Sankaty Credit Opportunities (Offshore) I, Ltd.

(a Cayman Islands Exempted Limited Company)
Financial Statements
December 31, 2011 and 2010

pwc

Report of Independent Auditors

To the Board of Directors and Shareholders of Sankaty Credit Opportunities (Offshore) I, Ltd.

In our opinion, the accompanying statements of assets and liabilities and the related statements of operations, of changes in net assets and of cash flows present fairly, in all material respects, the financial position of Sankaty Credit Opportunities (Offshore) I, Ltd. (the "Overseas Company") at December 31, 2011 and 2010, and the results of its operations, the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Overseas Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in Note 1, the Overseas Company is scheduled to terminate on or before August 12, 2012 unless extended by the terms of the Article of Association. The financial statements do not include any adjustments that might result from the outcome of winding up the Overseas Company.

PricewaterhouseCoopers LLP

March 20, 2012

PricewaterhouseCoopers LLP, 125 High Street, Boston, MA 02110
T: (617) 530 5000, F:(617) 530 5001, www.pwc.com/us

Sankaty Credit Opportunities (Offshore) I, Ltd.
Statements of Assets and Liabilities
December 31, 2011 and 2010
(Expressed in U.S. Dollars)

	2011	2010
Assets		
Investment in the Partnership, at fair value	$ 6,531,307	$ 11,441,665
Cash and cash equivalents	1,000	1,000
Total assets	$ 6,532,307	$ 11,442,665
Commitments to Partnership		
Net Assets		
Net assets are comprised of:		
Class C ordinary shares (100 shares, par value $0.01 per share)	$ 1,000	$ 1,000
Class A preference shares (4,999,900 shares authorized, par value $0.01 per share)	7,935,886	12,750,958
Accumulated earnings attributable to preference shares	(1,404,579)	(1,309,293)
Total Net Assets	$ 6,532,307	$ 11,442,665
Net asset value per Class A preference share (Based on 600 shares outstanding)	$ 10,886	$ 19,069

The accompanying notes are an integral part of these financial statements.

Sankaty Credit Opportunities (Offshore) I, Ltd.
Statements of Operations
For the Years Ended December 31, 2011 and 2010
(Expressed in U.S. Dollars)

	2011	2010
Investment income		
Investment income allocated from the Partnership	$ 937,594	$ 1,328,386
Expenses allocated from the Partnership	(193,311)	(240,951)
Net investment income	744,283	1,087,435
Realized and unrealized gain (loss) allocated from the Partnership		
Net realized gain (loss)	(1,018,484)	260,408
Net increase (decrease) in unrealized appreciation	208,871	(376,739)
Net realized and unrealized loss	(809,613)	(116,331)
Incentive allocation from the Partnership	(29,956)	184,313
Net increase (decrease) in net assets resulting from operations	$ (95,286)	$ 1,155,417

The accompanying notes are an integral part of these financial statements.

Sankaty Credit Opportunities (Offshore) I, Ltd.
Statements of Changes in Net Assets
For the Years Ended December 31, 2011 and 2010
(Expressed in U.S. Dollars)

	2011	2010
Increase (decrease) in net assets from:		
Operations:		
Net investment income	$ 744,283	$ 1,087,435
Net realized gain (loss)	(1,018,484)	260,408
Net increase (decrease) in unrealized appreciation	208,871	(376,739)
Incentive allocation	(29,956)	184,313
Net increase (decrease) in net assets resulting from operations	(95,286)	1,155,417
Distributions to preferred shareholders		
Distribution of capital	(4,815,072)	(5,089,696)
Total distributions	(4,815,072)	(5,089,696)
Total decrease in net assets	(4,910,358)	(3,934,279)
Net assets:		
Beginning of year	11,442,665	15,376,944
End of year	$ 6,532,307	$ 11,442,665

The accompanying notes are an integral part of these financial statements.

Sankaty Credit Opportunities (Offshore) I, Ltd.
Statements of Cash Flows
For the Years Ended December 31, 2011 and 2010
(Expressed in U.S. Dollars)

	2011	2010
Cash flows from operating activities		
Net increase (decrease) in net assets resulting from operations	$ (95,286)	$ 1,155,417
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash from operating activities:		
Allocation of net investment income from Partnership	(744,283)	(1,087,435)
Distributions received from the Partnership	4,815,072	5,089,696
Net realized (gain) loss	1,018,484	(260,408)
Net change in unrealized appreciation	(208,871)	376,739
Incentive allocation from the Partnership	29,956	(184,313)
Net cash provided by operating activities	4,815,072	5,089,696
Cash flows from financing activities		
Distribution of capital to preferred shareholders	(4,815,072)	(5,089,696)
Net cash used for financing activities	(4,815,072)	(5,089,696)
Net increase (decrease) in cash	-	-
Cash at beginning of year	1,000	1,000
Cash at end of year	$ 1,000	$ 1,000

The accompanying notes are an integral part of these financial statements.

1. Organization

Sankaty Credit Opportunities (Offshore) I, Ltd. (the "Overseas Company") is a Cayman Islands exempted limited company, which commenced operations on August 12, 2002. The Overseas Company invests substantially all of its net proceeds from the issuance of Preference Shares and Class C shares in Sankaty Credit Opportunities, L.P. (the "Partnership"), a Delaware limited partnership, having the same investment objectives as the Overseas Company. Sankaty Credit Opportunities Investors, LLC, a Delaware limited liability company, serves as the General Partner of the Partnership. Sankaty Advisors, LLC, a Delaware limited liability company and an affiliate of the General Partner, serves as the investment advisor (the "Investment Advisor") of the Partnership.

The preference shares are issued in two separate classes, Class A and Class B, and are registered on the Irish Stock Exchange. The performance of the Overseas Company is directly affected by the performance of the Partnership. The financial statements of the Partnership are attached to these financial statements and should be read in conjunction with the Overseas Company's financial statements. At December 31, 2011 and 2010, the Overseas Company owned 6.2% and 6.1%, respectively, of the Partnership. The Overseas Company committed $30,000,000 to the Partnership, of which $22,064,114 and $17,249,042 had been returned as of December 31, 2011 and 2010, respectively. The Partnership was originally scheduled to continue until August 12, 2010, unless at some earlier date the Partnership ceases to have a general partner, all partners consent in writing to the termination of the Partnership or the General Partner elects to extend the life of the Partnership. On August 9, 2010, the General Partner extended the term of the Partnership until August 12, 2012. Accordingly, the term of the Overseas Company was extended until August 12, 2012.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates, and such differences could be material. Set forth below is a summary of the Overseas Company’s significant accounting policies.

Accounting for Investments

The Overseas Company's contributions to (or withdrawals from) the Partnership are recognized concurrently with limited partners' contributions to (or withdrawals from) the Partnership. Investment transactions in the Partnership are accounted for on the trade date. Realized gains and losses of the Partnership are determined on the specific identification basis.

Valuation of Investments

The Overseas Company records its proportionate investment in the Partnership at fair value. The fair value of the Overseas Company's investment in the Partnership reflects the Overseas Company's proportionate interest in the total partners' capital of the Partnership. Valuation policies of the investments held by the Partnership is discussed in Note 2 of the Partnership's Notes to Financial Statements.

The General Partner considers the investment in the Partnership to be a Level III investment. The General Partner believes more relevant disclosure regarding fair value measurements relates to the Partnership's investment portfolio.

Income and Expense Recognition

The Overseas Company records its share of the Partnership's investment income, expenses, and realized and unrealized gains and losses in proportion to the Overseas Company's interest in the Partnership at the beginning of each allocation period, as a percentage of total partners' capital of the Partnership at the end of the preceding period, adjusted for any capital contributions to or withdrawals from the Partnership for the current period. Administrative costs of the Overseas Company including fees related to listing on the Irish Stock Exchange are paid by the Partnership and then allocated to the Overseas Company's partners' capital account. Such expenses are included in expenses allocated from the Partnership in the Statements of Operations.

Income Taxes

The Offshore Company is a Cayman Islands exempted company treated as a corporation for United States Federal income tax purposes. Under the current laws of the Cayman Islands, there are no income, estate, transfer, sale or other taxes imposed on the Offshore Company. The Offshore Company trades stocks and securities for its own accounts, therefore, should not be deemed to be engaged in a trade or business in the United States subject to United States federal income tax. Dividends as well as certain types of interest and other income received by the Offshore Company from sources within the United States may be subject to United States withholding tax at a rate of 30%. Dividends as well as certain types of interest and other income, including capital gains on the sale of securities of non-U.S. issuers, received by the Offshore Company from non-U.S. sources may be subject to withholding and other taxes imposed at various rates levied by the jurisdiction in which the income is sourced. To the extent the Offshore Company incurs any tax liabilities, such liabilities will reduce each partner's capital by their allocable share.

The Offshore Company requires the Investment Advisor to determine whether tax positions of the Offshore Company are more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the tax amount recognized in the financial statements is reduced by the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant taxing authority. The Investment Advisor has determined that there were no tax positions which met the recognition and measurement requirements of the relevant accounting standard, and therefore, the Offshore Company did not record an expense related to uncertain positions on the Offshore Company's Statements of Operations for the years ended December 31, 2011 and 2010.

The Offshore Company files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Offshore Company is subject to examination by federal, state, local and foreign jurisdictions, where applicable. As of December 31, 2011, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations is from the year 2008 forward (with limited exceptions).

Foreign currency transactions

The accounting records of the Partnership and the Overseas Company are maintained in U.S. dollars. Investments, other assets and liabilities of the Partnership denominated in a foreign currency are translated into U.S. dollars at the prevailing rates of exchange at each period end. Purchases and sales of securities, income receipts, and expense payments are translated into U.S dollars at the prevailing exchange rate on the respective date of the transactions. The Overseas Company does not isolate realized and unrealized gains and losses attributable to changes in exchange rates from gains and losses that arise from changes in the fair values of investment activities. Such fluctuations are included with net realized and unrealized gains or losses.

3. Advisory Fee

The Investment Advisor is entitled to compensation in the form of advisory fees. Fees pertaining to investment advisor services are not incurred by the Overseas Company, but rather are expenses of the Partnership. Accordingly, the advisory fee is a component of expenses allocated from the Partnership. In addition, the General Partner of the Partnership is entitled to receive carried interest after the limited partners reach a specified annualized rate of return, which is included in the Incentive allocation on the Statements of Operations and

Changes in Partners' Capital. Please refer to Notes 6 and 8 of the Partnership's financial statements for discussion of advisory fees and carried interest, respectively.

4. Share Capital

Contributions and Withdrawals

The Overseas Company has authorized capital of 4,999,900 Class A and Class B preference shares and 100 Class C ordinary shares each with a par value of $0.01 per share. Preference shares are issued at $50,000 per share and the Class C ordinary shares are issued at $10 per share. At December 31, 2011 and 2010 the Overseas Company had issued 600 Class A preference shares for $30,000,000 and 100 Class C shares for $1,000. The Class C shares have the right to attend and vote at the general meetings on all matters related to the operation of the Overseas Company, including the selection of officers and directors. The Class C shares do not participate in the net profits and losses of the Overseas Company. The preference shareholders are not entitled to attend or vote at general meetings of the Overseas Company, except on issues to be voted upon by the Overseas Company in its capacity as a limited partner of the Partnership pursuant to the Partnership Agreement. In addition, the holders of the preference shares are entitled to vote on any amendment to the Article of Association by which, if adopted, would adversely affect them.

The directors of the Overseas Company, in their sole discretion, may require preference shares to be compulsory redeemed.

At December 31, 2011, one preference shareholder held 100% of the Class A preference shares.

Income, Expense, and Carried Interest Allocations

Investment profits and losses, including those specific to New Issues and certain illiquid securities designated as such by the General Partner of the Partnership ("Designated Investments") are allocated to the shareholders of the Overseas Company in respect of each shareholders' Corresponding Interest in the Partnership. During the years ended December 31, 2011 and 2010, there were no realized profits and loss related to New Issues. At December 31, 2011 and 2010, the Overseas Company's corresponding interest of unrealized losses related to Designated Investments were $5,935,278 and $1,415,937, respectively. During the year ended December 31, 2011, $29,069 of carried interest was allocated. During the year ended December 31, 2010, $184,313 of carried interest was reallocated from the General Partner back to the Overseas Company.

Dividends and Distributions

Dividends will be declared for each class of preference shares in accordance with distributions received by the Overseas Company in respect of the classes' relevant Corresponding Interest. Class C shares are not entitled to receive dividends. Distributions of return of original capital contributed were made during the years ended December 31, 2011 and 2010 in the amount of $4,815,072 and $5,089,696, respectively, from the Overseas Company.

Liquidation

Upon any liquidation, dissolution or winding up of the Overseas Company, the holders of preference shares will be entitled, after payment of the debts and other liabilities of the Overseas Company, to distributions payable in cash or in kind, in an amount equal to the paid in capital of the preference shares. If the assets of the Overseas Company are not sufficient to pay the full amount set forth above, then each holder of preference shares shall share ratably in any distribution of assets in proportion to the amount that would be payable to such holder if the entire amount payable to all holders were paid in full. Save in respect of paying to each holder of Class C shares the amount paid up on such shares (in aggregate $1,000) in priority to any other payment on a return of capital on a winding up, Class C shares carry no right to participate in any distributions. After the paid in capital of the preference shares and the Class C shares has been paid in full, all accrued and unpaid dividends will be apportioned and paid in the same proportions as dividends are apportioned between the preference shares. Save in respect of paying to each holder of Class C shares the amount paid up on such shares in priority to any other payment on a return of capital on a winding up, Class C shares carry no right to participate in any distribution.

(Expressed in U.S. Dollars)

6. Administrator and Board of Directors

The Partnership has entered into an administration agreement with Walkers SPV Limited (the "Administrator"). The Administrator is responsible for, among other things: (i) maintaining the register of shareholders of the Overseas Company and generally performing all actions related to the issuance and transfer of preference shares of the Overseas Company and the safe-keeping of certificates therefore, if any; (ii) disseminating the net asset value of the preference shares in accordance with the Articles of Association of the Overseas Company; (iii) keeping such books and records as are required by law or otherwise for the proper conduct of the affairs of the Overseas Company; and (iv) performing all other ancillary services necessary in connection with the administration of the Overseas Company. In addition, all issued and outstanding Class C ordinary shares are held by the Administrator. For the years ended December 31, 2011 and 2010, $26,668 and $13,402, respectively, of administrative expenses and directors fees were paid by the Partnership and then allocated to the Overseas Company.

Board of Directors

The Overseas Company's Board of Directors is made up of two officers of the Administrator. They are all independent non-executive directors and have the overall management responsibility of the Overseas Company. The names of the directors are:

Karen Ellerbe
Mora Goddard

7. Other Required Disclosure

Financial highlights consist of total return, expenses and net investment income/ loss ratios. The financial highlights are calculated for the limited partners taken as a whole. An individual limited partner's results may vary based on a variety of factors including different fee arrangements and the timing of capital transactions.

Year ended December 31, 2011	Before Carried Interest	After Carried Interest
Expense Ratio	2.07%	2.39%
Total Return	-5.66%	-4.90%

Year ended December 31, 2010	Before Carried Interest	After Carried Interest
Expense Ratio	1.85%	0.43%
Total Return	7.37%	9.31%

Total return is calculated based on a time-weighted rate of return methodology. The rates of return at each accounting period are compounded to derive the total return reflected above. Total return is reflected after deducting all investment-related and operating expenses, as shown on the Statements of Operations.

For the years ended December 31, 2011 and 2010, the net investment income ratio excluding the allocation of carried interest was 7.95% and 8.33%, respectively. The ratios are calculated based upon the average limited partners' capital during the year. Such ratios are calculated based on all investment-related and operating expenses, as shown on the Statements of Operations.

(Expressed in U.S. Dollars)

8. Operating Performance

The operating performance for years ended December 31, 2011 and 2010 was as follows:

	Class A	
	2011	**2010**
Class A preference share operating performance:		
Net asset value, beginning of year	$ 19,069	$ 25,627
Net investment income	1,240	1,812
Net realized and unrealized gain (loss) on investments	(1,349)	(194)
Incentive allocation	(49)	307
Distribution of profits to preferred shareholders	-	-
Distribution of capital to preferred shareholders	(8,025)	(8,483)
Net increase (decrease) in net asset value	(8,183)	(6,558)
Net asset value, at end of year	$ 10,886	$ 19,069

9. Guarantees

In the normal course of business, the Overseas Company enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Overseas Company's maximum exposure under these is unknown, as this would involve future claims that may be made against the Overseas Company that have not yet occurred. However, based on experience, management expects the risk of loss to be remote.

10. Off-balance sheet, market and credit risk

Due to the nature of the "master-feeder" structure, the Overseas Company may be materially affected by the actions of other limited partners investing in the Partnership. Off-balance sheet, market and credit risk of the Partnership's investments are discussed in Notes 2 and 5 in the Partnership's Notes to the Financial Statements.

11. Subsequent Events

Management has evaluated the events and transactions that have occurred through March 20, 2012, the date the financial statements were issued, and noted no items requiring adjustment of the financials statements or additional disclosures.

Subsequent to year end, the Partnership made a cash distribution of $901,373.

Sankaty Credit Opportunities, L.P.

Financial Statements

December 31, 2011 and 2010

Report of Independent Auditors

To the Partners of Sankaty Credit Opportunities, L.P.

In our opinion, the accompanying statements of assets, liabilities and partners' capital, including the condensed schedules of investments, and the related statements of operations, changes in partners' capital and of cash flows present fairly, in all material respects, the financial position of Sankaty Credit Opportunities, L.P. (the "Partnership") at December 31, 2011 and 2010, and the results of its operations, changes in its partners' capital and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the General Partner. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the General Partner, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in Note 1, the Partnership is scheduled to terminate on or before August 12, 2012 unless extended by the terms of the Partnership Agreement. The financial statements do not include any adjustments that might result from the outcome of winding up the Partnership.

PricewaterhouseCoopers LLP

March 20, 2012

Sankaty Credit Opportunities, L.P.
Statements of Assets, Liabilities and Partners' Capital
December 31, 2011 and 2010

		2011		2010
Assets				
Investments, at fair value (cost $197,031,394 and $240,241,490)	$	98,260,798	$	140,184,098
Cash and cash equivalents		6,428,168		19,660,820
Restricted cash for credit default swaps		-		26,400,679
Credit default swaps, at fair value (cost $0 and $0)		-		7,061
Unrealized appreciation of forward currency contracts		-		313,296
Interest receivable		686,998		1,394,537
Receivable for investments sold		95,438		720,239
Prepaid Advisory Fees		36,871		-
Other assets		-		41,250
Total assets	$	105,508,273	$	188,721,980
Liabilities				
Credit default swaps, at fair value (proceeds $0 and $0)	$	-	$	2,124,228
Unrealized depreciation of forward currency contracts		-		57,312
Due to broker - margin		249		588
Deferred taxes payable		412,581		736,247
Accrued expenses and other liabilities		81,052		115,475
Total liabilities		493,882		3,033,850
Commitments				
Partners' capital		105,014,391		185,688,130
Total liabilities and partners' capital	$	105,508,273	$	188,721,980

The accompanying notes are an integral part of these financial statements.

Sankaty Credit Opportunities, L.P.
Statements of Operations
For the Years Ended December 31, 2011 and 2010

	2011	2010
Investment Income		
Income:		
Interest	$ 10,834,288	$ 14,813,397
Dividends and other income	4,768,473	7,344,906
Total investment income	15,602,761	22,158,303
Expenses:		
Advisory Fee - net	2,104,461	2,980,148
Professional fees and operating expenses	598,456	894,107
Interest expense on securities sold short	231	268
Total expenses	2,703,148	3,874,523
Net investment income	12,899,613	18,283,780
Net realized and unrealized gains and losses		
Net realized loss on investments and securities sold short	(18,032,888)	(1,224,078)
Net realized loss on foreign currency transactions	(42,252)	(1,254,650)
Net realized gain on forward currency contracts	105,519	515,686
Net realized gain on credit default swaps	1,020,752	4,422,978
Net change in unrealized appreciation of investments and securities sold short (net of decrease (increase) in deferred withholding taxes of $323,666 and ($518,888), respectively)	1,610,462	(7,685,163)
Net change in unrealized appreciation on credit default swaps	2,117,167	3,372,269
Net change in unrealized appreciation of forward currency contracts	(255,984)	46,961
Net change in unrealized appreciation from foreign currency translation	851	(680)
Net realized and unrealized losses	(13,476,373)	(1,806,677)
Net increase (decrease) in partners' capital resulting from operations	$ (576,760)	$ 16,477,103

The accompanying notes are an integral part of these financial statements.

Sankaty Credit Opportunities, L.P.
Statement of Changes in Partners' Capital
For the Years Ended December 31, 2011 and 2010

	Limited Partners	General Partner	Total
Partners' Capital at December 31, 2009	$ 254,045,473	$ 5,165,939	$259,211,412
Distributions	(84,443,279)	(5,557,106)	(90,000,385)
Advisory Fee - Net	(2,980,148)	-	(2,980,148)
Carried Interest	(1,588,239)	1,588,239	-
Allocation of net increase in partners' capital resulting from operations (excluding advisory fee and carried interest)	19,120,169	337,082	19,457,251
Partners' Capital at December 31, 2010 (before reallocation of carried interest)	184,153,976	1,534,154	185,688,130
Reallocation of Carried Interest**	4,523,429	(4,523,429)	-
Partners' Capital at December 31, 2010	$ 188,677,405	$ (2,989,275)	$185,688,130
Distributions	(79,439,328)	(657,651)	(80,096,979)
Advisory Fee - Net	(2,104,461)	-	(2,104,461)
Carried Interest	(477,804)	477,804	-
Allocation of net increase in partners' capital resulting from operations (excluding advisory fee and carried interest)	1,515,575	12,126	1,527,701
Partners' Capital at December 31, 2011	$ 108,171,387	$ (3,156,996)	$105,014,391

* Included in the limited partners’ capital account balance at December 31, 2011 and 2010 are $3,603,861 and $6,250,399, respectively, which relate to limited partners who are members of the Bain Capital Group. The Investment Advisor has waived advisory fees and carried interest, with respect to these limited partners for the years ended December 31, 2011 and 2010.

**Reallocation of Carried Interest is a reallocation from the General Partner to the Limited Partners as if the Fund had realized all investments as of December 31, 2010. Included in the December 31, 2010 reallocation is an adjustment of $6,824,953, related to a previous unrecorded reallocation of carried interest as of December 31, 2009. The impact of this adjustment has been deemed by the General Partner to be immaterial to the financial statements taken as a whole for year ended December 31, 2010. In accordance with the Limited Partnership Agreement, carried interest allocable to the General Partner from the Limited Partners is $1,588,239 for the year ended December 31, 2010.

Sankaty Credit Opportunities, L.P.
Statements of Cash Flows
For the Years Ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Net increase (decrease) in partners' capital resulting from operations	$ (576,760)	$ 16,477,103
Adjustments to reconcile net increase (decrease) in partners' capital resulting from operations to net cash provided by operating activities:		
Purchases of investments	(25,766,484)	(36,009,363)
Proceeds from sales of investments	45,680,421	55,067,152
Proceeds from credit default swaps	1,020,752	4,422,978
Proceeds from principal paydowns of investments	14,576,011	43,301,912
Non-cash interest and dividend income	(8,687,939)	(11,049,449)
Decrease (increase) in restricted cash	26,400,679	(7,258,916)
Decrease in interest receivable	707,539	1,549,975
Decrease in other asset	41,250	101,181
Increase (decrease) in deferred tax payable	(323,666)	466,514
Decrease in advisory fee payable	-	(5,041)
Decrease in accrued expenses and other liabilities	(34,423)	(38,225)
Increase in prepaid advisory fees	(36,871)	-
Net realized loss on investments and securities sold short	18,032,888	1,224,078
Net realized gain on credit default swaps	(1,020,752)	(4,422,978)
Net change in unrealized appreciation of investments and securities sold short	(1,286,796)	7,685,163
Net change in unrealized appreciation on credit default swaps	(2,117,167)	(3,372,269)
Net change in unrealized appreciation of forward currency contracts	255,984	(46,961)
Net cash provided by operating activities	66,864,666	68,092,854
Cash flows from financing activities:		
Partners' capital distributions	(80,096,979)	(90,000,385)
Decrease in distrbutions payable	-	(28,084)
Decrease in Due to broker - margin	(339)	(895,968)
Net cash used for financing activities	(80,097,318)	(90,924,437)
Net decrease in cash and cash equivalents	(13,232,652)	(22,831,583)
Cash and cash equivalents, beginning of year	19,660,820	42,492,403
Cash and cash equivalents, end of year	$ 6,428,168	$ 19,660,820
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 231	$ 268

The accompanying notes are an integral part of these financial statements.

Sankaty Credit Opportunities, L.P.
Condensed Schedule of Investments
Decemeber 31, 2011

		Fair Value
Investments 93.6%*		
Corporate Fixed Income 0.2%*		
Beverage and Tobacco	$	120,702
Nonferrous Metals/Minerals		96,218
Total Corporate Fixed Income (Cost $481,129)		216,920
Senior Bank Debt 3.8%*		
Food Products [(7)]		3,943,788
Total Senior Bank Debt (Cost $4,534,462)		3,943,788
Mezzanine 36.0%*		
Automotive		482,056
Conglomerates [(3)]		14,751,870
Food Products [(5)]		8,327,545
Healthcare		639,031
Leisure [(4)]		13,616,036
Total Mezzanine (Cost $86,298,444)		37,816,538
Common Stock 16.5%*		
Automotive		86
Business Equipment and Services		71,028
Electronic/Electric		660,928
Financial Intermediaries		3,625
Food Products [(7)]		2,444,708
Healthcare		3,104,770
Insurance		3,595,366
Nonferrous Metals/Minerals		2,092,826
Oil and Gas		5,073,274
Retailers (other than food/drug)		264,505
Total Common Stock (Cost $40,472,426)		17,311,116

The accompanying notes are an integral part of these financial statements.

Sankaty Credit Opportunities, L.P.
Condensed Schedule of Investments
Decemeber 31, 2011

Investments (continued)

		Fair Value
Preferred Stock 8.4%*		
	Electronic/Electric	$ 3,799,514
	Food Products	139,006
	Retailers (other than food/drug)	4,898,836
Total Preferred Stock (Cost $26,377,736)		8,837,356
Warrants 1.1%*		
	Business Equipment and Services	411,464
	Electronic/Electric	714,639
Total Warrants (Cost $1,011,881)		1,126,103
Structured Investments 27.6%*		
	Financial Intermediaries	1,422,043
	Structured Finance Obligation (1) (2) (6)	27,586,934
Total Structured Investments (Cost $37,855,316)		29,008,977
Total Investments (Cost $197,031,394)		$ 98,260,798

The geographical categorization by country of issuer of the value of investments is as follows:

USA	91.0%
Cayman Islands	7.8%
Other	1.2%
	100.0%

*All investment category percentages are calculated as a percentage of total partners' capital of $105,014,391.

(1) Avery Point CLO, Limited, fair value of $6,825,795 represents 6.5% of partners' capital of the Partnership.
(2) Chatham Light II CLO, Ltd, fair value of $9,961,660 represents 9.5% of partners' capital of the Partnership.
(3) Continental Cement Company LLC, fair value of $14,751,870 represents 14.0% of partners' capital of the Partnership.
(4) Foto Fantasy, Inc., fair value of $13,616,037 represents 13.0% of partners' capital of the Partnership.
(5) Harvest Time Bread Company, fair value of $5,741,520 represents 5.5% of partners' capital of the Partnership.
(6) Race Point II CLO, Limited, fair value of $6,539,725 represents 6.2% of partners' capital of the Partnership.
(7) Shari's, fair value of $6,388,496 represents 6.1% of partners' capital of the Partnership.

The accompanying notes are an integral part of these financial statements.

Sankaty Credit Opportunities, L.P.
Condensed Schedule of Investments
December 31, 2010

Investments 75.4%*		Fair Value
Corporate Fixed Income 0.1%*		
Beverage and Tobacco	$	135,750
Nonferrous Metals/Minerals		96,218
Total Corporate Fixed Income (Cost $2,832,794)		231,968
Senior Bank Debt 4.3%*		
Cable Television		3,865,649
Food Products		4,102,298
Total Senior Bank Debt (Cost $7,760,268)		7,967,947
Mezzanine 26.1%*		
Automotive		1,567,032
Business Equipment and Services (3)		9,210,667
Conglomerates (1)		13,984,773
Food Products (2)		14,272,364
Healthcare		639,031
Leisure		8,169,390
Oil and Gas		330,000
Retailers (other than food/drug)		213,068
Total Mezzanine (Cost $77,328,745)		48,386,325
Common Stock 16.1%*		
Automotive		199
Beverage and Tobacco		630,512
Business Equipment and Services		361,291
Electronic/Electric		5,521,509
Financial Intermediaries		3,743
Food Products		2,722,318
Healthcare		948,856
Insurance		3,609,000
Leisure		288,696
Nonferrous Metals/Minerals		2,007,312
Oil and Gas		12,654,502

The accompanying notes are an integral part of these financial statements.

Sankaty Credit Opportunities, L.P.
Condensed Schedule of Investments
December 31, 2010

Investments (continued)	Fair Value
Common Stock (continued)	
Retailers (other than food/drug)	$ 848,788
Surface Transportation	352,983
Total Common Stock (Cost $69,391,922)	29,949,709
Preferred Stock 7.4%*	
Business Equipment and Services	82,768
Electronic/Electric	5,461,551
Food Products	4,676,585
Retailers (other than food/drug)	3,581,368
Total Preferred Stock (Cost $16,536,582)	13,802,272
Warrants 1.2%*	
Business Equipment and Services	561,463
Electronic/Electric	803,209
Surface Transportation	909,322
Total Warrants (Cost $1,011,881)	2,273,994
Structured Investments 20.2%*	
Financial Intermediaries	664,150
Structured Finance Obligation (4)	36,907,733
Total Structured Investments (Cost $65,379,298)	37,571,883
Total Investments (Cost $240,241,490)	$ 140,184,098
Credit Default Swaps -1.1%*	
Providing Protection -1.1%*	
Chemical/Plastics	$ 7,061
Structured Finance Obligation	(2,124,228)
Total Providing Protection (Cost $0)	(2,117,167)
Total Credit Default Swaps (Cost $0)	$ (2,117,167)
Forward Contracts 0.1%*	
Euro/USD	$ 255,984
Total Forward Contracts (Cost $0)	$ 255,984

The accompanying notes are an integral part of these financial statements.

Sankaty Credit Opportunities, L.P.
Condensed Schedule of Investments
December 31, 2010

The geographical categorization by country of issuer of the value of investments is as follows:

USA	84.9%
Canada	4.8%
Germany	4.3%
Luxembourg	0.6%
Other	5.4%
	100.0%

At December 31, 2010, the country of the reference asset of the credit default swaps providing protection were as follows:

USA	100.3%
United Kingdom	-0.3%
	100.0%

*All investment category percentages are calculated as a percentage of total partners' capital of $185,688,130.

(1) Continental Cement Company LLC, fair value of $13,984,773 represents 7.5% of partners' capital of the Partnership.

(2) Harvest Time Bread Company, fair value of $10,912,331 represents 5.9% of partners' capital of the Partnership.

(3) Restaurant Technologies, Inc., fair value of $9,933,253 represents 5.3% of partners' capital of the Partnership.

(4) Chatham Light CLO, Ltd, fair value of $9,650,000 represents 5.2% of partners' capital of the Partnership.

1. Organization

Sankaty Credit Opportunities, L.P. (the "Partnership") is a Delaware limited partnership, which commenced operations on August 12, 2002. Sankaty Advisors, LLC, a Delaware limited liability company and the credit affiliate of Bain Capital, LLC, serves as the investment advisor of the Partnership (the "Investment Advisor"). Sankaty Credit Opportunities Investors, LLC, a Delaware limited liability company and an affiliate of the Investment Advisor, serves as the General Partner of the Partnership (the "General Partner").

The investment objective of the Partnership is to provide superior risk-adjusted returns to the limited partnership interests by opportunistically investing in distressed/stressed debt and bank loans, mezzanine investments, structured products and special situations. The Partnership's aggregate committed capital for investments is $500 million, of which all had been funded as of December 31, 2011 and 2010. At December 31, 2011 and 2010, the General Partner held $5 million, or 1% of the aggregate commitments of all partners. The Partnership was originally scheduled to continue until August 12, 2010, unless at some earlier date the Partnership ceases to have a general partner, all partners consent in writing to the termination of the Partnership or the General Partner elects to extend the life of the Partnership. On August 9, 2010, the General Partner extended the term of the Partnership until August 12, 2012.

The Bank of New York Mellon Trust Company serves as the Partnership’s custodian and loan administrator. J.P.Morgan and Goldman Sachs, & Co. act as prime brokers for the Partnership’s corporate fixed income and public equity securities under prime brokerage agreements.

In addition to direct commitments, Sankaty Credit Opportunities (Offshore) I, Ltd., Sankaty Credit Opportunities (Offshore) I, L.P., and Sankaty Credit Opportunities (Offshore Plan Assets) I, L.P. were established to acquire interests in the Partnership. At December 31, 2011, Sankaty Credit Opportunities (Offshore) I, Ltd., Sankaty Credit Opportunities (Offshore) I, L.P., and Sankaty Credit Opportunities (Offshore Plan Assets) I, L.P., owned 6.2%, 53.5%, and 6.7% of partners’ capital, respectively. At December 31, 2010, Sankaty Credit Opportunities (Offshore) I, Ltd., Sankaty Credit Opportunities (Offshore) I , L.P., and Sankaty Credit Opportunities (Offshore Plan Assets) I, L.P., owned 6.1%, 52.9%, and 6.6% of partners’ capital, respectively.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in accordance with GAAP requires the General Partner to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates, and such differences could be material.

Valuation of Investments, Credit Default Swaps and Securities Sold Short

The Investment Advisor, in consultation with the General Partner, determines the fair value of the investments owned by the Partnership. Corporate fixed income securities are generally fair valued based on the “high bid average” price obtained from an independent pricing service. Senior bank debt securities are generally fair valued based on the "mean of mean" price obtained from a loan pricing service. Public equities are generally fair valued based on the closing price listed on a United States securities exchange or, if unavailable, at the last bid price for long positions and last ask price for short positions. Swap contracts and other derivatives are fair valued as described below. For additional info related to derivative instruments utilized, please see the following footnotes: 3, 4, and 5.

Investments that cannot be valued, as described above, (primarily mezzanine investments, structured investments and special situations) are valued at fair value as determined in good faith by the General Partner. In determining the fair value of an investment, the General Partner considers such factors as financial statements, earnings forecasts, recent transactions in the same or similar securities and valuation information obtained from broker-dealers, recognized quotation services or independent appraisal firms. The fair value assigned to these investments is based upon available information and does not necessarily represent the amount that might ultimately be realized upon sale. Equity investments in structured financing vehicles (such as CLOs) are valued by the General Partner using a model that utilizes inputs determined by the General Partner to discount present value of future cash flows from the investment. The General Partner determines the fair value of certain securities, including certain structured investments, held by the Partnership on the basis of prices provided by principal market makers. Due to the inherent uncertainty of valuation, this estimated fair value may differ from the value that would have been used had a ready market for the security existed, and the difference could be material. Investments in limited partnerships are valued as the Partnership's proportionate investment in the net assets of the limited partnership at fair value.

The definition of "fair value" for the purposes of accounting principles generally accepted in the United States of America can and will differ from that used within the covenants of the Partnership's debt financing commitments.

Cash and Cash Equivalents
Cash includes cash held at retail banks, custodial banks and prime brokers. Cash balances are presented gross of amounts due to retail banks, custodial banks, and prime brokers.

Due to Broker - Margin
Due to broker - margin represents short term margin debt balances held at various brokers.

Restricted Cash
Restricted cash for collateral held for credit default swaps represents cash collateral maintained in accounts by the respective swap agreement counterparties.

Investment Transactions, Investment Income and Expenses
Investment transactions are accounted for on the trade date. Realized gains and losses on investment transactions are determined using the specific identification method. Interest income is recorded on the accrual basis. Expenses are recorded on the accrual basis. Premiums and discounts on securities purchased and securities sold short are amortized, using the effective yield method, over the life of the respective security when cash collection is expected and included in interest income (long investments) and interest expense (short investments). Discounts on securities with fair value below 50% of par are not amortized. Certain fees received or paid on bank loans are recorded as a cost basis adjustment or as income. Dividend income is recorded on the ex-dividend date net of withholding taxes. Distributions from collateralized debt obligations are recorded as dividend income on the Statements of Operations during the collateralized debt obligation's reinvestment period. Subsequent to this reinvestment period, distributions are recorded as a return of capital. Dividend and interest income paid in the form of additional shares or par value is recorded at current fair value. For the Partnership's investments in revolving bank loans, the cost basis of the investments purchased are adjusted for the cash received for the discount on the total balance committed. The fair value is also adjusted for price appreciation or depreciation on the unfunded portion. As a result, the purchase of commitments not completely funded may result in a negative fair value until it is offset by the future amounts called and funded.

In some cases, the Partnership invests in securities indirectly through one or more holding companies or other entities in which other parties affiliated with the Partnership and/or the Investment Advisor may also be investors. In cases where the Partnership invests through such an entity, the Condensed Schedules of Investments reflects the Partnership's proportionate share of the underlying investment.

Restricted Securities
The Partnership is permitted to invest in securities that are subject to legal or contractual restrictions on resale. These securities generally may be resold in transactions exempt from registration or to the public if the securities are registered. Disposal of these securities may involve time-consuming negotiations and expense, and prompt sale at an acceptable price may be difficult. At December 31, 2011 and 2010, the fair value of restricted securities (excluding 144A issues) amounted to $9,915,403 and $15,914,212, respectively.

Income Taxes

As a partnership, the Partnership itself is not subject to U.S. Federal income taxes. Each partner is individually liable for income taxes, if any, on its share of the Partnership's net taxable income. Interest, dividends and other income realized by the Partnership from non-US sources and capital gains realized on the sale of securities of non-U.S. issuers may be subject to withholdings and other taxes levied by the jurisdiction in which the income is sourced. As of December 31, 2011 and 2010, $412,581 and $736,247, respectively, was the estimated payable relating to deferred taxes and is included in Deferred taxes payable on the Statements of Assets, Liabilities and Partners' Capital.

For foreign partners invested in the Partnership, a reduction in capital could be made for withholding taxes (30% or lower treaty rate) on their allocable share of dividends as well as certain interest and other income received by the Partnership from sources within the United States.

The Partnership requires the General Partner to determine whether tax positions of the Partnership are more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the tax amount recognized in the financial statements is reduced by the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant taxing authority. The General Partner has determined that there were no tax positions which met the recognition and measurement requirements of the relevant accounting standard, and therefore, the Partnership did not record an expense related to uncertain positions on the Partnership's Statements of Operations for the years ended December 31, 2011 and 2010.

The Partnership files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Partnership is subject to examination by federal, state, local and foreign jurisdictions, where applicable. As of December 31, 2011, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations is from the year 2008 forward (with limited exceptions).

Securities Sold Short

Upon selling a security short, the Partnership recognizes the proceeds received as restricted cash in the Statements of Assets, Liabilities and Partners' Capital and securities sold short is established as an offsetting liability. The cash is retained by the Partnership's prime broker(s) as collateral for the short position. The liability is marked-to-market while the position remains open to reflect the current settlement obligation and the amount of collateral is adjusted accordingly. When a closing purchase is entered into by the Partnership offsetting the security sold short, a gain or loss is realized based on the difference between the proceeds originally received and the purchase cost.

A short sale creates a risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit thus increasing the cost to the Partnership of buying those securities necessary to cover a short position. There can be no assurance that the security necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. As a result, short sales create risk that the Partnership's ultimate obligation to satisfy the delivery requirements may exceed the amount of the proceeds initially received or the liability recorded in the Statements of Assets and Liabilities and Partners' Capital.

Designated Investments

The General Partner may designate any Partnership investment as a Designated Investment at its discretion. The Limited Partners are not permitted to voluntarily withdraw their share of a Designated Investment until the investment is realized and without the consent of the General Partner. All Designated Investments are recorded at fair value as determined by the Investment Advisor.

Foreign Currency Translation
The accounting records of the Partnership are maintained in U.S. dollars. The fair values of foreign securities, currency holdings and other assets and liabilities are translated to U.S. dollars based on the current exchange rates each business day. Income and expenses denominated in foreign currencies are translated at current exchange rates when accrued or incurred. Unrealized gains and losses on foreign currency holdings and non-investment assets and liabilities attributable to the change in exchange rates are included in the net change in unrealized appreciation from foreign currency translation in the Statements of Operations. Net realized gains and losses attributable to changes in exchange rates on foreign currency holdings and non-investment assets and liabilities are included in net realized loss on foreign currency transactions in the Statements of Operations.

The portion of both realized and unrealized gains and losses on investments, credit default swaps, securities sold short and swap contracts that result from fluctuations in foreign currency exchange rates is not separately disclosed, but is included in net realized and unrealized gains on investments, credit default swaps and securities sold short in the Statements of Operations.

New Accounting Guidance
In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-04, *"Fair Value Measurements and Disclosures (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs"* ("ASU 2011-04"). ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles related to measuring fair value, and requires additional disclosures about fair value measurements.

Specifically, the guidance specifies that the concepts of highest and best use and valuation premise in a fair value measurement are only relevant when measuring the fair value of nonfinancial assets whereas they are not relevant when measuring the fair value of financial assets and liabilities. Required disclosures are expanded under the new guidance, especially for fair value measurements that are categorized within Level III of the fair value hierarchy, for which quantitative information about the unobservable inputs used and a narrative description of the valuation processes in place will be required.

ASU 2011-04 is effective for annual periods beginning after December 15, 2011 and is to be applied prospectively. The Partnership is currently assessing the impact of this guidance on the Statements of Assets and Liabilities, Statements of Operations and the Statements of Changes in Partners' Capital.

3. Derivatives

FASB Accounting Standards Codification (“ASC”) 815-10-50 requires qualitative disclosures about the objectives and strategies for using derivative instruments and the fair value of and gains and losses on derivative instruments.

The Partnership transacts in a variety of derivative instruments including, forwards, swaps and options primarily for trading purposes with each instrument's primary risk exposure being interest rate, credit, foreign exchange or equity risk. The fair value of these derivative instruments is included either as a separate line item, or in the case of purchased options within the Investments line item, in the Statements of Assets, Liabilities and Partners’ Capital with changes in fair value reflected as realized gains (losses) or net change in unrealized gains (losses) within the Statements of Operations.

During the year ended December 31, 2011, there were no derivatives included in the Statements of Assets, Liabilities and Partners’ Capital. During the year ended December 31, 2011, the average notional exposure on forward currency contracts and credit default swaps were ($2,062,313) and $10,766,567, respectively.

The following table lists fair value of derivates by contract type as included in the Statements of Assets, Liabilities, and Partners' Capital for the year ended December 31, 2010.

(Dollars in thousands)	Notional/contractual amount	Gross Derivative Assets (at fair value)	Gross Derivative Liabilities (at fair value)
Forward currency contracts	(4,271)	313	(57)
Credit default swaps	25,416	7	(2,124)
Total	$ 21,145	$ 320	$ (2,181)
Netting (see note below) *****		-	-
Carrying value of derivatives on the Statements of Assets, Liabilities and Partners' Capital		$ 320	$ (2,181)

***Note:** *GAAP permits the netting of derivative assets and liabilities and the related cash collateral received and paid when a legally enforceable master netting agreement exists between the Partnership and a derivative counterparty.*

During the year ended December 31, 2010, the average notional exposure on forward currency contracts and credit default swaps were ($6,409,781) and $40,161,418, respectively.

The following table indicates the gains and losses on derivatives, by contract type, as included in the Statements of Operations for the years ended December 31, 2011 and 2010.

The gains (losses) recognized in the Statements of Operations related to derivatives were:

(Dollars in thousands)	For the year ended December 31, 2011
Forward currency contracts	(150)
Credit default Swaps	3,138
Total	$ 2,988

(Dollars in thousands)	For the year ended December 31, 2010
Forward currency contracts	279
Credit default swaps	7,795
Total	$ 8,074

The above gains (losses) on derivatives have been recognized as realized or change in unrealized on the Statements of Operations.

The significant accounting policies relating to recording of derivatives and related gain/(loss) have been summarized in Note 2 of the Financial Statements. By using derivative instruments, the Partnership is exposed to the counterparty's credit risk - the risk that derivative counterparties may not perform in accordance with the contractual provisions offset by the value of any collateral received. The Partnership's exposure to credit risk associated with counterparty non-performance is limited to collateral posted and the unrealized gains inherent in such transactions that are recognized in the Statements of Assets, Liabilities and Partners’ Capital. The Partnership may minimize counterparty credit risk through credit monitoring procedures, executing master netting arrangements and managing margin and collateral requirements, as appropriate. The Partnership records counterparty credit risk valuation adjustments, if material, on certain derivative assets in order to appropriately reflect the credit quality of the counterparty.

Forward Currency Contracts
The Partnership enters into forward currency contracts in connection with settling planned purchases or sales of securities or to hedge the currency exposure associated with the Partnership’s investments. A forward currency contract is an agreement between two parties to buy and sell a currency at a set price on a future date. Forward currency contracts are fair valued daily and the change in value is recorded as an unrealized gain or loss. Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies. Realized gains and losses equal to the difference between the fair value of the contract at the time it was opened and the fair value at the time it was closed are recorded upon delivery or receipt of the currency or, if a forward currency contract is offset by entering into another forward currency contract with the same broker, upon settlement of the net gain or loss. These contracts may involve market risk in excess of the unrealized gain or loss reflected in the Partnership’s Statements of Assets, Liabilities and Partners’ Capital. The Partnership may be exposed to risk if the counterparties are unable to meet the terms of the contract or if there are movements in foreign currency values that are unfavorable to the Partnership.

Unrealized gains and losses relating to the Partnership’s forward currency contracts are recorded on the Statements of Assets, Liabilities and Partners’ Capital by counterparty on a net basis. On the Condensed Schedules of Investments, derivatives contracts are presented net by type of derivative contract, considering long and short contracts separately.

Credit Default Swaps
The Partnership uses credit default swaps to provide a measure of protection against defaults of corporate issuers (i.e., to reduce risk where the Partnership owns or has exposure to the issuer) or to take an active long or short position with respect to the likelihood of a particular issuer’s default. The reference obligation of the swap can be a single issuer, a “basket” of issuers, or an index. The underlying reference assets are corporate debt or loans. Under the forms of each transaction, the Partnership receives or makes payments quarterly based on a specified interest rate on a fixed notional amount. Net interest earned on

swaps and realized gains or losses from closing out transactions is included in net realized gain (loss) on credit default swaps in the Statements of Operations.
Generally, a credit event for corporate reference obligations means bankruptcy, failure to pay, obligation acceleration, repudiation/moratorium or restructuring. If a credit event occurs, the seller typically must pay the contingent payment to the buyer, which is typically the par value of the reference obligation, though the actual payment may be mitigated by netting arrangements and collateral. After a credit event occurs, this amount may be reduced by anticipated recovery rates, segregated collateral and netting arrangements that may incorporate multiple transactions with a given counterparty. The contingent payment may be a cash settlement or a physical delivery of the reference obligation in return for payment of the face amount of the obligation. The Partnership closes out transactions by entering into offsetting transactions. When transactions are closed out, a realized gain or loss is recognized. In connection with these agreements, cash or securities are posted as collateral with the counterparty which is included in Restricted cash for credit default swaps on the Statements of Assets, Liabilities and Partners' Capital.

The Partnership values credit default swaps based on quotes obtained from a third party pricing service, which are derived from market inputs such as the underlying credit of the reference obligation. When a fair value is unavailable, as described above, fair values are determined in good faith by the General Partner. Entering into these agreements involves, to varying degrees, elements of credit, legal, market, and documentation risk in excess of the amounts recognized on the Statements of Assets, Liabilities and Partners' Capital. Such risks involve the possibility that there will be no liquid market for these agreements, and that the counterparty to the agreements may default on its obligation to perform or disagree as to the meaning of the contractual terms in the agreements.

The Partnership may from time to time enter into various managed tranche credit default swap transactions ("Swap Transactions") whereby the Partnership contributes a net amount to financial intermediaries and provides protection, in aggregate, on pools of underlying reference assets. The net amount contributed consists of a gross amount paid upfront by the Partnership for potential credit events and a gross amount of upfront interest received by the Partnership for certain tranches of these pools.

Upfront amounts received or paid are recorded as credit default swap proceeds or cost, respectively, and accreted over the life of the respective swap contracts and are included in net realized gain on swap contracts in the Statements of Operations.

Unrealized gains and losses relating to the Partnership's swap contracts are recorded on the Statements of Assets, Liabilities and Partner's Capital on a gross basis. On the Condensed Schedules of Investments, derivative contracts are presented net by type of derivative contract, considering long and short contracts separately.

As of December 31, 2011, the Partnership did not hold any credit default swaps. As of December 31, 2010, the Partnership held one pool of credit default swaps, of various credit quality, with a notional amount of \$24,416,418. As of December 31, 2010, the Partnership is the seller ("providing protection") on a total notional amount \$25,416,418. The notional amount of the swaps are not recorded in the financial statements; however the notional amount does approximate the maximum potential amount of future payments that the Partnership could be required to make if the Partnership was the seller of protection and a credit event was to occur.

Those credit default swaps for which the Partnership is providing protection at December 31, 2010 are summarized as follows:

Written Credit Derivative Contracts	Single Name Credit Default Swap (in thousands)		Credit Default Swap Basket (in thousands)		Total
	Debt	Loan	Debt	Loan	
Fair value of written credit derivatives	$ 7	$ -	$ -	$ (2,124)	$ (2,117)
Maximum potential amount of future payments	1,000	-	-	24,416	25,416
Collateral held by the Partnership or other third parties which the Partnership can obtain upon occurrence of triggering event	132	-	-	6,084	6,216

Maximum Potential Amount of Future Payments by Contract Term (in thousands)						
Current credit rating on underlying securities	0-6 months	6-12 months	1-5 years	5-10 years	More than 10 years	Total
Investment Grade	$ -	$ -	$ -	$ -	$ -	$ -
Non-Investment Grade	1,000	-	-	-	-	1,000
Swap Transactions	24,416	-	-	-	-	24,416
Total	$ 25,416	$ -	$ -	$ -	$ -	$ 25,416

The credit rating disclosed above for each reference obligation where the Partnership is the seller of protection is a representation of the current payment/performance risk of the swap. Reference obligations with a credit rating of BBB or higher are considered Investment Grade while those with a credit rating of BB or lower are Non-Investment Grade. Swap Transactions are not rated by ratings agencies; however, the current credit ratings on the underlying pools of credit default swaps are predominately non-investment grade.

In some cases, the Partnership has purchased related credit protection with respect to the underlying securities where it has previously sold credit protection, thereby limiting its exposure. In these instances, the extent of recourse is difficult to estimate and therefore not disclosed.

Option Contracts
The Partnership may buy call options and put options. The Partnership pays a premium for purchased options which are included in Cost of Investments on the Statements of Assets, Liabilities and Partners' Capital. Premiums paid for purchased options which expire are treated as realized losses. Premiums paid for purchased options which are exercised or closed are offset against the proceeds from that transaction and included in realized gain or loss. Option contracts are fair valued daily using a third party valuation service and the change in value is recorded as an unrealized gain or loss.

Unrealized gains and losses relating to the Partnership's derivative contracts are recorded on the Statements of Assets, Liabilities and Partners' Capital by type on a gross basis. On the Condensed Schedules of Investments, derivatives contracts are presented net by type of derivative contract, considering long and short contracts separately.

4. Fair Value Measurements

The Partnership discloses the fair value of its investments in a hierarchy which prioritizes and ranks the level of market price observability used in measuring assets or liabilities at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Assets or liabilities with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given investment is based on the lowest level of input that is significant to the fair value measurement. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The General Partner considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the General Partner's perceived risk of that instrument.

In determining an asset or liability's placement within the hierarchy, the General Partner separates the Partnership's investment portfolio into major categories as determined by the General Partner. Each of these categories can further be divided between those held long or short.

Assets or liabilities measured and reported at fair value are classified and disclosed in one of the following categories:

Level I – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. The type of assets or liabilities included in Level I include listed equities.

Level II – Inputs are other than quoted prices that are observable for the assets or liabilities either directly or indirectly, including inputs in markets that are not considered to be active. Certain investments and exchange traded and over-the-counter derivatives, such as forwards, and credit default swaps, are fair valued by the General Partner using observable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of an over-the-counter derivative depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, bid and ask prices yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. Certain exchange traded and over-the-counter derivatives, such as generic forwards, swaps and options, have inputs which can generally be corroborated by market data and are therefore classified within Level II. Assets or liabilities which are generally included in this category include corporate bonds and loans and credit default swaps where there is sufficient market activity for the investment, less liquid and restricted equity securities and certain exchange traded and over-the-counter derivatives. Common stock investments that have quoted prices but that have legal restrictions on trading are valued on the quoted market price with a discount and are therefore classified as Level II.

Level III – Investments and derivative instruments classified within Level III have significant unobservable inputs, as they trade infrequently or not at all. Level III instruments may include private equity investments, certain bank loans and bridge loans, less liquid corporate debt securities (including distressed debt instruments and mezzanine), CDS Tranches, and structured products (including CLOs, CDOs, and MBS). When observable prices are not available for these securities, the General Partner uses one or more valuation techniques (e.g., the market approach or the income approach) for which sufficient and reliable data is available. Within Level III, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

The inputs used by the General Partner in estimating the fair value of Level III investments include the original transaction price, recent transactions in the same or similar instruments, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows. Certain Level III investments, such as structured investments, utilize models which rely on assumptions determined by the General Partner such as default rates, discount rates, volatilities, loss severity and prepayment rates. Level III investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the General Partner in the absence of market information. Certain other Level III investments, such as mezzanine and equity investments, may utilize comparable transactions and/or comparable trading multiples where such comparable multiples are available and appropriate. Assumptions include a selection of comparable companies and other inputs include EBITDA, revenue, net debt and interest rate yields. The fair value measurement of Level III investments does not include transaction costs that may have been capitalized as part of the security's cost basis. Assumptions used by the General Partner due to the lack of observable inputs may significantly impact the resulting fair value and therefore the Partnership's results of operations. The Partnership may invest in a variety of financial instruments, in various geographies or and/or industries, and the inputs used by the General Partner may vary from one investment to another. Assets or liabilities which are generally included in this category include limited partnership interests, CDOs, privately placed debt, and privately placed equity, bonds, loans and credit default swaps for which there are no observable inputs. Those over-the-counter derivatives that have less liquidity or for which inputs are unobservable are classified within Level III. While the valuations of these less liquid over-the-counter derivatives may utilize some Level I and/or Level II inputs, they also include other unobservable inputs which are considered significant to the fair value determination. At each measurement date, the General Partner updates the Level I and Level II inputs to reflect observable inputs, though the resulting gains and losses are reflected within Level III due to the significance of the unobservable inputs.

The following table summarizes the valuation of the Partnership’s assets or liabilities by the above fair value hierarchy levels as of December 31, 2011:

Assets at Fair Value as of December 31, 2011 (in thousands)	Level I	Level II	Level III	Total
Cash Equivalents	$ -	$ -	$ -	$ -
Investments:				
Corporate Fixed Income	-	-	217	217
Senior Bank Debt	-	-	3,944	3,944
Mezzanine	-	-	37,817	37,817
Preferred Stock	-	3,800	5,037	8,837
Stock Warrants	-	-	1,126	1,126
Structured Investments	-	-	29,009	29,009
Common Stock	641	20	16,650	17,311
Total	$ 641	$ 3,820	$ 93,800	$ 98,261

The following table summarizes the valuation of the Partnership's assets or liabilities by the above fair value hierarchy levels as of December 31, 2010:

Assets at Fair Value as of December 31, 2010 *(in thousands)*	Level I	Level II	Level III	Total
Cash Equivalents	$ 37,354	$ -	$ -	$ 37,354
Investments:				
Corporate Fixed Income	-	-	232	232
Senior Bank Debt	-	-	7,968	7,968
Mezzanine	-	-	48,386	48,386
Preferred Stock	-	5,461	8,341	13,802
Stock Warrants	-	909	1,365	2,274
Structured Investments	-	-	37,572	37,572
Common Stock	3,105	10,374	16,471	29,950
Credit Default Swaps (Assets)	-	7	-	7
Forward Contracts (Assets)	-	313	-	313
Subtotal	$ 40,459	$ 17,064	$ 120,335	$ 177,858

Liabilities at Fair Value as of December 31, 2010 (in thousands)	Level I	Level II	Level III	Total
Credit Default Swaps (Liabilities)	$ -	$ -	$ (2,124)	$ (2,124)
Forward Contracts (Liabilities)	-	(57)	-	(57)
Subtotal	$ -	$ (57)	$ (2,124)	$ (2,181)
Total	$ 40,459	$ 17,007	$ 118,211	$ 175,677

The following tables present changes in assets or liabilities that use Level III inputs for the years ended December 31, 2011 and 2010:

(in thousands)	Balance as of 12/31/2010	Net change in unrealized gains (losses)	Net realized gains (losses)	Purchases	Sales or Redemptions	Transfers into (out of) Level III	Balance as of 12/31/2011
Investments:							
Corporate Fixed Income	$ 232	$ 2,294	$ (2,309)	$ 936	$ (936)	$ -	$ 217
Senior Bank Debt	7,968	(7,404)	294	7,103	(4,017)	-	3,944
Mezzanine	48,386	(19,672)	23	19,411	(10,331)	-	37,817
Preferred Stock	8,341	(7,169)	72	3,899	(106)	-	5,037
Stock Warrants	1,365	(239)	425	-	(425)	-	1,126
Structured Investments	37,572	18,961	(6,453)	269	(21,340)	-	29,009
Common Stock	16,471	21,971	(20,367)	19	(1,444)	-	16,650
Credit Default Swaps (Liabilities)	(2,124)	2,124	-	-	-	-	-
Total	$ 118,211	$ 10,866	$ (28,315)	$ 31,637	$ (38,599)	$ -	$ 93,800

(in thousands)	Balance as of 12/31/2009	Net change in unrealized gains (losses)	Net realized gains (losses)	Purchases	Sales or redemptions	Transfer into Level III	Transfer out of Level III	Balance as of 12/31/2010
Investments:								
Corporate Fixed Income	$ 136	$ (125)	$ 125	$ 96	$ -	$ -	$ -	$ 232
Senior Bank Debt	7,977	272	(268)	4,106	(7,985)	3,866	-	7,968
Mezzanine	78,604	(18,732)	263	23,966	(35,715)	-	-	48,386
Preferred Stock	8,743	1,524	(229)	6,103	(2,338)	-	(5,462)	8,341
Stock Warrants	767	477	1,016	257	(1,152)	-	-	1,365
Structured Investments	27,084	14,502	2,375	1,865	(8,254)	-	-	37,572
Common Stock	40,051	(18,143)	2,125	6,225	(3,413)	-	(10,374)	16,471
Credit Default Swaps (Liabilities)	(5,384)	3,260	-	-	-		-	(2,124)
Total	$ 157,978	$ (16,965)	$ 5,407	$ 42,618	$ (58,857)	$ 3,866	$(15,836)	$ 118,211

All net realized and unrealized gains (losses) in the tables above are reflected in the accompanying Statements of Operations. During the years ended December 31, 2011 and 2010, the change in unrealized appreciation of investments classified as Level III was ($24,456,148) and ($20,954,562), respectively. See Note 2 for the Partnership’s valuation techniques used to measure fair value. The Partnership's policy is to recognize transfers as of the end of the period. There were no significant transfers of financial assets between Level I and II during the years ended December 31, 2011 and 2010.

Transfers into Level III in the tables above are primarily due to financial instruments which had reduced transparency of market data or less observable trading activity during the years ended December 31, 2011 and 2010. Transfers out of Level III in the tables above are primarily due to financial instruments which had increased transparency of market data or additional observable trading activity during the years ended December 31, 2011 and 2010.

If the Partnership determines that either the volume and/or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. Valuation techniques such as an income approach might be appropriate to supplement or replace a market approach in those circumstances. The guidance also provides a list of factors to determine whether there has been a significant decrease in relation to normal market activity. Regardless, however, of the valuation technique and inputs used, the objective for the fair value measurement in those circumstances is unchanged from what it would be if markets were operating at normal activity levels and/or transactions were orderly; that is, to determine the current exit price.

The Partnership estimates the fair value of investments in investment companies that have calculated net asset value per share in accordance with the specialized accounting guidance for Investment Companies. Accordingly, in circumstances in which net asset value per share of an investment is determinative of fair value, the Partnership estimates the fair value of an investment in an investment company using the net asset value per share of the investment (or its equivalent) without further adjustment, if the net asset value per share of the investment is determined in accordance with the specialized accounting guidance for Investment Companies as of the reporting entity's measurement date. There have been no significant changes in valuation techniques and related inputs used by the General Partner during the year ended December 31, 2011.

5. Market and Credit Risks of Debt Securities

The Partnership's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The significant types of financial risks include:

Market Risk
Market risk encompasses the potential for both losses and gains and includes price risk, currency risk and interest rate risk. The fair value of investments and securities sold short will generally fluctuate with, among other things, changes in prevailing interest rates, general economic conditions, the condition of certain financial markets, developments or trends in any particular industry and the financial condition of the issuer. During periods of limited liquidity and higher price volatility, the Partnership's ability to dispose of investments at a price and time that the Partnership deems advantageous may be impaired.

Price Risk
The prices of securities held by the Partnership may decline in response to certain events, including those directly involving the companies whose securities are owned by the Partnership; conditions affecting the general economy; overall market changes; local, regional or global political, social or economic instability; and currency, interest rate and commodity price fluctuations.

Currency Risk / Foreign Markets Risks
The Partnership may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency. Consequently, the Partnership may be exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the fair value of that portion of the Partnership's assets or liabilities denominated in currencies other than the functional currency.

The Partnership may have investments in various countries, including emerging market countries. Investments in these countries involve risks, including, but not limited to, risks relating to adverse political, social, and economic developments in other countries, as well as risks resulting from the differences between the regulations to which issuers and markets are subject in different countries. These risks may include expropriation of assets, confiscatory taxation, withholding taxes on dividends and interest paid on Partnership investments, currency exchange controls, and other limitations on the use or transfer of Partnership assets and political or social instability. Such investments may also involve currency exchange rate risks. There may be rapid changes in the value of foreign currencies or securities, causing the fair value of Partnership investments to be volatile.

Interest Rate Risk
Interest rate risk refers to the risks associated with market changes in interest rates. Interest rate changes may affect the fair value of a debt instrument indirectly and directly. In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree. Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules.

The interest rate hedging transactions subject the Partnership to off balance-sheet risks, which include counterparty credit risk. The Partnership manages this exposure by entering into interest rate hedging transactions with internationally recognized financial institutions, which are expected to perform under the terms of the contracts, and evaluating the creditworthiness of the institutions by taking into account credit ratings and other factors.

Liquidity Risk
Liquidity risk is the risk that the Partnership will encounter difficulty in meeting obligations associated with financial liabilities. Among other things liquidity could be impaired by an inability to access secured and /or unsecured sources of financing.

Leverage Risk
The Partnership may use leverage directly and indirectly. The use of leverage will increase the volatility of the Partnership. While the use of borrowed funds will increase returns if the Partnership earns a greater return on the incremental investments purchased with borrowed funds than it pays for such funds, the use of leverage will decrease returns if the Partnership fails to earn as much on such incremental investments as it pays for such funds. The effect of leverage may therefore result in a greater decrease in the net asset value of the Partnership than if the Partnership was not as leveraged.

Financing Risk
In the normal course of business, the Partnership enters into agreements with certain counterparties for OTC derivative transactions. These agreements contain among other conditions events of default and termination events, and various covenants and representations.

There is no guarantee that the Partnership's borrowing arrangements or other arrangements for obtaining leverage will continue to be available, or if available, will be available on terms and conditions acceptable to the Partnership. Unfavorable economic conditions also could increase funding costs, limits access to the capital markets or result in a decision by lenders not to extend credit to the Partnership. In addition, a decline in fair value of the Partnership's assets may have particular adverse consequences in instances where they have borrowed money based on the fair value of those assets. A decrease in fair value of those assets may result in the lender (including derivative counterparties) requiring the Partnership to post additional collateral or otherwise sell assets at a time when it may not be in the Partnership's best interest to do so.

Illiquidity of Investments
The Partnership may invest in securities, bank debt and other claims, and other assets, which are subject to legal or other restrictions on transfer or for which no liquid market exists. The market prices, if any, for such investments tend to be volatile and may not be readily ascertainable, and, for various reasons, the Partnership may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. Restricted securities are generally fair valued at a price lower than similar securities that are not subject to restrictions on resale.

Some of the Partnership's investments may be illiquid and the Partnership may not be able to vary the portfolio in response to changes in economic and other conditions. The securities that are purchased in connection with privately negotiated transactions are not registered under the relevant securities laws, which may result in a prohibition against their transfer, sale, pledge or other disposition except in a transaction that is exempt from the relevant registration requirements. Some of the bank loans, mezzanine securities and the collateralized loan obligation investments that are purchased and sold are traded in private, unregistered transactions and are therefore may be subject to restrictions on resale or otherwise have no established trading market. In addition, if the Partnership is required to liquidate all or a portion of its portfolio quickly, the Partnership may realize significantly less than the fair value at which it previously recorded those investments. The Partnership may from time to time invest in derivative contracts traded over the counter, which are not traded in an organized public market and may be illiquid. Furthermore, the Partnership may face other restrictions in its ability to liquidate an investment in a business entity to the extent that the Partnership have or could be attributed with material non-public information regarding such business entity.

Credit Risk
Credit risk refers to the likelihood that an issuer will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of an issuer are the primary factors influencing credit risk. In addition, subordination, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an instrument and securities which are rated by rating agencies are often reviewed and may be subject to downgrade.

The Partnership is subject to the credit risk of its custodians, prime brokers and counterparties to the extent they may be unable to fulfill their obligations either to return the Partnership’s securities or to repay amounts owed. Credit risk is measured by the loss the Partnership would record if its counter parties failed pursuant to terms of their obligations to the Partnership.

Bank Loans
The Partnership invests in loans originated by banks and other financial institutions. The loans invested in by the Partnership may include term loans and revolving loans, may pay interest at a fixed or floating rate, may be senior or subordinated, and may be purchased in the form of assignments or participations in all or a portion of loans from third parties. Purchasers of bank loans are predominantly commercial banks, investment funds and investment banks. Based on activity in the bank loan market, the Partnership is exposed to liquidity risk as well as the risk of the borrower.

High Yield Debt
The Partnership invests in high yield debt whose rating is typically below investment-grade by one or more nationally recognized statistical rating organizations or is unrated but of comparable credit quality to obligations rated below investment-grade, and has greater credit and liquidity risk than more highly rated debt obligations. As a result, the Partnership is exposed to liquidity risk and the risk of the obligor.

Structured Investments
The Partnership invests in structured investments. Structured investments include investments in both Collateralized Debt Obligations and Collateralized Loan Obligations, and are either debt or subordinated equity investments. These investments have limited secondary markets and in some instances can have restrictions on transfers. Debt investments are nonrecourse obligations; therefore, the debt is payable solely from the collateral obligations and all other assets pledged. Depending on the structure of the investment and the investment made, the Partnership's debt investments could be subordinate to other classes of debt. All equity interests are unsecured and subordinate to all classes of debt. Subordinated debt and equity investments represent leveraged investments in underlying assets.

Credit Derivatives
The Partnership may invests in credit derivatives. These transactions generally provide for the transfer from one counterparty to another of certain credit risks inherent in the ownership of a financial asset such as a bank loan or a high yield debt security. Such risks include, among other things, the risk of default and insolvency of the obligor of such asset; the risk that the credit of the obligor or the underlying collateral will decline or that credit spreads for like assets will change. Credit derivatives are used to gain or reduce exposure to one or more reference assets, to reduce concentration risk, or to diversify the investment portfolio.

Prime Brokers
In relation to the Partnership’s right to the return of assets to which legal and beneficial title has been transferred to the prime broker, the Partnership may rank as one of such prime broker’s unsecured creditors. In the event of the insolvency of the prime broker, the Partnership may not be able to recover such equivalent assets in full, particularly if such assets have been rehypothicated by the prime broker.

6. Transactions with Affiliates

Advisory Fees
From the initial closing date of August 12, 2002 (the "Initial Closing Date") until August 12, 2006, at the beginning of each fiscal quarter, the Partnership paid the Investment Advisor a management fee at the annual rate of 1.5% of the capital commitments of the limited partners. Subsequent to August 12, 2006, the Partnership pays the Investment Advisor a management fee at the annual rate of 1.5% of partners' capital. The Investment Advisor may, in its sole discretion, waive the management fee with respect to certain members of the Bain Capital Group. In that case, the base for calculating the management fee will be reduced by such persons' capital commitments or allocable portion of partners' capital, as the case may be. For the years ended December 31, 2011 and 2010, $77,765 and $146,017 of management fees were waived, respectively.

Collateralized Debt Obligations ("CDOs")
The Partnership has invested in the following CDOs (both cash flow and market value CDOs) managed by the Investment Advisor. The Partnership's investments in these CDOs are reflected in the accompanying Condensed Schedules of Investments within the Structured Investments classification. These are fair valued by the General Partner as described in Note 2 and 4.

Avery Point CLO, Ltd. ("Avery Point")
The Partnership has invested in Avery Point, a cash flow CDO. This entity was established for the purpose of making leveraged investments in high yield securities - both bank loans and corporate bonds - and commenced operations in December 2003.

Avery Point's capital structure consists of $201 million of various classes of debt, including Preference Shares. Preference Shares are unsecured and subordinated with respect to cash payments to all other debt holders. The Preference Share holders do not control the election of the directors. During the year ended December 31, 2003, the Partnership purchased a $9,450,000 face value investment in the Preference Shares of Avery Point for $9,331,875. As of December 31, 2011 and 2010, the Partnership's investment was fair valued at $6,825,795 and $5,057,640, respectively. During the years ended December 31, 2011 and 2010, the Partnership received income distributions of $507,282 and $1,309,142, respectively, from its investment in Avery Point, which represents a return of the Partnership's investment in Avery Point. This amount is included in Cost of Investments in the accompanying Statements of Assets, Liabilities and Partner's Capital. The CDO pays management fees to the Investment Advisor equal to 0.10% annually of the sum of total par of the CDO and cash. The CDO may also pay subordinated management fees equal to 0.50% annually of the sum of total par of the CDO and cash if certain criteria in the CDO are met.

Chatham Light CLO, Ltd. ("Chatham Light")
The Partnership has invested in Chatham Light, a cash flow CDO. This entity was established for the purpose of making leveraged investments in high yield securities - both bank loans and corporate bonds - and commenced operations in December 2003.

Chatham Light had an optional redemption on October 24, 2011. Chatham Light's capital structure consists of $33.5 million of Income Notes. Income Notes are unsecured and subordinated with respect to the cash payments to all other debt holders. The Income Note holders do not control the election of the directors. During the year ended December 31, 2004, the Partnership purchased a $20,000,000 face value investment in the Income Notes of Chatham Light for $20,000,000. As of December 31 2010, the Partnership's investment was fair valued at $9,650,000. During the year ended December 31, 2011, the Partnership received $654,603 of dividend income and $1,139,539 of return of capital, from its investment in Chatham Light which are included in dividends and other income in the accompanying Statements of Operations. During the year ended December 31, 2010, the Partnership received income distributions of $2,615,591, from its investment in Chatham Light which are included in dividends and other income in the accompanying Statements of Operations. The CDO pays management fees to the Investment Advisor equal to 0.25% annually of the sum of total par of the CDO and eligible investments. The CDO may also pay subordinated management fees equal to 0.50% annually of the sum of total par of the CDO and eligible investments if certain criteria in the CDO are met.

Chatham Light CLO II, Ltd. ("Chatham Light II")
The Partnership has invested in Chatham Light II, a cash flow CDO. This entity was established for the purpose of making leveraged investments in high yield securities - both bank loans and corporate bonds - and commenced operations in August 2006.

Chatham Light's capital structure consists of $497 million of various classes of debt, including Income Notes. Income Notes are unsecured and subordinated with respect to the cash payments to all other debt holders. The Income Note holders do not control the election of the directors. During the year ended December 31, 2007, the Partnership purchased a $11,000,000 face value investment in the Income Notes of Chatham Light for $11,000,000. As of December 31, 2011 and 2010, the Partnership's investment was fair valued at $9,053,803 and $8,090,500, respectively. During the year ended December 31, 2011 the Partnership received $2,496,126 of dividend income and $814,734 of return of capital, from its investment in Chatham Light II which are included in dividends and other income in the accompanying Statements of Operations. During the year ended December 31, 2010, the Partnership received income distributions of $2,668,310 from its investment in Chatham Light II which are included in dividends and other income in the accompanying Statements of Operations. The CDO pays management fees to the Investment Advisor equal to 0.25% annually of the sum of total par of the CDO and cash. The CDO may also pay subordinated management fees equal to 0.50% annually of the sum of total par of the CDO and cash if certain criteria in the CDO are met.

During the year ended December 31, 2009, the Partnership purchased a $260,000 face value investment in the Class C Notes of Chatham Light II for $22,100. As of December 31, 2011 and 2010, the Partnership's investment was fair valued at $184,600 and $195,000, respectively. During the years ended December 31, 2011 and 2010, the Partnership earned interest income of $5,285 and $5,361, respectively, from its investment in Chatham Light II Class C Notes which is included in interest income in the accompanying Statements of Operations. The interest receivable at December 31, 2011 and 2010 is $908 and $846, respectively, which is included in Interest receivable in the Statements of Assets, Liabilities and Partners' Capital.

During the year ended December 31, 2009, the Partnership purchased a $1,087,603 face value investment in the Class D Notes of Chatham Light II for $549,348. As of December 31, 2011 and 2010, the Partnership's investment was fair valued at $723,256 and at $750,446, respectively. During the years ended December 31, 2011 and 2010, the Partnership earned interest income of $52,986 and $53,299, respectively, from its investment in Chatham Light II Class C Notes which is included in interest income in the accompanying Statements of Operations. The interest receivable at December 31, 2011 and 2010 is $8,791 and $8,531, respectively, which is included in Interest receivable in the Statements of Assets, Liabilities and Partners Capital.

Race Point CLO, Ltd. ("Race Point")
The Partnership has invested in Race Point, a cash flow CDO. This entity was established for the purpose of making leveraged investments in high yield securities - both bank loans and corporate bonds - and commenced operations in November 2001.

Race Point's capital structure consists of $42 million of income notes. Subordinated Interest is unsecured and subordinated with respect to cash payments to all other debt holders. The Subordinated Interest holders do not control the election of the directors. Race Point had an optional redemption on November 14, 2010. At December 31, 2011 and 2010, the Partnership's investment of $5,000,000 face value in Race Point Subordinated Interest was fair valued at $768,000 and $1,141,500, respectively. During the years ended December 31, 2011 and 2010, the Partnership received distributions of $626,897 and $700,321, respectively, which represents a return of the Partnership's investment in Race Point. This amount is included in Cost of Investments in the accompanying Statements of Assets, Liabilities and Partners' Capital. The CDO pays management fees to the Investment Advisor equal to 0.275% annually of the sum of total par of the CDO and cash. The CDO may also pay subordinated management fees equal to 0.25% annually of the sum of total par of the CDO and cash if certain criteria in the CDO are met.

Race Point II CLO, Ltd. ("Race Point II")
The Partnership has invested in Race Point II, a cash flow CDO. This entity was established for the purpose of making leveraged investments in high yield securities - both bank loans and corporate bonds - and commenced operations in April 2003.

Race Point II's capital structure consists of $207 million of various classes of debt, including Subordinated Interest. Subordinated Interest is unsecured and subordinated with respect to cash payments to all other debt holders. The Subordinated Interest holders do not control the election of the directors. During the year ended December 31, 2003, the Partnership purchased a $10,180,000 face value investment in the Subordinated Interest of Race Point II for $9,671,000. At December 31, 2011 and 2010, the Partnership's investment was fair valued at $6,539,725 and $5,620,378, respectively. During the years ended December 31, 2011 and 2010, the Partnership received distributions of $390,285 and $1,017,478, respectively, from its investment in Race Point II. Included in the 2011 and 2010 distribution is $390,285 and $1,017,478, respectively, which represents a return of the Partnership's investment in Race Point. The CDO pays management fees to the Investment Advisor equal to 0.10% annually of the sum of total par of the CDO and cash. The CDO may also pay subordinated management fees equal to 0.50% annually of the sum of total par of the CDO and cash if certain criteria in the CDO are met.

Sankaty High Yield Partners II, L.P. ("Sankaty II")
The Partnership has invested in Sankaty II, a market value CDO. This entity was established for the purpose of acquiring and managing a diverse portfolio of primarily below investment-grade assets consisting of senior bank debt, corporate fixed income securities, structured debt instruments, limited partnerships, mezzanine investments, equity securities and certain other investments.

Sankaty II's capital structure consists of $20 million of debt and $179 million of limited partnership interests. During the year ended December 31, 2003, the Partnership purchased a 5.4% limited partnership interest in Sankaty II for $4,836,940. As of December 31, 2011 and 2010, the Partnership's investment was fair valued at $1,422,043 and $664,150, respectively. During the years ended December 31, 2011 and 2010, the Partnership did not receive any distributions from its limited partnership interest in Sankaty II. During the years ended December 31, 2011 and 2010, the Partnership was not charged any Sankaty II management fees. During the years ended December 31, 2011 and 2010, no carried interest was allocated to the Partnership.

During the year ended December 31, 2005, the Partnership purchased, at par, $3.85 million of Class E Junior Subordinated Secured Notes of Sankaty II. As of December 31, 2011 and 2010, the Partnership's investment was fair valued at $3,297,723 and $2,072,284, respectively. During the year ended December 31, 2011, the Partnership earned interest income of $309,595 from its investment in Sankaty II Class E Notes. There was no interest receivable at December 31, 2011 and 2010. For the years ended December 31, 2011 and 2010, interest of $260,528 and $327,176, respectively, has been included as paid in kind and is included in the principal balance of the investment.

During the year ended December 31, 2009, the Partnership purchased, $5.05 million Par of Class C Fixed Notes of Sankaty II for $3.13 million. The Partnership's investment was paid down as of December 31, 2011, resulting in a realized gain of $1,879,956. As of December 31, 2010, the Partnership's investment was fair valued $4,189,322. During the years ended December 31, 2011 and 2010, the Partnership earned interest income of $75,303 and $275,036, respectively, from its investment in Sankaty II Class C Fixed Notes which is included in interest income in the accompanying Statements of Operations. The interest receivable at December 31, 2011 and 2010 is $0 and $12,137, respectively, which is included in Interest receivable in the Statements of Assets, Liabilities and Partners' Capital. For the year ended December 31, 2010, interest of $178,860 has been included as paid in kind and is included in the principal balance of the investment.

Sankaty High Yield Partners III, L.P. ("Sankaty III")
The Partnership has invested in Sankaty III, a market value CDO. This entity was established for the purpose of acquiring and managing a diverse portfolio of primarily below investment-grade assets consisting of senior bank debt, corporate fixed income securities, structured debt instruments, limited partnerships, mezzanine investments, equity securities and certain other investments.

Sankaty III's capital structure consists of $10 million of debt and $119 million of limited partnership interests. During the year ended December 31, 2006, the Partnership purchased, at par, $260,000 of Class E Junior Subordinated Secured Notes of Sankaty III. As of December 31, 2011 and 2010, the Partnership's investment was fair valued at $194,031 and $140,662, respectively. During the years ended December 31, 2011 and 2010, the Partnership earned interest totaling $20,917 and $0, respectively, from its investment in Sankaty III which is included in interest income in the Statements of Operations. There was no interest receivable at December 31, 2011 and 2010. For the years ended December 31, 2011 and 2010, interest of $17,635 and $22,143, respectively, has been included as paid in kind and is included in the principal balance of the investment.

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Bain Capital Investments
Certain other investments included in the accompanying Condensed Schedules of Investments have been issued by organizations in which investment funds advised by a related party have made substantial equity investments and may control the organization. At December 31, 2011 and 2010, the aggregate fair value of these securities was $38,441,886 and $51,382,366, respectively.

From time to time the Partnership may sell investments to other entities advised by the Investment Advisor. All such cross trades are executed at a price provided by a third party, where available. If no third party price is available, the Investment Advisor will purchase or sell the asset to a third party to determine a price or utilize another third party price source approved by the Investment Advisor Compliance Group. All such cross trades are reviewed by the Investment Advisor Compliance Group. During the year ended December 31, 2011, there were no sales to other entities advised by the Investment Advisor or its affiliates. During the year ended December 31, 2010, the Partnership sold investments for proceeds of $6,962,732 to other entities advised by the Investment Advisor or its affiliates at fair value resulting in net realized loss of $1,463,170.

Other Expenses and Payables
During the years ended December 31, 2011 and 2010, $313,335 and $379,254, respectively, of the Partnership's expenses were paid by a related party of the General Partner, which were reimbursed by the Partnership. As of December 31, 2011 and 2010, there was no outstanding payable for these expenses.

7. Commitments

Certain of the Partnership's investments in revolving bank loans included unfunded commitments. As of December 31, 2011 and 2010, unfunded commitments totaled $0 and $1,358,709, respectively.

In the normal course of business, the Partnership enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Partnership's maximum exposure under these is unknown, as this would involve future claims that may be made against the Partnership that have not yet occurred. However, based on experience, the General Partner expects the risk of loss to be remote.

8. Partners' Capital and Allocations

Prior to the eighth anniversary of the Initial Closing Date, the aggregate capital commitments of all partners shall not exceed $500 million. The General Partner is required to maintain a capital commitment balance of at least 1% of the aggregate capital commitments of all partners.

Limited Partners may not voluntarily withdraw all or any portion of their Book Capital Accounts until August 12, 2012 without the consent of the General Partner. The General Partner may not withdraw any portion of its Book Capital Account prior to August 12, 2012. The General Partner may at its sole discretion at any time and for any reason require a limited partner to withdraw all or any portion of its Basic Capital Account.

Income, Expense, and Carried Interest Allocations
The realized and unrealized investment profits and losses of the Partnership will initially be apportioned among the partners based on their Basic Capital Accounts as of the first day of the fiscal quarter. The portion of the realized and unrealized investment profits and losses is then first allocated to each limited partner until it reaches a Total Return reflecting an 8% annualized rate of return on its net capital contributions. Next, the investment profits and losses are allocated to the General Partner as carried interest until the cumulative amount equals 20% of the net profits allocated to all partners in the current and all prior fiscal quarters. Lastly, 80% is allocated to the limited partners and 20% is allocated to the General Partner. As of the last business day of each fiscal period in which net loss was initially apportioned to the Limited Partners, such net loss will then be allocated between each Limited Partners and the General Partner so as to reverse any net profits allocated as provided above. During the years ended December 31, 2011 and 2010, $477,804 and $1,588,239 of carried interest was allocated, respectively. The General Partner may waive all or any part of the carried interest that it would otherwise be entitled to receive from partners who are members of the Bain Capital Group. For the years ended December 31, 2011 and 2010, $138,139 and $61,084 of carried interest was waived, respectively. From the Initial Closing Date until August 12, 2006, the management fee was allocated to the limited partners based on capital commitment balances as of the first day of the fiscal quarter. Thereafter, it has been allocated based on limited partners' Book Capital Accounts as of the first day of the fiscal quarter. Miscellaneous income and expenses are allocated based on each partner's Book Capital Account as of the first day of the fiscal quarter.

New Issues
Realized and unrealized profits and losses on certain securities involving initial public offerings are allocated only to those partners that are not considered restricted persons as defined by the Financial Industry Regulatory Authority, Inc. ("FINRA"). The restricted partners are allowed New Issue gains and losses at the same percentage as their beneficial ownership unless the combined beneficial ownership of these partners exceeds 10%, in which case only 10% of the New Issue gains and losses will be allocated. The remaining New Issue gains and losses are allocated to those partners who do participate in New Issues. The accounts of those partners who do not participate in New Issues are credited with interest on their proportionate share of the funds utilized to purchase New Issues.

Effective September 26, 2011, FINRA Conduct Rule 5131 (“Rule 5131”) was adopted. Rule 5131 restricts the allocation of New Issues to certain partners who are affiliated with certain companies that are current, former or prospective investment banking clients of relevant brokers (collectively with accounts beneficially owned by such partners, “covered partners”), but allows the Partnership to rely on a 25% “de minimis” exemption that allows New Issues to be allocated to covered partners. Effective September 26, 2011, new issue gains and losses will be allocated to restricted partners and covered partners based on their beneficial ownership of the Partnership at the beginning of each fiscal period, provided that the beneficial ownership of such investors does not exceed 10% and 25%, respectively. If the aggregate beneficial ownership of restricted persons or covered persons exceeds 10% or 25%, respectively, the Partnership will limit the participation of such investors in New Issue gains and losses to not more than 10% or 25%, respectively. If such limitations are imposed, remaining New Issue gains and losses will be allocated to investors that are non-restricted partners or non-covered partners (or both). During the years ended December 31, 2011 and 2010, there were no realized or unrealized profits from New Issues.

Profits and Losses of Designated Investments
Profits and losses relating to certain illiquid securities designated as such by the General Partner ("Designated Investments") are allocated to partners at the end of each fiscal quarter in proportion to the partners' respective share of each Designated Investment. A Partners' respective share of the Designated Investment is based on their Basic Capital Accounts as of the beginning of the fiscal quarter in which the

Designated Investment was originally acquired. As of December 31, 2010, the General Partner has designated the remaining restricted and illiquid investments that comprise the portfolio as Designated Investments. Designated Investments will be managed by the Partnership and will be sold when the Partnership deems to be in the best interest of the Partnership. There were $98,260,798 and $138,322,915 of Designated Investments held at December 31, 2011 and 2010, respectively, with a cost basis of $197,031,394 and $240,241,490, respectively.

Distributions

Distributions are made at the sole discretion of the General Partner. Generally, cash distributions representing profits are made in the same proportion as such profit is allocated to the capital accounts. Cash distributions representing returns of capital are made in proportion to the partners' Basic Capital Accounts (as defined in the Partnership Agreement). Distributions of publicly traded securities are fair valued at the last trade price or, if unavailable, at the last bid price on the date of distribution.

9. Lehman Brothers Holdings, Inc.

During the year ended December 31, 2008, Lehman Brothers Holdings, Inc. ("LBHI") and certain of its affiliates sought protection under the insolvency laws of their jurisdictions of organization, including the United States, the United Kingdom and Japan. The Partnership had entered into swap transactions, securities trades and other transactions with LBHI and its affiliates. At the date of the bankruptcy filing, the Partnership had outstanding swap transactions with Lehman Brothers Special Financing ("LBSF"), an affiliate of LBHI, for which LBHI served as credit support provider. The Partnership had posted collateral amounts in accordance with the swap transactions. As a result of the bankruptcy filing, the Partnership terminated its trades and related agreements with LBSF and has initiated claims for damages. LBSF and LBHI may be unable to fulfill their commitments under the agreements; however the General Partner believes that the financial impact to the Partnership relating to these events is immaterial.

10. Other Required Disclosure

Financial highlights consist of total return, expenses and net investment income/ loss ratios. The financial highlights are calculated for the limited partners taken as a whole. An individual limited partner's results may vary based on a variety of factors including different fee arrangements and the timing of capital transactions.

Year ended December 31, 2011	Before Carried Interest	After Carried Interest
Expense Ratio	1.75%	2.06%
Total Return	-5.23%	-4.51%

Year ended December 31, 2010	Before Carried Interest	After Carried Interest
Expense Ratio	1.79%	0.43%
Total Return	7.43%	9.3%

Total return is calculated based on a time-weighted rate of return methodology. The rates of return at each accounting period are compounded to derive the total return reflected above. Total return is reflected after deducting all investment-related and operating expenses, as shown on the Statements of Operations. For the years ended December 31, 2011 and 2010, the net investment income ratio excluding the allocation of carried interest was 8.36% and 8.37%, respectively. The ratios are calculated based upon the average limited partners' capital during the year. Such ratios are calculated based on all investment-related and operating expenses, as shown on the Statements of Operations.

11. Subsequent Events

Management has evaluated the events and transactions that have occurred through March 20, 2012, the date the financial statements were issued, and noted no items requiring adjustment of the financial statements or additional disclosures.

Subsequent to year end, the Partnership made a cash distribution of $15,000,000.