

INTERIM REPORT

CONSOLIDATED FINANCIAL STATEMENTS

NB Distressed Debt Investment Fund Limited

PERIOD ENDED 30 JUNE 2013

PARTNERING WITH CLIENTS FOR OVER 70 YEARS

INTERIM REPORT

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COMPANY OVERVIEW

The investment objective of NB Distressed Debt Investment Fund Limited (the "Company") 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 expects that, during the initial investment/reinvestment period, it will be invested in 50 to 60 holdings diversified across distressed and specialist situations investments, with a focus on senior debt backed by hard assets.

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

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

Following the admission of the Extended Life Shares, the Company issued 31,978,973 Extended Life Shares under the tap program on 4 July 2013, raising additional proceeds of \$38.4m.

The portfolio is managed by the Distressed Debt team at Neuberger Berman, which sits within one of the largest and most experienced credit teams in the industry.

Company (as at 30 June 2013)	NB Distressed Debt Investment Fund Limited (the "Company") <ul style="list-style-type: none"> Guernsey incorporated, closed-ended investment company Trading on the Specialist Fund Market of the London Stock Exchange and listed on the Channel Islands Stock Exchange 320,109,841 Extended Life Shares outstanding 124,160,471 Ordinary Shares outstanding
Investment Manager Sub-Investment Manager (as at 30 June 2013)	Neuberger Berman Europe Limited (the "Investment Manager") Neuberger Berman Fixed Income LLC (the "Sub-Investment Manager") <ul style="list-style-type: none"> A large team of 110 fixed income investment professionals Portfolio Managers have an average of 20 years of industry experience Total fixed income assets of over \$93 billion Over \$30 billion in high yield bonds and loans Non-investment grade research team of over 20 analysts

	At 30 June 2013	At 30 June 2013	At 30 June 2013	At 31 December 2012
(US\$ in millions, except per share data)	Extended Life Share Class	Ordinary Share Class	Consolidated	
Net Asset Value	\$378.5	\$147.0	\$525.5	\$478.3
Net Asset Value per share	\$1.1824	\$1.1837	-	\$1.0765
Investments	\$372.8	\$141.4	\$514.2	\$479.7
- Distressed Portfolio	\$362.2	\$141.0	\$503.2	\$437.7
- Temporary Investments	\$10.6	\$0.4	\$11.0	\$42.0
Cash and Cash Equivalents	\$16.4	\$11.1	\$27.5	\$55.1

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CHAIRMAN'S STATEMENT

Dear Shareholder,

I am delighted to present the Interim Report of NB Distressed Debt Investment Fund Limited and its subsidiaries (together the "Company") for the period 1 January 2013 to 30 June 2013.

Portfolio and Company performance

The Board remains pleased with the continued progress that the Company is making and the strategy that is being applied by Neuberger Berman Europe Limited (the "Investment Manager").

As noted in the annual report, we were pleased to announce in April 2013, following consultation with our major shareholders, an opportunity for shareholders to convert their investment in the Ordinary Class of Shares into an Extended Life Class of Shares. This move was as a result of discussions with the Investment Manager, who believes that opportunities in the distressed debt market remain compelling and that an extension to the investment period to 31 March 2015 should enable the Company to access attractive opportunities after the investment period for the Ordinary Shares expired on 10 June 2013. In total 320,109,841 shares elected to convert into the Extended Life Share Class, with the balance of 124,160,471 remaining in the Ordinary Share Class.

Following the admission of the Extended Life Shares, the Company issued 31,978,973 Extended Life Shares via the tap issue on 4 July 2013, raising additional proceeds of \$38.4m.

The Company remains nearly fully invested with approximately 95.9% of the Ordinary Share portfolio and 95.7% Extended Life Shares portfolio invested in distressed assets at the end of the period. The portfolios remain diversified, as at 30 June 2013, the portfolios had 55 holdings, across 17 industries, with no single investment representing more than 6% of the Company's net assets.

The Company exited three investments during the period, bringing the total number of realisations since inception to fourteen. The realisations in the period generated aggregated returns of approximately 9.98% of the capital deployed; further details of these realisations are noted in the Investment Manager's report.

Between 31 December 2012 and 30 June 2013, the Company's Net Asset Value ("NAV") per share increased by 10.0% from \$1.0765 to \$1.1837 for the Ordinary Class of Shares. Between 12 April 2013 and 30 June 2013, the NAV per share increased by 4.1% from \$1.1353 to \$1.1824 for the Extended Life Class of Shares. The primary driver of growth in the NAVs of each share class was marked-to-market gains on a number of positions which reached key restructuring milestones or made progress post reorganisation. I am also pleased to report that both share prices traded at a premia to other respective NAVs for a significant portion of the period, highlighting the continued demand for both share classes.

Outlook

Looking to the remainder of 2013, your Board continues to be satisfied with the Company's performance to date and is excited by the latent value held by the portfolio. The Investment Manager will continue to update you on the Company's progress by way of the quarterly fact sheets and Investment Manager updates.

The Ordinary Shares are now in run off and realisation proceeds will be returned to Ordinary Shareholders over time. In addition, the Extended Life Shareholders are now entitled to receive all capital profits arising from the exit of assets, at least every six months, with the first such distribution expected to be made for the period ending 31 December 2013.

Principal risks and related parties

The Principal risks of the Company remain unchanged from what was disclosed in the 2012 annual report. The Board's view is that these risks remain appropriate for the remainder of 2013.

CHAIRMAN'S STATEMENT (CONTINUED)

Principal risks and related parties (continued)

The Investment Manager's Report details their view on the current investment portfolio and their views on the investment pipeline and the wider developments and challenges in the Distressed Debt market environment.

The agreement with Neuberger Berman Europe Limited, Directors and the BNP Paribas companies are the only related party transactions currently in place. Other than fees payable in the ordinary course of business, there have been no material transactions with these related parties which have affected the financial position or performance of the Company in this financial period.

Note 4 to these Financial Statements disclose the related party transactions for the six months to 30 June 2013.

I would like to close by thanking you for your commitment and I look forward to updating you on the Company's progress in 2014 when the audited Financial Statements are released.

Robin Monro-Davies
Chairman
28 August 2013

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INVESTMENT MANAGER'S REPORT

Investment Manager's Report for NB Distressed Debt Investment Fund Limited ("NBDDIF")

Summary

As further described below, we were gratified to see the positive NAV movement achieved in the second quarter and year-to-date for both the NBDDIF Ordinary Share Class ("NBDD") and the NBDDIF Extended Life Share Class ("NBDX")¹. In the second quarter, both share classes exited three positions, which contributed to the increase in NAV for both. We continue to see significant upside potential in the existing portfolio, which we expect to realise as we restructure and exit investments.

Portfolio

Ordinary Share Class Portfolio

As at 30 June 2013, 95.9% of the NBDD NAV was invested in distressed assets, with investments in 55 companies diversified across 17 industries. The NBDD NAV per share increased 10.0% in the first six months of 2013, to \$1.1837 from \$1.0765 per share. In the second quarter ("1 April 2013 to 30 June 2013"), the NBDD NAV per share increased 4.7%, primarily due to mark-to-market gains on positions which reached key restructuring milestones or made progress post-reorganisation. During the quarter, we saw our twelfth, thirteenth and fourteenth exits since inception, which are described in detail below. We also added incrementally to existing names and initiated positions in shipping, aircraft, commercial real estate and other asset-intensive industries. The Ordinary Share Class entered into the harvest period effective 10 June 2013.

Extended Life Share Class Portfolio

As at 30 June 2013, 95.7% of the NBDX NAV was invested in distressed assets, with investments in 55 companies diversified across 17 industries. Between 12 April 2013 to 30 June 2013 the NBDX NAV per share increased by 4.1%, to \$1.1824 from \$1.1353 per share, primarily due to mark-to-market gains on positions which reached key restructuring milestones or made progress post-reorganisation. During the quarter, we saw our twelfth, thirteenth and fourteenth exits since inception, which are described in detail below. We also added incrementally to existing names and initiated positions in shipping, aircraft, commercial real estate and other asset-intensive industries.

We believe we will continue to experience an improving environment for distressed debt in our sectors of interest. The pipeline of opportunities in commercial real estate and transportation debt is particularly compelling, both in the United States and Europe. Reflecting this robust opportunity set, NBDDIF completed a tap issue on 4 July 2013 for NBDX as disclosed in note 11. At that time, less than 3% of the NAV of NBDX was held in cash or cash equivalents available for reinvestment and the investment manager of NBDDIF continued to see investment opportunities in the distressed debt market. The Board believed that the value of the existing portfolio would be maximised by issuing new share capital rather than by raising funds through the accelerated realisation of existing positions held by NBDX. As such, NBDDIF raised gross proceeds of \$38.4 million through the issuance of 31,978,973 new Extended Life Shares at \$1.20 per share. Following admission, NBDDIF had 352,088,814 shares in NBDX.

¹The Extended Life Share Class was created in April 2013 when holders of Ordinary Shares were invited to convert those shares into Extended Life Shares. The information applicable to NBDX throughout this summary therefore relates to the Ordinary Shares up to April 2013 and to the Extended Life Shares thereafter.

INVESTMENT MANAGER'S REPORT (CONTINUED)

Exits

Realisation 1 in the period: We purchased an aggregate amount of \$19.2 million (\$5.4 million for NBDD and \$13.8 million for NBDX) face value of a defaulted 1st lien term loan at 65% of par, secured primarily by television broadcasting assets, including licenses and programming. The company had filed for bankruptcy due to excessive debt incurred as part of a leveraged buyout. We believed that our entry point represented a discounted valuation versus comparable companies and that obstacles to the restructuring process would be favorably resolved. The company subsequently emerged from bankruptcy and we received cash and post-reorganisation equity securities, which we sold. Total income from this investment was \$5.1 million in aggregate (\$1.4 million for NBDD and \$3.7 million for NBDX).

Realisation 2 in the period: We purchased an aggregate amount of \$11.4 million (\$2.8 million for NBDD and \$8.6 million for NBDX) face value of a 1st lien term loan at 88.5% of par, secured by the production and transportation assets of a food products company. We had originally believed we would realise an attractive return on this position based on the strength of the collateral package. Due to high labour costs and declining demand for its products, the company filed for bankruptcy protection in early 2012. As the bankruptcy case developed and we became increasingly concerned about the dynamics of the restructuring process, we exited in the secondary market resulting in a total aggregate loss from this investment of \$1.8 million, (\$0.5 million for NBDD and \$1.3 million for NBDX).

Realisation 3 in the period: We purchased an aggregate amount of \$20.5 million (\$5.7 million for NBDD and \$14.8 million for NBDX) face value of a 1st lien term loan at an average price of 36.6% of par, secured by the assets of a newspaper company focused on local markets in over 20 states in the U.S. We believed that the loan price undervalued the company's assets and that in a sale of its newspapers and other media properties we would recover significantly more than our purchase price. A proposed reorganisation of the company's capital structure was not consistent with our original investment thesis and as a result we sold the position in the secondary market for 39% of par. Total income and other income from this investment was \$0.8 million in aggregate (\$0.2 million for NBDD and \$0.6 million for NBDX).

Outlook

We expect to restructure the portfolio of investments within NBDDIF throughout the remainder of 2013, and will ensure that these are regularly communicated to investors by way of the quarterly fact sheets and Investment Manager updates.

Neuberger Berman Europe Limited
28 August 2013

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FORWARD-LOOKING STATEMENTS

This report includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology. These forward looking statements include all matters that are not historical facts. They include statements regarding the intentions, beliefs or current expectations of the Company concerning, amongst other things, the investment objectives and investment policy, financing strategies, investment performance, results of operations, financial condition, prospects, and dividend policy of the Company and the markets in which it, and its portfolio of investments, invest and/or operate. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. The Company's actual investment performance, results of operations, financial condition, dividend policy and the development of its financing strategies may differ materially from the impression created by the forward-looking statements contained in this document. In addition, even if the investment performance, results of operations, financial condition of the Company, and the development of its financing strategies, are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause these differences include, but are not limited to:

- changes in economic conditions generally and the Company's ability to achieve its investment objective and returns on equity for investors;
- foreign exchange mismatches with respect to exposed assets;
- changes in interest rates and/or credit spreads, as well as the success of the Company's investment strategy in relation to such changes and the management of the un-invested cash reserve;
- impairments in the value of the Company's investments;
- the availability and cost of capital for future investments;
- the departure of key personnel employed by the Investment Manager and Sub-Investment Manager;
- the failure of the Investment Manager to perform its obligations under the Investment Management Agreement with the Company or the termination of the Investment Manager's appointment;
- the failure of the Sub-Investment Manager to perform its obligations under the Sub-Investment Management Agreement with the Investment Manager or the termination of the Sub-Investment Manager's appointment;
- changes in laws or regulations, including tax laws, or new interpretations or applications of laws and regulations, that are applicable to the Company or Portfolio Companies; and
- general economic trends and other external factors, including those resulting from war, incidents of terrorism or responses to such events.

Forward-looking statements speak only as at the date of this document. Although the Company and the Investment Manager undertake no obligation to revise or update any forward looking statements contained herein (save where required by the Prospectus Rules or Disclosure and Transparency Rules or rules of the CISX), whether as a result of new information, future events, conditions or circumstances, any change in the Company's or the Investment Manager's expectations with regard thereto or otherwise.

RISK FACTORS

The following has been extracted from the Prospectus of the Company dated 6 March 2013:

The Company's returns and operating cash flows will depend on many factors, including the price and performance of its investments, the availability and liquidity of investment opportunities falling within the Company's investment objective and policy, the level and volatility of interest rates, readily accessible short-term borrowings, conditions in the financial markets, real estate market and economy, the financial performance of Portfolio Companies, the timing of restructurings and exits and the Company's ability to successfully operate its business and execute its investment strategy. There can be no assurance that the Company's investment strategy will be successful.

The Company's target return of 20 percent per annum gross of management fees and other operating expenses is based on estimates and assumptions that are inherently subject to significant business and economic uncertainties and contingencies, and the actual rate of return may be materially lower than the Target Return

The Company's Target Return is a target only and is based on estimates and assumptions about a variety of factors including, without limitation, asset mix, value, volatility, holding periods, performance of underlying Portfolio Companies, investment liquidity, changes in current market conditions, interest rates, government regulations or other policies, the worldwide economic environment, changes in law and taxation, natural disasters, terrorism, social unrest and civil disturbances or the occurrence of risks described elsewhere in this document, which are inherently subject to significant business, economic and market uncertainties and contingencies, all of which are beyond the Company's control and which may adversely affect the Company's ability to achieve its Target Return. Such Target Return is also based on the assumption that the Company will be able to implement its investment policy and strategy successfully as well as market conditions and the economic environment at the time of assessing the proposed target return, and is therefore subject to change. There is no guarantee or assurance that the Target Return or actual returns can be achieved at or near the levels set forth in this document. Accordingly, the actual rate of return achieved may be materially lower than the Target Return, or may result in a loss, which could have a material adverse effect on the Company's profitability, NAV and the price of the Ordinary Shares and the Extended Life Shares.

Potential investors should not place any reliance on the Target Return set forth in the prospectus for the Company and should make their own determination as to whether the Target Return is reasonable or achievable in deciding whether to invest in the Company. The Company does not intend to regularly publish target returns or to update or otherwise revise its Target Return to reflect subsequent events or circumstances. A failure to achieve the Target Return set forth in the prospectus for the Company may adversely affect the Company's business, financial condition and results of operations.

The return on the Extended Life Shares may be materially lower than the return that Shareholders would have received had they remained invested in the Ordinary Shares

Whilst the Company believes that attractive investment opportunities will be available over the New Investment Period, there is no guarantee or assurance that the actual return on the Extended Life Shares will be at or near the level of returns that Shareholders would have received had they remained invested on the basis of the Current Investment Period.

Holders of Ordinary Shares and Extended Life Shares have limited voting rights

The Ordinary Shares and Extended Life Shares do not carry voting rights in relation to the election of the Company's board of directors and generally have no voting rights, except: (i) in the case of the Ordinary Shares, that certain fundamental changes to the Company and the terms of the Ordinary Shares and certain other matters (such as the voluntary liquidation or winding-up of the Company; any change in the rights conferred upon any shares in the Company, or any amendment to the Articles adverse to the Ordinary Shareholders; merger, consolidation or the sale of substantially all of the assets of the Company; the change in domicile of the Company and the termination by the Company of the Investment Management Agreement) require the consent of the Ordinary Shareholders by ordinary resolution (such that the Ordinary Shareholders may veto, but cannot force the Company to take, any such actions); (ii) in the case of the Extended Life Shares, certain fundamental changes to the Company and the terms of the Extended Life Shares and certain other matters (such as the voluntary liquidation or winding-up of the Company; any change in the rights conferred upon any shares in the Company, or any amendment to the Articles adverse to the Extended Life Shareholders; merger, consolidation or the sale of substantially all of the assets of the Company; the change in domicile of the Company and the termination by the Company of the Investment Management Agreement) require the consent of the Extended Life Shareholders by ordinary resolution (such that the Extended Life Shareholders may veto, but cannot force the Company to take, any such actions);

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RISK FACTORS (CONTINUED)

and (iii) as may be required by Guernsey law. Further, neither the Ordinary Shareholders nor the Extended Life Shareholders can direct the Directors to redeem or repurchase any shares or return capital or liquidate the Company. The limited voting rights of the holders of the Ordinary Shares and the Extended Life Shares limit their ability to have an impact on Board decisions or Company policy and may adversely affect the value of such shares.

The Company may be unable to realise value from its investments and investors could lose all or part of their investment

Investments made by the Company may not appreciate in value and, in fact, may decline in value. A substantial component of the Investment Managers' analysis of the desirability of making a given investment relates to the estimated residual or recovery value of such investments in the event of the insolvency of the issuer or the borrower. This residual or recovery value will be driven primarily by the value of the underlying assets constituting the collateral for such investment. The value of collateral can, however, be extremely difficult to predict and in certain market circumstances there could be little, if any, market for such assets. Moreover, depending upon the status of these assets at the time of an issuer's default, they may be substantially worthless. The types of collateral owned by the issuers in which the Company invests will vary widely, but are expected primarily to be hard assets such as aircraft, office buildings, power stations and commercial property. During times of recession and economic contraction, there may be little or no ability to realise value on any of these assets, or the value which can be realised may be substantially below the assessed value of the collateral. Furthermore, due to the illiquid nature of many of the investments the Company has made and expects to make, the Investment Managers are unable to predict with confidence, what, if any, exit strategy for a given investment will ultimately be available to the Company and the Company may be unable to realise value from these investments. Accordingly, there can be no assurance that the Company's investments will generate gains or income or that any gains or income that may be generated will be sufficient to offset any losses that may be sustained. As a result, investing in the Company is speculative and involves a high degree of risk. The Company's performance may be volatile and investors could lose all or part of their investment. Past performance is no indication of future results and there can be no assurance that the Company will achieve results comparable to any past performance achieved by the Investment Managers or any employee of the Investment Managers described in the prospectus for the Company.

Gains from the Company's investments may require significant time to materialise or may not materialise at all

There is likely to be a significant period between the date that the Company makes an investment and the date that any gain or loss on such investment is realised. Based on the Investment Managers' experience with investments generally comparable to those expected to be made by the Company, it is likely that no significant return, if any, from the disposition of any of the Company's investments will be realised until year four after the IPO. Return on the Company's investments, therefore, is not likely to be realised for a substantial time period, if at all.

Global capital markets have been experiencing volatility, disruption and instability. Material changes affecting global debt and equity capital markets may have a negative effect on the Company's business, financial condition and results of operations

Global capital markets have been experiencing extreme volatility and disruption for more than two years as evidenced by a lack of liquidity in the equity and debt capital markets, significant write-offs in the financial services sector, the repricing of credit risk in the credit market and the failure of major financial institutions. Despite actions of government authorities, these events have contributed to worsening general economic conditions that have materially and adversely affected the broader financial and credit markets and reduced the availability of debt and equity capital. Continued or recurring market deterioration may materially adversely affect the ability of a Portfolio Company to refinance its outstanding debt. Further, such financial market disruptions may have a negative effect on the valuations of the Company's investments, or the ability to restructure investments, and on the potential for liquidity events involving its investments. In the future, non-performing assets in the Company Portfolio may cause the value of its investment portfolio to decrease if the Company is required to write down the values of its investments. Adverse economic conditions may also decrease the value of collateral securing some of its loans. In the event of sustained market improvement, the Company may have access to only a limited number of potential investment opportunities, which also would result in limited returns to Shareholders. Depending on market conditions, the Company may incur substantial realised losses and may suffer additional unrealised losses in future periods, which may adversely affect its business, financial condition and results of operations.

RISK FACTORS (CONTINUED)

With respect to investments that do not have a readily ascertainable market quotation in an active market, the Sub-Investment Manager will value such investments at fair value and such valuations will be inherently uncertain

With respect to investments comprised in the Company Portfolio that do not have a readily available market quotation, such as unquoted investments or investments which are listed but deemed to be illiquid, the Sub-Investment Manager will value such investments at fair value on each NAV Calculation Date in accordance with the customary valuation methods, policies and procedures of the Sub-Investment Manager. Because of the inherent uncertainty and subjectivity of determining the fair value of investments that do not have a readily ascertainable market quotation in an active market, the fair value of the Company's investments as determined in good faith by the Sub-Investment Manager may differ significantly from the values that would have been used had a ready market existed for such investments. The reliability of the NAV calculations published by the Company will be impacted accordingly.

The Ordinary Shares and/or the Extended Life Shares may trade at a discount to NAV and Shareholders may be unable to realise their investments through the secondary market at NAV

The Ordinary Shares and/or the Extended Life Shares may trade at a discount to NAV per Ordinary Share for a variety of reasons, including due to market conditions or to the extent investors undervalue the management activities of the Investment Managers or discount their valuation methodology and judgments. While the Directors may seek to mitigate any discount to NAV through discount management mechanisms they consider appropriate, there can be no guarantee that they will do so or that such mechanisms will be successful and the Directors accept no responsibility for any failure of any such strategy to effect a reduction in any discount.

The due diligence process that the Investment Managers undertake in evaluating specific investment ideas for the Company may not reveal all facts that may be relevant in connection with an investment and any corporate mismanagement, fraud or accounting irregularities may materially affect the integrity of the Investment Managers' due diligence on investment opportunities

When conducting due diligence and making an assessment regarding an investment, the Investment Managers will be required to rely on resources available to them, including internal sources of information as well as information provided by existing and potential Portfolio Companies any equity sponsor(s), lenders and other independent sources. The due diligence process may at times be required to rely on limited or incomplete information particularly with respect to newly established companies for which only limited information may be available. In addition, the Investment Managers will continue to select investments for the Company in part on the basis of information and data relating to potential investments filed with various government regulators and publicly available or made directly available to the Investment Managers by such issuers or third parties. Although the Investment managers evaluate all such information and data and seek independent corroboration when they consider it appropriate and reasonably available, the Investment Managers are not and will not be in a position to confirm the completeness, genuineness or accuracy of such information and data. The Investment Managers are dependent upon the integrity of the management of the entities filing such information and of such third parties as well as the financial reporting process in general. Recent events have demonstrated the material losses that investors such as the Company may incur as a result of corporate mismanagement, fraud and accounting irregularities. In addition, investment analyses and decisions by the Investment Managers may be undertaken on an expedited basis in order to make it possible for the Company to take advantage of short-lived investment opportunities. In such cases, the available information at the time of an investment decision may be limited, inaccurate and/or incomplete. Furthermore, the Investment Managers are unlikely to have sufficient time to evaluate fully such information even if it is available. Accordingly, due to a number of factors, the Company cannot guarantee that the due diligence investigation it carries out with respect to any investment opportunity will reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Any failure by the Company to identify relevant facts through the due diligence process may cause it to make inappropriate investment decisions, which may have a material adverse effect on the Company's business, financial condition, results of operations or the value of the New Ordinary Shares. Due diligence may also be costly, which will decrease the Company's overall profit from an investment.

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DIRECTORS

Robin Monro-Davies (Chairman)

Robin Monro-Davies served as a regular officer in the Royal Navy from 1958-1968, operating as a carrier pilot mainly in the Far East. He subsequently obtained a Master of Science degree from the Sloan School of Management, Massachusetts Institute of Technology in Boston ("MIT"). On leaving MIT, Mr. Monro-Davies spent a year as an investment analyst on Wall Street and then joined Fox-Pitt Kelton ("FPK"). FPK became one of the U.K.'s leading independent brokerage and research houses and Mr. Monro-Davies was appointed joint Chief Executive Officer (CEO) in 1976. In 1978, Mr. Monro-Davies was appointed CEO of IBCA, FPK's newly established independent bank credit rating business, in addition to his role as FPK's CEO. He continued as CEO of IBCA following his retirement from FPK in 1992, developing the business to become Fitch, the world's third largest rating agency. Mr. Monro-Davies retired as CEO of Fitch at the end of 2001. Since then he has acted in various non executive roles and currently is a Board Member of AXA UK, Assured Guaranty Limited in Bermuda and HSBC Bank plc. He is also on the board of a listed investment trust. Mr. Monro-Davies was educated at St. Paul's School, London, and the Britannia Royal Naval College, Dartmouth.

Talmi Morgan

Talmi Morgan qualified as a barrister in the United Kingdom in 1976. He moved to Guernsey in 1988 where he worked for Barings as general counsel and then for the Bank of Bermuda as managing director of Bermuda Trust (Guernsey) Limited. From January 1999 to June 2004, Mr. Morgan was director of Fiduciary Services and Enforcement at the Guernsey Financial Services Commission (Guernsey's financial regulatory agency) where he was responsible for the design and subsequent implementation of Guernsey's law relating to the regulation of fiduciaries, administration businesses and company directors. Mr. Morgan was also involved in working groups of the Financial Action Task Force and the Offshore Group of Banking Supervisors. From July 2004 to May 2005, Mr. Morgan served as chief executive of Guernsey Finance, which is the official body for the promotion of the Guernsey finance industry. His other directorships include BH Global Limited alongside Mr Hallam. Mr. Morgan is also currently the chairman or non-executive director of a number of other investment companies including companies listed on the LSE. He holds an M.A. in economics and law from the University of Cambridge. Mr Morgan is a director of NB Private Equity Partners Limited, a member of the NB Group, alongside Mr Hallam and Mr Sherwell.

John Hallam

John Hallam is a fellow of the Institute of Chartered Accountants in England and Wales and qualified as an accountant in 1971. Previously, Mr. Hallam was a partner at PricewaterhouseCoopers and retired in 1999 after 27 years with the firm in Guernsey and in other countries. Mr. Hallam is currently chairman of Dexion Absolute Ltd and Partners Group Global Opportunities Ltd. He is also a director of BH Global Limited alongside Mr Morgan and a number of other financial services companies, some of which are listed on the LSE. Mr. Hallam served for many years as a member and latterly chairman of the GFSC, from which he retired in 2006. Mr Hallam is a director of NB Private Equity Partners Limited, a member of the NB Group, alongside Mr Morgan and Mr Sherwell.

Christopher Sherwell

Christopher Sherwell is a non-executive director of a number of investment-related companies. Mr. Sherwell was managing director of Schroders (C.I.) Limited from April 2000 to January 2004. He remained a non-executive director of Schroders (C.I.) Limited until he stepped down at the end of December 2008. Before joining Schroders in 1993, he worked as Far East regional strategist with Smith New Court Securities in London and then in Hong Kong. Mr. Sherwell was previously a journalist, working for the Financial Times. Mr. Sherwell received a B.Sc. (Gen) from the University of London in 1968, an M.A. from the University of Oxford in 1971 and a M.Phil. from the University of Oxford in 1973. Mr Sherwell is a director of NB Private Equity Partners Limited, a member of the NB Group, alongside Mr Hallam and Mr Morgan.

DIRECTORS (CONTINUED)

Michael J. Holmberg

Michael J. Holmberg, Managing Director, joined NB Group in 2009. Michael is the co-head of distressed portfolio management. Prior to joining NB Group, Michael founded Newberry Capital Management LLC in 2006 and prior to that Michael founded and managed Ritchie Capital Management's Special Credit Opportunities Group. He was also a managing director at Strategic Value Partners and Moore Strategic Value Partners. He began investing in distressed and credit oriented strategies as a portfolio manager at Continental Bank/Bank of America, where he established the bank's global proprietary capital account. Michael received an AB in economics from Kenyon College and an MBA from the University of Chicago.

Patrick H. Flynn

Patrick H. Flynn, Managing Director, joined NB Group in 2006. Patrick is the co-head of distressed portfolio management. He came to NB Group with more than 15 years of experience, including positions with Putnam Investments, UBS and JP Morgan Chase. Most recently, Patrick served as director of research at DDJ Capital Management, LLC. He holds an AB from Columbia University and a MBA in Finance and Economics from the University of Chicago. Patrick has been awarded the Chartered Financial Analyst designation.

INTERIM REPORT

DIRECTORS' RESPONSIBILITIES STATEMENT

We confirm that to the best of our knowledge:

- the financial statements which have been prepared in conformity with U.S. generally accepted accounting principles gives a true and fair view of the assets, liabilities, financial position and return of the Company included in the consolidation as a whole as required by DTR 4.2.4R;
- the Chairman's Statement, Investment Manager's Report, Forward-Looking Statements and Risk Factors meet the requirements of an interim management report, and include a fair view of the information required by:

(a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Signed on behalf of the Board of Directors on 28 August 2013.

By order of the Board

Talmay Morgan
Director

John Hallam
Director

INDEPENDENT REVIEW REPORT TO NB DISTRESSED DEBT INVESTMENT FUND LIMITED

Introduction

We have been engaged by NB Distressed Debt Investment Fund Limited (the "Company") to review the consolidated financial statements (the "financial statements") in the interim report for the six months ended 30 June 2013 which comprises the Consolidated Statement of Assets and Liabilities, Condensed Consolidated Schedule of Investments, Consolidated Statement of Operations, Consolidated Statement of Changes in Net Assets, Consolidated Statement of Cash Flows and the related explanatory notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority (the "UK FCA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The interim report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the DTR of the UK FCA.

The financial statements included in this interim report have been prepared in conformity with U.S generally accepted accounting principles.

Our responsibility

Our responsibility is to express to the Company a conclusion on the financial statements in the interim report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial statements for the period ended 30 June 2013 do not give a true and fair view of the financial position of the Company as at 30 June 2013 and of its financial performance and its cash flows for the six month period then ended in conformity with U.S. generally accepted accounting principles and the DTR of the UK FCA.

KPMG Channel Islands Limited
Chartered Accountants
28 August 2013

The maintenance and integrity of the NB Distressed Debt Investment Fund Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements or review report since they were initially presented on the website.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdiction.

INTERIM REPORT**CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES**
As at 30 June 2013 and 31 December 2012

(Expressed in United States Dollars)

Assets		2013 (Unaudited)		2012 (Audited)
Investments, at fair value	\$	514,230,348	\$	479,439,510
(2013: cost of \$482,387,040, 2012: cost of \$486,882,889)				
Credit Default Swap		-		239,676
Forward Currency Contracts		1,168,620		-
Cash and cash equivalents		27,517,428		55,096,277
	\$	542,916,396	\$	534,775,463
Other assets:				
Interest receivables		3,628,643		2,444,396
Receivables for investments sold		10,227,369		2,601,172
Other receivables and prepayments		54,850		54,039
Total assets	\$	556,827,258	\$	539,875,070
Liabilities				
Payables for investments purchased	\$	29,292,470	\$	60,094,975
Credit Default Swap		12,228		-
Forward Currency Contracts		-		281,633
Accrued expenses and other liabilities		390,154		615,333
Payables to Investment Manager and affiliates		1,672,559		617,738
Total liabilities	\$	31,367,411	\$	61,609,679
Net Assets	\$	525,459,847	\$	478,265,391
Analysis of Net Assets:				
Class A Shares	\$	2	\$	2
(2 shares issued)				
Ordinary Shares		122,032,926		436,657,543
(2013: 124,160,471; 2012: 444,270,312)				
Extended Life Shares		314,624,617		-
(2013: 320,109,841; 2012: Nil)				
Accumulated earnings		88,802,302		41,607,846
Net assets	\$	525,459,847	\$	478,265,391
Net asset value per Extended Life Share	\$	1.1824	\$	-
Net asset attributable to Extended Life Shares	\$	378,496,503	\$	-
Net asset value per Ordinary Share	\$	1.1837	\$	1.0765
Net asset attributable to Ordinary Shares	\$	146,963,344	\$	478,265,391

The financial statements on pages 14 to 42 were approved and authorised for issue by the Board of Directors on 28 August 2013, and signed on its behalf by:

Talmi Morgan
Director

John Hallam
Director

The accompanying notes form an integral part of the consolidated financial statements.

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS

As at 30 June 2013 and 31 December 2012

(Expressed in United States Dollars)

30 June 2013 (Unaudited)	Cost	Fair Value	% (i)
Distressed Portfolio			
Bank Debt Investments \$	214,746,199	205,300,669	39.07
Private Equity	68,691,748	93,405,118	17.78
Private Equity: Real Estate Development	58,822,333	60,726,868	11.56
Fixed Rate Bonds	51,862,534	50,462,498	9.60
Limited Partnership Units	32,179,007	48,019,938	9.14
Trade Claim (ii)	13,066,759	11,006,499	2.09
Ownership in Senior Living Facility	9,400,767	10,216,984	1.94
Private Placement Bonds	9,815,969	8,234,111	1.57
Public Equity and note	8,352,886	11,672,735	2.22
Bankruptcy Claim	23,957	504,000	0.10
Private note	3,200,000	3,200,000	0.61
Asset Backed Securities	1,228,191	483,427	0.09
	473,390,350	503,232,847	95.77
Temporary Investments			
U.S. Government and agency obligations	10,996,690	10,997,501	2.09
	482,387,040	514,230,348	97.86
Extended Life Shares	349,907,860	372,846,296	70.96
Ordinary Shares	132,479,180	141,384,052	26.90
	482,387,040	514,230,348	97.86
Credit Default Swaps	(93,354)	(12,228)	-
Extended Life Shares	(67,264)	(8,811)	-
Ordinary Shares	(26,090)	(3,417)	-
	(93,354)	(12,228)	-
Forward Currency Contracts	-	1,168,620	0.22
Extended Life Shares	-	842,025	0.16
Ordinary Shares	-	326,595	0.06
	-	1,168,620	0.22

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

The accompanying notes form an integral part of the consolidated financial statements.

INTERIM REPORT

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

As at 30 June 2013 and 31 December 2012

(Expressed in United States Dollars)

31 December 2012 (Audited)	Cost	Fair Value	% (i)
Distressed Portfolio			
Bank Debt Investments	\$ 170,805,379	156,942,644	32.82
Private Equity	73,659,593	72,117,602	15.08
Private Equity: Real Estate Development	65,236,357	67,168,149	14.04
Fixed Rate Bonds	63,971,343	52,804,069	11.04
Limited Partnership Units	31,973,961	50,093,828	10.48
Trade Claim (ii)	13,066,759	11,233,247	2.35
Ownership in Senior Living Facility	9,282,370	10,098,587	2.11
Private Placement Bonds	9,815,969	9,854,912	2.06
Public Equity	5,610,958	5,780,744	1.21
Bankruptcy Claim	171,530	686,341	0.14
Asset Backed Securities	1,303,941	660,791	0.14
	444,898,160	437,440,914	91.47
Temporary Investments			
U.S. Government and agency obligations	41,984,729	41,998,596	8.78
	486,882,889	479,439,510	100.25
Credit Default Swap	683,299	239,676	0.05
Forward Currency Contracts	-	(281,633)	(0.06)

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

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

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

As at 30 June 2013 and 31 December 2012

(Expressed in United States Dollars)

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

30 June 2013 (Unaudited)	Country	Industry	Nominal	Cost	Fair Value	%
Bank Debt Investment						
YRC Worldwide Inc	United States	Surface Transport	18,387,351	16,133,329	18,249,445	3.46
Fixed Rate Bonds						
YRC Worldwide Inc	United States	Surface Transport	3,469,108	3,426,704	4,995,516	0.95
YRC Worldwide Inc	United States	Surface Transport	4,914,528	5,152,971	4,954,459	0.94
				24,713,004	28,199,420	5.35
Private Equity						
Grant Park 2 LLC	United States	Real Estate Development	225,710	31,245,819	31,381,134	5.97
				55,958,823	59,580,554	11.32

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

The accompanying notes form an integral part of the consolidated financial statements.

INTERIM REPORT

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

As at 30 June 2013 and 31 December 2012

(Expressed in United States Dollars)

	Cost 30 June 2013 (Unaudited)	Fair Value 30 June 2013 (Unaudited)	% (i)	Cost 31 December 2012 (Audited)	Fair Value 31 December 2012 (Audited)	% (i)
Geographic diversity of Portfolio						
Distressed Portfolio						
Australia	\$ 21,210,584	19,568,206	3.72	21,842,331	19,623,099	4.10
Belgium	628,357	19,927	0.00	649,716	20,902	0.00
Brazil	13,066,759	11,006,499	2.09	13,066,759	11,233,247	2.33
Cayman Islands	4,851,435	6,873,238	1.31	4,094,512	7,272,124	1.52
Germany	35,886,061	45,250,814	8.61	35,939,450	50,061,838	10.47
Great Britain	2,279,263	2,601,563	0.50	7,039,395	7,055,821	1.48
Greece	10,218,587	10,054,483	1.91	-	-	-
India	358,734	566,669	0.11	353,137	522,407	0.11
Japan	488,945	-	0.00	486,440	33,358	0.01
Luxembourg	2,547,867	9,051,351	1.72	-	-	-
Netherlands	-	-	0.00	8,951,015	9,223,088	1.93
Switzerland	9,915,759	9,233,673	1.76	21,187,850	21,011,650	4.39
United States (U.S.A.)	369,937,999	389,006,424	74.04	331,287,555	311,383,380	65.12
Temporary Investments						
United States (U.S.A.)	10,996,690	10,997,501	2.09	41,984,729	41,998,596	8.78
	482,397,040	514,230,348	97.86	486,882,889	479,439,510	100.25

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

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

As at 30 June 2013 and 31 December 2012

(Expressed in United States Dollars)

		Cost 30 June 2013 (Unaudited)	Fair Value 30 June 2013 (Unaudited)	% (i)	Cost 31 December 2012 (Audited)	Fair Value 31 December 2012 (Audited)	% (i)
Industry diversity of Portfolio							
Distressed Portfolio							
Air Transport	\$	6,150,991	5,406,230	1.03	1,303,941	660,791	0.14
Broadcasting		14,104,805	14,566,301	2.77	25,536,683	24,586,754	5.14
Building and Development		20,864,678	31,365,877	5.97	20,396,638	19,522,184	4.08
Commercial Mortgage		19,958,587	19,188,741	3.65	811,132	20,902	-
Containers and Glass products		-	-	-	16,002,604	16,278,909	3.40
Containers and Packaging		4,839,324	11,652,914	2.22	-	-	-
Financial Intermediary		36,768,412	57,292,531	10.90	36,036,461	58,673,423	12.27
Food Products		11,120	-	-	1,638,626	1,690,981	0.35
Forest Products		10,619,445	9,007,185	1.71	11,479,219	11,519,360	2.41
Healthcare		13,472,940	16,749,333	3.19	15,161,193	16,524,050	3.45
Industrial		11,025,957	9,129,142	1.74	-	-	-
Leisure		20,833,983	21,038,078	4.00	-	-	-
Lodging and Casinos		37,599,800	38,465,700	7.32	38,344,933	38,335,750	8.02
Oil and Gas		9,915,759	9,233,673	1.76	21,187,850	21,011,650	4.39
Publishing		-	-	-	5,847,290	5,833,203	1.22
Real Estate Development		58,822,333	60,726,868	11.56	65,236,357	67,168,150	14.04
Real Estate Trust		21,042,953	22,204,000	4.23	17,798,953	17,893,500	3.74
Shipping		17,146,237	16,880,059	3.21	-	-	-
Surface Transport		37,779,763	39,205,920	7.46	45,128,250	28,139,973	5.88
Utilities		130,433,263	121,120,295	23.05	122,988,030	109,581,334	22.94
Temporary Investments							
US Government and Agency		10,996,690	10,997,501	2.09	41,984,729	41,998,596	8.78
		482,387,040	514,230,348	97.86	486,882,889	479,439,510	100.25

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

INTERIM REPORT**CONSOLIDATED STATEMENT OF OPERATIONS**
30 June 2013 and 30 June 2012

(Expressed in United States Dollars)

		30 June 2013 (Unaudited)		30 June 2012 (Unaudited)
Income				
Interest income	\$	7,500,337		7,165,503
Dividend income (net of withholding tax, 2013: \$36,615; 2012: \$58,299)	\$	85,436		306,052
Expenses				
Investment management and services	\$	4,141,480	\$	3,270,232
Professional and other expenses	\$	1,814,413	\$	741,613
Administration fees	\$	250,137	\$	238,742
Loan administration and custody fees	\$	182,400	\$	186,185
Directors' fees	\$	99,452	\$	98,493
	\$	6,487,882	\$	4,535,265
Net investment income before tax	\$	1,097,891	\$	2,936,290
Income taxes		99,251		-
Net investment income after tax		998,640		2,936,290
Realised and unrealised gains and losses from investments and foreign exchange				
Net realised gain on investments	\$	4,934,146	\$	3,610,633
Gain on non-cash reorganisations		-		15,299,517
Net change in unrealised gain/(loss) on investments and forward foreign currency contracts		41,261,670		(463,925)
Net realised and unrealised gains	\$	46,195,816	\$	18,446,225
Net increase in net assets resulting from operations	\$	47,194,456	\$	21,382,515

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

30 June 2013 and 30 June 2012

(Expressed in United States Dollars)

	30 June 2013 (Unaudited) Ordinary Shares	30 June 2013 (Unaudited) Extended Life Shares	30 June 2013 (Unaudited) Consolidated	30 June 2012 (Unaudited)
Net assets at beginning of period	\$ 478,265,391	-	478,265,391	\$ 429,702,382
Net increase in asset before Share Class split				
Net investment income after tax	1,311,662	-	1,311,662	2,936,290
Net realised gain on investments	2,934,434	-	2,934,434	3,610,633
Net change in unrealised gain on investments and forward foreign currency contracts	21,827,953	-	21,827,953	(463,925)
Gain on non-cash reorganisations	-	-	-	15,299,517
Transfer of Net Assets from Ordinary to Extended Life Share Class	(363,391,416)	363,391,416	-	-
Net increase in asset after Share Class split				
Net investment income/(loss) after tax	20,298	(333,320)	(313,022)	-
Net realised gain on investments	561,229	1,438,483	1,999,712	-
Net change in unrealised gain/(loss) on investments and forward foreign currency contracts	5,433,793	13,999,924	19,433,717	-
Net assets at end of period	146,963,344	378,496,503	525,459,847	451,084,897

The accompanying notes form an integral part of the consolidated financial statements.

INTERIM REPORT**CONSOLIDATED STATEMENT OF CASH FLOWS**
For the period ended 30 June 2013 and 2012

(Expressed in United States Dollars)

	30 June 2013 (Unaudited)	30 June 2012 (Unaudited)
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$ 47,194,456	21,382,515
Adjustment to reconcile net increase/(decrease) in net assets resulting from operations to net cash flow (used in)/provided by operations:		
Net realised gain on investments	(4,934,146)	(3,610,633)
Gain on non-cash reorganisations	-	(15,299,517)
Net change in unrealised (gain)/loss on investments and forward foreign currency contracts	(41,261,670)	463,925
Accretion of discount on loans and bonds	(1,772,331)	(750,897)
Changes in interest receivables	(1,184,247)	(231,769)
Changes in receivables for investments sold	(7,626,197)	(2,424,475)
Changes in other receivables and prepayments	(811)	30,360
Changes in payables for investments purchased	(30,802,505)	(18,295,953)
Changes in payables, accrued expenses and other liabilities	829,642	(98,505)
Credit default swap	218,176	(180,000)
Cash received on settled forward foreign currency contracts	19,088	-
Purchase of investments	(146,232,395)	(126,877,833)
Sale of investments	157,974,091	123,489,019
Net cash used in operating activities	\$ (27,578,849)	\$ (22,403,763)
Cash flows from financing activities:		
Proceeds from issuance of Ordinary Shares	\$ -	\$ -
Net cash provided by financing activities	\$ -	\$ -
Net decrease in cash and cash equivalents	\$ (27,578,849)	\$ (22,403,763)
Cash and cash equivalents at beginning of period	55,096,277	51,264,893
Cash and cash equivalents at end of period	\$ 27,517,428	\$ 28,861,130

Supplemental non-cash flow operating activities

There were no adjustments for purchases of, and proceeds from sales of, investments during the period (30 June 2012: excluded \$53,306,337), related to the value of non-cash investment transactions, including reorganisations and exchanges.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF BUSINESS

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

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

The Board is responsible for managing the business affairs of the Company but has delegated certain functions to the Investment Manager under the Investment Management Agreement dated 5 May 2010, subsequently amended and restated on 17 June 2010 and further amended and restated on 6 March 2013.

The Investment Manager of the Company is Neuberger Berman Europe Limited, an indirect wholly-owned subsidiary of Neuberger Berman Group ("NB Group"). Under the Sub-Investment Management Agreement dated 9 June 2010, the Investment Manager has delegated certain of its responsibilities and functions to the Sub-Investment Manager, Neuberger Berman Fixed Income LLC, also an indirect wholly-owned subsidiary of NB Group (together the "Investment Managers").

The Investment Managers are responsible for the discretionary management of the assets held in the Company Portfolio and will conduct the day-to-day management of the Company's assets (including un-invested cash). The Investment Managers are not required to and generally will not submit individual investment decisions for approval by the Board.

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

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

Restructuring of the Fund

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

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

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

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

INTERIM REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – DESCRIPTION OF BUSINESS (CONTINUED)

Restructuring of the Fund (continued)

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

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

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

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

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

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

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

Operating expenses

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements give a true and fair view of the assets, liabilities, financial position and return and are in conformity with US generally accepted accounting principles ("US GAAP"). The functional and reporting currency of the Company is the United States Dollar ("USD").

Principles of Consolidation

The consolidated financial statements include the results of the Company and its wholly owned subsidiaries, London Adams LLC, London Dearborn LLC, London Granite Ridge LLC, London Jackson LLC, London Madison LLC, London Mayslake LLC, London Randolph LLC, London Wabash LLC, London Washington LLC, London Tides LLC, London Wacker LLC and London Randolph Holdco LLC, London Washington Holdco LLC, London Jackson Holdco LLC, London Tides Holdco LLC together the Group. Each of these wholly owned subsidiaries, incorporated in Delaware, operate in the United States.

During the period ended 30 June 2013, the following subsidiaries were cancelled; London Monroe LLC, London O Homes LLC and London Quincy LLC.

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

Reclassifications

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

Use of estimates

The preparation of financial statements in conformity with US GAAP requires that the Directors make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Such estimates and associated assumptions are generally based on historical experience and various other factors that are believed to be reasonable under the circumstances, and form the basis of making the judgements about attributing values of assets and liabilities that are not readily apparent from other sources. Actual results may vary from such accounting estimates in amounts that may have a material impact on the financial statements of the Company.

Revenue recognition

Interest earned on debt instruments is accounted for, net of applicable withholding taxes and it is recognised as income over the terms of the loans. Discounts received or premiums paid in connection with the acquisition of loans are amortised into interest income using the effective interest method over the contractual life of the related loan.

Payment-in-kind (PIK) interest is computed at the contractual rate specified in the loan agreement for any portion of the interest which may be added to the principal balance of a loan rather than paid in cash by obligator on the scheduled interest payment date. PIK interest is periodically added to the principal balance of the loan and recorded as interest income. The Manager places a receivable on non accrual status when the collection of principal or interest is deemed doubtful. Dividend income is recognised on the ex-dividend date. Realised gains and losses are determined using the average cost method.

For the period ended 30 June 2013, \$1,772,331 (30 June 2012: \$750,897) was recorded to reflect accretion of discount on loans and bonds during the period.

INTERIM REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

The Company's cash and cash equivalents comprise cash on hand and demand deposits and highly liquid investments with original maturities of less than 90 days that are both readily convertible to known amounts of cash and so near maturity that they represent insignificant risk of changes in value.

At 30 June 2013, the Company held cash balances in various currencies to the value of \$27,517,428 (31 December 2012: \$55,096,277). These balances consisted of Sterling: \$4,751 (31 December 2012: \$9,595), Euro: \$7,806,590 (31 December 2012: \$4,011,649), U.S. Dollar: \$19,238,920 (31 December 2012: \$51,062,665), and Australian Dollar: \$467,167 (31 December 2012: \$12,368).

Valuation of Investments

The Company carries investments on its books at fair value in accordance with US GAAP, with changes in fair value recognised within the Consolidated Statement of Operations in each reporting period. Quoted investments are valued according to their bid price as at the close of the relevant reporting date. Investments in private securities are priced at the bid price using a pricing service for private loans. If a price cannot be ascertained from the above sources, the Company will seek bid prices from third party broker/dealer quotes for the investments.

In cases where no third party price is available, or where the Investment Manager determines that the provided price is not an accurate representation of the fair value of the investment, the Sub-Investment Manager determines the valuation based on the Sub-Investment Manager's fair valuation policy.

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

Consistent with the above criterion, the following criteria are considered when applicable:

- Valuation of other securities by the same issuer for which market quotations are available;
- Reasons for absence of market quotations;
- The soundness of the security, its interest yield, the date of maturity, the credit standing of the issue and the current general interest rates;
- Recent sales prices and/or bid and asked quotations for the security;
- Value of similar securities of issuers in the same or similar industries for which market quotations are available;
- Economic outlook of the industry;
- Issuer's position in the industry;
- The financial statements of the issuer; and
- The nature and duration of any restriction on disposition of the security.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Valuation of Investments (continued)

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

Realised Gains and Losses on Investments

All investment transactions are recorded on a trade date basis. Upon sale or maturity, the difference between the consideration received and the cost of the investment is recognised as a realised gain or loss. The cost is determined based on the average cost method.

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

Operating expenses

Operating expenses are recognised on an accruals basis. Operating expenses include amounts directly or indirectly incurred by the Company as part of its operations.

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

Performance fee

Performance fee amounts (see note 4) are computed and accrued daily in accordance with the terms of the agreements.

Currency translation

Monetary assets and liabilities denominated in a currency other than U.S. Dollars are translated into U.S. Dollar equivalents using spot rates as at the period end date. On initial recognition, a foreign currency transaction is recorded and translates at the spot exchange rate at the transaction date. Non monetary assets and liabilities are translated at the historic exchange rate.

The Company does not separate the changes relating to currency exchange rates from those relating to changes in fair value of the investments held. These fluctuations are included in the net realised gain and net change in unrealised gain/(loss) on investments in the Consolidated Statements of Operations.

INTERIM REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Payables on investments purchased

At 30 June 2013, the amount payable on investments purchased represents amounts due for investments purchased that have been contracted for but not settled on the Statement of Assets and Liabilities date.

Income taxes

Although the Company is not directly subject to income taxes, certain of the investments are held in U.S. corporations which are subject to U.S. Federal and state income taxes. During the period ended 30 June 2013, the Company recorded current income tax expense of \$99,251 related to tax payments made during the year. As of 30 June 2013, the Investment Manager has determined the amounts of assets or liabilities associated with additional current or deferred income taxes are immaterial and no provision for such amounts has been made.

In accordance with US GAAP, Management is required to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognised is measured as the largest amount of benefit that is greater than fifty percent likely of being realised upon ultimate settlement. De-recognition of a tax benefit previously recognised could result in the Company recording a tax liability that would reduce net assets. This pronouncement also provides guidance on thresholds, measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition that is intended to provide better financial statement comparability among different entities.

Income derived from investments may be subject to withholding or other taxes imposed by the US or other countries. Such taxes are reflected in the Consolidated Statement of Operations. The result of each Share Class will be allocated as per allocation methodology in note 1.

NOTE 3 – RECENT STANDARDS AND PRONOUNCEMENTS

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 – RECENT STANDARDS AND PRONOUNCEMENTS (CONTINUED)

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

- (i) amends the criteria for an entity to qualify as an investment company,
- (ii) requires an investment company to measure non-controlling ownership interests in other investment companies at fair value rather than using the equity method of accounting, and
- (iii) introduces new disclosures. This guidance is effective for the Company’s fiscal year beginning January 1, 2014. Earlier application is prohibited.

The adoption of this guidance is not expected to have a material impact on the Company’s financial results and consolidated interim financial statements.

NOTE 4 – MATERIAL AGREEMENTS AND RELATED PARTIES

Investment Management Fees

The Investment Manager is entitled to a management fee, which shall accrue daily, and be payable monthly in arrears, at a rate of 0.125 percent per month of the Company’s Net Asset Value (“NAV”). For the period ended 30 June 2013, the management fee expense was \$3,806,806 (30 June 2012: \$3,270,232). As at 30 June 2013, the investment manager fee payable is \$1,337,885 (30 June 2012 \$525,459).

Performance Fees

In addition, the Investment Manager is entitled to a performance fee. The performance fee will only become payable once the Company has made aggregate distributions in cash to Ordinary and Extended Life Shareholders (which shall include the aggregate price of all Shares repurchased or redeemed by the company) equal to the aggregate gross proceeds of issuing Ordinary and Extended Life Shares (the “Contributed Capital”) plus such amounts as will result in Ordinary and Extended Life Shareholders having received a realised (cash-paid) IRR in respect of the Contributed Capital equal to Preferred Return, following which there will be a 100 percent catch up to the Investment Manager until the Investment Manager has received 20 percent of all amounts in excess of Contributed Capital distributed to Ordinary and Extended Life Shareholders and paid to the Investment Manager as a performance fee with, thereafter, all amounts distributed by the Company 20:80 between the Investment Manager’s performance fee and the cash distributed to the Ordinary Shareholders respectively. The preferred rate of return for Ordinary Shares is an annualised 6% and for Extended Life Share was initially 6% which has subsequently been increased to 8% with effect from 12 April 2013 when the Ordinary Share class was split into Extended and Ordinary. For the purposes of financial reporting the performance fee is recognised on an accrual basis.

Considering the net asset value of the Company as at 30 June 2013, the performance fee for the Extended Life and Ordinary Share of \$Nil (30 June 2012: \$Nil) and \$334,674 (30 June 2012: \$Nil) respectively would be payable if the Company was to realise all investments at the Statement of Assets and Liabilities (SAL) date. The performance fee is included in investment manager’s fee in the Statement of Operations. The performance fee outstanding is included in payables to investment manager and affiliates in the Statement of Assets and Liabilities.

INTERIM REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 – MATERIAL AGREEMENTS AND RELATED PARTIES (CONTINUED)

Administration and Custody Agreement

The Company has appointed BNP Paribas Securities Services S.C.A., Guernsey Branch (formerly BNP Paribas Fund Services (Guernsey) Limited) as an Administrator, Secretary, Custodian and Designated Manager of the Company pursuant to the Administration and Custody Agreement.

In such capacity, the Administrator is responsible for the day-to-day administration of the Company (including but not limited to the calculation and publications of the estimated daily Net Asset Value), general secretarial functions (including but not limited to the maintenance of the Company's accounting and statutory records) and certain safekeeping and custody services. From 1 October 2012, the Administrator is entitled to a fee based on 0.10 percent per annum of the net asset value of the Company subject to an annual minimum of £100,000. The percent per annum basis prior to 1 October 2012 was 0.11, subject to the same annual minimum.

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

The Custodian is entitled to a fee of 0.02 percent of the Market Value of the portfolio or a minimum annual fee of £20,000. The loan administration fee is 0.08 percent per annum of the average market value of the loan assets with a minimum annual fee of £75,000 in respect of portfolio and loan administration.

For the period ended 30 June 2013, the administration fee expense was \$253,217 (30 June 2012: \$238,742), the secretarial fee was \$26,915 (30 June 2012: \$28,129) and the custodian and loan administration fee expense was \$167,048 (30 June 2012: \$173,951). As at 30 June 2013, the administration fee payable is \$130,600 (30 June 2012 \$117,627), the secretarial fee payable is \$13,613 (30 June 2012 \$13,923) and the custodian and loan administration fee payable is \$85,344 (30 June 2012 \$93,470).

Directors' remuneration and other interests

The Directors are related parties and are remunerated for their services at a fee of \$45,000 each per annum (\$60,000 for the Chairman). In addition, the Chairman of the Audit Committee receives an additional \$5,000 for his services in this role. Each of Michael J. Holmberg and Patrick H. Flynn, the non-independent Directors, have waived their fees for their services as Directors. For the period ended 30 June 2013, the directors' fees and travel expenses amounted to \$105,652 (30 June 2012: \$101,479). As at 30 June 2013, the director's fee payable is \$49,863 (30 June 2012 \$49,315).

NOTE 5 – DERIVATIVES

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**NOTE 5 – DERIVATIVES (CONTINUED)**

The Company can be either a seller or buyer of protection when entering into a credit default swap agreement. If the Company is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Company will either receive from the seller of protection an amount equal to the notional amount of the swap and deliver the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or receive a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

Until a credit event occurs, recovery values are determined by market makers considering either industry standard recovery rates or entity specific factors and considerations. Either as a seller of protection or a buyer of protection of a credit default swap agreement, the Company's maximum risk of loss from counterparty risk is the fair value of the agreement.

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

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

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

Forward foreign exchange contracts are subject to credit and market risk. Forward foreign exchange contracts result in exposure to market risk based on the changes in foreign currency exchange rates relative to contracted amounts. As a result, a relatively small foreign currency exchange rates movement may result in substantial losses to the Company. Credit risk is where the financial condition of an issuer of a security or instrument may cause it to default or become unable to pay interest or principal due on the security. Any trading counterparty to a derivative contract might default on their obligations. The effect of such derivative instruments on the Company's financial position and financial performance as reflected in the Consolidated Statement of Assets and Liabilities and Consolidated Statement of Operations are presented in the summary below.

The following table presents the fair values of derivative instruments:

The notional outstanding as at 30 June 2013 is representative of the exposure over the period (or similar).

30 June 2013		Notional		Fair Value /	Settlement Date
	Buy/Sell Currency	Foreign Currency (USD)		USD Equivalent	Month/Year
Forward foreign currency contracts:	EUR/USD	4,100,000	5,326,458	3,009	July 2013
	USD/BRL	24,870,515	12,189,032	961,245	July 2013
	USD/EUR	22,287,996	9,172,292	200,792	July 2013
	USD/GBP	1,895,477	1,239,449	15,688	July 2013
	EUR/USD	841,103	1,102,752	(9,427)	July 2013
	GBP/USD	252,578	385,754	(2,686)	July 2013
				1,168,620	
Credit default swap	USD	n/a	(12,100,000)	(12,228)	July 2013

INTERIM REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 – DERIVATIVES (CONTINUED)

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

The following table presents the impact of derivative instruments on the Consolidated Statement of Operations in conformity with US GAAP:

Primary underlying risk	Location of gain/(loss) recognised on Statement of Operations	Amount of gain/(loss) recognised in income on derivative (US\$)	
		30 June 2013	31 December 2012
Credit			
Credit default swap	Net change in unrealised gain/(loss) on investments & forward foreign currency contracts	524,749	(832,119)
Credit default swap	Net realised losses on investments	(558,477)	(595,000)
Foreign Currency			
Forward foreign currency contracts	Net change in unrealised gain/(loss) on investments & forward foreign currency contracts	1,450,257	(281,633)
Forward foreign currency contracts	Net realised gains on investments	19,088	-
Total		1,435,617	(1,708,752)

The following table presents, as of 30 June 2013 and 31 December 2012, the gross and net derivatives assets and liabilities by contract type and amount for those derivatives contracts for which netting is permissible under U.S. GAAP. Derivatives assets and liabilities have been netted with respect to those assets as to which the netting requirements have been met.

Offsetting of derivative assets 30 June 2013		Gross amounts of recognised assets	Gross amounts offset in the Statement of Assets and Liabilities	Net amounts offset in the Statement of Assets and Liabilities
Forward Foreign Currency Contracts		1,180,733	(12,113)	1,168,620
31 December 2012				
Credit default swap		239,676	-	239,676
Offsetting of derivative liabilities 30 June 2013		Gross amounts of recognised liabilities	Gross amounts offset in the Statement of Assets and Liabilities	Net amounts offset in the Statement of Assets and Liabilities
Forward Foreign Currency Contracts		12,113	(12,113)	-
Credit Default Swap		12,228	-	12,228
		24,341	(12,113)	12,228
31 December 2012				
Forward Foreign Currency Contracts		281,633	-	281,633

NOTE 6 – UNFUNDED LOAN COMMITMENTS

As at 30 June 2013, the Company has no unfunded loan commitments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Fair value was determined using available market information and appropriate valuation methodologies. Estimates of fair value of financial instruments without quoted market prices are subjective in nature and involve various assumptions and estimates that are matters of judgement.

Accordingly, fair values are not necessarily indicative of the amounts realised on disposition of financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on estimated fair value amounts.

The following estimates and assumptions were used at 30 June 2013 and 31 December 2012 to estimate the fair value of each class of financial instruments:

- Cash and cash equivalents - The carrying value is a reasonable estimate of fair value due to the short-term nature of these instruments.
- Receivables for investments sold - The carrying value reasonably approximates fair value as they reflect the value at which investments are sold to a willing buyer and settlement period on their balances is short term.
- Interest receivables - The carrying value reasonably approximates fair value.
- Other receivables and prepayments - The carrying value reasonably approximates fair value.
- Quoted investments are valued according to their bid price as at the close of the relevant reporting date. Investments in private securities are priced at the bid price using a pricing service for private loans. If a price cannot be ascertained from the above sources, the Company will seek bid prices from third party broker/dealer quotes for the investments.
- In cases where no third party price is available, or where the Investment Manager determines that the provided price is not an accurate representation of the fair value of the investment, the Sub-Investment Manager determines the valuation based on the Sub-Investment Manager's fair valuation policy.
- Payables for investments purchased - The carrying value reasonably approximates fair value as they reflect the value at which investments are purchased from a willing seller and settlement period on their balances is short term.
- Payables to Investment Manager and affiliates - The carrying value reasonably approximates fair value.
- Accrued expenses and other liabilities - The carrying value reasonably approximates fair value.
- Forward foreign currency contracts are revalued using the exchange rate prevailing at the Consolidated Statement of Assets and Liabilities date.

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

Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2: Inputs other than quoted prices included in Level 1 that are observable either directly or indirectly; and

Level 3: Significant unobservable inputs

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

INTERIM REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The table below details the Company's investments that were accounted for at fair value as at 30 June 2013.

Investments at Fair Value as at 30 June 2013

	Level 1	Level 2	Level 3	Total
Bank Debt Investments	-	133,840,309	71,460,360	205,300,669
Private Equity	-	38,015,682	55,389,436	93,405,118
Private Equity: Real Estate Development	-	-	60,726,868	60,726,868
Private Placement Bonds	-	-	8,234,111	8,234,111
Limited Partnership Units	-	-	48,019,938	48,019,938
Fixed Rate Bonds	-	50,462,498	-	50,462,498
U.S. Government and Agency Obligations	-	10,997,501	-	10,997,501
Public Equity and Note	-	11,672,735	-	11,672,735
Trade Claim	-	-	11,006,499	11,006,499
Ownership in Senior Living Facility	-	-	10,216,984	10,216,984
Asset Backed Securities	-	-	483,427	483,427
Bankruptcy Claim	-	-	504,000	504,000
Private Note	-	-	3,200,000	3,200,000
Total investments that are accounted for at fair value	-	\$244,988,725	\$269,241,623	\$514,230,348
Forward Contracts	-	1,168,620	-	1,168,620
Credit Default Swaps	-	(12,228)	-	(12,228)

Investments at Fair Value as at 31 December 2012

	Level 1	Level 2	Level 3	Total
Bank Debt Investments	-	126,707,876	30,234,768	156,942,644
Private Equity	-	24,028,771	48,088,831	72,117,602
Private Equity: Real Estate Development	-	-	67,168,149	67,168,149
Private Placement Bonds	-	-	9,854,912	9,854,912
Limited Partnership Units	-	-	50,093,828	50,093,828
Fixed Rate Bonds	-	51,317,701	1,486,368	52,804,069
U.S. Government and Agency Obligations	-	41,998,596	-	41,998,596
Public Equity	905,548	4,875,196	-	5,780,744
Trade Claim	-	-	11,233,247	11,233,247
Ownership in Senior Living Facility	-	-	10,098,587	10,098,587
Asset Backed Securities	-	-	660,791	660,791
Bankruptcy Claim	-	-	686,341	686,341
Total investments that are accounted for at fair value	\$905,548	\$248,928,140	\$229,605,822	\$479,439,510
Forward contracts	-	(281,633)	-	(281,633)
Credit Default Swaps	-	239,676	-	239,676

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table summarises the significant unobservable inputs the Company used to value its investments categorised within Level 3 as of 30 June 2013. The table is not intended to be all-inclusive, but instead captures the significant unobservable inputs relevant to our determination of fair values.

Category	Fair Value (\$)	Primary Valuation Technique	Unobservable inputs	Range	Weighted Average
Asset Backed securities	483,427	Broker Pricing	Cash Proceeds from Liquidation Value	Cash	Cash
Bank Debt Investments: Aircraft	4,922,800	Broker Pricing	Aircraft Liquidation Value	\$4MM - \$35MM Per Aircraft	\$20MM Per Aircraft
Bank Debt Investments: Commercial Mortgage	19,188,740	Third Party Appraisal Adjusted using Management Assumptions	Third Party Appraisal Adjustments to Third Party Values	8% - 14% and \$53 - \$264 per square foot	11% and approx. \$99 per square foot
Bank Debt Investments: Land	20,007,300	Broker Pricing	Comparable sales	1.5MM - 2.00MM per acre	1.75MM per acre
Bank Debt Investments: Leisure	21,038,078	Broker Pricing	Term Sheet for sale of company	Implied Enterprise Value of \$342MM	N/A
Bank Debt Investments: Other	1,863,023	Broker Pricing	EBITDA Multiple	4-6X	5.0X
Bank Debt Investments: Utilities	907,118	Broker Pricing	\$/kW multiple	573 \$/k W	N/A
Bank Debt Investments: Shipping	3,533,300	Independent Fleet Appraisal	Appraised Value	Fleet valued at a 1.25 multiple of loan principal	N/A
Bankruptcy claim: Financial Intermediaries	504,000	Broker Pricing	Claim Liquidation Value	1.75% of Claim Value	N/A
Limited Partnership Units	48,019,938	Third Party Valuations Adjusted Using Management Assumptions	Third Party Valuations; Adjustments to Third Party Values	66-133% of Third Party Valuation	80% of Third Party Valuations
Ownership in Senior Living Facility	10,216,984	Discounted Cash Flow (DCF)	Third Party Appraisal	12.00%	N/A
Private Equity: Building and Development	3,063,376	Broker Pricing	Price to Book Value	1.69x	N/A
Private Equity: Containers and Packaging	10,562,965	Broker Pricing	EBITDA Multiple	7x	N/A
Private Note: Financial Intermediaries	3,200,000	Broker Pricing	Expected Recovery	16-33 Cents on the Dollar	23 Cents on the Dollar
Private Equity: Real Estate Development	60,726,868	Discounted Cash Flow	Third Party Appraisal Market Comp Analysis	9%-11% and \$200 - \$500 per square foot	10% and approx. \$345 per square foot
Private Equity: REITs/REOCs	22,204,000	Broker Pricing	Portfolio yield on underlying properties	6.5% - 8.5%	7.50%
Private Equity: Utilities	19,559,095	Broker Pricing	\$/kW multiple	400-450 \$/k W	425 \$/k W
Private Placement Bond	8,234,111	Broker Pricing	EBITDA Multiple	5X	N/A
Trade Claim: Surface Transport	11,006,499	Broker Pricing	Discount Rate & Weighted Average Life	20% discount rate and 5.83 WAL	N/A
Total	269,241,623				

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

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

INTERIM REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	For the year ended 31 December 2012					
	Bank Debt Investment	Private Equity	Private Equity: Real Estate Development	Private Placement Bonds	Limited Partnership Units	Trade Claim
Balance, 31 December 2012	\$ 30,234,768	\$ 48,088,830	\$ 67,168,150	\$ 9,854,912	\$ 50,093,828	\$ 11,233,247
Purchases	55,020,896	4,664,609	654,799	-	1,060,827	-
Sales and distributions	(12,261,640)	(7,368,673)	(7,068,823)	-	(3,552,096)	-
Realised gains on sale of investments	(8,316)	(61,967)	-	-	2,638,967	-
Unrealised (loss)/gain on investments	(1,525,348)	10,066,637	(27,258)	(1,620,801)	(2,221,588)	(226,748)
Transfers into or (out of) level 3	-	-	-	-	-	-
Balance, 30 June 2013	\$ 71,460,360	\$ 55,389,436	\$ 60,726,868	\$ 8,234,111	\$ 48,019,938	\$ 11,006,499
Change in unrealised gain/(loss) on investments included in Statement of Operation for Level 3 investments held as of 30 June 2013	\$ (1,525,348)	\$ 10,066,637	\$ (27,258)	\$ (1,620,801)	\$ (2,221,588)	\$ (226,748)

	Bankruptcy Claim	Ownership in Senior Living Facility	Fixed Rate Bonds	Asset Backed Securities	Private Note	Total
Balance, 31 December 2012	\$ 686,341	\$ 10,098,587	\$ 1,486,368	\$ 660,791	\$ -	229,605,822
Purchases	-	118,397	-	17	3,200,000	63,806,416
Sales and distributions	(797)	-	-	(149,056)	-	(26,848,989)
Realised gains on sale of investments	(371)	-	-	73,288	-	2,634
Unrealised (loss)/gain on investments	(181,173)	-	-	(101,613)	-	4,162,108
Transfers into or (out of) level 3	-	-	(1,486,368) ⁱ	-	-	(1,486,368)
Balance, 30 June 2013	\$ 504,000	\$ 10,216,984	\$ -	\$ 483,427	\$ 3,200,000	\$ 269,241,623
Change in unrealised gain/(loss) on investments included in Statement of Operation for Level 3 investments held as of 30 June 2013	\$ (50,404)	\$ -	\$ -	\$ (101,613)	\$ -	4,292,877

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

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

INTERIM REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Change in unrealised gain/(loss) on investments included in Statement of Operation for Level 3 investments held as of 31 December 2012	\$ 1,943,529	\$ (764,099)	\$ 2,326,062	\$ 38,943	\$ 9,285,790	\$ (290,322)
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	Bankruptcy Claim	Ownership in Senior Living Facility	Fixed Rate Bonds	Asset Backed Securities	Total
Balance, 31 December 2011	\$ 265,351	\$ 8,900,000	\$ 6,614,411	\$ 1,112,529	\$ 149,593,828
Purchases	171,530	355,831	1,037,265	-	75,377,673
Sales and distributions	(271,571)	-	-	(524,176)	(45,038,168)
Restructured assets	-	-	-	-	-
Non-cash gain on restructuring	-	-	-	-	15,299,517
Realised gains on sale of investments	6,220	-	-	257,829	8,343,050
Unrealised (loss)/gain on investments	514,811	842,756	(3,809,135)	(185,391)	7,790,345
Transfers into or (out of) level 3	-	-	(2,356,173) ⁱ	-	18,239,577
Balance, 31 December 2012	\$ 686,341	\$ 10,098,587	\$ 1,486,368	\$ 660,791	\$ 229,605,822

Change in unrealised gain/(loss) on investments included in Statement of Operation for Level 3 investments held as of 31 December 2012	\$ 538,764	\$ 842,756	\$ (1,534,565)	\$ (185,391)	\$ 12,201,467
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The Company's policy is to recognise transfers into and out of various levels as of the actual date of the event or change in circumstances that caused the transfer.

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

There were no transfers between level 1 and level 2 during the period ended 30 June 2013 and the year ended 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 – RISKS

The Company is subject to various risks, including, but not limited to, market risk, credit risk and liquidity risk. The Investment Manager attempts to monitor and manage these risks on an ongoing basis. While the Investment Manager generally seeks to hedge certain portfolio risks, the Investment Manager is not required and may not attempt to hedge all market or other risks in the portfolio, and it may decide to only partially hedge certain risks. The Company does not have any material exposure to currency risk as at 30 June 2013.

Market Risk

Market risk is the potential for changes in the value of investments. Categories of market risk include, but are not limited to interest rates. Interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates and credit spreads. Details of the Company's investment portfolio at 30 June are disclosed in the condensed consolidated schedule of investments. Each separate investment exceeding 5% of net assets is disclosed separately.

Credit Risk

The Company may invest in a range of corporate and other bonds and other credit sensitive securities. Until such investments are sold or are paid in full at maturity, the Company is exposed to credit risk relating to whether the issuer will meet its obligations when the securities come due. Distressed debt securities by nature are securities in companies which are in default or are heading into default and will expose the Company to a higher than normal amount of credit risk.

The cash and other liquid securities held can subject the Company to a concentration of credit risk. The Investment Manager attempts to mitigate the credit risk that exists with cash deposits and other liquid securities by regularly monitoring the credit ratings of such financial institutions and at times attempting to hold a significant amount of the Company's cash and cash equivalents in U.S. Treasuries or other highly liquid securities.

Credit risk is the risk of losses due to the failure of counterparty to perform according to the terms of a contract. Since the Company does not clear all of its own securities transactions, it has established accounts with other financial institutions for this purpose. This can, and often does, result in a concentration of credit risk with one or more of these institutions. Such risk, however, is partially mitigated by the obligation of certain of these financial institutions to comply with rules and regulations governing financial institutions in countries where they conduct their business activities.

These rules and regulations generally require maintenance of minimum net capital and may also require segregation of customers' funds and financial instruments from the holdings of the financial institutions themselves. The Company actively reviews and attempts to manage exposures to various financial institutions in an attempt to mitigate these risks.

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

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as and when these fall due. Liquidity risk is managed by the Investment Manager so as to ensure that the Company maintains sufficient working capital in cash or near cash form so as to be able to meet the Company's ongoing requirements as these are budgeted for.

Other Risks

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

INTERIM REPORT**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****NOTE 9 – SHARE CAPITAL**

The original investment period expired on 10 June 2013 and a proposal was made to Ordinary Shareholders to extend the investment period by 21 months to 31 March 2015. A vote was held at a class meeting of Shareholders on 8 April 2013 where the majority of shareholders voted in favour of the proposed extension.

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

The Extended Life Shares class are subject to a new capital return policy pursuant to which the Company will seek to return to the holders of Extended Life Shares all capital profits arising from the exit of any assets attributable to the Extended Life Shares (net of any amount that the directors estimate may become payable as performance fee).

The Company's share capital consists of;

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

The Ordinary and Extended Life Share Classes (and not the Class A Shares) carry rights to receive all income and capital returns distributed by the Company.

The issued share capital of the Company is denominated in U.S. Dollars and consists of Ordinary Shares (which carry limited voting rights) and Class A Shares (which carry extensive voting rights). The Class A Shares are held by the Trustee pursuant to a purpose trust established under Guernsey law. Under the terms of the Trust Deed, the Trustee holds the Class A Shares for the purpose of exercising the rights conferred by such shares in the manner it considers, in its absolute discretion, to be in the best interests of the Ordinary Shareholders as a whole.

As at the 30 June 2013, the Company had following shares in issue:

	30 June 2013	31 December 2012	
Issued and fully paid up:			
Class A Shares	2	2	
Extended Life Share Class of no par value	320,109,841	-	
Ordinary Shares Class of no par value	124,160,471	444,270,312	
Reconciliation of shares in issue in each class:	Extended Life Shares	Ordinary Shares	Total
Balance as at 31 December 2012	-	444,270,312	444,270,312
Shares issued during the period	-	-	-
Transfer of shares between classes	320,109,841	(320,109,841)	-
Balance as at 30 June 2013	320,109,841	124,160,471	444,270,312

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 – FINANCIAL HIGHLIGHTS

	Extended Life Shares 12 April 2013 to 30 June 2013	Ordinary Shares Period ended 30 June 2013	Ordinary Shares Year ended 31 December 2012
Opening Balance	1.1353	1.0765	0.9672
Per share operating performance			
Impact of conversion of subscription shares to Ordinary Shares	-	-	-
Income/loss from investment operations (i)			
Net investment income after tax	(0.0010)	0.0075	0.0085
Net realised and unrealised gain from investments	0.0481	0.0997	0.1008
Total gain from operations	0.0471	0.1072	0.1093
Net asset value per share at the end of the period	\$1.1824	\$1.1837	\$1.0765

Total return* (ii)

	Extended Life Shares 12 April 2013 to 30 June 2013	Ordinary Shares Period ended 30 June 2013	Ordinary Shares Year ended 31 December 2012
Total return before performance fees	4.15%	10.21%	11.30%
Performance fees	-	(0.25)%	-
Total return after performance fees	4.15%	9.96%	11.30%

Ratios to average net assets (ii)

Net investment income after tax	(0.09%)	0.42%	0.33%
Expenses (iii)	(1.69)%	(2.35)%	(2.18)%

- (i) Average shares outstanding were used for calculation.
- (ii) An individual shareholder's return may vary from these returns based on the timing of the shareholder's subscriptions.
- (iii) These amounts have been annualised with the exception of performance fees or other non linear expenses such as restructuring costs.

*Total return is calculated for the Ordinary and Extended Life Share Class only, which is calculated, based on movement in the net asset value, and does not reflect any movement in the market value. An Ordinary shareholder's return may vary from these returns based on participation in new issues, the timing of capital transactions etc. Subscription shares are not presented as they are not profit participating shares.

INTERIM REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - SUBSEQUENT EVENTS

On 4 July 2013, the Board of Directors (the "Directors") approved the issue of up to 31,978,973 additional shares via a tap issue. The new shares are designated as New Extended Life Shares (the "NEL shares"), denominated in US dollars and of zero par value in the capital of the Company. The NEL shares were issued and offered to certain UK qualifying investors through an exempt public offer and have been admitted to the Specialist Fund Market (the "SFM") of the London Stock Exchange (the "LSE") and to listing and to trading on the Channel Islands Stock Exchange (the "CISX").

The funds raised in this regard were received on 10 July 2013 and amounted to US\$38,370,930.

The NEL shares rank pari passu with the existing Extended Life Shares already in issue.

Following the issue of the NEL shares the Directors confirmed that it is not the intention of the Company to issue any further shares before the expiry of the Extended Investment Period.

There have been no other subsequent events since 30 June 2013 to the date these financial statements were approved by the directors that requires recognition or disclosure in the consolidated financial statements.

DIRECTORS, MANAGERS AND ADVISERS**Directors**

Robin Monro-Davies (*Chairman*)
 Talmai Morgan
 John Hallam
 Christopher Sherwell
 Michael Holmberg
 Patrick Flynn

All c/o the Company's registered office.

Administrator, Custodian and Company Secretary

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