

NB DISTRESSED DEBT INVESTMENT FUND LIMITED
Annual Report and Audited Financial Statements

For the year ended 31 December 2017



KPMG LLP
Aon Center
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200 E. Randolph Street
Chicago, IL 60601-6436

Independent Auditors' Report

To 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 consolidated condensed schedule of investments, as of December 31, 2017 and 2016, 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, 2017 and 2016, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Chicago, Illinois
April 17, 2018

Consolidated Statement of Assets and Liabilities

(EXPRESSED IN US DOLLARS EXCEPT WHERE STATED OTHERWISE)	31 DECEMBER 2017	31 DECEMBER 2016
Assets		
Investments at fair value (2017: cost of \$370,742,695; 2016: cost of \$389,791,409)	314,800,289	330,728,123
Forward currency contracts	257,290	1,766,317
Warrants (2017: cost of \$752,955; 2016: cost of \$752,955)	287,087	440,230
Cash and cash equivalents	23,824,956	38,615,044
	339,169,622	371,549,714
Other assets		
Interest receivables	1,466,010	1,002,567
Receivables for investments sold	2,293,513	4,693,490
Other receivables and prepayments	1,453,086	1,161,989
Deferred tax asset	-	2,987,074
Federal tax receivable	3,086,623	-
	347,468,854	381,394,834
Liabilities		
Payables for investments purchased	7,760,428	9,507,381
Credit default swap (2017: cost of \$Nil; 2016: cost of \$45,648)	-	28,813
Forward currency contracts	98,264	6,813
Accrued expenses and other liabilities	501,135	455,438
Income distribution payable	6,038,502	-
Payables to Investment Manager and affiliates	412,050	461,858
	14,810,379	10,460,303
	332,658,475	370,934,531
Net assets attributable to Ordinary Shares (shares 2017: 26,714,397; 2016: 35,218,587)	29,641,938	37,271,106
Net asset value per Ordinary Share	1.1096	1.0583
Net assets attributable to Extended Life Shares (shares 2017: 173,302,953; 2016: 215,873,854)	180,009,723	216,628,260
Net asset value per Extended Life Share	1.0387	1.0035
Net assets attributable to New Global Shares (shares 2017: 98,733,585; 2016: 100,575,785)	£90,930,929	£94,715,465
Net asset value per New Global Share	£0.9210	£0.9417
Net assets attributable to New Global Shares (USD equivalent)	123,006,814	117,035,165
Net asset value per New Global Share (USD equivalent)	1.2458	1.1637

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

Consolidated Statement of Operations

(EXPRESSED IN US DOLLARS)	31 DECEMBER 2017	31 DECEMBER 2016
Income		
Interest income	9,960,630	13,114,532
Dividend income net of withholding tax (2017: nil; 2016: \$506,473)	82,546	3,394,883
	10,043,176	16,509,415
Expenses		
Investment management fee	5,301,564	5,837,063
Professional and other expenses	1,054,931	2,313,235
Administration fee	322,796	357,463
Loan administration and custody fees	216,042	183,060
Directors' fees and expenses	249,534	289,955
	7,144,867	8,980,776
Net investment income	2,898,309	7,528,639
Realised and unrealised gain/(loss) from investments and foreign exchange		
Net realised gain /(loss) on investments, credit default swap, warrants and forward currency transactions	18,614,764	(11,233,015)
Non cash loss on investment restructuring transactions	(233,473)	(45,501,723)
Net change in unrealised gain on investments, credit default swap, warrants and forward currency transactions	1,049,843	65,205,964
Income taxes from net realised/unrealised gain/(loss) on investments	221,390	(832,659)
Realised and unrealised gain from investments and foreign exchange	19,652,524	7,638,567
Net increase in net assets resulting from operations	22,550,833	15,167,206

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

Consolidated Statement of Changes in Net Assets

FOR THE YEAR ENDED 31 DECEMBER 2017

(EXPRESSED IN US DOLLARS)	31 DECEMBER 2017 ORDINARY SHARES	31 DECEMBER 2017 EXTENDED LIFE SHARES	31 DECEMBER 2017 NEW GLOBAL SHARES	31 DECEMBER 2017 AGGREGATED
Net assets at the beginning of the year	37,271,106	216,628,260	117,035,165	370,934,531
Net investment income	(206,679)	2,274,990	829,998	2,898,309
Net realised gain on investments, credit default swap and forward currency transactions	2,269,917	14,522,802	1,822,045	18,614,764
Non cash gain/(loss) on investment restructuring transactions	291,086	180,502	(705,061)	(233,473)
Net change in unrealised gain/ (loss) on investments, credit default swap, warrants and forward currency transactions	(178,688)	(6,032,183)	7,260,714	1,049,843
Income taxes from net realised/unrealised gains on investments	53,119	136,951	31,320	221,390
Dividends	(374,002)	(4,247,515)	(1,415,706)	(6,037,223)
Net cost of share buybacks	-	(1,736,311)	(1,851,661)	(3,587,972)
Shares redeemed during the year	(9,483,921)	(41,717,773)	-	(51,201,694)
Net assets at the end of the year	29,641,938	180,009,723	123,006,814	332,658,475

FOR THE YEAR ENDED 31 DECEMBER 2016

(EXPRESSED IN US DOLLARS)	31 DECEMBER 2016 ORDINARY SHARES	31 DECEMBER 2016 EXTENDED LIFE SHARES	31 DECEMBER 2016 NEW GLOBAL SHARES	31 DECEMBER 2016 AGGREGATED
Net assets at the beginning of the year	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 gain on investments, credit default swap and forward currency transactions	(272,874)	(7,361,874)	(3,598,267)	(11,233,015)
Non cash loss on investment restructuring transactions	(2,502,542)	(29,790,961)	(13,208,220)	(45,501,723)
Net change in unrealised loss 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 on 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)
Net assets at the end of the year	37,271,106	216,628,260	117,035,165	370,934,531

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

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2017 AND 31 DECEMBER 2016

(EXPRESSED IN US DOLLARS)	31 DECEMBER 2017	31 DECEMBER 2016
Cash flows from operating activities:		
Net increase in net assets resulting from operations	22,550,833	15,167,206
<i>Adjustment to reconcile net increase in net assets resulting from operations to net cash flow provided by operations:</i>		
Net realised (gain) /loss on investments, credit default swap, warrants and forward currency transactions	(18,614,764)	11,233,015
Non cash loss on investment restructuring transactions	233,473	45,501,723
Non cash interest received on investments	(122,239)	-
Net change in unrealised gain on investments, credit default swap, warrants and forward currency transactions	(1,049,843)	(65,205,964)
Accretion of discount on loans and bonds	(703,393)	(2,079,112)
Changes in interest receivable	(463,443)	906,134
Changes in receivables for investments sold	2,399,977	(64,460)
Changes in other receivables and prepayments	(291,097)	(806,787)
Change in deferred taxes	(99,549)	(6,207,861)
Changes in payables for investments purchased	(1,746,953)	9,337,708
Changes in payables, accrued expenses and other liabilities	(4,111)	(88,392)
Cash paid on settled forward currency contracts and spot currency contracts	(3,351,275)	(3,350,032)
Purchase of investments	(18,023,084)	(41,848,593)
Sale of investments	51,510,975	108,320,709
Net sale of short term investments	8,050,317	35,909,126
Net cash provided by operating activities	40,275,824	106,724,420
Cash flows from financing activities:		
Net cost of share buybacks	(3,587,972)	(8,517,474)
Shares redeemed during the year	(51,201,694)	(64,943,656)
Dividends	-	(11,671,509)
Net cash used in financing activities	(54,789,666)	(85,132,639)
Net (decrease)/increase in cash and cash equivalents	(14,513,842)	21,591,781
Cash and cash equivalents at the beginning of the year	38,615,044	17,168,855
Effect of exchange rate changes on cash and cash equivalents	(276,246)	(145,592)
Cash and cash equivalents at the end of the year	23,824,956	38,615,044

Supplemental cash flow information

\$24,020,641 (31 December 2016: \$27,933,872) 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 \$121,840 (31 December 2016: \$7,040,520).

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

Consolidated Condensed Schedule of Investments (by financial instrument)

AT 31 DECEMBER 2017 (EXPRESSED IN US DOLLARS)	COST	FAIR VALUE	ORDINARY SHARES (%) ¹	EXTENDED LIFE SHARES (%) ¹	NEW GLOBAL SHARES (%) ¹	TOTAL COMPANY (%) ¹
Portfolio of Distressed Investments						
Bank Debt Investments	118,293,825	83,508,629	13.37	24.44	28.90	25.10
Private Equity	111,913,489	108,691,513	34.78	30.46	35.40	32.67
Private Equity: Real Estate Development	-	620,287	0.58	0.25	-	0.19
Private Note	59,431,556	41,271,822	10.59	15.62	8.15	12.41
Public Bond	3,053,000	2,272,000	-	0.91	0.52	0.68
Public Equity	65,018,736	66,075,191	21.84	17.73	22.52	19.85
Trade Claim ²	13,032,089	12,360,847	11.66	4.95	-	3.72
	370,742,695	314,800,289	92.82	94.36	95.49	94.62
Total Investments	370,742,695	314,800,289	92.82	94.36	95.49	94.62
Ordinary Shares	31,036,493	27,509,333	92.82	-	-	-
Extended Life Shares	209,442,596	169,843,585	-	94.36	-	-
New Global Shares	130,263,606	117,447,371	-	-	95.49	-
	370,742,695	314,800,289	92.82	94.36	95.49	94.62
Forward Currency Contracts						
Ordinary Shares	-	77,176	0.26	-	-	0.02
Extended Life Shares	-	81,850	-	0.05	-	0.03
	-	159,026	0.26	0.05	-	0.05
Warrants						
Extended Life Shares	478,733	197,638	-	0.11	-	0.06
New Global Shares	274,222	89,449	-	-	0.07	0.03
	752,955	287,087	-	0.11	0.07	0.09

1 This is the Fair Value expressed as a percentage of total Company NAV, Ordinary Share NAV, Extended Life Share NAV and New Global Share NAV.

2 The trade claim was structured through a fully funded total return swap with a major US financial institution.

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

Condensed Schedule of Investments (by financial instrument)

AT 31 DECEMBER 2016 (EXPRESSED IN US DOLLARS)	COST	FAIR VALUE	ORDINARY SHARES (%) ¹	EXTENDED LIFE SHARES (%) ¹	NEW GLOBAL SHARES (%) ¹	TOTAL COMPANY (%) ¹
Portfolio of Distressed Investments						
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 ²	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
Temporary Investments						
US Treasury Bills	7,993,250	7,992,000	-	3.69	-	2.15
	7,993,250	7,992,000	-	3.69	-	2.15
Total Investments	389,791,409	330,728,123	78.34	89.67	91.66	89.15
Ordinary Shares	32,765,089	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
Credit Default Swap						
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)
Forward Currency Contracts						
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	-	0.48
Warrants						
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

1 This is the Fair Value expressed as a percentage of total Company NAV, Ordinary Share NAV, Extended Life Share NAV and New Global Share NAV.

2 The trade claim was structured through a fully funded total return swap with a major US financial institution.

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

Consolidated Condensed Schedule of Investments

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

31 DECEMBER 2017 (EXPRESSED IN US DOLLARS)	COUNTRY	INDUSTRY	NOMINAL	COST	FAIR VALUE	ORDINARY SHARES (%) ¹	EXTENDED LIFE SHARES (%) ¹	NEW GLOBAL SHARES (%) ¹	TOTAL COMPANY (%) ¹
Securities									
Harko LLC	United States	Lodging & Casinos	2,517,756	34,067,954	32,076,211	22.16	9.41	6.97	9.66
Five Point Holdings LLC (formally known as Newhall Holding Company, LLC)	United States	Building & Development	1,720,599	23,945,425	24,277,652	14.78	7.18	5.67	7.30
Twin River Worldwide Holdings	United States	Lodging & Casinos	211,702	6,777,499	22,202,247	-	-	12.64	6.67
Exide Technologies 11% 30/04/22	United States	Auto Components	8,316,371	7,290,956	7,484,734	0.16	2.95	1.73	2.24
Exide Technologies 7.000% 30/04/25 SR:AI CVT	United States	Auto Components	14,667,341	12,427,684	9,020,415	2.40	3.13	2.17	2.70
Exide Technologies 7.25% 30/04/25 SR:AI	United States	Auto Components	6,557,610	5,963,964	6,688,762	4.65	1.04	2.80	2.01
				90,473,482	101,750,021	44.15	23.71	31.98	30.58

31 DECEMBER 2016 (EXPRESSED IN US DOLLARS)	COUNTRY	INDUSTRY	NOMINAL	COST	FAIR VALUE	ORDINARY SHARES (%) ¹	EXTENDED LIFE SHARES (%) ¹	NEW GLOBAL SHARES (%) ¹	TOTAL COMPANY (%) ¹
Securities									
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
				59,140,580	61,218,216	31.85	14.97	14.45	16.50

¹ This is the Fair Value expressed as a percentage of total Company NAV, Ordinary Share NAV, Extended Life Share NAV and New Global Share NAV.

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

Consolidated Condensed Schedule of Investments (by geography)

AT 31 DECEMBER 2017 (EXPRESSED IN US DOLLARS)	COST	FAIR VALUE	ORDINARY SHARES (%) ¹	EXTENDED LIFE SHARES (%) ¹	NEW GLOBAL SHARES (%) ¹	TOTAL COMPANY (%) ¹
Geographic diversity of Portfolio						
Portfolio of Distressed Investments						
Australia	18,554,191	17,652,774	11.21	4.76	4.68	5.31
Brazil	13,032,089	12,360,847	11.66	4.95	-	3.72
Denmark	14,207,442	9,899,862	-	2.58	4.27	2.98
Germany	-	1,476,112	1.39	0.59	-	0.44
Greece	357,242	280,404	0.26	0.11	-	0.08
Luxembourg	1,893,980	12,858,961	12.12	5.15	-	3.87
Marshall Islands	15,997,340	16,493,553	-	6.53	3.85	4.96
Netherlands	13,646,547	13,470,497	-	3.32	6.10	4.05
Spain	35,993,209	24,920,519	-	3.10	15.72	7.50
United States	257,060,655	205,386,760	56.18	63.27	60.87	61.71
	370,742,695	314,800,289	92.82	94.36	95.49	94.62

¹ This is the Fair Value expressed as a percentage of total Company NAV, Ordinary Share NAV, Extended Life Share NAV and New Global Share NAV.

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

Consolidated Condensed Schedule of Investments (by geography)

AT 31 DECEMBER 2016 (EXPRESSED IN US DOLLARS)	COST	FAIR VALUE	ORDINARY SHARES (%) ¹	EXTENDED LIFE SHARES (%) ¹	NEW GLOBAL SHARES (%) ¹	TOTAL COMPANY (%) ¹
Geographic diversity of Portfolio						
Portfolio of Distressed Investments						
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
Temporary Investments						
United States	7,993,250	7,992,000	-	3.69	-	2.15
	389,791,409	330,728,123	78.34	89.67	91.66	89.15

¹ This is the Fair Value expressed as a percentage of total Company NAV, Ordinary Share NAV, Extended Life Share NAV and New Global Share NAV.

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

Consolidated Condensed Schedule of Investments (by sector)

AT 31 DECEMBER 2017 (EXPRESSED IN US DOLLARS)	COST	FAIR VALUE	ORDINARY SHARES (%) ¹	EXTENDED LIFE SHARES (%) ¹	NEW GLOBAL SHARES (%) ¹	TOTAL COMPANY (%) ¹
Industry diversity of Portfolios						
Portfolio of Distressed Investments						
Air Transport	631,151	541,827	0.51	0.22	-	0.16
Auto Components	27,367,990	23,360,850	7.27	7.18	6.73	7.02
Building & Development	25,893,453	24,548,897	15.03	7.29	5.67	7.38
Chemicals & Plastics	1,525,664	1,450,002	-	-	1.18	0.44
Commercial Mortgage	13,646,548	14,284,947	-	3.77	6.10	4.29
Containers & Packaging	1,893,980	12,858,961	12.12	5.15	-	3.87
Financial Intermediaries	21,464,317	12,484,917	3.12	6.42	-	3.75
Forest Products	-	1,476,112	1.39	0.59	-	0.44
Lodging & Casinos	82,358,287	89,201,164	22.18	21.03	36.43	26.79
Nonferrous Metals/Minerals	20,100,461	14,740,275	-	4.50	5.39	4.43
Oil & Gas	28,121,742	27,869,619	-	9.25	9.11	8.38
Real Estate Development	-	620,287	0.58	0.25	-	0.19
Shipping	38,144,150	36,992,077	0.87	11.76	12.65	11.13
Surface Transportation	32,525,287	20,321,759	11.66	7.16	3.23	6.11
Utilities	77,069,665	34,048,595	18.09	9.79	9.00	10.24
	370,742,695	314,800,289	92.82	94.36	95.49	94.62

¹ This is the Fair Value expressed as a percentage of total Company NAV, Ordinary Share NAV, Extended Life Share NAV and New Global Share NAV.

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

Consolidated Condensed Schedule of Investments (by sector)

AT 31 DECEMBER 2016 (EXPRESSED IN US DOLLARS)	COST	FAIR VALUE	ORDINARY SHARES (%) ¹	EXTENDED LIFE SHARES (%) ¹	NEW GLOBAL SHARES (%) ¹	TOTAL COMPANY (%) ¹
Industry diversity of Portfolios						
Portfolio of Distressed Investments						
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 Transportation	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
Temporary Investments						
US Treasury Bills	7,993,250	7,992,000	-	3.69	-	2.15
	389,791,409	330,728,123	78.34	89.67	91.66	89.15

¹ This is the Fair Value expressed as a percentage of total Company NAV, Ordinary Share NAV, Extended Life Share NAV and New Global Share NAV.

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

NOTE 1 – ORGANISATION AND DESCRIPTION OF BUSINESS

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 are traded on the Specialist Fund Segment (“SFS”) of the London Stock Exchange (“LSE”). All share classes are in the harvest period.

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 US Dollars for Ordinary Shares and Extended Life Shares and Pounds Sterling for New Global Shares.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES

There were no recent standards and pronouncement relevant to the company

(a) Basis of Preparation

The accompanying Consolidated Financial Statements (“Financial Statements”) give a true and fair view of the assets, liabilities, financial position and return and have been prepared in conformity with accounting principles generally accepted in the United States of America (“US GAAP”) and Companies Law and are expressed in US Dollars. All adjustments considered necessary for the fair presentation of the financial statements, for the period presented, have been included.

The Company is regarded as an Investment Company and follows the accounting and reporting guidance in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 946. Accordingly, the Company reflects its investments on the Consolidated Statement of Assets and Liabilities at their estimated fair values, with unrealized gains and losses resulting from changes in fair value reflected in net change in unrealised gain/(loss) on investments, credit default swap, warrants and forward currency transactions in the Consolidated Statement of Operations.

The Financial Statements include the results of the Company and its wholly-owned subsidiaries.

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

Wholly-owned subsidiaries, 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. and London Lux Propco 1 S.a.r.l. 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.

During the year ended 31 December 2017, London American Homes LP, London Adams LLC London Tides LLC, London Dearborn LLC, London Randolph LLC, London Wacker LLC and London (Lux) PropCo 2 S.a.r.l. were dissolved.

(b) Use of Estimates

The preparation of these Financial Statements in accordance with U.S.GAAP requires that the Directors make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of income and expenses during the reporting period.

Actual results could differ significantly from these estimates.

(c) Cash and Cash Equivalents

The Company holds cash and cash equivalents in U.S. and non-U.S. denominated currencies 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 change in value to be cash equivalents. As of 31 December 2017, the Company has cash balances in foreign currencies equating to \$23,824,956 (31 December 2016: \$38,615,044). These balances consisted of Pound Sterling: \$3,429,128 (31 December 2016: \$9,719,133), Euro: \$875,586 (31 December 2016: \$658,690), US Dollar: \$19,165,424 (31 December 2016: \$28,029,403), and Australian Dollar: \$354,818 (31 December 2016: \$207,818)

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(d) Payables/Receivables on Investments Purchased/Sold

At 31 December 2017, 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.

(e) Foreign Currency Translation

Assets and liabilities denominated in foreign currency are translated into US Dollars at the currency exchange rates on the date of valuation. 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.

(f) Fair Value of Financial Instruments

The fair value of the Company's assets and liabilities that qualify as financial instruments under FASB ASC 825, Financial Instruments, approximate the carrying amounts presented in the Consolidated Statement of Assets and Liabilities.

Fair value prices are 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 2017 and 31 December 2016 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 the bid price provided by third party broker / dealer 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 (g), "Investment transactions, investment income/expenses and valuation", on pages 87 and 88.
- 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.

The Company follows guidance in ASC 820, Fair Value Measurement ("ASC 820"), where fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are determined within a framework that establishes a three-tier hierarchy which maximizes the use of observable market data and minimizes the use of unobservable inputs to establish a classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk,

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(f) Fair Value of Financial Instruments (continued)

such as the risk inherent in a particular valuation technique used to measure fair value using a pricing model and/or the risk inherent in the inputs for the valuation technique. Inputs may be observable or unobservable.

Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the information available. The inputs or methodology used for valuing assets or liabilities may not be an indication of the risks associated with investing in those assets or liabilities.

ASC 820 classifies the inputs used to measure these fair values into the following hierarchy:

Level 1: Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies

Level 3: Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs used in the determination of the fair value require significant management judgment or estimation

In all cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each investment.

The following is a summary of the levels within the fair value hierarchy in which the Company invests:

FAIR VALUE OF FINANCIAL INSTRUMENTS AT 31 DECEMBER 2017

(EXPRESSED IN US DOLLARS)	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Bank Debt Investments	-	34,205,399	49,303,230	83,508,629
Private Equity	-	39,264,153	69,427,360	108,691,513
Private Equity: Real Estate Development	-	-	620,287	620,287
Private Note	-	34,310,812	6,961,010	41,271,822
Public Bond	-	2,272,000	-	2,272,000
Public Equity	66,075,191	-	-	66,075,191
Trade Claim	-	-	12,360,847	12,360,847
Warrants	-	195,070	92,017	287,087
Forward currency contracts	-	159,026	-	159,026
Total investments that are accounted for at fair value	66,075,191	110,406,460	138,764,751	315,246,402

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(f) Fair Value of Financial Instruments (continued)

FAIR VALUE OF FINANCIAL INSTRUMENTS AT 31 DECEMBER 2016

(EXPRESSED IN US 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
Total investments that are accounted for at fair value	12,807,661	148,614,514	171,476,869	332,899,044

FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(f) 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 2017. 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	537,748	Market Information	Value of remaining Aircraft	\$12.3m	N/A
Bank Debt Investments	Building & Development	271,244	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Commercial Mortgage	13,470,496	Discount Rate	15% discount rate on loan payments	N/A	N/A
Bank Debt Investments	Forest Products	1,476,111	Market Comparables	10% liquidity discount	N/A	N/A
Bank Debt Investments	Lodging & Casinos	9,480,319	Market Comparables	EBITDA Multiple	13.5	N/A
Bank Debt Investments	Shipping	15,206,399	Market Information	Value of Shipping Vessels	\$9.5m per vessel	N/A
Bank Debt Investments	Surface Transport	7,960,913	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Utilities	900,000	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Air Transport	4,079	Discounted Cash Flow (DCF)	Residual Value/ Cash Receivable	N/A	N/A
Private Equity	Auto Components	166,939	Discounted Cash Flow (DCF)	Residual Value/ Cash Receivable	N/A	N/A
Private Equity	Commercial Mortgage	814,450	Residual Value	Litigation Reserves	71% recovery value	N/A
Private Equity	Containers & Packaging	12,858,962	Discount Rate	5% liquidity discount	N/A	N/A
Private Equity	Lodging & Casinos	7,479,289	Market Comparables	EBITDA Multiple	8.0x	N/A
Private Equity	Lodging & Casinos	32,076,211	Market Comparables	Land value per acre	\$2.1m per acre	N/A
Private Equity	Nonferrous Metals/Minerals	14,740,276	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Shipping	1,287,154	Market Information	Value of Shipping Vessels	\$9.5m per vessel	N/A
Private Equity: Real Estate Development	Real Estate Development	620,287	Market Comparables	Price per square foot	\$324 per sq. foot	N/A
Private Note	Auto Components	6,688,762	Purchase Price	Weighted Average Valuation	N/A	N/A
Private Note	Utilities	272,248	Market Information	Unadjusted Broker Quote	N/A	N/A
Trade Claim	Surface Transport	12,360,847	Market Information	Unadjusted Broker Quote	N/A	N/A
Warrants	Oil & Gas	45,367	Market Comparables	Unadjusted Broker Quote	N/A	N/A
Warrants	Shipping	46,650	Market Information	Unadjusted Broker Quote	N/A	N/A
Total		138,764,751				

FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(f) 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 Aircraft	\$12.4m per plane	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	\$8.5m per vessel	N/A
Bank Debt Investments	Shipping	3,062,792	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Surface Transportation	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 Aircraft	20% \$1.25m	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	\$2.3m 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	\$7.3m 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 Transportation	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
Total		171,476,869				

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(f) 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.

FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(f) 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 2017 (EXPRESSED IN US DOLLARS)

	BANK DEBT INVESTMENTS	PRIVATE BOND	PRIVATE EQUITY	PRIVATE EQUITY: REAL ESTATE DEVELOPMENT	TRADE CLAIM	WARRANTS	PRIVATE NOTE	TOTAL
Balance, 31 December 2016	49,769,191	600,972	93,095,948	3,600,871	11,979,270	283,130	12,147,487	171,476,869
Purchases	3,705,632	-	7,514,142	-	-	-	5,969,791	17,189,565
Sales and distributions	(7,514,023)	-	(42,332,636)	(2,987,227)	-	-	-	(52,833,886)
Restructuring transactions	3,822,012	-	2,104,422	-	-	-	-	5,926,434
Gain on non-cash investment transactions	-	-	1,041,626	-	-	-	-	1,041,626
Realised gain/(loss) on sale of investments	46,367	-	33,023,319	401,310	-	-	-	33,470,996
Unrealised (loss)/gain on investments	3,971,074	-	(9,263,813)	(394,667)	381,577	(42,713)	724,565	(4,623,977)
Reclassification within level 3 categories	-	(600,972)	-	-	-	-	600,972	-
Transfers into or (out of) Level 3	(4,497,023)	-	(15,755,648)	-	-	(148,400)	(12,481,805)	(32,882,876)
Balance, 31 December 2017	49,303,230	-	69,427,360	620,287	12,360,847	92,017	6,961,010	138,764,751
Change in unrealised (loss)/gain on investments included in Consolidated Statement of Operation for Level 3 investments held as of 31 December 2017	4,935,830	-	3,007,216	(85,737)	381,577	(119,791)	387,135	8,506,230

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 had seven transfers between Level 1 and Level 2 of the fair value hierarchy.

FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(f) 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 US DOLLARS)

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

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.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(g) Investment transactions, investment income/expenses and valuation

Investment transactions are accounted for 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 period or fair value at the previous year end and the fair value at the current period end. Unrealised gains and losses are included in the Consolidated Statement of Operations.

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

For the year ended 31 December 2017, \$703,393 (31 December 2016: \$2,079,112) was recorded to reflect accretion of discount on loans and bonds during the year.

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. Dividend income is recognised on the ex-dividend date net of withholding tax.

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. The amount of interest income recorded, plus initial costs of underlying PIK interest is reviewed periodically to ensure that these do not exceed fair value of those assets.

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.

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;

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(g) Investment transactions, investment income/expenses and valuation (continued)

- The economic outlook of the industry;
- The issuer's position in the industry;
- The financial statements of the issuer; and
- The nature and duration of any restriction on disposition of the security.

(i) Derivative Contracts

The Company may, from time to time, hold derivative financial instruments for the purposes of managing 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 the value recorded in the financial statements represents net unrealised gain and loss on forwards as at 31 December. Forward contracts are generally categorised in Level 2 of the fair value hierarchy.

The credit default swap at 31 December 2016 had 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 five warrants (2016: six warrants) which it prices based on the bid price provided by a third party broker/dealer quote.

(j) Taxation

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.

There were no uncertain tax positions at 31 December 2017 or 31 December 2016. The Company is subject to examination for US Federal and state tax returns for calendar years 2014–2017.

During the year ended 31 December 2017, the Company recorded current income tax benefit from realised gain/loss on investments of \$3,208,466 (31 December 2016: \$7,040,520 current income tax expense). 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/expense for the year ended 31 December 2017 is equal to \$2,987,074 (31 December 2016: \$6,207,861 deferred income tax benefit). The net total income tax benefit from realised/unrealised gains/(losses) on investments for the year ended 31 December 2017 was \$221,390 (31 December 2016 income tax expense: \$832,659).

NOTE 3 – 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 managing foreign currency exposure.

Credit Default Swap

The Company uses 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) from time to time. As at 31 December 2017 this facility was not utilised.

There was no credit default swap held as at 31 December 2017.

Derivative activity

For the year ended 31 December 2017 and 31 December 2016 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 2017		LONG EXPOSURE		SHORT EXPOSURE	
Primary underlying risk	NOTIONAL AMOUNTS	NUMBER OF CONTRACTS	NOTIONAL AMOUNTS	NUMBER OF CONTRACTS	
Foreign currency exchange rate					
Forward currency contracts	\$61,249,519	9	\$5,643,647		12
Total	\$61,249,519	9	\$5,643,647		12
Equity price					
Warrants	\$239,443	5	-		-
31 DECEMBER 2016		LONG EXPOSURE		SHORT EXPOSURE	
Primary underlying risk	NOTIONAL AMOUNTS	NUMBER OF CONTRACTS	NOTIONAL AMOUNTS	NUMBER OF CONTRACTS	
Foreign currency exchange rate					
Forward currency contracts	\$49,356,116	9	\$632,447		4
Credit					
Purchased protection Credit default swap	\$12,200,000	1	-		-
Total	\$61,556,116	10	\$632,447		4
Equity price					
Warrants	265,347	6	-		-

The following tables show, at 31 December 2017 and 31 December 2016, 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 2017 and 31 December 2016, the realised and unrealised gain and loss amounts included in the Consolidated Statement of Operations, categorised by primary underlying risk:

FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements

NOTE 3 – DERIVATIVES (CONTINUED)

Derivative activity (continued)

31 DECEMBER 2017

PRIMARY UNDERLYING RISK	DERIVATIVE ASSETS (\$)	DERIVATIVE LIABILITIES (\$)	REALISED GAIN (LOSS) (\$)	UNREALISED GAIN (LOSS) (\$)
Foreign currency exchange rate				
Forward currency contracts	257,290	(98,264)	(3,585,616)	(1,600,477)
Credit				
Purchased protection				
Credit default swap	-	-	(78,385)	(13,753)
Equity price				
Warrants	287,087	-	-	(192,893)
Total	544,377	(98,264)	(3,585,616)	(1,807,123)

31 DECEMBER 2016

PRIMARY UNDERLYING RISK	DERIVATIVE ASSETS (\$)	DERIVATIVE LIABILITIES (\$)	REALISED GAIN (LOSS) (\$)	UNREALISED GAIN (LOSS) (\$)
Foreign currency exchange rate				
Forward currency contracts	1,766,317	(6,813)	(3,133,593)	1,306,327
Credit				
Purchased protection				
Credit default swap	-	(28,813)	(24,884)	(17,174)
Equity price				
Warrants	440,230	-	-	(151,739)
Total	\$2,216,372	\$(45,451)	\$(3,158,477)	\$(1,137,414)

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.

FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements

NOTE 3 – DERIVATIVES (CONTINUED)

Derivative activity (continued)

The Company is subject to enforceable master netting agreements with its counterparties of credit default swap with Bank of America Merrill Lynch of \$Nil (31 December 2016: (\$28,813)), and foreign currency exchange contracts with Royal Bank of Canada of (\$98,264) (31 December 2016: (\$1,746,284)), Societe Generale of \$80,919, (31 December 2016: (\$6,813)) and UBS AG of \$176,371 (31 December 2016: (\$20,033)). 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, at 31 December 2017 and 31 December 2016, show the gross and net derivatives assets and liabilities by contract type and amount for those derivatives contracts for which netting is permissible.

31 DECEMBER 2017 (EXPRESSED IN US DOLLARS)

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	261,024	(3,734)	257,290
Warrant	287,087	-	287,087
Total	548,111	(3,734)	544,377

DESCRIPTION	GROSS AMOUNTS OF RECOGNISED LIABILITIES	GROSS AMOUNTS OFFSET IN THE STATEMENTS OF ASSETS AND LIABILITIES	NET AMOUNTS OF RECOGNISED LIABILITIES PRESENTED IN THE CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES
Forward Currency Contracts	(101,998)	3,734	(98,264)
Total	(101,998)	3,734	(98,264)

31 DECEMBER 2016 (EXPRESSED IN US DOLLARS)

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 LIABILITIES PRESENTED IN THE CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES
Forward Currency Contracts	(16,638)	9,825	(6,813)
Credit Default Swaps	(28,813)	-	(28,813)
Total	(45,451)	9,825	(35,626)

NOTE 4 – RISK FACTORS

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 2017 and 31 December 2016 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.

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 3.

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.

NOTE 4 – RISK FACTORS (CONTINUED)

Other Risks

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

NOTE 5 – 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 Distribution Shares.

The issued share capital of the Company, which is denominated in US Dollars, consists of Ordinary Shares, Class A Shares and Extended Life Shares and in Pounds 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 right to receive notice of general meetings of the Company but the Trustee shall only have the right to attend and vote at general meetings of the Company when there are no other Shares of the Company in issue.

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, the 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 existing investment period.

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

At 31 December 2017, the Company had the following number of shares in issue:

	31 DECEMBER 2017	31 DECEMBER 2016
Issued and fully paid up:		
Class A Shares	2	2
Ordinary Share Class of no par value (Nil in treasury)	26,714,397	35,218,587
Extended Life Share Class of no par value (Nil in treasury)	173,302,953	215,873,854
New Global Share Class of no par value (Nil in treasury; 2016: 10,210,000)	98,733,585	110,785,785

Reconciliation of the number of shares in issue in each class at 31 December 2017:

	ORDINARY SHARES	EXTENDED LIFE SHARES	NEW GLOBAL SHARES	NEW GLOBAL TREASURY SHARES	TOTAL
Balance at 31 December 2016	35,218,587	215,873,854	100,575,785	10,210,000	361,878,226
Shares redeemed during the year	(8,504,190)	(40,663,033)	-	-	(49,167,223)
Buybacks (Shares repurchased)	-	(1,907,868)	(1,842,200)	1,842,200	(1,907,868)
Treasury shares cancelled during the year	-	-	-	(12,052,200)	(12,052,200)
Balance at 31 December 2017	26,714,397	173,302,953	98,733,585	-	298,750,935

FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements

NOTE 5 – SHARE CAPITAL (CONTINUED)

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 ¹	35,218,587	215,873,854	100,575,785	10,210,000	361,878,226

¹ Balance of issued shares (less Treasury shares) used to calculate NAV

Distributions

Set out below are details of the capital returns by way of compulsory partial redemptions approved during the year ended 31 December 2017 and 31 December 2016.

2017	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
22 February 2017	-	-	-	\$10,491,943	10,427,294	\$1.0062	-	-	-
23 June 2017	-	-	-	\$16,491,940	16,232,224	\$1.0160	-	-	-
4 September 2017	\$6,491,959	5,861,814	1.1075	\$10,491,946	10,030,541	\$1.0460	-	-	-
13 November 2017	\$2,991,962	2,642,376	1.1323	\$4,241,944	3,972,974	\$1.0677	-	-	-
	\$9,483,921	8,504,190	-	\$41,717,773	40,663,033	-	-	-	-

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	-	-	-
	\$14,975,871	13,612,184	-	\$49,967,785	51,890,380	-	-	-	-

Buybacks

Under the authority granted to the Directors at the 2016 and 2017 AGMs, between 1 January 2017 and 31 December 2017, 1,842,200 New Global Shares were repurchased by the Company for gross consideration of \$1,851,661 and were subsequently cancelled. In addition, 1,907,868 Extended Life Shares were repurchased during the year for gross consideration of \$1,736,310 and were cancelled immediately. The Company did not repurchase any Ordinary Shares during the year.

Treasury Shares

On 18 May 2017 the company cancelled 12,052,200 New Global Shares held in treasury, of which 10,210,000 were repurchased in prior years.

NOTE 6 – MATERIAL AGREEMENTS AND RELATED PARTY TRANSACTIONS

Investment Management Agreement (“IMA”)

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).

NOTE 6 – MATERIAL AGREEMENTS AND RELATED PARTY TRANSACTIONS (CONTINUED)

Investment Management Agreement (“IMA”) (continued)

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. On 31 December 2017 the Company entered into an Amendment Agreement amending the IMA in respect of the manufacture of the Company’s Key Information Document by the AIFM, MiFID II, anti-money laundering and bribery, cyber security and data protection.

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 charged 0.125% per month on the NAV of the New Global Share Class.

For the year ended 31 December 2017, the management fee expense was \$5,301,564 (31 December 2016: \$5,837,063). At 31 December 2017, the management fee payable was \$412,050 (31 December 2016: \$461,858).

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

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.

No performance fees were paid or payable in respect of any of the classes for either of the years ending 31 December 2017 or 31 December 2016, nor would any be paid if the company were to realise all its assets 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 \$500m of net asset value, 0.08% for the next \$500m and 0.07% for any remaining balance, accrued daily and paid monthly in arrears and subject to an annual minimum of \$100,000.

NOTE 6 – MATERIAL AGREEMENTS AND RELATED PARTY TRANSACTIONS (CONTINUED)

Administration, Company Secretarial and Custody Agreements (continued)

Effective 1 March 2015, the Company entered into a Custody Agreement with U.S. 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.

Effective 20 June 2017, Carey Commercial Limited was appointed the Company Secretary in replacement of C.L. Secretaries Limited, a wholly-owned subsidiary of Carey Commercial Limited. The Company Secretary is entitled to an annual fee of £65,800 plus fees for ad-hoc board meetings and additional services.

For the year ended 31 December 2017, the administration fee expense was \$322,796 (31 December 2016: \$357,463), the secretarial fee was \$192,383¹ of which \$36,017 was in relation to the administration of the ongoing buyback programme, (31 December 2016: \$180,252) and the loan administration and custody fee expense was \$216,042 (31 December 2016: \$183,060). At 31 December 2017, the administration fee payable is \$24,688² (31 December 2016: \$27,186), the secretarial fee payable is \$66,586² (31 December 2016: \$2,160) and the loan administration and custody fee payable is \$54,844² (31 December 2016: \$111,321).

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, \$50,000 plus £10,000 for the Chairman of the Audit Committee). In addition, the Chairman of the Audit Committee receives an additional \$5,000 for his/her services in this role. For the year ended 31 December 2017, the Directors fees and travel expenses amounted to \$249,534 (31 December 2016: \$259,955). Michael J. Holmberg, the non-independent Director, has waived the fees for his services as a Director. There were no other related interests for the year ended 31 December 2017.

1 Amount is included under Professional and other expenses in the Statement of Operations

2 Amounts are included under Accrued expenses and other liabilities in the Statement of Assets and Liabilities

NOTE 7 – 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 2017	YEAR ENDED 31 DECEMBER 2017	YEAR ENDED 31 DECEMBER 2017	YEAR ENDED 31 DECEMBER 2016	YEAR ENDED 31 DECEMBER 2016	YEAR ENDED 31 DECEMBER 2016
Net asset value per share at beginning of the year	1.0583	1.0035	0.9417	1.1184	1.0003	0.7341
Impact of share buybacks	-	0.0012	0.0029	-	0.0008	0.0058
Distributions	(0.0140)	(0.0245)	(0.0106)	(0.0793)	(0.0332)	(0.0102)
Income/(loss) from investment operations ¹						
Net investment (loss)/ income	(0.0063)	0.0118	0.0081	0.0151	0.0217	0.0232
Net realised and unrealised (loss)/gain from investments and foreign exchange	0.0716	0.0467	(0.0211)	0.0041	0.0139	0.1888
Total income/(loss) from investment operations	0.0653	0.0585	(0.0130)	0.0192	0.0356	0.2120
Net asset value per share at end of the year	1.1096	1.0387	0.9210	1.0583	1.0035	0.9417

1 Weighted average number of shares outstanding was used for calculation.

NOTE 7 – FINANCIAL HIGHLIGHTS (CONTINUED)

	ORDINARY SHARES	EXTENDED LIFE SHARES	NEW GLOBAL SHARES	ORDINARY SHARES	EXTENDED LIFE SHARES	NEW GLOBAL SHARES
	YEAR ENDED 31 DECEMBER 2017	YEAR ENDED 31 DECEMBER 2017	YEAR ENDED 31 DECEMBER 2017	YEAR ENDED 31 DECEMBER 2016	YEAR ENDED 31 DECEMBER 2016	YEAR ENDED 31 DECEMBER 2016
NAV TOTAL RETURN ^{1,2}						
NAV Total Return before performance fee	6.17%	5.95%	(1.07%)	1.72%	3.64%	29.67%
Performance fee	-	-	-	-	-	-
NAV Total Return after performance fee including an income distribution by way of dividend	6.17%	5.95%	(1.07%)	1.72%	3.64%	29.67%

1 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 of the shares. 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.

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

	ORDINARY SHARES	EXTENDED LIFE SHARES	NEW GLOBAL SHARES	ORDINARY SHARES	EXTENDED LIFE SHARES	NEW GLOBAL SHARES
	YEAR ENDED 31 DECEMBER 2017	YEAR ENDED 31 DECEMBER 2017	YEAR ENDED 31 DECEMBER 2017	YEAR ENDED 31 DECEMBER 2016	YEAR ENDED 31 DECEMBER 2016	YEAR ENDED 31 DECEMBER 2016
RATIOS TO AVERAGE NET ASESTS						
Net investment income before and after performance fee	(0.58%)	1.14%	0.70%	1.35%	2.19%	1.59%
Total expenses after performance fee	(2.06%)	(2.03%)	(1.96%)	(2.10%)	(2.22%)	(2.55%)

NOTE 8 – RECONCILIATION OF NET ASSET VALUE TO PUBLISHED NAV

In preparing the Financial Statements, there were post year end adjustments relating to investment valuations. 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 2017	29,411,826	1.1010	179,277,706	1.0345	90,854,307	0.9202
Valuation adjustments	230,112	0.0086	732,017	0.0042	76,622	0.0008
Net assets per consolidated Financial Statements	29,641,938	1.1096	180,009,723	1.0387	90,930,929	0.9210

NOTE 8 – RECONCILIATION OF NET ASSET VALUE TO PUBLISHED NAV (CONTINUED)

	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
Net assets per consolidated Financial Statements	37,271,106	1.0583	216,628,260	1.0035	94,715,465	0.9417

NOTE 9 – SUBSEQUENT EVENTS

On 12 April 2018, Christopher Legge was appointed a Director of the Company.