

Saltus European Debt Strategies Limited
Annual Report and Audited Financial Statements 2009

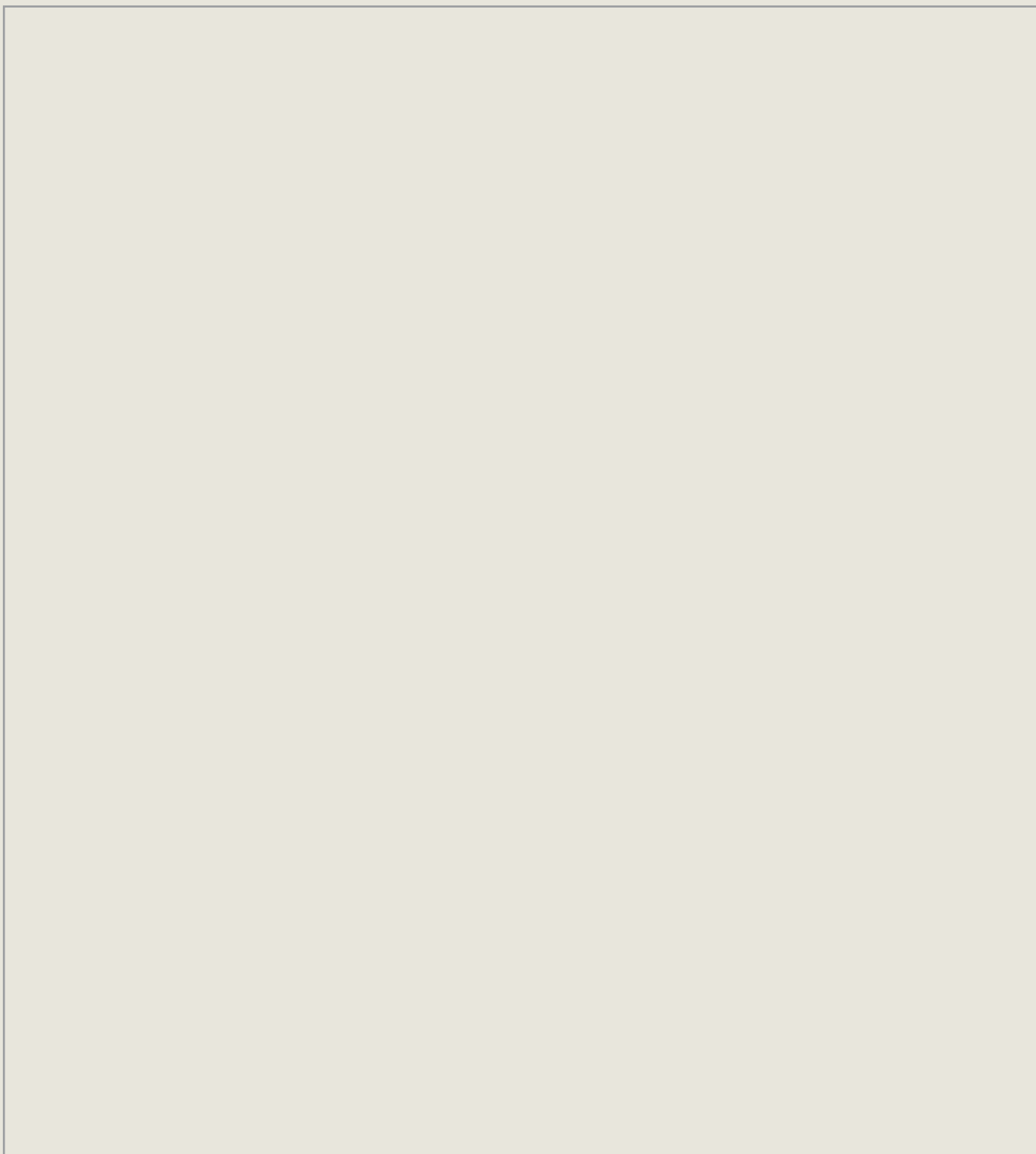


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Summary Information

Principal Activity

Saltus European Debt Strategies Limited ("the Company") is an authorised closed-ended investment scheme domiciled in Guernsey. The Company is listed and traded on the London Stock Exchange.

Investment Objective and Policy

The Company's investment objective is to produce annual returns in excess of 3-month Sterling LIBOR plus 7.5 per cent. over a rolling 5-year period, with annual standard deviation of under 5 per cent.

The Company's investment policy is to invest in a portfolio of absolute return funds, which is expected to comprise mostly of debt-oriented hedge funds, but which may also include long only debt funds and closed-ended limited partnerships with longer lock-ups.

Asset Allocation by Hedge Fund Strategy

The estimated allocation to underlying hedge fund strategies as at 31 December 2009 was as follows:

Direct	Wtg%
Distressed	43.0%
Multi-strategy credit	37.7%
Asset backed lending	6.4%
Credit trading	4.9%
Cash/other	4.6%
Leverage loans	2.7%
Multi-strategy event	0.7%
Total	100.0%

Look-through*	Wtg%
Distressed	37.2%
Special situations	23.4%
High yield long/short	11.9%
Asset backed lending	8.3%
Credit trading	8.1%
Leverage loans	7.3%
Other	3.6%
Merger arbitrage	0.2%
Total	100.0%

The top table shows the allocation of the Company to the underlying managers by strategy type. The bottom table breaks down the multi-strategy managers by positions to give a look through of the underlying portfolio exposure of the Company.

* Estimate by Saltus Partners LLP based on interviews with a sample of underlying managers.

Summary Information

Analysis of Significant Investments

The ten largest direct holdings of the Company as at 31 December 2009 are set out in the table below.

Name of Investment	Strategy	Market Value £	% of Portfolio Value
RAB European Credit Opportunities Fund	Multi-strategy credit	2,805,404	10.91%
King Street Europe Fund	Multi-strategy credit	2,558,063	9.95%
Cognis I Fund	Multi-strategy credit	2,412,053	9.38%
Trafalgar Discovery Fund	Distressed	2,369,610	9.21%
Fortelus Special Situations	Distressed	1,643,434	6.39%
Trafalgar Kahala Jet Fund	Asset backed lending	1,634,417	6.36%
Strategic Value Restructuring Fund	Distressed	1,531,478	5.96%
Apollo European Principal Finance LP	Distressed	1,484,184	5.77%
Novator Credit Opportunities Fund	Multi-strategy credit	1,395,158	5.43%
Ironshield Special Situations Fund	Distressed	1,341,088	5.22%
Total		19,174,889	74.58%

Further analysis of the Company's investment portfolio is set out on page 8.

Chairman's Statement

I present below my report to shareholders in respect of the financial year ended 31 December 2009.

Performance Review

Over the period the Company's net asset value per share increased by 5.5 per cent. to 62.39p at 31 December 2009. This was disappointing by comparison to credit markets in general due to the Company's heavy weighting toward less liquid senior secured debt instruments and unquoted debt investments. In addition a change in accounting basis of several funds from going concern to wind-up as a result of redemptions triggered by losses incurred in the fourth quarter of 2008 led to additional mark-downs in the Company's net asset value. These factors particularly impacted the first quarter when NAV fell 3.5 per cent. but performance improved as the year progressed, with NAV up 9.3 per cent. over the rest of the period.

Restructuring

In view of the Company's poor performance since launch and the wide discount to net asset value at which the Company's shares have traded, at the beginning of the third quarter the Board conducted a shareholder consultation exercise regarding the future of the Company. Having spoken with shareholders accounting for in excess of 78 per cent. of the Company's issued share capital and after taking account of the Company's then high level of borrowings (which were in excess of its bank facility) and liquidity profile of its underlying investments, in August the Board announced the following course of action:

- to propose a winding-up vote at the annual general meeting of the Company held in respect of the year ending 31 December 2011;
- in the meantime to manage the portfolio in such a way as to facilitate a prompt return of capital to shareholders assuming that this vote is passed;
- to stop hedging the Company's currency exposures; and
- to utilise a portion of any surplus cash for resuming the Company's share buyback programme.

Since that time good progress has been made implementing these measures. The Company ceased hedging its foreign exchange in September 2009 which has significantly reduced the volatility of the Company's borrowings. These too have largely been addressed as proceeds from redemptions received during the period led to borrowings of £7.2 million at 31 December 2008 being fully repaid and the Company having net cash of £0.6 million at the year end. This position has further improved post year end and at 31 March 2010 the Company had cash of £2.4 million. However, the Company has not yet been able to resume a share buyback programme because it has outstanding capital commitments to two funds currently totalling £3.8 million. The Company has outstanding redemptions submitted for in excess of £7 million so the Board expects to be able to resume its share buyback programme as soon as it has financial resources available in excess of its outstanding commitments.

Board Structure

On 1 March 2010 the Board accepted the resignation of Mr William Scott as a director of the Company.

Although Mr Scott always acted in an entirely independent fashion, he was deemed under various corporate governance guidelines not to be independent by virtue of also acting as a non-executive director of another company managed by the Investment Manager. Given the size of the Company the Board did not feel that the alternative course of action, to inflate the size of the Board, would either be efficient or cost effective. Following his resignation the Board now comprises four directors, including myself, three of whom are independent.

I would like to record the Board's thanks to Mr Scott for his considerable contribution to the Company since its formation.

Chairman's Statement

Outlook

With the return of capital from underperforming managers progressing well, and the generally high quality of the remaining portfolio, the prospects for 2010 are good. The distressed debt cycle in Europe has been slower to start in Europe than the US, given the greater preponderance of "amend and extend" activity by lenders. However, anecdotally banks are beginning to sell underperforming loans, as events have caught up with their provisioning. This selling process is expected to generate a significant part of the opportunity set for 2010 and beyond.

I would like to thank our shareholders, once again, for their continuing support.

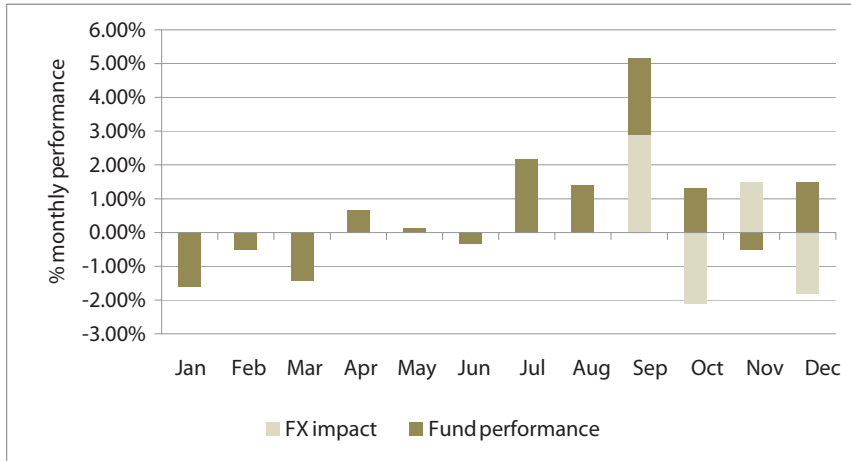
G Baird, Chairman

Date: 20 April 2010

Sub-Manager's Report

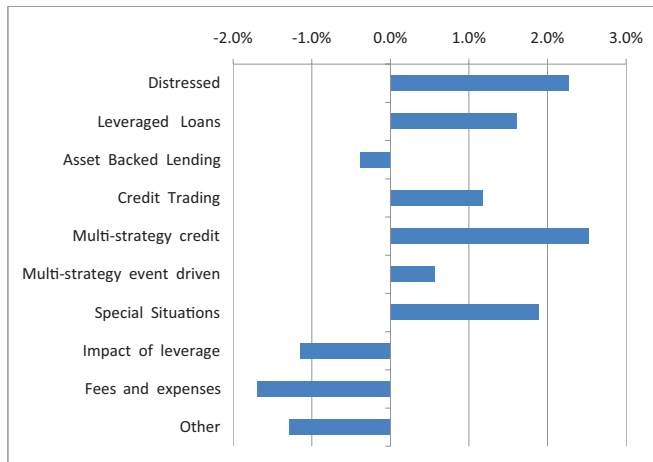
During the year ended 31 December 2009 the net asset value per share increased 5.5 per cent.

The chart below represents the monthly change in NAV over the period and shows the impact respectively of the underlying funds' performance and foreign exchange movement since the Company ceased hedging its foreign exchange exposure in September 2009.



Investment Review

Contribution by strategy was as follows:



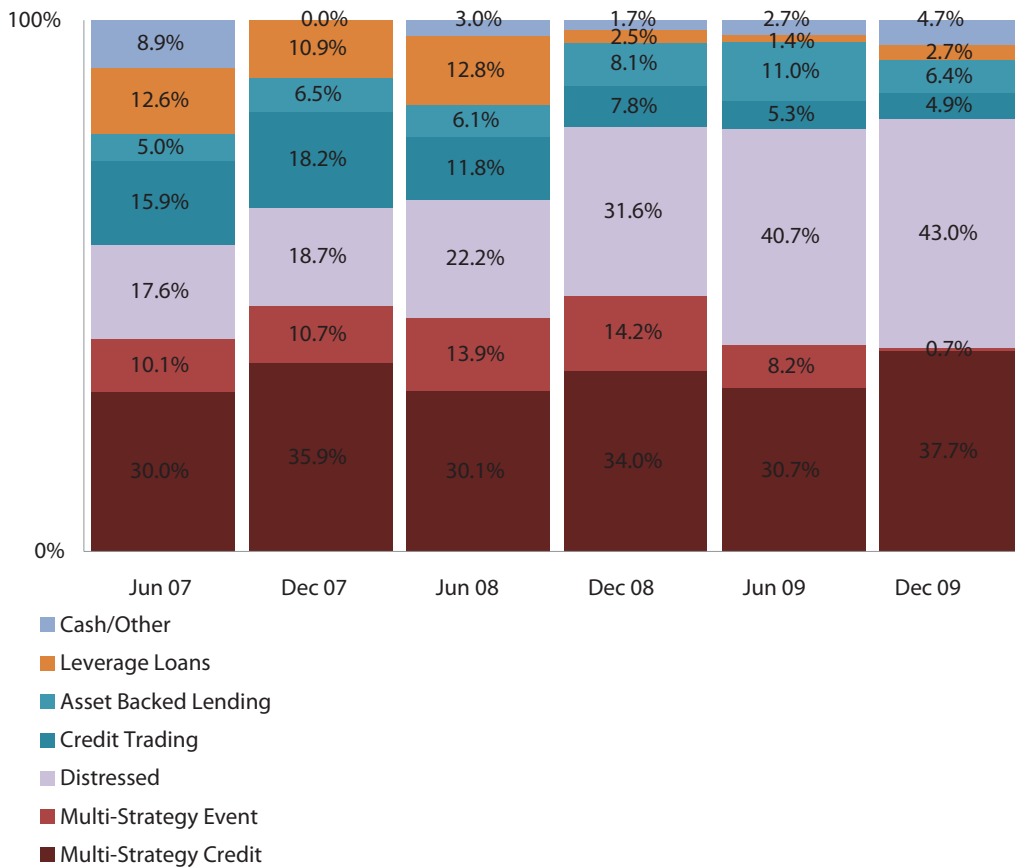
Much of the focus of 2009 was in repaying leverage which arose from sterling's slide in the latter part of 2008, as well as redeeming from managers who had performed poorly, or who had become excessively illiquid. The leverage was repaid by August. The percentage of managers where we had requested redemptions but cash had not been received fell to 34 per cent. of NAV at the year end, and has subsequently fallen to 26 per cent. of NAV, from a peak of 48 per cent. at the end of March 2009. This process is on-going.

A number of our managers turned in very strong performance - notably Fortelus and Liontrust who had managed to produce positive returns in 2008, followed by returns of +48 per cent. and +35 per cent. respectively in 2009. Other managers, who had fared less well in 2008 given the long-biased nature of their strategies, recovered sharply, with Oaktree ECOF (+213 per cent.), Pardus (+78 per cent.) and ADM Gladius (+41 per cent.) being notable examples. The major drag on performance came from funds which were returning capital as a result of being wound up, with Cognis, Novator, Orn, Aladdin and the two Trafalgar funds all being disappointing.

Sub-Manager's Report

Strategy Exposure

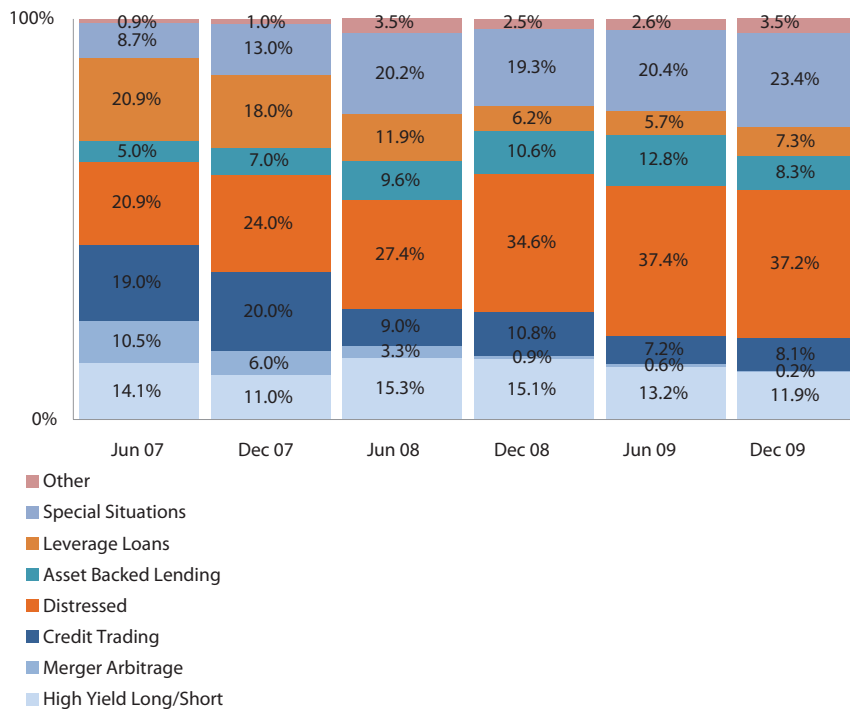
The chart below gives a breakdown of the description of the managers' strategies at a fund level at 31 December 2009. The largest single category is allocated to distressed debt funds.



Sub-Manager's Report

Strategy Exposure (continued)

The following chart describes the securities in which our managers are investing on a look through basis:



Outlook for 2010

With the proportion of managers in run-off falling sharply and the more liquid managers in the portfolio citing an increasing opportunity set, prospects for 2010 appear bright. The lack of true distressed opportunities in 2009 came as a surprise to most of us, and was explained by the behaviour of the European banking sector - refraining from selling loans, and instead choosing to put off the inevitable by amending terms and extending maturities. This deprived the distressed debt industry of much of the anticipated supply of defaulting paper. However, as banks' provisioning has caught up with events over the course of the year, the selling process is anecdotally getting under way. At the same time our credit trading funds report a continuing opportunity set on both the long and short side, with an expectation of greater focus on winners and losers as the economy recovers, and therefore increasing dispersion of returns.

Saltus Partners LLP

20 April 2010

Investment Portfolio

At 31 December 2009 the Company's investment portfolio comprised the following principal holdings:

Name of Investment	Strategy	Market Value £	% of Portfolio Value
RAB European Credit Opportunities Fund	Multi-strategy credit	2,805,404	10.91%
King Street Europe Fund	Multi-strategy credit	2,558,064	9.95%
Cognis I Fund	Multi-strategy credit	2,412,053	9.38%
Trafalgar Discovery Fund	Distressed	2,369,610	9.21%
Fortelus Special Situations	Distressed	1,643,434	6.39%
Trafalgar Kahala Jet Fund	Asset backed lending	1,634,417	6.36%
Strategic Value Restructuring Fund	Distressed	1,531,478	5.96%
Apollo European Principal Finance LP	Distressed	1,484,184	5.77%
Novator Credit Opportunities Fund	Multi-strategy credit	1,395,158	5.43%
Ironshield Special Situations Fund	Distressed	1,341,088	5.22%
ORN European Distressed Debt Fund	Distressed	1,312,309	5.10%
Pardus Special Opportunities Fund	Special situations	1,200,916	4.67%
OCM European Principal Opportunities Fund	Distressed	1,184,152	4.60%
Liontrust Credit Fund	Credit trading	807,491	3.14%
Oaktree Capital Management	Leveraged loans	686,505	2.67%
Aladdin Relative Value Credit Fund	Credit trading	463,367	1.80%
ADM Gladius Fund	Multi-strategy credit	454,571	1.77%
Sub Total		25,284,201	98.33%
Other (individually less than 1% of portfolio value)		430,851	1.67%
Total		25,715,052	100.00%

Board of Directors

The Directors of the Company, all of whom are non-executive, are listed as follows:

George Baird* (Chairman), born 1950, qualified as a chartered accountant in 1974 with Arthur Young McClelland Moores & Company. In 1980, he was employed by the States of Jersey and from 1991 to 1999 was Treasurer of the States of Jersey. He served as Group Finance and Operations Director of the Mourant Group from 1999 until his retirement in 2002. He holds a number of non-executive directorships including Chairmanship of both Invesco Leveraged High Yield Fund Limited (1999 to date) and Geiger Counter Limited (2006 to date). He is a resident of Jersey.

Rupert Dorey*, born 1960, has over 22 years of experience in debt capital markets, specialising in credit related products, including derivative instruments. Mr Dorey's expertise is principally in the areas of debt distribution, origination and trading, covering all types of debt from investment grade to high yield and distressed debt. He was at Credit Suisse First Boston ("CSFB") for 17 years from 1988 until May 2005. From 2000 until he left CSFB, he was the head of sterling credit sales at CSFB. Previously, he held a number of positions at CSFB, including establishing CSFB's high yield debt distribution business in Europe, fixed income credit product co-ordinator for European offices and head of UK Credit and Rates Sales. Mr Dorey is a director of a number of hedge funds, fund of hedge funds and private equity funds including M&G Episode LLP (a global macro hedge fund) (July 2005 to present) and Cognis Capital Master Fund 1 LP (a distressed debt fund) (February 2006 to present). He is a resident of Guernsey.

Jon Macintosh+, born 1968, was a Managing Director of Lehman Brothers from 2003 to 2004 where he was co-head of the European Mezzanine Group within the Private Equity Division, responsible for investing in subordinated debt instruments in European leveraged buy-out transactions. From 1997 to 2003, he worked for Deutsche Bank where he was a Managing Director of DB Capital Partners and a director of Morgan Grenfell Private Equity Limited, responsible for the origination and execution of European leveraged buy-out transactions. From 1991 to 1995 he worked for Schroders plc in the investment management division (1991 to 1993) and the equity capital markets division (1993 to 1995). He is a director of Saltus (Channel Islands) Limited, Saltus Partners Limited and a partner of Saltus Partners LLP (2004 to present). He is also a director of Guernsey Portfolios PCC Limited (October 2006 to present) and AcenciA Debt Strategies Limited (October 2005 to present). He is a resident of the United Kingdom.

Christopher Sherwell*, born 1947, is a non-executive director of a number of investment related companies. He was Managing Director of Schroders (CI) Limited from April 2000 until January 2004 and served as a director of various Schroder group companies and investment funds. He continued as a non-executive director of Schroders (CI) Limited before stepping down in December 2008. His other directorships include chairmanship of Hermes Commodities Umbrella Fund Limited and of Goldman Sachs Dynamic Opportunities Limited. Before joining Schroders in 1993 he worked as Far East regional strategist with Smith New Court Securities in London and then Hong Kong. He was previously a journalist, working for the Financial Times. He is a resident of Guernsey.

* Independent Non-Executive Directors.

+ Representative of the Manager and Sub-Manager.

Directors' Report

The Directors of Saltus European Debt Strategies Limited ("the Company") are pleased to submit their Annual Report and the Audited Financial Statements for the year ended 31 December 2009.

The Company

The Company is an authorised closed-ended investment scheme domiciled in Guernsey. The Ordinary Shares have a Chapter 14 listing on the London Stock Exchange.

Principal Activity and Investment Objective

The Company's primary investment objective is to provide annual returns in excess of 3-month sterling LIBOR plus 7.5 per cent over a rolling 5 year period, and annual standard deviation of under 5 per cent. The Company's principal activity is to invest in a portfolio of absolute return funds, which is expected to comprise mostly hedge funds, but which may also include long-only funds (debt and equity) and, in certain cases, closed ended funds including limited partnerships with longer lock-ups, of typically 2-3 years and some of which may be up to 10 years, where considered appropriate by the Sub-Manager.

A review of the business and prospects is contained in detail in the Sub-Manager's Report.

Results and Distributions

The results for the year are shown in the Income Statement on page 19.

In accordance with the Prospectus, it is the Directors' intention not to declare or make any distributions to shareholders.

Independent Auditors

A resolution to re-appoint BDO Limited as auditors will be proposed at the next Annual General Meeting.

Manager and Sub Manager

The Directors are responsible for the determination of the Company's investment policy and have overall responsibility for the Company's activities. The Company has, however, entered into an Investment Management Agreement with Saltus (Channel Islands) Limited under which Saltus (Channel Islands) Limited has been appointed with overall responsibility for the management of the Company's portfolio and the provision of various other management services to the Company, subject to the overriding supervision of the Directors. The Manager has delegated some of its duties, including that of making investment decisions and day-to-day management of the Company's portfolio to Saltus Partners LLP, the Sub-Manager.

The Directors have reviewed the performance and terms of appointment of the Manager and Sub-Manager and consider that it is in the best interests of all shareholders for the Company to continue with their appointment on their existing terms of appointment. A summary of these terms, including the management fee, performance fee and notice of termination period, is set out in note 9 of the Financial Statements.

Authorised and Issued Share Capital

The Company has the power to issue an unlimited number of shares of no par value which may be issued as Ordinary Shares or C Shares or otherwise and which may be denominated in Sterling, Euro, US Dollars or any other currency.

Upon incorporation 2 Ordinary Shares of no par value each were issued. Following the launch of the Company on the London Stock Exchange the Company had issued 48,000,000 Ordinary Shares of no par value.

With confirmation of the Royal Court in Guernsey on 6 July 2007 the amount standing to the credit of the Share Premium Account of the Company was cancelled and credited to a Distributable Reserve which shall be able to be applied in any manner in which the Company's profits available for distribution are able to be applied, including the purchase of the Company's own shares and the payment of dividends.

Directors' Report

Authorised and Issued Share Capital (continued)

Repurchases made pursuant to the Company's discount management policy will be funded through a combination of available cash reserves and the use of short term borrowings under the Company's debt and/or its loan facility. Any subsequent sale of assets from the Company's investment portfolio will be implemented by the Investment Manager in an orderly manner and in accordance with the Company's stated investment objectives and policies.

Ordinary shareholders should note that there can be no guarantee that any discount control mechanism will have its desired effect on the discount to Net Asset Value at which the Company's Ordinary Shares may trade.

For the avoidance of doubt, purchases will always be at the absolute discretion of the Board. Any purchases will be made only through the market at prices below the prevailing estimated Net Asset Value per Ordinary Share where the Directors believe such purchases will enhance shareholder value and assist in narrowing any discount to Net Asset Value at which the Ordinary Shares may trade.

The Company currently has authority to repurchase up to 14.99 per cent of its issued share capital. The Board does not intend to limit the amount of Ordinary Shares that may be bought back. The Board is proposing that such authority be renewed at the Annual General Meeting. As at close of business on 31 December 2009 the Company had in issue 42,059,889 Ordinary Shares. The proposed authority would permit the repurchase of up to 6,304,777 Ordinary Shares.

If renewed at the 2010 Annual General Meeting, the authority to repurchase will last until the conclusion of the Annual General Meeting of the Company in 2011 unless renewed earlier. Any repurchase made will be at the discretion of the Board in light of prevailing market conditions and within guidelines set from time to time by the Board, the Listing Rules and Model Code.

Treasury Shares

In accordance with the Companies (Guernsey) Law, 2008 (the 'Law') any Ordinary Shares repurchased pursuant to the above authority may, subject to an overall limit of 10 per cent of the shares then in issue, be held in Treasury. These Ordinary Shares may be subsequently cancelled or sold for cash. This would give the Company the ability to reissue shares quickly and cost efficiently and provides the Company with additional flexibility in the management of its capital. The Company may hold in Treasury any of its Ordinary Shares that it purchases pursuant to the share buy back authority granted by shareholders.

The repurchase facility is intended to enable the Company to be better positioned to address any imbalance between the supply and demand for the Ordinary Shares in the Company that may be reflected in the discount to Net Asset Value at which the Ordinary Shares may trade from time to time on the London Stock Exchange.

During the year ended 31 December 2009, the 3,911,306 Ordinary Shares held in treasury were all cancelled.

Further Issues of Shares

The Company's Articles of Association provide the Directors with wide powers to issue further Shares (of one or more currency classes and whether as C shares or Redeemable shares) on a non-pre-emptive basis and without seeking further Shareholder approval.

Directors

The Directors, all of whom are non-executive, are listed on page 45.

None of the Directors has a service contract with the Company and no such contracts are proposed. The basic fee payable to each independent non-executive director for the year ended 31 December 2009 was £15,000 (2008: £15,000), except for the Chairman who received £25,000 (2008: £25,000) and Mr C Sherwell who receives an additional £2,500 per annum for being Chairman of the Audit Committee. Mr J Macintosh waived his fee as a Director as described in note 21.

Directors' Report

Directors (continued)

At the Balance Sheet date the Directors' shareholdings in the Company were as follows:

Name	No of Ordinary Shares	Percentage
G Baird (Chairman)	10,000	0.02%
R Dorey	50,000	0.12%
J Macintosh	249,414	0.59%
W Scott	15,000	0.04%
C Sherwell	25,000	0.06%

Substantial Shareholdings

As of 16 April 2010, being the latest practicable date prior to the publication of these Financial Statements, the Company has been notified of the following shareholdings in excess of 3% of the issued Share Capital:

- Weiss Capital LLC - 7,204,640 Ordinary Shares representing 17.13%
- Saltus Partners LLP - 5,391,589 Ordinary Shares representing 12.82%
- Sandalwood Securities Inc - 5,480,000 Ordinary Shares representing 13.03%
- Investec Asset Management Ltd - 4,163,521 Ordinary Shares representing 9.90%
- Thornhill Investment Management Limited - 1,871,000 Ordinary Shares representing 4.45%
- Rensburg Sheppard - 1,678,830 Ordinary Shares representing 3.99%
- Barclays Plc - 1,668,603 Ordinary Shares representing 3.97%
- JO Hambro Investment Management Limited - 1,258,500 Ordinary Shares representing 2.99%

Related Parties

Details of transactions with related parties are disclosed in note 21 to these Financial Statements.

Directors' Responsibilities

The Directors are responsible for preparing the Financial Statements in accordance with International Financial Reporting Standards ("IFRS") and the Companies (Guernsey) Law, 2008 for each financial period which give a true and fair view of the state of affairs of the Company and its profit or loss for that period. International Accounting Standard 1 requires that financial statements present fairly for each financial period the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards.

In preparing financial statements the Directors are required to:

- Ensure that the financial statements comply with the Memorandum and Articles of Association and International Financial Reporting Standards, as published by the International Accounting Standards Board;
- Select suitable accounting policies and apply them consistently;
- Present information including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Make judgements and estimates that are reasonable and prudent; and
- Prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

Directors' Report

Directors' Responsibilities (continued)

The Directors confirm that they have complied with these requirements in preparing the Financial Statements.

Each of the Directors, whose names and functions are listed below, confirms to the best of each person's knowledge and belief:

- The Financial Statements, prepared in accordance with the International Financial Reporting Standards (IFRS) in accordance with the requirements of the London Stock Exchange (LSE), give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- The Sub-Manager's report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties they face.

The Directors are also responsible for the keeping of proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Company and to enable them to ensure that the Financial Statements comply with the Companies (Guernsey) Law, 2008 and the Listing Rules of the London Stock Exchange. They are also responsible for the system of internal controls, safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware, having taken all the steps the Directors ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Corporate Governance

Saltus European Debt Strategies Limited is an authorised closed-ended investment scheme domiciled in Guernsey. The Company has a secondary listing (Chapter 14) of its shares on the London Stock Exchange and is exempt from the requirements of the Combined Code ("the Code") as issued by the UK Listing Authority. However, the Board has embraced some of the main principles of the Code where relevant to the Company. Outlines of the main principles are stated below.

Directors

The Board of Directors aims to meet at least four times during each calendar year, and throughout the year ended 31 December 2009, it comprised five non-executive Directors. Following the year end Mr W Scott resigned from the Board on 1 March 2010. All members of the Board are considered to be independent, with the exception of Mr J Macintosh, who is a Partner in the Sub-Manager and a Director of the Manager. However, the Board considers that all its Directors exercise their judgement in an independent manner.

Under the Company's Articles of Association it is required that all non-executive Directors are appointed for a fixed term lasting no more than three years after an individual Director's election or re-election by shareholders at a general meeting. Any Director who was elected or last re-elected at or before the Annual General Meeting held in the third year before the current year shall retire by rotation. Therefore, up to one-third of the number of Directors in office shall retire by rotation at each Annual General Meeting. In the event that their number is not a multiple of three, the number nearest to but not exceeding one-third shall retire from office. In addition, any Director who is also a director or Partner of the Manager or the Sub-Manager, will be subject to annual re-election. Consequently the Directors who will retire by rotation and offer themselves for re-election at the Annual General Meeting of the Company are Mr C Sherwell and Mr J Macintosh.

Although no formal training in Corporate Governance is given to Directors, the Directors are kept up to date on Corporate Governance issues through bulletins and training materials provided from time to time by the Company Secretary.

Directors' Report

Directors (continued)

The Board receives monthly reports and meets at least quarterly to review the overall business of the Company and to consider matters specifically reserved for its review. At these meetings the Board monitors the investment performance of the Company. The Directors also review the Company's activities every quarter to ensure that it adheres to the Company's investment policy or, if appropriate, to make any changes to these policies. Additional ad hoc reports are received as required and Directors have access at all times to the advice and services of the Company Secretary, who is responsible for ensuring that the Board procedures are followed and that applicable rules and regulations are complied with.

The Board monitors the level of the share price premium and discount to determine what action is desirable (if any) to reduce it.

A procedure has been adopted for the Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

Directors' Performance Evaluation

The Board has established an informal system for the evaluation of its own performance and that of the Company's individual Directors. It considers this to be appropriate having regard to the non-executive role of the Directors and the significant outsourcing of services by the Company to external providers.

The independent Directors undertake, on an annual basis, a verbal assessment of the effectiveness of the Board particularly in relation to its oversight and monitoring of the performance of the Investment Manager and other key service providers. The Board also evaluates the effectiveness of any of the Directors who are proposed for the re-election at each Annual General Meeting of the Company. The Board is pleased to confirm that each of the Directors put forward for re-election continue to perform effectively and demonstrate commitment to their roles.

The Directors are entitled to receive, by way of a fee for their services as Directors, such sum as the Board may from time to time determine, provided that the aggregate total paid in any given financial year does not exceed £250,000.

Relations with Shareholders

The Company reports to shareholders four times a year by way of an Interim Report, two Interim Management Statements and the Annual Report and Financial Statements. In addition, net asset values are published monthly and the Manager publishes monthly fact sheets and quarterly newsletters on its website, www.saltus.co.uk.

The Board receives quarterly reports on the shareholder profile of the Company and regular contact with major shareholders is undertaken by the Company's corporate brokers and the executives of the Manager. Any issues raised by major shareholders are reported to the Board on a regular basis.

The Chairman and individual Directors are willing to meet major shareholders to discuss any particular items of concern regarding the performance of the Company. The Chairman, Directors and Manager are also available to answer any questions which may be raised by any shareholder at the Company's Annual General Meeting.

Audit Committee

The Audit Committee comprises all Board members, with the exception of Mr J Macintosh, and has agreed to meet at least twice a year. Mr C Sherwell is Chairman of the Audit Committee.

The key objectives of the Audit Committee include a review of the Company's Financial Statements to ensure they are prepared to a high standard and comply with all relevant legislation and guidelines, where appropriate, and to maintain an effective relationship with the external auditors. With respect to the external auditor, the Committee's role will include the assessment of their independence, review of auditor's engagement, remuneration and any non-

Directors' Report

Audit Committee (continued)

audit services provided by the auditors.

Other responsibilities of the Committee include the review of the Company's internal controls, interim and annual reports.

Internal Control Review

The Board of Directors is responsible for having in place a system of internal controls relating to the Company and for reviewing the effectiveness of those systems. The review of internal controls is an ongoing process for identifying and evaluating the risks faced by the Company, and which are designed to manage risks rather than eliminate the risk of failure to achieve the Company's objectives.

It is the responsibility of the Board to undertake risk assessment and review of the internal controls in the context of the Company's objectives that covers business strategy, operational, compliance and financial risks facing the Company.

Going Concern

The Directors are satisfied the Company is able to continue its business operation in the foreseeable future and have adopted the going concern basis in preparing the Financial Statements.

The Investment Manager regularly monitors the Company's liquidity position, and the Board of Directors reviews it on a quarterly basis. Refer to notes 4 and 22 for further details relating respectively to liquidity risk and bank facilities.

Notice of Annual General Meeting

The notice for the Annual General Meeting of the Company, which is to be held on 28 May 2010 at 11.00am is set out at the end of this document. Enclosed with this document is a Form of Proxy for use at the meeting.

Business at the Annual General Meeting

Details of the items of business to be proposed at the Annual General Meeting are set out below.

Ordinary business

The ordinary business of the meeting includes resolutions to adopt the Financial Statements of the Company for the year ended 31 December 2009, to re-elect certain directors who are retiring by rotation, to approve the appointment of the auditors, BDO Limited, as auditors of the Company and to authorise the directors to fix their remuneration.

Special business

The special business of the meeting comprises a special resolution authorising the Company to purchase its own shares in the market (up to a maximum of 14.99 per cent of the issued share capital of the Company) to be held either in treasury by the Company or subject to cancellation at a minimum price of one pence per share and a maximum price per share equal to the higher of (a) 105 per cent. of the average of the middle market quotations for a share as derived from the London Stock Exchange Daily Official List for the five business days immediately before the date of purchase and (b) the higher of the price of the last independent trade and the highest current independent bid at the time of purchase. If approved, the authority to purchase Shares will continue until the Annual General Meeting in 2011. The Board intends to seek a renewal of such authority at subsequent annual general meetings.

You will find enclosed with this document a Form of Proxy for use at the Annual General Meeting. Whether or not you propose to attend the Annual General Meeting in person, you are requested to complete and sign the Form of Proxy in accordance with the instructions printed thereon and return it to Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU

Directors' Report

Business at the Annual General Meeting (continued)

Special business (continued)

or by fax to +44 (0) 208 639 2180, as soon as possible but, in any event, so as to arrive no later than 11.00am on 26 May 2010.

The completion and return of a Form of Proxy will not preclude you from attending the Annual General Meeting and voting in person if you wish to do so.

C Sherwell
Director

R Dorey
Director

Date: 20 April 2010

Independent Auditor's Report to the Members of Saltus European Debt Strategies Limited

We have audited the Financial Statements of Saltus European Debt Strategies Limited (the "Financial Statements") for the year ended 31 December 2009 which comprise the Income Statement, the Statement of Changes in Shareholders' Equity, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 23. These Financial Statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Directors and the Auditors

As described in the Directors' Report, the Company's Directors are responsible for the preparation of the Annual Report and the Financial Statements in accordance with International Financial Reporting Standards, applicable Guernsey law and the Listing Rules of the London Stock Exchange and for being satisfied that they give a true and fair view.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Financial Statements give a true and fair view in accordance with the relevant financial reporting framework and are properly prepared in accordance with the Companies (Guernsey) Law, 2008. We also report to you if, in our opinion, the Directors' Report is not consistent with the Financial Statements, if the Company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit, or if information specified by law is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the Financial Statements. This information comprises the Summary Information, Chairman's Statement, Sub-Manager's Report, Board of Directors and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

Independent Auditor's Report to the Members of Saltus European Debt Strategies Limited

Opinion

In our opinion the Financial Statements:

- give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Company's affairs as at 31 December 2009 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies (Guernsey) Law, 2008.

BDO Limited

Chartered Accountants, Place du Pre, Rue du Pre, St Peter Port, Guernsey

Date: 20 April 2010

Income Statement

For the year ended 31 December 2009

	Notes	2009 £	2008 £
Net losses on fair value through profit or loss investments	12	(2,492,780)	(1,616,893)
Other gains and losses	6	4,365,266	(12,236,997)
		1,872,486	(13,853,890)
Income			
Other operating income	7	103,530	163,871
Expenses	9		
Management and performance fees		(250,017)	(354,002)
Other expenses		(282,667)	(275,252)
		(532,684)	(629,254)
Net expenses		(429,154)	(465,383)
Finance costs	8	(82,984)	(425,797)
Profit/(loss) for the financial year		1,360,348	(14,745,070)
Other comprehensive income		-	-
Total comprehensive income/(expense)		1,360,348	(14,745,070)
Basic and Diluted Earnings/(Loss) per Ordinary Share	11	3.23p	(33.30)p
Weighted Average Number of Ordinary Shares outstanding	11	42,059,889	44,274,894

All items in the above statement derive from continuing operations.

All income is attributable to the Ordinary Shares of the Company.

The accompanying notes on pages 23 to 39 form an integral part of the Financial Statements.

Statement of Changes in Shareholders' Equity
For the year ended 31 December 2009

	Notes	Distributable Reserve £	Accumulated Profits/(losses) £	Total £
At 1 January 2008		46,946,250	(2,984,175)	43,962,075
Loss for the financial year		-	(14,745,070)	(14,745,070)
Total recognised income and expense for the year		-	(14,745,070)	(14,745,070)
Ordinary Shares cancelled during the year	17 (b)	(1,205,290)	-	(1,205,290)
Ordinary Shares acquired for Treasury	17 (b)	(3,132,189)	-	(3,132,189)
At 31 December 2008		42,608,771	(17,729,245)	24,879,526
Total comprehensive income for the year		-	1,360,348	1,360,348
Additional receipt on share dealing	17 (b)	1,021	-	1,021
At 31 December 2009		42,609,792	(16,368,897)	26,240,895

The accompanying notes on pages 23 to 39 form an integral part of the Financial Statements.

Balance Sheet
At 31 December 2009

	Notes	2009 £	2008 £
Non-current assets			
Investments at fair value through profit or loss	12	25,715,052	40,432,144
Current assets			
Prepayments		11,159	10,657
Other receivables	12	30,460	-
Forward currency deals awaiting settlement	20	-	7,543,470
Cash and cash equivalents	13	552,699	142,336
Total current assets		594,318	7,696,463
Current liabilities			
Forward currency deals awaiting settlement	20	-	(15,989,942)
Accrued expenses	15	(68,475)	(96,842)
Bank debt	13	-	(7,162,297)
Total current liabilities		(68,475)	(23,249,081)
Net current assets/(liabilities)		525,843	(15,552,618)
Net assets		26,240,895	24,879,526
Equity attributable to equity holders			
Share capital	16	-	-
Share premium	17(a)	-	-
Other distributable reserves	17(b)	42,609,792	42,608,771
Accumulated losses		(16,368,897)	(17,729,245)
Total shareholders' equity		26,240,895	24,879,526
Net asset value per Ordinary Share	18	62.39p	59.15p

The Financial Statements on pages 19 to 39 were approved by the Board of Directors and authorised for issue on 20 April 2010. They were signed on its behalf by:-

C Sherwell
Director

R Dorey
Director

The accompanying notes on pages 23 to 39 form an integral part of the Financial Statements.

Cash Flow Statement

For the year ended 31 December 2009

	Notes	2009 £	2008 £
Cash flows from operating activities			
Profit/(loss) for the year		1,360,348	(14,745,070)
(Increase)/decrease in prepayments and other receivables		(502)	199,471
Decrease in accrued expenses		(28,367)	(272,808)
		1,331,479	(14,818,407)
Purchase of investments	12 & 19	(1,576,976)	(26,548,752)
Sales of investments	12 & 19	13,770,828	28,709,060
		13,525,331	(12,658,099)
Adjustment for:			
Movement in unrealised losses on investments	12	4,172,826	274,027
Movement in unrealised (gains)/losses on forward foreign exchange contracts	6 & 20	(8,446,472)	5,932,930
Realised (gains)/losses on investments	12	(1,680,046)	1,342,866
Net cash inflow/(outflow) from operating activities		7,571,639	(5,108,276)
Cash flows from financing activities			
Buy back of Shares for Treasury	17(b)	-	(3,132,189)
Buy back of Shares for cancellation	17(b)	-	(1,205,290)
Additional receipt on share dealing	17(b)	1,021	-
Net cash inflow/(outflow) from financing activities		1,021	(4,337,479)
Net increase/(decrease) in cash and cash equivalents		7,572,660	(9,445,755)
Cash and cash equivalents at beginning of year		(7,019,961)	2,425,794
Cash and cash equivalents at end of year	13 & 19	552,699	(7,019,961)

The accompanying notes on pages 23 to 39 form an integral part of the Financial Statements.

Notes to the Financial Statements

For the year ended 31 December 2009

1. General Information

Saltus European Debt Strategies Limited is an authorised closed-ended investment scheme domiciled in Guernsey. The Company's Share Capital consists of Ordinary Shares. The Ordinary Shares have a Chapter 14 listing on the London Stock Exchange.

These Financial Statements have been prepared for the year ended 31 December 2009. The comparative period is for the year ended 31 December 2008.

The Company invests in a portfolio consisting primarily of absolute return funds, which is expected to comprise mostly debt-oriented hedge funds, but which may also include long-only debt funds and closed-ended limited partnerships with longer lock-ups. The Company's investment strategy is to produce annual returns in excess of 3-month Sterling LIBOR plus 7.5% over a rolling 5-year period, and annual standard deviation of under 5%.

2. Significant Accounting Policies

Basis of Accounting

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union, which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and International Accounting Standards ("IAS") and Standing Interpretations approved by the International Accounting Standards Committee ("IASC") that remain in effect, together with applicable legal and regulatory requirements of Guernsey Law and the Listing Rules of the London Stock Exchange.

Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Company has adopted all the required new standards and interpretations in issue and effective for the current period.

The principal effects of these changes are as follows:

IFRS 8 - Operating Segments

This standard requires disclosure of information about the Company's operating segments and replaced the IAS 14 requirement to determine primary (business) and secondary (geographical) reporting segments. For management purposes, the Company is organised into one business unit. The Company determined that this operating segment was the same as the business segment previously identified under IAS 14 Segment Reporting.

IFRS 7 - Financial Instruments: Disclosures - amendments enhancing disclosures about fair value and liquidity risk

This standard requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement.

The adoption of these standards has not had a material impact on the Financial Statements of the Company.

Standards and Interpretations in issue but not yet effective

At the date of authorisation of these Financial Statements, the following Standards and interpretations, which have not been applied in these Financial Statements but will be relevant in future periods, were in issue but not yet effective:

IFRS 1 - First time Adoption of International Financial Reporting Standards - Amendments resulting in improved structure - for accounting periods commencing on or after 1 July 2009.

IFRS 9 - Financial Instruments - Classification and Measurement - for accounting periods beginning on or after 1 January 2013.

Notes to the Financial Statements

For the year ended 31 December 2009

2. Significant Accounting Policies (continued)

Standards and Interpretations in issue but not yet effective (continued)

IAS 1 - Presentation of Financial Statements - Amendments resulting from improvements to IFRS - for accounting periods commencing after 1 July 2009.

IAS 7 - Statement of Cash Flows - Amendments resulting from April 2009 Annual Improvements - for accounting periods beginning on or after 1 January 2010.

IAS 39 - Financial Instruments: Recognition and Measurement - Amendments for eligible hedged items - for accounting periods commencing on or after 1 July 2009.

The directors are currently considering the impact of these changes on the financial statements of future periods.

The directors believe that other pronouncements, which are in issue but not yet operative or adopted by the Company, will not have a material impact on the Financial Statements of the Company.

The directors believe that the annual report contains all of the information required to enable Shareholders and potential investors to make an informed appraisal of the investment activities and profits and losses of the Company for the year to which it relates and does not omit any manner or development of significance.

Accounting Convention

The Financial Statements have been prepared under the historical cost or amortised cost basis, modified by the revaluation of certain financial instruments. The principal accounting policies adopted are set out below. The preparation of financial statements in conformity with International Financial Reporting Standards requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Financial Statements are presented in Sterling because that is the currency of the primary economic environment in which the Company operates and the currency in which capital is raised. The functional currency of the Company is also considered to be Sterling.

Investments

The Directors value all investments in funds at the net asset value of that fund as at the relevant valuation date as determined in accordance with the terms of the funds and as notified to the Company by the relevant fund manager or the relevant administrator. The valuation date of each fund may not always be coterminous with the valuation date of the Company and in such cases the valuation of the fund at the last valuation date is used.

The net asset values reported by the relevant fund managers and/or fund administrators and used by the Directors as at 31 December 2009 may be unaudited as at that date and may differ from the amounts which would have been realised from a redemption of the investment in the relevant fund as at 31 December 2009.

Investments are recognised and derecognised on the trade date where a purchase or sale is under a contract whose terms require delivery within the timeframe established by the market concerned, and are initially measured at fair value.

Investments are classified as fair value through profit or loss. As the Company's business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or increases in fair value, listed equities and fixed income securities are designated as fair value through profit or loss on initial recognition. The Company manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy, and information about the Company is provided internally on this basis to the Company's key management personnel.

Notes to the Financial Statements

For the year ended 31 December 2009

2. Significant Accounting Policies (continued)

Investments (continued)

Financial assets designated as at fair value through profit or loss are measured at subsequent reporting dates at fair value, which is either the bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted. Investments in units of unit trusts or shares in Open Ended Investment Companies ("OEICs") are valued at the closing price released by the relevant investment manager.

Gains and losses arising from changes in the fair value of investments classified as fair value through profit or loss are recognised in the Income Statement.

Foreign Exchange

Foreign currency assets and liabilities are translated into Sterling at the rate of exchange ruling at the balance sheet date (31 December 2009; £1: US\$1.6148; and £1: EUR1.1269; 31 December 2008; £1: US\$1.4575; and £1:EUR1.0442). Transactions in foreign currencies are translated at the rate of exchange ruling on the transaction date. Differences thus arising are dealt with in the Income Statement.

Forward Currency Contracts

A forward currency contract obligates the Company to receive or deliver a fixed quantity of foreign currency at a specified price on an agreed future date. These contracts are accounted for when any contract becomes binding and are valued in the Balance Sheet at the period end present value of the quoted forward price. Realised and unrealised gains and losses are included in the Income Statement.

Income

Dividend income from investments is recognised when the Shareholders' rights to receive payment has been established, normally the ex-dividend date.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

Expenses

All expenses are accounted for on an accruals basis and are presented as revenue items except for expenses that are incidental to the disposal of an investment which are deducted from the disposal proceeds.

Finance Costs

Finance costs are accounted for on an accruals basis and relate to bank interest resulting from the Company drawing down on the facility with Bank Julius Baer & Co Limited. All finance costs are expensed through the Income Statement as incurred.

Financial Instruments

Financial assets and financial liabilities are recognised on the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the instrument. The Company shall offset financial assets and financial liabilities if the Company has a legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis.

Fair Value Measurement Hierarchy

IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement (see note 4). The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2);
- and

Notes to the Financial Statements

For the year ended 31 December 2009

2. Significant Accounting Policies (continued)

Fair Value Measurement Hierarchy (continued)

- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

Other Receivables

Other receivables do not carry any interest and are short-term in nature and are accordingly stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and Cash Equivalents

Cash includes amounts held in interest bearing overnight accounts and debt balances. Cash and cash equivalents comprise bank balances and cash held by the Company including short-term bank deposits with an original maturity of three months or less. The carrying value of these assets approximates their fair value.

Financial Liabilities and Equity

Financial liabilities and equity are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Financial liabilities and equity are recorded as the proceeds received, net of issue costs.

Other Accruals and Payables

Other accruals and payables are not interest-bearing and are stated at their nominal value.

Derivative Financial Instruments

The Company's activities expose it primarily to the financial risks of changes in foreign exchange rates. The Company historically used forward foreign exchange contracts to hedge these exposures. The Company does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Company's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives. The Company does not use hedge accounting and all gains or losses on forward foreign exchange contracts are taken to the Income Statement.

Interest-bearing Loans and Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Income Statement over the period of the borrowings on an effective interest basis.

Operating Segments

The Directors are of the opinion that the Company is engaged in a single segment of business of investing in a portfolio consisting primarily of absolute return funds, which is expected to comprise mostly debt-oriented hedge funds, but which may also include long-only debt funds and closed-ended limited partnerships with longer lock-ups.

3. Critical Accounting Judgements

In the application of the Company's accounting policies, which are described in note 2 to the Financial Statements, management is required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from their sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Notes to the Financial Statements

For the year ended 31 December 2009

3. Critical Accounting Judgements (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate was revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The most critical judgement, apart from those involving estimates (see below), that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the Financial Statements is in respect of the functional currency.

Functional currency and presentation currency

The Board of Directors considers Sterling the currency that most faithfully represents the economic environment in which the Company operates. Sterling is the currency in which the Company measures its performance and reports its results, as well as the currency in which capital is raised.

Key sources of estimation uncertainty

The following are the key assumptions and other key sources of estimation uncertainty at the Balance Sheet date, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value of investments at fair value through profit or loss

As disclosed in notes 1 and 4, the Company invests in debt oriented hedge funds. The investments are valued at the net asset value of that fund as at the relevant valuation date in accordance with the terms of the funds and as notified by the relevant fund manager / administrator. However the valuation date may be non-coterminous with the valuation date of the Company and hence in such cases the latest valuation is used.

The values used in the financial statements may be unaudited as at that date and hence may differ from the amount which may have been realised on redemption of the investment at the balance sheet date.

4. Financial Risk Management and Financial Instruments

Strategy in using financial instruments

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the Financial Statements.

Notes to the Financial Statements

For the year ended 31 December 2009

4. Financial Risk Management and Financial Instruments (continued)

Categories of financial instrument

	Carrying value 2009 £	Carrying value 2008 £
Financial assets		
Fair value through profit or loss (FVTPL)		
- Designated as FVTPL (level 2)	25,715,052	40,432,144
Held for trading		
- Derivative instruments (level 2)	-	7,543,470
Loans and receivables	594,318	152,993
Total assets	26,309,370	48,128,607
Financial liabilities		
Held for trading		
- Derivative instruments (level 2)	-	15,989,942
Amortised cost	68,475	7,259,139
Total liabilities	68,475	23,249,081

Loans and receivables presented above represents cash and cash equivalents, prepayments and other receivables as detailed in the Balance Sheet.

Financial liabilities measured at amortised cost presented above represent accrued expenses and bank debt as detailed in the Balance Sheet.

Derivative instruments above represent forward foreign exchange contracts to hedge exposure to changes in foreign exchange rates.

Capital Risk Management

The Company's principal activity and primary investment objective is to produce annual returns in excess of 3-month Sterling LIBOR plus 7.5% over a rolling 5-year period, with annual standard deviation of under 5%. The Company's investment policy is to invest in a portfolio of absolute return funds, which is expected to comprise mostly of debt-oriented hedge funds.

The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 22, cash and cash equivalents and equity attributable to equity holders, comprising issued capital, share premium, distributable reserve and retained earnings as disclosed in notes 16 and 17. The Company does not have any externally imposed capital requirements.

The Company manages its capital to endeavour to ensure that its objective is met. It does this by investing available cash and drawing down on its bank facility whilst maintaining sufficient liquidity to meet on-going expenses.

The Manager ensures that on investment not more than 15% of the Company's total assets are invested in any one underlying individual hedge fund and not more than 20% of the Company's total assets are invested in aggregate in funds managed by any single underlying hedge fund manager.

Market price risk

Market price risk is the risk that the value of an investment will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment or all factors affecting all investments in the market. As the Company's financial instruments are carried at fair value with fair value changes recognised in the Income Statement, all changes in market conditions will directly affect net investment income.

Notes to the Financial Statements

For the year ended 31 December 2009

4. Financial Risk Management and Financial Instruments (continued)

Market price risk (continued)

All securities investments present a risk of loss of capital. The Investment Manager moderates this risk through a careful selection of securities and other financial instruments within specified limits. The Company's overall market positions are monitored on a daily basis by the Company's Investment Manager and are reviewed on a quarterly basis by the Board of Directors.

The Company's market price risk is managed through diversification of the investment portfolio ratio exposures. Refer to the Sub-Manager's Report for this information.

At 31 December 2009, the Company's financial instruments are affected by the following risks in actual market prices, interest rates, credit exposure, liquidity and foreign currency movements. Interest rate and foreign currency movements are covered separately within this note.

The Company invests in a portfolio consisting primarily of debt-oriented hedge funds, which are held to obtain long term gains. The market prices of the underlying hedge funds are affected by the managers of the underlying funds correctly assessing the future price movements of the securities held. If the underlying hedge fund prices at 31 December 2009 had increased by 5%, net of all performance fees, with all other variables held constant, this would have increased net assets attributable to holders of Ordinary Shares in the Company by approximately £1.29 million (2008: £2.02 million). Conversely, if the underlying hedge fund prices decreased by 5%, net of all performance fees, this would have decreased net assets attributable to holders of Ordinary shares in the Company by approximately £1.29 million (2008: £2.02 million).

Interest rate risk

The majority of the Company's financial assets and liabilities are non-interest bearing. As a result, the Company is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. Any excess of cash or cash equivalents are invested at short-term interest rates.

The Company's interest-bearing financial assets and liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The tables below summarise the Company's exposure to interest rate risks:

	Floating rate Financial Assets 2009 £	Non interest bearing Financial Assets 2009 £	Total 2009 £
2009			
Assets			
Investments at fair value through profit or loss	-	25,715,052	25,715,052
Other receivables and prepayments	-	41,619	41,619
Cash and cash equivalents	552,699	-	552,699
Total assets	552,699	25,756,671	26,309,370
Liabilities			
Accrued expenses	-	68,475	68,475
Bank debt	-	-	-
Total liabilities	-	68,475	68,475
Total interest sensitivity gap	552,699	25,688,196	26,240,895

Notes to the Financial Statements

For the year ended 31 December 2009

4. Financial Risk Management and Financial Instruments (continued)

Interest rate risk (continued)

2008	Floating rate Financial Assets 2008 £	Non interest bearing Financial Assets 2008 £	Total 2008 £
Assets			
Investments at fair value through profit or loss	-	40,432,144	40,432,144
Other receivables and prepayments	-	10,657	10,657
Forward currency deals awaiting settlement	-	7,543,470	7,543,470
Cash and cash equivalents	142,336	-	142,336
Total assets	142,336	47,986,271	48,128,607

	Floating rate Financial Liabilities 2008 £	Non interest bearing Financial Liabilities 2008 £	Total 2008 £
Liabilities			
Forward currency deals awaiting settlement	-	15,989,942	15,989,942
Accrued expenses	-	96,842	96,842
Bank debt	7,162,297	-	7,162,297
Total liabilities	7,162,297	16,086,784	23,249,081
Total interest sensitivity gap	(7,019,961)	31,899,487	24,879,526

At 31 December 2009, should interest rates have lowered by 25 basis points with all other variables remaining constant, the increase in net assets attributable to holders of Ordinary shares for the year would amount to approximately £13,191 (2008: increase of £11,110). If interest rates had risen by 25 basis points, the decrease in net assets attributable to holders of Ordinary shares would amount to £13,191 (2008: decrease of £10,792).

The Investment Manager monitors the Company's overall interest sensitivity on a regular basis by reference to prevailing interest rates and the level of the Company's cash balance.

Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred by the balance sheet date, if any.

Assets held by the Company which potentially expose it to credit risk primarily comprise receivables in respect of redeemed investments in underlying hedge funds and cash balances.

The following table shows the maximum exposure to credit risk:

	2009 £	2008 £
Investments at fair value through profit or loss	25,715,052	40,432,144
Derivative financial assets	-	7,543,470
Cash and cash equivalents	552,699	142,336
Interest and other receivables	30,460	-
Total	26,298,211	48,117,950

Amounts in the above table are based on the carrying value of all accounts.

The Sub-Manager's Report includes a chart of the managers' strategies at a fund level, which gives information regarding the concentration of risk for the Company. The Investment Portfolio also includes details of the Company's principal investment holdings.

Notes to the Financial Statements

For the year ended 31 December 2009

4. Financial Risk Management and Financial Instruments (continued)

Credit risk (continued)

The Investment Manager monitors the Company's credit position on a daily basis, and the Board of Directors reviews it on a quarterly basis. The Investment Manager also assesses the risk associated with investments by performing financial analysis on the issuing companies as part of its normal scrutiny of prospective investments, which includes an assessment of the principal service providers to the hedge funds including administrator, auditors and prime brokers. Receivables for redeemed investments in underlying hedge funds are typically received within two months of the redemption date though may be subject to gating, liquidation or suspension provisions imposed by the underlying fund manager.

Substantially all of the cash held by the Company is held by Bank Julius Baer Ltd ("the Bank"). Bankruptcy or insolvency of the Bank may cause the Company's rights with respect to these assets to be delayed or limited. The Company monitors its risk by monitoring the credit rating of the Bank, which is currently Aa3. If credit quality deteriorates, the Investment Manager may move the holdings to another bank.

The Company may enter into forward foreign exchange contracts. Transactions in forward foreign exchange contracts are not regulated by any regulatory authority nor are they guaranteed by an exchange or clearing house. The Company will be subject to the risk of the inability or refusal of its counterparties to perform with respect to such contracts. Any such default would eliminate any potential profit and compel the Company to cover its commitments for re-sale or repurchase, if any, at the then current market price. There were no outstanding commitments in respect of forward foreign exchange contracts at the year end.

Credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The Investment Manager assesses the risk associated with investments by performing financial analysis on the issuing companies as part of its normal scrutiny of prospective investments.

The carrying amount of financial assets recorded in the Financial Statements best represents the Company's maximum exposure to credit risk.

Liquidity risk

The Company takes on exposure to liquidity risk, which is the risk that the Company will encounter in realising assets or otherwise raising funds to meet financial commitments.

Some of the Company's investments may comprise securities which are traded in recognised financial markets. The Company may also invest in securities which may lack an established secondary trading market or are otherwise considered illiquid. Liquidity of a security relates to the ability to easily dispose of the security and the price to be obtained and does not generally relate to the credit risk or likelihood of receipt of cash at maturity.

The Company currently has a bank facility to borrow in the short term to ensure settlement. This facility expires on 6 June 2010. No borrowings were utilised at 31 December 2009 (2008: £7,162,297). See note 22 for further information regarding the Company's bank facilities.

The Investment Manager regularly monitors the Company's liquidity position, and the Board of Directors reviews it on a quarterly basis.

Notes to the Financial Statements

For the year ended 31 December 2009

4. Financial Risk Management and Financial Instruments (continued)

Liquidity risk (continued)

The table below analyses the Company's financial assets and liabilities into relevant maturity groups based on the remaining period at the Balance Sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

2009	Less than 1 month £	1-3 months £	4-12 months £	No stated maturity £
Assets				
Investments at fair value through profit or loss	-	-	-	25,715,052
Other receivables and prepayments	-	1,741	39,878	-
Cash and cash equivalents	552,699	-	-	-
Total financial assets	552,699	1,741	39,878	25,715,052
Liabilities				
Accrued expenses	20,795	29,815	17,865	-
Total financial liabilities	20,795	29,815	17,865	-
Total liquidity gap	531,904	(28,074)	22,013	25,715,052
2008	Less than 1 month £	1-3 months £	4-12 months £	No stated maturity £
Assets				
Investments at fair value through profit or loss	-	-	-	40,432,144
Forward currency deals awaiting settlement	7,015,515	527,955	-	-
Cash at bank	-	-	-	142,336
Total financial assets	7,015,515	527,955	-	40,574,480
Liabilities				
Bank debt	7,162,297	-	-	-
Accrued expenses	43,601	8,072	45,169	-
Forward currency deals awaiting settlement	9,742,573	6,247,369	-	-
Total financial liabilities	16,948,471	6,255,441	45,169	-
Total liquidity gap	(9,932,956)	(5,727,486)	(45,169)	40,574,480

The Company's investments in funds are shown as having no stated maturity dates because redemptions had not been placed for 31 December 2009. These investments are typically subject to initial lock-up periods of different lengths and varying redemption frequency and redemption notice periods. They may also be liable to redemption gating, suspension or the creation of side-pockets for illiquid assets at the discretion of the underlying fund manager.

Currency risk

The majority of the net assets of the Company are denominated in currencies other than Sterling, its functional currency, with the effect that the Balance Sheet and Income Statement can be significantly affected by currency movements. Currency risk is a function of both basis risk (the change in absolute foreign exchange rates month on month) and market risk (the change in the value of the underlying assets being hedged). The table below summarises the Company's exposure to currency risks.

2009	Sterling £	Euro £	US Dollar £	Total £
Fair Value through profit or loss	-	19,712,403	6,002,649	25,715,052
Held for Trading	486,200	4	108,114	594,318
Amortised Cost	(68,475)	-	-	(68,475)
Net Exposure	417,725	19,712,407	6,110,763	26,240,895

Notes to the Financial Statements

For the year ended 31 December 2009

4. Financial Risk Management and Financial Instruments (continued)

Currency risk (continued)

2008	Sterling £	Euro £	US Dollar £	Total £
Fair Value through profit or loss	816,128	18,402,083	21,213,933	40,432,144
Held for Trading	97,696	55,297	(7,162,297)	(7,009,304)
Amortised Cost	(96,842)	-	-	(96,842)
	816,982	18,457,380	14,051,636	33,325,998
Forward Contracts	-	(17,374,565)	(14,048,268)	(31,422,833)
Net Exposure	816,982	1,082,815	3,368	1,903,165

The Company's investment portfolio comprises of Euro and US Dollar denominated investments.

Up to 14 September 2009 the Company hedged the majority of its currency exposure back to Sterling through the use of forward foreign exchange contracts to reduce the volatility that would otherwise have occurred as a result of fluctuations in the Sterling/Euro and Sterling/US Dollar exchange rates. However, as was announced on 27 August 2009, following a shareholder consultation exercise and in light of diminished portfolio liquidity, the Board decided to cease hedging the Company's foreign exchange exposures from 15 September 2010.

At 31 December 2009, had the exchange rate between Sterling increased or decreased compared to US Dollar and Euro by 5% with all other variables held constant, the decrease or increase respectively in net assets attributable to holders of Ordinary Shares would amount to approximately £0.291 million and £0.939 million respectively (2008: decrease or increase respectively of £0.0001 million and £0.052 million).

The Investment Manager monitors the Company's currency position on a daily basis, and the Board of Directors reviews it on a quarterly basis.

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

- Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.
- The fair value of non-derivative financial assets and financial liabilities is determined as set out in note 2.

The carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Statements approximate their fair values.

5. Segment Information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company.

For management purposes, the Company is organised in to one main operating segment, which focuses on long term growth from investments. All of the Company's activities are interrelated, and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of the Company as one segment. The financial results from this segment are equivalent to the financial statements of the Company as a whole.

In terms of the funds in which the Company invests, these are predominantly incorporated in the United States and Europe. The underlying investments in the funds however, may be in other countries.

Notes to the Financial Statements

For the year ended 31 December 2009

5. Segment Information (continued)

Geographical information:

	Net losses on fair value through profit or loss investments by location of assets		Non-current assets by location of assets	
	2009 £	2008 £	2009 £	2008 £
United States	(1,028,048)	(1,996,370)	6,002,649	21,213,933
Europe	(1,464,732)	379,477	19,712,403	19,218,211
	(2,492,780)	(1,616,893)	25,715,052	40,432,144

6. Other Gains and Losses

	2009 £	2008 £
Held for trading: Derivative financial instruments		
Net realised foreign exchange losses on forward foreign exchange contracts and currency translations	(5,585,013)	(4,797,126)
Net movement in unrealised foreign exchange gains/(losses) on forward foreign exchange contracts (note 20)	8,446,472	(5,932,930)
Net gains/(losses) on currency translations	1,503,807	(1,506,941)
	4,365,266	(12,236,997)

7. Other Operating Income

	2009 £	2008 £
Other operating income arising on financial assets not at fair value through profit or loss:		
Investment income	103,045	20,331
Bank interest	485	143,540
	103,530	163,871

8. Finance Costs

	2009 £	2008 £
Finance costs arising on financial liabilities not at fair value through profit or loss:		
Bank debt interest	82,984	425,797

The bank interest resulted from the Company's debt facility with Bank Julius Baer & Co Limited to fund the purchase of investments in the short term.

9. Expenses

	2009 £	2008 £
Management fees	250,017	354,002
Other expenses:		
Other expenses	165,837	124,269
Directors' remuneration	72,649	72,500
Accounting, secretarial and administration fees	21,546	29,610
Custodian fees	12,967	17,700
Auditors' remuneration for audit services	9,668	31,173
	282,667	275,252
Total expenses	532,684	629,254

The Company has no employees. The Directors are the only key management personnel of the Company. Their remuneration disclosed above is all in respect of short-term employee benefits.

No amounts were paid to the auditors during the year in respect of non-audit services.

Notes to the Financial Statements

For the year ended 31 December 2009

9. Expenses (continued)

Management and Performance fees

The Company is responsible for the fees of the Manager in accordance with the Investment Management Agreement between the Company and the Manager dated 6 June 2007.

For the services performed under the Investment Management Agreement, the Company pays the Manager a management fee equal to 1% per annum of total assets, calculated and payable monthly in arrears.

The Manager compensates the Sub-Manager for its services to the Company under the terms of the Sub-Management Agreement.

In addition to the management fee, subject to a hurdle rate of the mean monthly LIBOR plus 2%, the Manager will be entitled to a performance fee equivalent to 10% of the amount by which the net asset value attributable to the shares at the end of each accounting period exceeds the greater of the initial net asset value and the greatest period end net asset value for any previous calculation period. The fee is calculated in respect of each period of 12 months ending on 31 December. No performance fee was payable in respect of this year (31 December 2008: £nil).

The Investment Management Agreement may be terminated by either party giving to the other not less than twelve months' written notice except that the agreement may not be terminated prior to 30 June 2010.

Administration fees

The Company is responsible for the fees of the Administrator (Butterfield Fulcrum Group (Guernsey) Limited) in accordance with the Administration Agreement made between the Company and the Administrator dated 6 June 2007.

In respect of the services provided under the Administration Agreement, the Company pays the Administrator a fee which shall not exceed 0.085% per annum of the net asset value of the Company, subject to a minimum annual payment of £10,000. In addition, the Administrator is entitled to receive fees for any extraordinary duties performed to be charged on a time spent basis. The Administration Agreement is terminable by either side on three months' notice.

Custodian fees

The Company is responsible for the fees of the Custodian (Bank Julius Baer & Co Limited) in accordance with the Custodian Agreement made between the Company and the Custodian dated 6 June 2007.

In respect of the services provided under the Custodian Agreement, the Company pays the Custodian a quarterly fee at the rate of 0.05% of the net asset value of the Company per annum subject to a minimum fee of £3,325 per quarter. The Custodian Agreement is terminable by either side on three months' notice. The Custodian does not have any decision making discretion relating to the investment of the assets of the Company.

10. Tax Status

The Company is exempt from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and is charged an annual exemption fee of £600.

11. Basic and Diluted Earnings/(Loss) per Share

Basic and diluted earnings/(loss) per Share are calculated by dividing net income available by the weighted average number of Ordinary Shares outstanding during the year.

	2009 Number of Ordinary Shares	2008 Number of Ordinary Shares
Weighted average number of Ordinary Shares	42,059,889	44,274,894

Notes to the Financial Statements

For the year ended 31 December 2009

12. Investments

	2009 £	2008 £
Fair value through profit or loss investments		
Opening fair value as at beginning of year	40,432,144	44,209,345
Purchases at cost	1,576,976	26,548,752
Sales - proceeds	(13,801,288)	(28,709,060)
- realised gains/(losses) on sales	1,680,046	(1,342,866)
Movement in unrealised losses on investments for the year	(4,172,826)	(274,027)
	(2,492,780)	(1,616,893)
Closing fair value at end of year	25,715,052	40,432,144
Closing cost	30,486,034	41,030,300
Unrealised losses on investments	(4,770,982)	(598,156)
Closing fair value at end of year	25,715,052	40,432,144

Further information and analysis of the investments is included in the Summary Information and Sub-Manager's Report.

As at 31 December 2009 £30,460 (2008: £nil) of investment sales proceeds were receivable.

13. Cash and Cash Equivalents

	2009 £	2008 £
Opening cash and cash equivalents	(7,019,961)	2,425,794
Net movement in the year	7,572,660	(9,445,755)
Closing cash and cash equivalents	552,699	(7,019,961)
Cash at bank	552,699	142,336
Bank debt	-	(7,162,297)
	552,699	(7,019,961)

Cash and cash equivalents comprise bank balances, bank debt (refer to note 22) and cash held by the Company including short-term bank deposits with an original maturity of three months or less. The carrying value of these assets approximates to their fair value.

14. Current Assets and Liabilities

The Directors consider that the carrying amount of other receivables approximates to their fair value.

15. Accrued Expenses

	2009 £	2008 £
Management fee	22,298	22,446
Directors' remuneration	18,125	18,125
Auditors' remuneration	14,000	25,082
Printing costs	5,250	19,661
Registrar fee	2,521	2,513
Advisers fee	2,507	4,960
Administration fee	1,895	1,908
Custodian fee	1,115	1,122
Sundry expenses	764	1,025
	68,475	96,842

Notes to the Financial Statements

For the year ended 31 December 2009

16. Share Capital

Authorised Capital

The Company has the power to issue an unlimited number of shares of no par value which may be issued as Ordinary Shares or C Shares or otherwise and which may be denominated in Sterling, Euros, US Dollars or any other currency.

Issued Capital	Treasury	Ordinary Shares	Total
31 December 2009			
At 1 January 2009 and 31 December 2009	-	42,059,889	42,059,889
31 December 2008			
At 1 January 2008	-	47,625,000	47,625,000
Shares cancelled during the year	-	(1,653,805)	(1,653,805)
Shares purchased through share buy back and held in Treasury	3,911,306	(3,911,306)	-
At 31 December 2008	3,911,306	42,059,889	45,971,195

The rights attaching to the Ordinary Shares are as follows:

Ordinary shareholders have one vote at a meeting of the Company for each share held. The Ordinary shareholders are entitled to receive all dividends declared out of the assets attributable to their respective share class. Upon winding up, the holders of Ordinary Shares are entitled to receive a *pro rata* portion of the capital attributable to their respective share class according to their holdings of shares.

Upon incorporation, 2 Ordinary Shares of no par value each were issued. Following the launch of the Company on the London Stock Exchange the Company had issued a total of 48,000,000 Ordinary Shares of no par value.

During the year ended 31 December 2009, the 3,911,306 treasury shares held were all cancelled.

Further Issues of Shares

The Company's Articles of Association provide the Directors with wide powers to issue further shares (of one or more currency classes and whether as C shares or ordinary shares) on a non-pre-emptive basis and without seeking further shareholder approval.

Buy Back of Ordinary Shares and Authority to Buy Back Shares

The Company has authority to repurchase up to 14.99% of its issued share capital. The Directors intend to seek annual renewal of this authority from shareholders. As at close of business on 31 December 2009 the Company had in issue 42,059,889 Ordinary Shares. The proposed authority would permit the repurchase of up to 6,304,777 Ordinary Shares.

17. Reserves

a) Share Premium Account

	2009 £	2008 £
Share Premium Account as at beginning of year and end of year	-	-

b) Distributable Reserve

	2009 £	2008 £
Distributable Reserve as at beginning of year	42,608,771	46,946,250
Ordinary Shares acquired for Treasury	-	(3,132,189)
Ordinary Shares cancelled	-	(1,205,290)
Additional receipt on share dealing	1,021	-
Distributable Reserve as at end of year	42,609,792	42,608,771

Notes to the Financial Statements

For the year ended 31 December 2009

18. Net Asset Value per Ordinary Share

The net asset value per Ordinary Share of 62.39p (31 December 2008: 59.15p) is based on the net assets at the year end of £26,240,895 (31 December 2008: £24,879,526) and on 42,059,889 (31 December 2008: 42,059,889) Ordinary Shares, being the number of Ordinary Shares in issue at the year end.

19. Notes to the Cash Flow Statement

Purchases and sales of investments are considered to be operating activities of the Company, given its purpose, rather than investing activities. The cash flows arising from these activities are shown in the Cash Flow Statement.

Cash and cash equivalents (which are presented separately on the face of the Balance Sheet) comprise cash at bank and bank debt.

20. Commitments and Contingent Liabilities

At the balance sheet date there were no commitments in respect of forward foreign exchange contracts with the Custodian.

The Company has total commitments of:

- EUR5,000,000 regarding its investment in Apollo, with EUR3,145,672 of this outstanding as at 31 December 2009; and
- EUR2,500,000 regarding its investment in Oaktree, with EUR1,125,000 of this outstanding as at 31 December 2009.

As at 31 December 2008:

Maturity Date	Sales	Purchases	Unrealised Profit/(Loss) £
9 January 2009	EUR 32,000,000	EUR 32,000,000	4,926,177
	£30,641,377	£25,715,200	
9 January 2009	EUR 1,000,000	EUR 1,000,000	161,843
	£957,543	£795,700	
9 January 2009	EUR (33,000,000)	EUR (33,000,000)	(5,354,020)
	£(31,598,920)	£(26,244,900)	
17 February 2009	EUR 13,850,000	EUR 13,850,000	502,546
	£13,258,276	£12,755,730	
17 February 2009	EUR (32,000,000)	EUR (32,000,000)	(4,927,241)
	£(30,632,841)	£(25,705,600)	
9 January 2009	USD 26,000,000	USD 26,000,000	1,421,846
	£17,841,170	£16,419,324	
9 January 2009	USD 5,000,000	USD 5,000,000	505,649
	£3,430,994	£2,925,345	
9 January 2009	USD (31,000,000)	USD (31,000,000)	(4,388,553)
	£(21,272,165)	£(16,883,612)	
17 February 2009	USD 3,550,000	USD 3,550,000	25,409
	£2,438,697	£2,413,288	
17 February 2009	USD (24,000,000)	USD (24,000,000)	(1,320,128)
	£(16,486,964)	£(15,166,836)	
			£(8,446,472)

(Forward rate for 9 January 2009 £1: EUR1.0443, and 17 February 2009 £1: EUR1.0446)

(Forward rate for 9 January 2009 £1: US\$1.4573, and 17 February 2009 £1: US\$1.4557)

Notes to the Financial Statements

For the year ended 31 December 2009

20. Commitments and Contingent Liabilities (continued)

The movement in the unrealised gain/loss on the forward foreign exchange contracts is a gain of £8,446,472 as at 31 December 2009 (31 December 2008: a loss of £5,932,930).

The Company had no other financial commitments as at 31 December 2008.

The Company has no contingent liabilities at the balance sheet date.

21. Related Party Transactions

Saltus (Channel Islands) Limited (the "Manager"), Saltus Partners LLP (the "Sub-Manager") and the Directors are regarded as related parties. The only related party transactions are described below:

The fees and expenses payable to the Manager are explained in Note 9. The management fee balance due at the end of the year was £22,298 (31 December 2008: £22,446). There was no performance fee balance due at the year end (31 December 2008: £nil).

There were no direct transactions with the Sub-Manager during the year.

The basic fee paid to each independent non-executive director for the year ended 31 December 2009 was £15,000 (2008: £15,000), except for the Chairman who received £25,000 (2008: £25,000) and Mr C Sherwell who receives an additional £2,500 per annum for being Chairman of the Audit Committee.

Mr J Macintosh is a director of the Manager and a partner in the Sub-Manager and as such he has waived his right to remuneration as a director of the Company.

22. Bank Facilities

On 6 June 2007 the Company entered in to a multi-purpose multi-currency revolving overdraft, loan and foreign exchange credit facility with Bank Julius Baer & Co Limited (the "Bank"). The Bank has agreed to provide the Company with a loan facility in the aggregate principal amount of up to the lower of £11,000,000 or 15% of the Company's monthly net asset value. This facility is secured by a charge over all of the Company's underlying assets and is in accordance with the conditions of the security interest agreement dated 6 June 2007 between the Company, the Bank and the Custodian.

The interest rate chargeable is the Bank's floating lending rate plus a margin of 1% per annum payable quarterly in arrears. At 31 December 2009 the Company had drawn down £nil of this facility (31 December 2008: £7,162,297).

The facility expires on 6 June 2010. The Company is currently in discussions with several banks for the provision of a facility to provide working capital facilities and finance outstanding but uncalled capital commitments. Whilst there is no certainty that a new facility will be put in place, the Board is confident that the Company has sufficient available resources from its existing cash balances and redeemable investments to meet its working capital commitments and outstanding uncalled capital commitments as they fall due.

23. Reconciliation of Accounting NAV and Published NAV per Share

	Net Asset Value 31 December 2009 £	NAV per share 31 December 2009 £	Net Asset Value 31 December 2008 £	NAV per share 31 December 2008 £
Published Net Asset Value	26,228,394	0.6236	24,869,053	0.5913
Adjustments to expense accruals	12,501	0.0003	10,473	0.0002
Net Asset Value	26,240,895	0.6239	24,879,526	0.5915

SALTUS EUROPEAN DEBT STRATEGIES LIMITED
(Incorporated in Guernsey with Registered No. 46912)
Notice of Annual General Meeting of Shareholders

NOTICE IS HEREBY GIVEN that the Annual General Meeting of SALTUS EUROPEAN DEBT STRATEGIES LIMITED (the "Company") will be held at its registered office, 2nd Floor, Regency Court, Gategny Esplanade, St Peter Port, Guernsey, GY1 3NQ on 28 May 2010 at 11.00 am, to consider and, if thought fit, pass the following resolutions.

Ordinary Business:

To consider and, if thought fit, pass resolutions 1 - 4 as ordinary resolutions.

1. To receive and adopt the directors' report and financial statements for the period ended 31 December 2009.
2. To re-elect Christopher Sherwell as a director of the Company.
3. To re-elect Jon Macintosh as a director of the Company.
4. To re-appoint BDO Limited as Auditors to the Company and to authorise the Directors to fix the Auditors' remuneration.

Special Business:

To consider and, if thought fit, pass resolution 5 as a special resolution.

5. THAT the Company be authorised in accordance with the Companies (Guernsey) Law 2008 as amended, to make market purchases (as defined in that Law) of its own shares provided that:
 - (a) the maximum number of ordinary shares authorised to be purchased is 6,304,777;
 - (b) the minimum price which may be paid for a share is one penny;
 - (c) the maximum price which may be paid for a share is an amount equal to the higher of (a) 105 per cent. of the average of the middle market quotations for a share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that share is purchased and (b) the higher of the price of the last independent trade and the highest current independent bid at the time of purchase;
 - (d) such authority shall expire at the annual general meeting of the Company in 2011, unless such authority is varied, revoked or renewed prior to such date by an ordinary resolution of the Company in general meeting; and
 - (e) the Company may make a contract to purchase shares under such authority prior to its expiry which will or may be executed wholly or partly after its expiration and the Company may make a purchase of shares pursuant to such contract.

By Order of the Board

20 April 2010

Registered Office
2nd Floor
Regency Court
Gategny Esplanade
St Peter Port
Guernsey GY1 3NQ

SALTUS EUROPEAN DEBT STRATEGIES LIMITED
(Incorporated in Guernsey with Registered No. 46912)
Notice of Annual General Meeting of Shareholders

Notes

1. Shareholders entitled to attend and vote at the meeting may appoint one or more proxies (who need not be shareholders) to attend and vote on their behalf.
2. To have the right to attend and vote at the meeting you must hold ordinary shares in the Company and your name must be entered on the share register of the Company in accordance with note 4 below.
3. To be valid, Forms of Proxy (and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof) must be received by Capita Registrars, PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible, but, in any event, so as to arrive no later than 11.00 am on 26 May 2010. A Form of Proxy accompanies this notice. Completion and return of a Form of Proxy will not preclude members from attending and voting at the meeting should they wish to do so.
4. The time by which a person must be entered on the register of members in order to have the right to attend or vote at the meeting is 6.00 pm on 26 May 2010. If the meeting is adjourned, the time by which a person must be entered on the register of members in order to have the right to attend or vote at the adjourned meeting is 48 hours before the date fixed for the adjourned meeting. Changes to entries on the register of members after such times shall be disregarded in determining the rights of any person to attend or vote at the meeting.
5. If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes, the subject of those proxies, are cast and the voting rights in respect of those discretionary proxies, when added to the interests in the Company's securities already held by the Chairman, result in the Chairman holding such number of voting rights that he has a notifiable interest under the Disclosure and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Services Authority. As a result, any person holding 5% or more of the voting rights in the Company, who grants the Chairman a discretionary proxy in respect of some or all of the voting rights, and so would otherwise have a notification obligation under the Disclosure and Transparency Rules, need not make a separate notification to the Company and the Financial Services Authority.
6. To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the Issuer's agent RA10 by 11.00 am on 26 May 2010. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST Manual. We may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35/5 (a) of the Uncertificated Securities Regulations 2001. In any case your proxy must be received by Capita Registrars no later than 11.00 am on 26 May 2010.
7. As at 19 April 2010, the latest practicable date prior to publication of this document, the Company had 42,059,889 ordinary shares in issue with a total of 42,059,889 voting rights.

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Form of Proxy

Saltus European Debt Strategies Limited (“the Company”)

Form of Proxy for use by shareholders at the Annual General Meeting of the Company to be held at 2nd Floor, Regency Court, Gategny Esplanade, St Peter Port at 11.00 am on 28 May 2010, to consider and, if thought fit, pass the ordinary and special resolutions.

As a shareholder of the Company you have the right to attend, speak at and vote at the Annual General Meeting (the “Meeting”). If you cannot, or do not want to attend the Meeting, but still want to vote, you can appoint someone to attend the Meeting and vote on your behalf. That person is known as a “proxy”.

You can use this Form of Proxy to appoint the Chairman of the Meeting, or someone else, as your proxy. Your proxy does not need to be a shareholder of the Company.

I/We (name in full)(in BLOCK CAPITALS) of

.....
 being (a) shareholder(s) of the Company entitled to attend and vote at meetings, hereby appoint the Chairman of the Meeting or (see Note 1) as my/our proxy to attend and, on a poll, to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 28 May 2010, and at any adjournment thereof.

RESOLUTIONS	FOR	AGAINST	VOTE WITHELD	AT DISCRETION
Ordinary Resolutions				
1. Adoption of financial statements.				
2. To re-elect Christopher Sherwell as a director.				
3. To re-elect Jon Macintosh as a director.				
4. To re-appoint BDO Limited as Auditors of the Company and for the Directors to fix the Auditors’ remuneration.				
Special Business				
Special Resolutions				
5. Authority to purchase own shares				

Please indicate with an “X” in the appropriate box opposite the resolutions how you wish your votes to be cast (see Note 4).

Signature (s) (See Note 6)

Date 2010



Form of Proxy

Saltus European Debt Strategies Limited (“the Company”)

Notes

1. If you wish to appoint as a proxy a person other than the Chairman of the Meeting (who need not be a shareholder), please delete the words “the Chairman of the Meeting” and insert the name of the other person. All alterations made to this Form of Proxy must be initialled by the signatory.
2. The completion and return of this Form of Proxy will not prevent you from attending in person and voting at the Meeting should you subsequently decide to do so.
3. A shareholder may appoint more than one proxy to attend. When two or more valid but differing instruments of proxy are delivered in respect of the same share for use at the same meeting and in respect of the same matter, the one which is lastly delivered (regardless of its date or of the date of its execution) shall be treated as replacing and revoking the other or others as regards that share. If the Company is unable to determine which instrument was lastly delivered, none of them shall be treated as valid in respect of that share.
4. If you wish your proxy to cast all of your votes for or against a resolution you should insert an “X” in the appropriate box. If you wish your proxy to cast only certain votes for and certain votes against, insert the relevant number of shares in the appropriate box. In the absence of instructions your proxy may vote or abstain from voting as he or she thinks fit on the specified resolutions and, unless instructed otherwise, may also vote or abstain from voting as he or she thinks fit on any other business (including on a motion to amend a resolution, to propose a new resolution or to adjourn the Meeting) which may properly come before the Meeting.
5. The “Vote Withheld” option is provided to enable you to instruct your proxy to abstain from voting on a particular resolution. A “Vote Withheld” is not a vote in law and will not be counted in the calculation of the proportion of the votes “For” or “Against” a resolution. The “At Discretion” option is provided to enable you to give discretion to your proxy to vote or abstain from voting on a particular resolution as he or she thinks fit.
6. This Form of Proxy must be signed by the shareholder or his/her attorney. Where the shareholder is a corporation, the signature must be under seal or signed by a duly authorised representative. In the case of joint shareholders, any one shareholder may sign this Form of Proxy. The vote of the senior joint shareholder (whether in person or by proxy) will be taken to the exclusion of all others, seniority being determined by the order in which the names stand in the register of members in respect of the joint shareholding.
7. To be valid, this Form of Proxy (together with any power of attorney or other authority under which it is signed or a copy of such authority certified notarially or in some other way approved by the Board of Directors) must be deposited at the offices of Capita Registrars, PXS, The Registry, 34 Beckenham Road, Kent BR3 4TU as soon as possible but, in any event, so as to arrive not less than 48 hours before the time appointed for holding the Meeting.
8. Any shareholder holding 5% or more of the voting rights in the Company should refer to the notes to the notice of annual general meeting before completing the Form of Proxy.
9. Shares held in uncertificated form (ie. in CREST) may be voted through the CREST Proxy Voting Service in accordance with the procedures set out in the CREST manual.

Management and Administration

Directors

G Baird (Chairman) *
R Dorey *
J Macintosh +
W Scott * (resigned 1 March 2010)
C Sherwell *

* Independent Non-Executive Directors

+ Representative of the Manager and Sub-Manager

Registered Office and Directors' Address

2nd Floor
Regency Court
Glategny Esplanade
St Peter Port
Guernsey
GY1 3NQ

Manager

Saltus (Channel Islands) Limited
2nd Floor
Regency Court
Glategny Esplanade
St Peter Port
Guernsey GY1 3NQ

Sub-Manager

Saltus Partners LLP
18 Dering Street
London W1S 1AQ

Custodian

Bank Julius Baer & Co Limited
(Guernsey Branch)
P O Box 87
Lefebvre Court
Lefebvre Street
St Peter Port
Guernsey GY1 4BS

Independent Auditors

BDO Limited
P O Box 180
Place du Pre
Rue du Pre
St Peter Port
Guernsey GY1 3LL

Administrator and Secretary

Butterfield Fulcrum Group (Guernsey) Limited
2nd Floor
Regency Court
Glategny Esplanade
St Peter Port
Guernsey GY1 3NQ

Registrar

Capita IRG Registrars (Guernsey) Limited
2nd Floor
1 Le Truchot
St Peter Port
Guernsey GY1 4AE

Legal Advisers In Guernsey

Carey Olsen
Carey House
Les Banques
St Peter Port
Guernsey GY1 4BZ

Legal Advisers In United Kingdom

Macfarlanes LLP
20 Cursitor Street
London
EC4A 1LT

Financial Adviser/Corporate Broker

Centos Securities Plc
6.7.8 Tokenhouse Yard
London
EC2R 7AS

