467,813</b>	<b>-</b>	<b>\$65,419,760</b>	<b>-</b>	<b>-</b>	<b>-</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 8 – SHARE CAPITAL (CONTINUED)

#### Buybacks

Under the authority granted to the Directors at the 2015 and 2016 AGMs, between 1 January 2016 and 31 December 2016 6,145,000 New Global Shares were repurchased by the Company for gross consideration of \$5,745,879 and are currently held in treasury. In addition, 2,969,679 Extended Life Shares were repurchased during the period for gross consideration of \$2,771,595 and were cancelled. The Company did not repurchase any Ordinary Shares during this year.

### NOTE 9 – FINANCIAL HIGHLIGHTS

	Ordinary Shares (\$)	Extended Life Shares (\$)	New Global Shares £	Ordinary Shares (\$)	Extended Life Shares (\$)	New Global Shares £
Per share operating performance	Year ended 31 December 2016	Year ended 31 December 2016	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2015	Year ended 31 December 2015
Opening balance	1.1184	1.0003	0.7341	1.2521	1.1909	0.8860
Impact of share buybacks	-	0.0008	0.0058	-	0.0005	0.0034
Distributions	(0.0793)	(0.0332)	(0.0102)	-	-	-
<b>Income/(loss) from investment operations (i)</b>						
Net investment income	0.0151	0.0217	0.0232	0.0203	0.0240	0.0128
Net realised and unrealised (loss)/gain from investments and foreign exchange	0.0041	0.0139	0.1888	(0.1540)	(0.2151)	(0.1681)
<b>Total income/(loss) from investment operations</b>	<b>0.0192</b>	<b>0.0356</b>	<b>0.2120</b>	<b>(0.1337)</b>	<b>(0.1911)</b>	<b>(0.1553)</b>
<b>Net asset value per share at end of the year</b>	<b>1.0583</b>	<b>1.0035</b>	<b>0.9417</b>	<b>1.1184</b>	<b>1.0003</b>	<b>0.7341</b>

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

	Ordinary Shares Year ended 31 December 2016	Extended Life Shares Year ended 31 December 2016	New Global Shares Year ended 31 December 2016	Ordinary Shares Year ended 31 December 2015	Extended Life Shares Year ended 31 December 2015	New Global Shares Year ended 31 December 2015
<b>NAV Total Return* (ii)</b>						
NAV Total Return before performance fee	1.72%	3.64%	29.67%	(10.68%)	(16.00%)	(17.14%)
Performance fee	-	-	-	-	-	-
<b>NAV Total Return after performance fee including Dividend</b>	<b>1.72%</b>	<b>3.64%</b>	<b>29.67%</b>	<b>(10.68%)</b>	<b>(16.00%)</b>	<b>(17.14%)</b>

\* NAV Total Return is calculated for the Ordinary Shares, Extended Life Shares and New Global Shares only and is calculated based on movement in the NAV, and does not reflect any movement in the market value. A shareholder's return may vary from these returns based on participation in new issues, the timing of capital transactions etc. It assumes that all income distributions of the Company, paid by way of dividend, were reinvested, without transaction costs. Class A shares are not presented as they are not profit participating shares.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 – FINANCIAL HIGHLIGHTS (continued)

	Ordinary Shares Year ended 31 December 2016	Extended Life Shares Year ended 31 December 2016	New Global Shares Year ended 31 December 2016	Ordinary Shares Year ended 31 December 2015	Extended Life Shares Year ended 31 December 2015	New Global Shares Year ended 31 December 2015
<b>Ratios to average net assets</b>						
Net investment income after performance fee	1.35%	2.19%	1.59%	(1.64%)	2.10%	1.42%
Expenses before performance fee	(2.10%)	(2.22%)	(2.55%)	(2.02%)	(2.05%)	(2.01%)
Performance fee	-	-	-	-	-	-
<b>Total expenses after performance fee</b>	<b>(2.10%)</b>	<b>(2.22%)</b>	<b>(2.55%)</b>	<b>(2.02%)</b>	<b>(2.05%)</b>	<b>(2.01%)</b>

### NOTE 10 – RECONCILIATION OF NET ASSET VALUE TO PUBLISHED NAV

In preparing the 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 2016	36,902,214	1.0478	215,306,914	0.9974	94,573,591	0.9403
Valuation Adjustments	368,892	0.0105	1,321,346	0.0061	141,874	0.0014
<b>Net Assets per consolidated Financial Statements</b>	<b>37,271,106</b>	<b>1.0583</b>	<b>216,628,260</b>	<b>1.0035</b>	<b>94,715,465</b>	<b>0.9417</b>
	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 2015	54,495,517	1.1160	273,190,429	1.0091	79,604,835	0.7459
Deferred Tax Adjustment	249,521	0.0052	643,311	0.0023	105,670	0.0010
Valuation Adjustments	(134,632)	(0.0028)	(3,015,509)	(0.0111)	(1,366,434)	(0.0128)
<b>Net Assets per consolidated Financial Statements</b>	<b>54,610,406</b>	<b>1.1184</b>	<b>270,818,231</b>	<b>1.0003</b>	<b>78,344,071</b>	<b>0.7341</b>

**NOTE 11 - SUBSEQUENT EVENTS**

On 31 March 2017 the NBDG Portfolio entered into its harvest period having been 94.91% invested on that date.

Wholly-owned subsidiary, London American Homes LP, was dissolved on 24 January 2017.