

Part 2A of Form ADV: Firm Brochure

Solus Alternative Asset Management LP

April 1, 2013

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This brochure (the “Brochure”) provides information about the qualifications and business practices of Solus Alternative Asset Management LP. If you have any questions about the contents of this Brochure, please contact us at compliance@soluslp.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Additional information about Solus Alternative Asset Management LP is also available on the SEC’s website at www.adviserinfo.sec.gov

Solus Alternative Asset Management LP is an SEC Registered Investment Adviser. Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

Currently, our Brochure may be requested by contacting Solus’ Investor Relations department at request@soluslp.com. We will provide you with a new Brochure at any time, without charge.

ITEM 2. MATERIAL CHANGES

Since the last annual brochure, dated March 30, 2012, the following material changes occurred and were previously brought to the attention of investors:

Mr. Wight Martindale joined Solus Alternative Asset Management LP (“Solus”) as a principal and Director of Business Development.

Mr. Steven J. Renehan stepped down as Solus’ Chief Executive Officer in July of 2012 in anticipation of his retirement. Mr. Christopher Pucillo became Solus’ Chief Executive Officer in July of 2012.

Mr. Renehan retired as an active partner of Solus, effective January 1, 2013.

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ITEM 4 - ADVISORY BUSINESS

A. General Description of Advisory Firm

Solus Alternative Asset Management LP (“Solus”) is a limited partnership organized under the laws of the State of Delaware. The firm was founded on June 29, 2007, when the Hedge Fund Strategies Group of Stanfield Capital Partners LLC (“Stanfield”) spun off to form an independent firm under the continued leadership of Mr. Christopher Pucillo, former Head of Hedge Fund Strategies at Stanfield. As a result, Solus acquired, and acts as the investment manager to, all of Stanfield’s former hedge fund products. The investment team remained intact throughout this transition. Mr. Pucillo is the principal owner of Solus, controls Solus, and is a limited partner of Solus and the managing member of Solus’ general partner, Solus GP LLC.

B. Description of Advisory Services

1. Advisory Services

Solus serves as the investment advisor with discretionary trading authority to private pooled investment vehicles, the securities of which are offered to investors on a private placement basis (each, a “Fund” and collectively, the “Funds”). Specifically, Solus serves as the investment advisor to Funds that, due to their terms, are commonly referred to as hedge funds.

The hedge funds advised by Solus include all of the following feeder, intermediate and master funds: (1) Solus LLC, which invests in Sola Ltd (the “Sola Master Fund”) and Solus Core Opportunities LP, which invests in Solus Core Opportunities Master Fund Ltd (the “Core Master Fund”) (Solus LLC and Solus Core Opportunities LP are referred to herein as the “Domestic Hedge Funds”), and (2) (i) Sola I, SMS Ltd, and Highland Sola Fund Ltd invest in Sola Intermediate Fund Ltd which, in turn, invests in the Sola Master Fund (certain feeder funds that ceased to have investors or active operations as of January 1, 2013 are not listed here because they are being liquidated); (ii) Solus Core Opportunities Fund Ltd invests in Solus Core Opportunities Intermediate Fund Ltd which, in turn, invests in the Core Master Fund and (iii) Ultra OC Ltd which invests in the Ultra Master Ltd (all of the funds listed in (2)(i)-(iv) of this paragraph are referred to herein as the “Offshore Hedge Funds”, and, together with the Domestic Hedge Funds, the “Hedge Funds”). The investment advisory services Solus provides to these clients primarily consist of investment advice with respect to credit-based investment strategies. Such strategies are described in more detail at B.2 of this Item 4.

Solus also serves as the investment advisor to funds that Solus refers to as its “Recovery Funds”. The Recovery Funds advised by Solus include the following: (1) (i) Solus Recovery Fund LP (the “Domestic Recovery I Fund”), and (ii) Solus Recovery Fund Offshore LP (the “Offshore Recovery I Fund”), which invests in (iii) Solus Recovery Fund Offshore Master LP (Solus Recovery Fund Offshore LP and Solus Recovery Fund Offshore Master LP are referred to herein as the “Offshore Recovery I Funds” and, together with the Domestic Recovery I Fund, the “Recovery I Funds”); (2) Solus Recovery LH Fund LP (“Recovery LH”); and (3) (i) Solus Recovery Fund II LP (the “Domestic Recovery II Fund”), (ii) Solus Recovery Fund II Offshore LP (the “Offshore Recovery II Fund”), (iii) Solus Recovery Fund II Intermediate LP, and (iv) Solus Recovery Fund II Master LP (Solus Recovery Fund II Master LP, Solus Recovery II Offshore LP, Solus Recovery Fund II Intermediate LP, Solus Recovery Fund II LP and Recovery LH are referred to herein as the “Offshore Recovery II Funds” and, together with the Domestic

Recovery II Fund, the “Recovery II Funds”). The Domestic Recovery I Fund and the Offshore Recovery I Funds are parallel entities (i.e., the Domestic Recovery Fund invests in financial instruments directly and the Offshore Recovery Funds invest in financial instruments directly through Solus Recovery Fund Offshore Master LP). The investment advisory services Solus provides to its Recovery Fund clients primarily consists of investment advice with respect to late stage bankruptcy-related investment strategies. Such strategies are described in more detail at B.2 of this Item 4. The Recovery Funds are recently launched entities (March 2012 and November 2012, respectively).

In addition, Solus serves as the investment advisor with discretionary trading authority and also provides discretionary advisory services to separately managed accounts (“Managed Accounts”).

As used herein, the term “Client” generally refers to each Fund and each beneficial owner of a Managed Account.

Solus Advisors LLC, a Delaware limited liability company affiliated with Solus, serves as the managing member or the general partner (as the case may be) of the Domestic Hedge Funds and the special shareholder of Sola Intermediate Fund Ltd and Solus Core Opportunities Intermediate Fund Ltd (such intermediate funds, the “Offshore Intermediate Funds”).

Solus PE GP LLC, a Delaware limited liability company, serves as the general partner to all of the Recovery Funds.

Solus provides advice to Fund Clients that are formed for the purpose of investment and are exempt from registration under §3(c)(7) of the Investment Company Act of 1940, as amended (the “Company Act”) and to Managed Accounts.

This Brochure generally includes information about Solus and its relationships with its Clients and affiliates. While much of this Brochure applies to all such Clients and affiliates, certain information included herein applies to specific Clients or affiliates only. Thus, it is crucial for any investor/prospective investor in a Solus Fund to closely review the applicable Confidential Memorandum and any supplement thereto with respect to, among other things, the terms, conditions and risks of investing in the particular Fund or Funds in which such investor/prospective investor is making or considering an investment.

2. Investment Strategies and Types of Investments

Solus’ investment objective for its Hedge Fund Clients is to achieve an attractive rate of return through income generation, capital appreciation and asymmetric investment opportunities. Solus seeks to achieve the investment objective by combining its fundamental research process, trading acumen, management expertise and integrated risk management approach to react to changing market conditions by adjusting the portfolio construction to seek to deliver the maximum risk-adjusted performance. Solus is focused on capital structure value investing. Solus seeks to exploit value throughout the capital structure, both long and short, from senior secured loans to restructured equities, capitalizing on Solus’ in-depth knowledge of fundamental valuation and market technicals. Solus’ investment flexibility accommodates the continual repositioning of the portfolio in an effort to reflect what Solus believes are the most compelling risk-adjusted investment opportunities. Solus invests in all parts of a company’s capital structure

and in all stages of a company's life cycle, including the bankruptcy process. Solus' investments include a broad spectrum of listed and over-the-counter financial products including, but not limited to, bank loans, corporate securities, equities and equity-linked products, derivatives and other financial instruments and investments. Solus may make these investments directly or indirectly by entering into one or more swaps, options, forward contracts or similar derivative transactions. A further description of these strategies and instruments can be found in Item 8.

Solus' investment objective for its Recovery Fund Clients is to maximize risk-adjusted performance by focusing on late stage bankruptcy-related opportunities, including liquidation claims, litigation claims and similar opportunities with a clearly defined asset value, recovery mix and timeline for distribution/monetization that Solus thinks represent attractive risk/return profiles. These opportunities will primarily yield cash distributions. The Recovery Fund Clients may invest in all parts of a company's capital structure. Such investments may include a broad spectrum of listed and over-the-counter financial products including bank loans, trade claims, corporate securities, equities, interests in trust vehicles and other financial instruments and investments described in more detail in Item 8.

Solus seeks to achieve the investment objective of maximizing risk-adjusted performance for all of its Fund Clients by combining its fundamental research process, trading acumen and integrated risk management.

The descriptions set forth in this Brochure of specific advisory services that Solus offers to Clients, and investment strategies pursued and investments made by Solus on behalf of its Clients, should not be understood to limit in any way Solus investment activities. Solus may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that Solus considers appropriate, subject to each Client's investment objectives and guidelines. The investment strategies Solus pursues are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any Client will be achieved.

C. Availability of Customized Services for Individual Clients

In certain limited instances, Solus may permit a Managed Account to have an investment policy statement that provides for, among other things, allowable investments and transactions, as well as concentration limits. Should such tailored investment policy statement be provided, Solus will adhere to such statement in accordance with the objectives, guidelines, limitations, terms, and any other instructions established by the Managed Account.

D. Assets Under Management

As of December 31, 2012, Solus managed approximately \$4.4 billion on a discretionary basis, which amount reflects regulatory assets under management. As regulatory assets under management is a recently new, regulatory-driven, concept, Solus also notes that as of December 31, 2012, Solus managed approximately \$3 billion based on net asset value calculations and including committed but undrawn capital. Solus does not manage any assets on a non-discretionary basis as of December 31, 2012.

ITEM 5 - FEES AND COMPENSATION

A. Advisory Fees and Compensation

The fees applicable to each Fund are set forth in detail in each Fund's Confidential Memorandum or a supplement thereto. The fees applicable to a Managed Account are generally set forth in detail in each Managed Account's investment management agreement. Solus' compensation may differ among and within Clients based upon multiple factors including, without limitation, the complexity of the investment vehicle, account size and other terms of the Client's share classes.

Although a brief summary of Fund fees is provided below, please note that such brief summary is not a substitute for the detailed terms provided in each Fund's applicable Confidential Memorandum or supplement thereto. Fund investors/prospective investors are thus strongly urged to closely review such disclosure documents for information with respect to management fee and performance compensation terms.

1. Domestic Funds

Management Fee

Any management fee paid to Solus shall be referred to herein as a "Management Fee". Any incentive allocation made to a Solus affiliate shall be referred to herein as an "Incentive Allocation". Any carried interest allocable to Solus PE GP LLC shall be referred to herein as "Carried Interest".

Domestic Hedge Funds: Under the terms of generally available classes of interests, Domestic Hedge Funds will pay to Solus (or any other person or entity designated by it) a monthly fixed asset-based fee in arrears, in the range of 1.5% - 2% annually, of the net asset value of the capital account of each investor (including, for these purposes, each investor's *pro rata* interest in any special investment account) as of the last business day of the month for which such Management Fee applies, before giving effect to any withdrawals occurring as of such day. Management Fees can vary and be lower for certain investors depending on, among other things, the amount of assets a particular investor has under management with Solus.

In addition, a *pro rata* portion of such Management Fees will be paid to Solus with respect to any capital contributions by new or existing investors in the Domestic Hedge Funds on any date that does not fall on the first day of a month, based on the actual number of days remaining in such partial month. In the case of a withdrawal by an investor other than as of the last day of a month, a *pro rata* portion of the Management Fee (based on the actual number of days from the beginning of the month) will be paid to Solus. Solus may elect to reduce, waive or calculate differently the Management Fee with respect to any investor in the Domestic Hedge Funds, including, without limitation, an investor that is a partner, affiliate or employee of Solus, members of the immediate families of such persons, and trusts or other entities for their benefit, without the approval of any other investors.

Domestic Recovery I Fund: Under the terms of generally available classes of interests, the Domestic Recovery I Fund will pay Solus a Management Fee quarterly in arrears that will

equal 0.375% (or 1.5% annualized) of the value of the Domestic Recovery I Fund's portfolio investments.

To the extent that the Domestic Recovery I Fund's term ends on a date that is not a calendar quarter-end, the Management Fee for such quarter will be prorated based on the number of days in the relevant period. Solus may, in its sole discretion, reduce, waive or calculate differently the Management Fee with respect to investors in the Domestic Recovery I Fund, including, without limitation, those that are affiliates, employees, members, partners or former partners of the Solus PE GP LLC or Solus, members of the immediate families of such persons and trusts or other entities for their benefit.

Domestic Recovery II Fund: Under the terms of generally available classes of interests, the Domestic Recovery II Fund will pay Solus a Management Fee monthly in arrears that will equal 0.125% (or 1.5% annualized) of the value of the Domestic Recovery II Fund's portfolio investments.

To the extent that the Domestic Recovery II Fund's term ends on a date that is not a month-end, the Management Fee for such month will be prorated based on the number of days in the relevant period. Solus may, in its sole discretion, reduce, waive or calculate differently the Management Fee with respect to investors in the Domestic Recovery II Fund, including, without limitation, those that are affiliates, employees, members, partners or former partners of the Solus PE GP LLC or Solus, members of the immediate families of such persons and trusts or other entities for their benefit.

Incentive Allocation; Carried Interest

Domestic Hedge Funds: Under the terms of generally available classes of interests, at the end of each fiscal year of a Domestic Hedge Funds, Solus Advisors LLC is entitled to an Incentive Allocation in the range of 15% - 20% of the net capital appreciation (which includes both realized gains and losses and unrealized appreciation and depreciation of securities held in the Domestic Hedge Funds' respective portfolios) allocated to Solus Advisors LLC's capital account from a Domestic Hedge Fund investor's capital account for such fiscal year after deducting the Management Fee and other expenses debited to such investor's capital account for such fiscal year, subject to a return threshold, a minimum post-performance allocation return and/or a loss carryforward mechanism.

In the event that a Domestic Hedge Fund investor withdraws all or a portion of its capital account at any time other than at the end of a fiscal year, or in the case of a reallocation from an investor's capital account to any special investment account, the Incentive Allocation, if any, that has been accrued with respect to the withdrawn or reallocated amount of such capital account will be reallocated to Solus Advisors LLC's capital account as set forth above immediately prior to the effective date of such withdrawal or reallocation. The determination of the return threshold will be determined without regard to the performance of any interests previously withdrawn or reallocated. Solus may elect to reduce, waive or calculate differently the Incentive Allocation with respect to any Domestic Hedge Fund investor, including, without limitation, an investor that is a partner, affiliate or employee of Solus, members of the immediate families of such persons, and trusts or other entities for their benefit, without the approval of any other investors.

Domestic Recovery I Fund: Under the terms of generally available classes of interests, Solus PE GP LLC is entitled to Carried Interest of either 15% or 20% of a Domestic Recovery I Fund investor's disposition proceeds upon a Domestic Recovery I Fund portfolio investment distribution, after return of a 100% of an investor's contributed capital and any applicable preferred return.

Solus PE GP LLC may, in its sole discretion, reduce, waive or calculate differently any portion of the Carried Interest with respect to Domestic Recovery I Fund investors, including, without limitation, those that are affiliates, members, partners or former partners of Solus PE GP LLC or Solus, members of the immediate families of such persons and trusts or other entities for their benefit.

Domestic Recovery II Fund: Under the terms of generally available classes of interests, Solus PE GP LLC is entitled to Carried Interest of 15% of a Domestic Recovery II Fund investor's disposition proceeds upon a Domestic Recovery II Fund portfolio investment distribution, after return of a 100% of an investor's contributed capital.

Solus PE GP LLC may, in its sole discretion, reduce, waive or calculate differently any portion of the Carried Interest with respect to Domestic Recovery II Fund investors, including, without limitation, those that are affiliates, members, partners or former partners of Solus PE GP LLC or Solus, members of the immediate families of such persons and trusts or other entities for their benefit.

2. Offshore Funds

Management Fee

Offshore Hedge Funds: Under the terms of generally available classes of shares, Offshore Hedge Funds will pay to Solus (or any other person or entity designated by it) a monthly Management Fee in arrears, in the range of 1.5% - 2% annually, of the net asset value of each series of shares of each Offshore Hedge Fund investor (including, for these purposes, each investor's *pro rata* interest in any special investment account) as of the last business day of the month for which such Management Fee applies, before giving effect to any redemptions occurring as of such day. Management Fees can vary and be lower for certain investors depending on, among other things, the amount of assets a particular investor has under management with Solus.

In addition, a *pro rata* portion of the Management Fee will be paid to Solus with respect to any subscriptions by new or existing Offshore Hedge Fund investors on any date that does not fall on the first day of a month, based on the actual number of days remaining in such partial month. In the case of a redemption by an Offshore Hedge Fund investor other than as of the last day of a month, a *pro rata* portion of the Management Fee (based on the actual number of days from the beginning of the month) will be paid to Solus. Solus may elect to reduce, waive or calculate differently the Management Fee with respect to any Offshore Hedge Fund investor, including, without limitation, an investor that is a partner, affiliate or employee of Solus, members of the immediate families of such persons, and trusts or other entities for their benefit, without the approval of any other investors.

Offshore Recovery I Fund: Under the terms of generally available classes of interests, the Offshore Recovery I Fund will pay Solus a Management Fee quarterly in arrears that will equal 0.375% (or 1.5% annualized) of the value of the Offshore Recovery I Fund's portfolio investments. Management Fees can vary and be lower for certain investors depending on, among other things, the amount of assets a particular investor has under management with Solus.

To the extent that the Offshore Recovery I Fund's term ends on a date that is not a calendar quarter-end, the Management Fee for such quarter will be pro-rated based on the number of days in the relevant period. Solus may, in its sole discretion, reduce, waive or calculate differently the Management Fee with respect to investors in the Offshore Recovery I Fund, including, without limitation, those that are affiliates, employees, members, partners or former partners of the Solus PE GP LLC or Solus, members of the immediate families of such persons and trusts or other entities for their benefit.

Offshore Recovery II Funds: Under the terms of generally available classes of interests, the Offshore Recovery II Funds will pay Solus a Management Fee monthly in arrears that will equal 0.125% (or 1.5% annualized) of the value of the Offshore Recovery II Fund's Portfolio investments.

To the extent that the Offshore Recovery II Fund's term ends on a date that is not a month-end, the Management Fee for such month will be pro-rated based on the number of days in the relevant period. Solus may, in its sole discretion, reduce, waive or calculate differently the Management Fee with respect to investors in the Offshore Recovery II Fund, including, without limitation, those that are affiliates, employees, members, partners or former partners of the Solus PE GP LLC or Solus, members of the immediate families of such persons and trusts or other entities for their benefit.

Incentive Allocation or Incentive Fee; Carried Interest

Offshore Hedge Funds: Under the terms of generally available classes of shares, at the end of each fiscal year of an Offshore Hedge Fund, Solus Advisors LLC is entitled to an Incentive Allocation or Solus is entitled an incentive fee (an "Incentive Fee" and together with Incentive Allocation, "Performance Compensation") in the range of 15% - 20% of the realized and unrealized appreciation in the net asset value of each series of Offshore Hedge Fund shares for such fiscal year after deducting the Management Fee payable by the Offshore Hedge Fund and other expenses for such fiscal year, subject to a return threshold, a minimum post-performance allocation return and/or a loss carryforward mechanism.

In the event that Offshore Hedge Fund shares are redeemed or exchanged for shares corresponding to special investment accounts at any time other than at the end of a fiscal year, the Performance Compensation, if any, that has been accrued with respect to the redeemed or exchanged shares will be allocated to Solus as set forth above at the time of such redemption or exchange. The determination of the return threshold will be determined without regard to the performance of any shares previously redeemed. Solus may elect to reduce, waive or calculate differently the Performance Compensation with respect to any Offshore Hedge Fund investor, including, without limitation, an investor that is a partner, affiliate or employee of Solus, members of the immediate families of such persons, and trusts or other entities for their benefit, without the approval of any other investors.

Offshore Recovery I Fund: Under the terms of generally available classes of interests, Solus PE GP LLC is entitled to Carried Interest of either 15% or 20% of an Offshore Recovery I Fund investor's disposition proceeds upon an Offshore Recovery I Fund portfolio investment distribution, after return of a 100% of an investor's contributed capital and any applicable preferred return. The Carried Interest can vary and be lower for certain investors depending on, among other things, the amount of assets a particular investor has under management with Solus.

Solus PE GP LLC may, in its sole discretion, reduce, waive or calculate differently any portion of the Carried Interest with respect to Offshore Recovery I Fund investors, including, without limitation, those that are affiliates, members, partners or former partners of Solus PE GP LLC or Solus, members of the immediate families of such persons and trusts or other entities for their benefit.

Offshore Recovery II Funds: Under the terms of generally available classes of interests, Solus PE GP LLC is entitled to Carried Interest of 15% of an Offshore Recovery II Fund investor's disposition proceeds upon an Offshore Recovery II Fund portfolio investment distribution, after return of a 100% of an investor's contributed capital.

Solus PE GP LLC may, in its sole discretion, reduce, waive or calculate differently any portion of the Carried Interest with respect to Offshore Recovery II Fund investors, including, without limitation, those that are affiliates, members, partners or former partners of Solus PE GP LLC or Solus, members of the immediate families of such persons and trusts or other entities for their benefit.

3. Managed Accounts

Any fees charged to Managed Accounts are subject to negotiation and generally established pursuant to an investment management agreement. Generally, any such investment management agreements are terminable upon receipt by either party from the other of prior written notice of termination and after the expiration of the specified notice period. No Managed Account currently pays fees in advance. Fees for Managed Accounts can vary depending on, among other things, the amount of assets in the account, the amount of assets that the beneficial owner of the Managed Account has in Solus-advised products and the complexity of any account guidelines.

Management Fee

Solus charges a Managed Account for a public pension plan a monthly Management Fee of 0.45% per year based on the net asset value of the Managed Account. Such Management Fee is calculated and paid in arrears. As noted above, Management Fees vary from account to account based on the nature of the investment program, any investment guidelines and the amount of assets the beneficial owner of such Managed Account has under management with Solus.

Performance Compensation

Solus does not currently receive any performance compensation from its Managed Account Clients.

B. Payment of Fees

Fees and compensation paid to Solus or its affiliates by the Funds are generally deducted from the assets of such Clients. As discussed above, Management Fees are generally deducted on either a monthly or quarterly basis (depending on the Solus Client). Performance Compensation is generally deducted on an annual basis. Any Carried Interest is allocable upon distribution of disposition proceeds depending on the amount and timing of such distributions.

Fees paid to Solus or its affiliates by a Managed Account are paid directly from the Managed Account.

C. Additional Fees and Expenses

The expenses paid by Clients are set forth in detail in each Fund's Confidential Memorandum or any applicable supplement thereto and in any Managed Account investment management agreement, respectively. Such expenses may differ among and within Clients.

Generally, each Client bears its own expenses.

Hedge Fund Client and Managed Account Expenses: Such expenses may include, without limitation, investment-related expenses (e.g., brokerage commissions, expenses relating to short sales, clearing and settlement charges, custodial fees, bank service fees, loan closing costs and interest expenses) and other trading-related expenses; professional fees (including, without limitation, expenses of consultants and experts); administrative expenses; accounting expenses; operating expenses (e.g., trade clearance and settlement, corporate action processing, trade confirmation, pricing services, portfolio management reporting software and reconciliation); legal expenses; auditing and tax preparation expenses; costs of printing and mailing reports and notices; reasonable travel and travel-related expenses incurred in connection with a Client; directors' and officers' actual reasonable out-of-pocket expenses; interest on balances due and any other fees and charges of prime brokers, financial counterparties, banks and custodians; any taxes and other governmental charges and duties imposed on or payable by a Client; organizational expenses; corporate licensing; governmental fees and regulatory expenses (including filing fees); assignment fees; establishment of operation of a Client's subsidiaries or special purpose vehicles; expenses incurred in connection with the offering and sale of interests or shares and other similar expenses related to a Client; premiums for liability insurance covering Solus, its affiliates and their respective members, partners, directors, officers, employees and agents; litigation and indemnification expenses and other extraordinary expenses not incurred in the ordinary course of a Client's business; management fees; performance fees; fees and reasonable out-of-pocket expenses of the administrator and the cash custodian; any fees and expenses associated with the organization and conduct of a Client's board of directors' and shareholders' meetings (in the case of an Offshore Hedge Fund) and the preparation and distribution of all reports and other communications with investors, members of the Clients and beneficial owners of the Managed Accounts; fees and expenses associated with maintaining an Offshore Hedge Fund's registered office in the Cayman Islands, if any; and other expenses related to Clients as Solus determines.

Recovery Fund Client Expenses: Such expenses may include investment-related expenses (e.g., expenses relating to short sales, clearing and settlement charges, custodial fees, bank service fees, loan closing costs and interest expenses) and other trading-related expenses;

professional fees (including, without limitation, expenses of consultants and experts); administrative expenses; accounting expenses; operating expenses (e.g., trade clearance and settlement, corporate action processing, trade confirmation, pricing services, portfolio management reporting software and reconciliation); legal expenses; auditing and tax preparation expenses; costs of printing and mailing reports and notices; reasonable travel and travel-related expenses incurred in connection with the Client; interest on balances due and any other fees and charges of prime brokers, financial counterparties, banks and custodians; any taxes and other governmental charges and duties imposed on or payable by the Clients; organizational expenses; corporate licensing; governmental fees and regulatory expenses (including filing fees); assignment fees; establishment of operation of the Clients' subsidiaries, special purpose vehicles or alternative investment vehicles; expenses incurred in connection with the offering and sale of interests and other similar expenses related to the Clients; the expenses of meetings of the limited partner advisory committee; premiums for liability insurance covering the Clients' general partner, Solus and their respective members, partners, directors, officers, employees and agents, and members of the limited partner advisory committee; any fees and expenses associated with maintaining a Client's registered office in the Cayman Islands; litigation and indemnification expenses and other extraordinary expenses not incurred in the ordinary course of the Client's business; expenses incurred in connection with an investor that defaults in respect of a capital commitment; the Management Fee; and other expenses related to the Client as the Client's general partner determines, in its sole discretion.

D. Additional Compensation and Conflicts of Interest

Item 12 describes the factors that Solus considers in selecting or recommending broker-dealers for Client transactions and determining the reasonableness of their compensation (e.g., commissions).

Hedge Fund Clients: Solus and its affiliates may earn ancillary fees, such as fees and related income from services provided in relation to Hedge Fund Client investments, or in connection with prospective Hedge Fund Client investments, such as advisory fees, due diligence fees, structuring fees, servicing fees, administrative fees, collateral agent fees, success fees, director's fees, break-up fees or other fees. Generally, any ancillary fees paid to, or related income earned by, Solus or its affiliates in connection with Hedge Fund Client activities will not reduce such Client's Management Fees or Performance Compensation.

Recovery Fund Clients: Transaction, director's, consulting, advisory, closing, and break-up fees paid to Solus PE GP LLC, Solus or their affiliates in connection with the Recovery Funds' portfolio investments or from its unconsummated transactions will first be applied to reimburse Solus PE GP LLC, Solus or their affiliates for their out of pocket expenses in connection with the transaction giving rise to such fees and 100% of the balance will be applied to reduce the subsequent installments of the Management Fee.

Clients should refer to each Client's applicable Confidential Memorandum and any supplement thereto, subscription agreements, investment management agreements and/or other offering documents for addition/supplementary information regarding the applicable Client as well as the fees and expenses paid by the Client.

ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Solus and its affiliates accept performance-based fees from certain Clients. However, such compensation is not charged (or charged in the same amount) for all Clients. The variation of performance compensation structures among Solus' Clients may create an incentive for Solus to direct the best investment ideas to, or to allocate or sequence trades in favor of, Clients that pay or allocate performance compensation (or pay or allocate a higher performance compensation than a Client that is subject to a lower performance compensation). Item 5 describes the performance-based compensation charged by Solus generally, and detailed information with respect to such Solus compensation is set forth in more detail in the applicable Confidential Memorandum and any supplement thereto.

Solus is committed to allocating investment opportunities on a fair and equitable basis and has established policies and procedures to address the conflicts of interest described above in this Item 6. Item 12B further describes Solus' allocation policy.

ITEM 7 - TYPES OF CLIENTS

Solus generally provides investment advice to Funds that are formed for the purpose of investment and are exempt from registration pursuant to §3(c)(7) of the Company Act. Solus also advises Managed Accounts.

The minimum initial investment amount in Solus' Funds ranges from \$500,000 to \$5 million. Exceptions to such minimum investment requirements may generally be made at the sole discretion of Solus or its affiliates and/or the boards of directors of certain Funds to the extent permitted under applicable law. Additionally, Solus requires that all U.S. investors in Solus' Funds be "accredited investors" and "qualified purchasers" or "Knowledgeable Employees," as each is defined under U.S. federal securities laws.

ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

A. Methods of Analysis and Investment Strategies

The descriptions set forth in this Brochure of specific advisory services that Solus offers to Clients, and investment strategies pursued and investments made by Solus on behalf of its Clients, should not be understood to limit in any way Solus' investment activities. Solus may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that Solus considers appropriate, subject to each Client's investment objectives and guidelines. The investment strategies Solus pursues are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any Client will be achieved.

Solus utilizes fundamental and/or technical analysis techniques in formulating advice and managing assets for Clients.

Fundamental analysis of a business involves analyzing its financial statements and health, its management and competitive advantages and its competitors and markets. Fundamental analysis is performed on historical and present data but with the goal of making financial forecasts. There are several possible objectives: to conduct a company stock valuation and predict its probable price evolution; to make a projection on a company's business performance; to evaluate a company's management and internal business decisions; and to calculate a company's credit risk.

Technical analysis is a method of evaluating securities by relying on the assumption that market data, such as charts of price, volume and open interest, can help predict future (usually short term) market trends. Technical analysis assumes that market psychology influences trading in a way that enables predicting when a stock will rise or fall.

The main sources of information that Solus uses include:

- Financial newspapers and magazines
- Inspections of corporate activities
- Research materials prepared by others
- Corporate rating services
- Annual reports, prospectuses, filings with the Securities and Exchange Commission
- Company press releases
- Private placement memoranda prepared by commercial banks, investment banks and law firms

Investment strategies used to implement investment advice given to Clients include (as applicable depending on each Client's investment objective):

- Long-term purchases (securities held at least a year)
- Short-term purchases (securities sold within a year)
- Trading (securities sold within 30 days)
- Short sales
- Margin transactions

- Option writing, including covered options, uncovered options or spreading strategies
- Use of bank loans
- Derivative transactions

Solus seeks to capitalize on investment opportunities for its Clients through various strategies as described more fully in Section B of this Item 8 below and in any applicable offering document of such Clients.

Hedge Fund and Managed Account Clients: In an effort to achieve the investment objectives identified in the respective offering documents of its Clients, Solus may invest in a broad range of securities and other financial instruments in both the primary and secondary markets across the entire credit spectrum, including but not limited to investment grade, high yield, distressed and special situation investments, which may include long and/or short positions in floating rate senior secured or unsecured loans, loan participations, bonds and other securities issued in public and private markets, common stock, preferred stock, stock warrants and rights, notes or other debentures, convertible securities, options, money market instruments, partnership interests, and other obligations or financial instruments including but not limited to those of investment companies, managed accounts, or structured products such as collateralized bond obligations (CBOs), collateralized debt obligations (CDOs), collateralized loan obligations (CLOs), and similar instruments either directly or indirectly by investing in such opportunities through derivative instruments, such as swaps, options, forward contracts, or similar transactions; and invest in private offerings by public companies, “when issued” securities, initial public offerings, securities or other obligations of non-U.S. issuers, and currency exchange transactions.

Solus may also, from time to time, direct investments in other instruments that include, but are not limited to, equity, convertibles, asset backed securities, mezzanine debt, warrants, interest rate swaps and caps, revolving loan agreements, distressed securities, securities and obligations of entities which are undergoing or are likely to undergo a reorganization under the federal bankruptcy laws or other extraordinary transactions such as debt restructurings, reorganizations and liquidations outside of bankruptcy.

Most Solus Hedge Fund and Managed Account Client investment strategies involve varying degrees of leverage and some strategies involve high turnover of portfolio assets (and associated increased trading expenses). As a result of the leverage, the Funds may be subject to margin calls, which may require Solus to liquidate assets at inopportune times. Further, as described above, a number of the investments Solus makes are in illiquid or less liquid securities or instruments so that in times of market or industry stress, the monetization of these assets may be difficult or impossible.

Recovery Fund Clients: In an effort to achieve the investment objectives identified in the offering documents of its Recovery Fund Clients, during the applicable Recovery Fund’s investment period Solus may invest in a broad spectrum of listed and over-the-counter financial products including bank loans, trade claims, corporate securities, equities, interests in trust vehicles and other financial instruments and investments discussed in more detail in Section B of this Item 8. More specifically, the Recovery Fund strategy includes investments that focus on the final stages of the lifecycle of a distressed investment opportunity (e.g., the liquidation segment that typically accompanies the end of the cycle), and contemplates

opportunities such as liquidation claims and litigation claims. Additionally, the Recovery Funds will seek opportunities that have a clearly defined asset value, recovery mix and timeline for distribution and/or monetization. These opportunities generally have the following characteristics:

- term of six (6) months to three (3) years;
- provide an asymmetric risk/return profile; and
- relatively low volatility returns that are not correlated with major market indices.

The Recovery Funds generally do not intend to use leverage.

B. Material, Significant or Unusual Risks Relating to Investment Strategies and Types of Securities

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the Clients advised by Solus. These risk factors include only certain of those risks Solus believes to be material, significant or unusual and relate to particular significant investment strategies (and the types of securities and instruments used to implement those strategies) and methods of analysis employed Solus.

Specifically, as both the Hedge Fund and the Recovery Fund Clients managed by Solus may invest in a broad spectrum of financial instruments, all such Funds have substantially similar general risks with respect to a particular class of financial instruments. Thus, there are no distinctions made below with respect to the applicability of these general risks to a particular type of Client. Investors and potential investors are cautioned that it is crucial to review the risk factors set forth in the applicable fund Client's Confidential Memorandum and any applicable supplement thereto, because such risk factors are tailored for risks applicable to a particular type of Client (i.e., the Confidential Memoranda of the Recovery Fund Clients contain a risk factor on limited diversification and concentration to disclose risks arising out of Fund-specific terms that are not applicable to the Solus Hedge Fund Clients, etc.).

Short Selling. Short selling involves selling securities which are not owned by the short seller and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the seller to profit from a decline in market price to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which Solus engages in short sales will depend upon investment strategies and opportunities. A short sale creates the 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 Client of buying those securities to cover the short position. There can be no assurance that Solus will be able to maintain the ability to borrow securities sold short. In such cases, the Client can be "bought in" (i.e., forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Hedging Transactions. Solus may utilize financial instruments, both for investment purposes and for risk management purposes in order to: (i) protect against possible changes in

the market value of the Clients' investment portfolios resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect the Clients' unrealized gains in the value of its investment portfolios; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in the Clients' portfolios; (v) hedge against a directional trade; (vi) hedge the interest rate, credit or currency exchange rate on any of the Clients' liabilities or assets; (vii) protect against any increase in the price of any securities Solus anticipates purchasing at a later date; or (viii) act for any other reason that Solus deems appropriate. Solus will not be required to hedge any particular risk in connection with a particular transaction or its portfolios generally. While Solus may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Clients than if Solus had not engaged in any such hedging transaction. Moreover, it should be noted that the portfolios will always be exposed to certain risks that may not be hedged.

Risks of Investments in Securities Generally. All securities investments risk the loss of capital. No guarantee or representation is made that Solus' investment programs will be successful. The investment programs are expected to involve, without limitation, risks associated with possible limited diversification, leverage, volatility, tracking risks in hedged positions, security borrowing risks in short sales, credit deterioration or default risks, systems risks and other risks inherent in Solus' activities. Certain investment techniques which may be used by Solus can, in certain circumstances, magnify the impact of adverse market moves to which the Clients may be subject. In addition, Solus' investment in securities may be materially affected by conditions in the financial markets and overall economic conditions occurring globally and in particular countries or markets where Solus may invest the Clients' assets.

Solus' methods of minimizing such risks may not accurately predict future risk exposures. Risk management techniques are based in part on the observation of historical market behavior, which may not predict market divergences that are larger than historical indicators. Also, information used to manage risks may not be accurate, complete or current, and such information may be misinterpreted.

Volatility Risk. Solus' investment programs may involve the purchase and sale of relatively volatile instruments such as CDO Securities (defined below) and derivatives, which are frequently valued based on implied volatilities of such derivatives compared to the historical volatility of underlying financial instruments. Fluctuations or prolonged changes in the volatility of such instruments, therefore, can adversely affect the value of investments held by the Clients. In addition, many non-U.S. financial markets are not as developed or as efficient as those in the U.S., and as a result, price volatility may be higher for the Clients' investments in such markets.

Liquidity Risks. Under certain market conditions, such as during volatile markets or when trading in an instrument or market is otherwise impaired, the liquidity of the Clients' relatively liquid portfolio positions may be reduced. During such times, Solus may be unable to dispose of certain assets, which would adversely affect the Clients' ability to rebalance their portfolios or to meet any permitted redemption requests, as applicable. In addition, such circumstances may force Solus to dispose of assets at reduced prices, thereby adversely affecting the Clients' performance. If there are other market participants seeking to dispose of similar assets at the same time, Solus may be unable to sell such assets or prevent losses relating to such assets. Furthermore, if the Clients incur substantial trading losses, the need for liquidity could

rise sharply while their access to liquidity could be impaired. In addition, in conjunction with a market downturn, the Clients' counterparties could incur losses of their own, thereby weakening their financial condition and increasing the Clients' credit risks to them. Many non-U.S. financial markets are not as developed or as efficient as those in the U.S., and as a result, liquidity may be reduced for the Client's investments.

Global Investments; Emerging Markets. Solus may invest a portion of the Clients' assets in the equity, debt or other securities and instruments of issuers located outside the U.S., including securities of non-U.S. corporations which are traded in non-U.S. markets, as well as CDOs collateralized by emerging market debt. Such investments involve certain considerations not usually associated with investing in securities of U.S. companies or U.S. markets, including political and economic considerations, such as greater risks of expropriation and nationalization, and confiscatory taxation; the potential difficulty of repatriating funds and the ability to exchange local currencies for U.S. dollars; general social, political and economic instability and adverse diplomatic developments; the possibility of imposition of withholding or other taxes on dividends, interest, capital gain or other income; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; greater volatility, less liquidity and smaller capitalization of markets; greater controls on foreign investment and limitations on realization of investments; increased likelihood of governmental involvement in and control over the economy; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict Solus' investment opportunities. In addition, accounting and financial reporting standards that prevail in such countries generally are not equivalent to U.S. standards and, consequently, less information may be available to investors in companies located in such countries than is available to investors in companies located in the U.S. There is also less regulation, generally, of the securities markets in such countries than there is in the U.S, and less developed corporate laws regarding fiduciary duties of officers and directors and the protection of investors. An issuer of securities may be domiciled in a country other than the country in whose currency the instrument is denominated. The values and relative yields of investments in the securities markets of different countries, and their associated risks, are expected to change independently of each other.

Exchange Rate Exposure. Solus may invest a portion of the Clients' assets in the securities of non-U.S. issuers listed on foreign exchanges and denominated in non-U.S. currencies. The Clients, however, value their securities and other assets in U.S. dollars. Solus has the authority to hedge non-U.S. dollar positions through currency hedging transactions. There can be no guarantee that financial instruments suitable for hedging currency or market shifts will be available at the time when Solus wishes to use them, or that hedging techniques employed by Solus will be effective. Furthermore, certain currency market risks may not be fully hedged or hedged at all. To the extent unhedged, the value of the Clients' positions in non-U.S. investments will fluctuate with the U.S. dollar exchange rate. In such cases, an increase in the value of the U.S. dollar compared to the other currencies in which the Clients hold investments will reduce the value of these foreign investments, which may result in a loss to the Clients.

Debt Securities Generally. Solus may invest in private and government debt securities and instruments. Debt instruments in which Solus invests may be unrated, and whether or not rated, the debt instruments may have speculative characteristics. The issuers of such instruments

(including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal. Such instruments are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions. In addition, an economic recession could severely disrupt the market for most of these securities and may have an adverse impact on the value of such instruments. It is also likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

Investments in Unsecured and Subordinated Debt. Subordinated debt is subject to certain additional risks to the extent that such obligations may be unsecured and/or subordinated to substantial amounts of senior indebtedness, all or a significant portion of which may be secured. Moreover, such obligations may not be protected by financial covenants or limitations upon additional indebtedness.

Non-Performing Nature of Debt. It is anticipated that certain debt instruments purchased by Solus will be non-performing and possibly in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to the loans.

Stressed Debt. Solus is authorized to invest in securities and other obligations of stressed issuers. Stressed issuers are issuers that are not yet deemed distressed or bankrupt and whose debt securities are trading at a discount to par, but not yet at distressed levels. An example would be an issuer that is in technical default of its credit agreement, or undergoing strategic or operational changes, which results in market pricing uncertainty.

Derivative Investments. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk. The prices of derivative instruments, including futures, swaps, options and credit derivatives, are highly volatile. Payments made pursuant to swap agreements may also be highly volatile. Price movements of futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the securities underlying them. In addition, the Clients' assets are also subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses or counterparties.

Solus may buy or sell (write) both call options and put options, and when they write options, they may do so on a "covered" or an "uncovered" basis. A call option is "covered" when the writer owns securities of the same class and amount as those to which the call option applies. A put option is covered when the writer has an open short position in securities of the relevant class and amount. Solus' option transactions may be part of a hedging strategy (i.e., offsetting the risk involved in another securities position) or a form of leverage, in which the Clients have the right to benefit from price movements in a large number of securities with a

small commitment of capital. These activities involve risks that can be substantial, depending on the circumstances.

In general, without taking into account other positions or transactions Solus may enter into, the principal risks involved in options trading can be described as follows: when Solus buys an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the price of the underlying security in the case of a put, could result in a total loss of the Clients' investments in the option (including commissions). Solus could mitigate those losses by selling short, or buying puts on, the securities for which they hold call options, or by taking a long position (e.g., by buying the securities or buying calls on them) in securities underlying put options.

When Solus sells (writes) an option, the risk can be substantially greater than when it buys an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. The risk is theoretically unlimited unless the option is "covered." If it is covered, the Clients would forego the opportunity for profit on the underlying security should the market price of the security rise above the exercise price. If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss the Clients might suffer as a result of owning the security.

Swaps and certain options and other custom instruments are subject to the risk of non-performance by the swap counterparty, including risks relating to the creditworthiness of the swap counterparty, market risk, liquidity risk and operations risk.

Solus may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objectives and legally permissible. Special risks may apply to instruments that are invested in by Solus in the future that cannot be determined at this time or until such instruments are developed or invested in by Solus.

Litigation. With regard to certain of the Clients' investments, it is a possibility that Solus and/or the Clients may be plaintiffs or defendants in civil proceedings. The expense of prosecuting claims, for which there is no guarantee of success, and/or the expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the Clients and would reduce net assets.

Forward Trading. Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade, and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell.

Disruptions can occur in forward markets due to unusually high trading volume, political intervention or other factors.

Bank Loans. Solus' investment programs may include significant investments in bank loans and participations. These obligations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of Clients to directly enforce their rights with respect to participations. In analyzing each bank loan or participation, Solus compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by the Clients.

As secondary market trading volumes increase, new loans are frequently adopting standardized documentation to facilitate loan trading which may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue. Because of the provision to holders of such loans of confidential information relating to the borrower, the unique and customized nature of the loan agreement, and the private syndication of the loan, loans are not as easily purchased or sold as a publicly-traded security, and historically the trading volume in the loan market has been small relative to the high yield debt market.

Fixed Income Securities. Solus may invest in bonds or other fixed-income securities of U.S. and non-U.S. issuers, including, without limitation, bonds, notes and debentures issued by corporations, municipal bonds, debt securities issued or guaranteed by the U.S. Government or one of its agencies or instrumentalities and commercial paper. Fixed income securities pay fixed, variable or floating rates of interest. The value of fixed-income securities in which Solus invests will change in response to fluctuations in interest rates. In addition, the value of certain fixed-income securities can fluctuate in response to perceptions of creditworthiness, political stability or soundness of economic policies. Fixed income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (i.e., credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (i.e., market risk).

Variable and Floating Rate Securities. In addition to traditional fixed-rate securities, Solus may invest in debt securities with variable or floating rate interest or dividend payments. Variable or floating rate securities bear rates of interest that are adjusted periodically according to formulae intended to reflect market rates of interest. Variable or floating rate securities allow the Clients to participate in increases in interest rates through upward adjustments of the coupon rates on such securities. However, during periods of increasing interest rates, changes in the coupon rates may lag the change in market rates or may have limits on the maximum increase in coupon rates. Alternatively, during periods of declining interest rates, the coupon rates on such securities readjust downward resulting in a lower yield.

Solus also may invest in derivative variable rate securities, such as inverse floaters whose rates vary inversely with market rates of interest, or range floaters or capped floaters, whose rates are subject to periodic or lifetime caps, or in securities that pay a rate of interest determined by applying a multiple to the variable rate. Investment in such securities involves special risks as

compared to a fixed-rate security. The extent of increases and decreases in the value of derivative variable rate securities and the corresponding change to the net asset value of the Clients in response to changes in market rates of interest generally will be larger than comparable changes in the value of an equal principal amount of a fixed-rate security having similar credit quality, redemption provisions and maturity. The markets for such securities may be less developed and have less liquidity than the markets for conventional securities.

Commercial Paper. Solus may invest in commercial paper, which represents short-term unsecured promissory notes issued by banks or bank holding companies, corporations, finance companies, state and local governments, and by public authorities, agencies and instrumentalities.

Credit Default Swaps. Like short sales, credit default swaps involve the risk of an unlimited increase in the market price of a particular security. Also like short sales, an investment in a credit default swap involves the posting of collateral that will be returned to the Client upon the termination of the credit default swap. Amounts posted as collateral may be invested in cash or cash equivalent investments and may not generate the same level of return as the Client's other investments.

Repurchase and Reverse Repurchase Agreements. Solus may enter into repurchase and reverse repurchase agreements. When Solus enters into a repurchase agreement, it "sells" securities to a broker-dealer or financial institution, and agrees to repurchase such securities on a mutually agreed date for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. In a reverse repurchase transaction, Solus "buys" securities issued from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by Solus, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by Solus involves certain risks. For example, if the seller of securities to Solus under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, Solus will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, Solus' ability to dispose of the underlying securities may be restricted. It is possible, in a bankruptcy or liquidation scenario, that Solus may not be able to substantiate its interest in the underlying securities. Finally, if a seller defaults on its obligation to repurchase securities under a reverse repurchase agreement, the Clients may suffer a loss to the extent that Solus is forced to liquidate the positions in the market, and proceeds from the sale of the underlying securities are less than the repurchase price agreed to by the defaulting seller. Similar elements of risk arise in the event of the bankruptcy or insolvency of the buyer.

"When-Issued" and "Forward Delivery" Securities. To secure prices or yields deemed advantageous at a particular time, Solus may purchase securities on a "when-issued" or on a "forward delivery" basis. In these cases, delivery of the securities will occur beyond the normal settlement period. When-issued securities purchased by Solus may include securities purchased on a "when, as and if issued" basis under which the issuance of the securities depends on the occurrence of a subsequent event, such as approval of a merger, corporate reorganization or debt restructuring.

Securities purchased on a when-issued or forward delivery basis may expose the Clients to risk because the securities may experience fluctuations in value prior to their actual delivery. Clients will not accrue income with respect to a when-issued or forward delivery security prior to its stated delivery date. Purchasing securities on a when-issued or forward delivery basis can involve the additional risk that the yield available in the market when the delivery takes place may be higher than that obtained in the transaction itself. Further, in such transactions, Solus will rely on the other party to consummate the trade. Failure of the seller to do so may result in the Clients incurring a loss or missing an opportunity to obtain a price considered to be advantageous.

Investments in Distressed Securities. Solus may invest in “below investment grade” securities and obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Solus also may invest in fee interests and other interests in distressed real estate or real estate-related assets. These securities are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court’s power to disallow, reduce, subordinate, recharacterize debt as equity or disenfranchise particular claims. Such companies’ securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to Solus’ investment in any instrument, and a significant portion of the obligations and securities in which Solus invests may be less than investment grade. Any one or all of the issuers of the securities in which Solus may invest may be unsuccessful or not show any returns for a considerable period of time. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that Solus will correctly evaluate the value of the assets collateralizing the Clients’ loans or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which Solus invests, the Clients may lose their entire investment, may be required to accept cash or securities with a value less than the Clients’ original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from Solus’ investments may not compensate the Clients adequately for the risks assumed. In addition, under certain circumstances, payments and distributions may be disgorged if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security, the value of which will be less than the purchase price to the Client of the security in respect to which such distribution was made.

In certain transactions, the Client may not be “hedged” against market fluctuations, or, in liquidation situations, may not accurately value the assets of the company being liquidated. This can result in losses, even if the proposed transaction is consummated.

High Yield Securities. Solus may invest in bonds or other fixed-income securities, including without limitation “higher yielding” (including non-investment grade) debt securities. Such securities are generally not exchange-traded and, as a result, these financial instruments trade in the over-the-counter marketplace, which is less transparent and has wider bid/ask spreads than the exchange-traded marketplace. In addition, Solus may invest in bonds of issuers that do not have publicly-traded equity securities, making it more difficult to hedge the risks associated with such investments. Also, the market for credit spreads is often inefficient and illiquid, making it difficult to accurately calculate discounting spreads for valuing financial instruments. High yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer’s inability to meet timely interest and principal payments. High yield securities are generally more volatile and may or may not be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured by substantially all of the issuer’s assets. High yield securities may also not be protected by financial covenants or limitations on additional indebtedness.

The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing. It is possible that a major economic recession could severely disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities.

Bankruptcy Claims. Solus may invest in unsecured claims held by entities owed for goods, services or other losses against companies that have filed for bankruptcy protection (such claims are known as “trade claims”). Because of the absence of a regulated market for trade claims and the decreased transparency of pricing information with respect to trade claims (and the resulting difficulties in determining market values for them) as well as the risk that such claims may be disallowed or reduced by the bankruptcy court or treated differently from other forms of debt under the debtor’s plan of reorganization approved by the bankruptcy court, the prices and/or returns realized on such investments could be less than the price originally paid by the Clients. Further, because of the absence of a formal market, indices, or regulation of trade claims, trade claims may be illiquid. The purchaser of a trade claim (such as the Clients) may also be subject to actions during the bankruptcy court proceedings, including preference actions and, in certain circumstances, equitable subordination actions, based solely on prior conduct of the seller of such trade claim. Such actions may result in the reduction or disallowance of a trade claim and losses to the purchaser of such claim, and a delay of realization of the value of such trade claim. Further, in the event a seller of a trade claim subsequently becomes insolvent or itself files for bankruptcy protection, the purchaser of such claim may not benefit from any warranties, representations or indemnities provided by the seller to the purchaser in the purchase documents (including recourse for disallowed claims), and, with respect to insolvent claim

sellers, be subject to credit and litigation risk. Trade claims are also subject to the credit and recovery risk of the bankrupt company, as well as the general risks associated with bankruptcy cases. In the event these risks materialize with respect to trade claims purchased by the Clients, the Clients may suffer significant losses. The purchaser of a trade claim (such as the Clients) may also be subject to the risk that the seller of a trade claim will fail to deliver upon the terms of the investment. In addition, the trade claims market lacks standard documentation, which increases settlement risks.

Risks Associated with Bankruptcy Cases. Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions, which may be contrary to the interests of the Clients. Furthermore, there are instances where creditors and equity holders lose their ranking and priority as such if they are considered to have taken over management and functional operating control of a debtor. In those cases where the Client, by virtue of such action, is found to exercise “domination and control” of a debtor, the Client may lose its priority if the debtor can demonstrate that its business was adversely impacted or other creditors and equity holders were harmed by the Client.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and the Clients; it is subject to unpredictable and lengthy delays; and during the process the company’s competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets. The debt of companies in financial reorganization will, in most cases, not pay current interest, may not accrue interest during reorganization and may be adversely affected by an erosion of the issuers’ fundamental values. Such investments can result in a total loss of principal.

U.S. bankruptcy law permits the classification of “substantially similar” claims in determining the classification of claims in a reorganization for purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that Solus’ influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for taxes) may be quite high.

Solus may invest in companies based in OECD countries and other non-U.S. countries. Investment in the debt of financially distressed companies domiciled outside the U.S. involves additional risks. Bankruptcy law and process may differ substantially from that in the U.S., resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

Solus, on behalf of Clients, may elect to serve on creditors' committees, equity holders' committees or other groups to ensure preservation or enhancement of the Clients' positions as a creditor or equity holder. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents. If Solus concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to the Clients, it may resign from that committee or group, and in such case the Clients may not realize the benefits, if any, of participation on the committee or group. In addition, and also as discussed above, if the Client is represented on a committee or group, it may be restricted or prohibited under applicable law from disposing of or increasing its investments in such company while it continues to be represented on such committee or group.

Solus may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser.

Reorganizations can be contentious and adversarial. It is by no means unusual for participants to use the threat of, as well as actual, litigation as a negotiating technique. Solus anticipates that during the term of the Clients, Solus or the Clients may be named as defendants in civil proceedings. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the Clients and would reduce net assets.

Litigation Risk. Some of the tactics that the Solus may use involve litigation. A Client could be a party to lawsuits either initiated by it, or by a company in which it invests, other investors, or state, federal and foreign governmental bodies. There can be no assurance that any such litigation, once begun, would be resolved in favor of the applicable Client(s).

Equitable Subordination. Under common law principles that in some cases form the basis for lender liability claims, if a lender (i) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called "equitable subordination"). Solus does not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the nature of the debt obligations, the Clients may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the issuer should be equitably subordinated.

Leverage and Financing Risk. Solus may leverage Clients' capital to the extent permitted under the relevant Client's governing documents/guidelines because Solus believes that the use of leverage may enable certain Clients to achieve a higher rate of return. Accordingly, leverage may take the form of trading on margin, repurchase financings, total rate of return swaps, loans

or other instruments Solus deems appropriate. The amount of leverage which such Clients' may have outstanding at any time may be substantial in relation to their capital.

While leverage presents opportunities for increasing total returns, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of an investment would be magnified to the extent the investment is leveraged. The cumulative effect of the use of leverage by Solus in a market that moves adversely to levered Clients' investments could result in a substantial loss to those Clients which would be greater than if such Clients were not leveraged.

Solus will borrow funds to increase buying power and potential returns to applicable Clients. Although leverage will increase the investment return of such Clients if an investment purchased with borrowed funds earns a greater return than the amount that such Clients are charged for the use of those funds, the use of leverage will decrease the investment return if such Clients fail to earn as much on investments purchased with borrowed funds as they are charged for the use of those funds. The use of leverage will also allow Solus to borrow in order to make additional investments, thereby increasing the affected Clients' exposure to assets, such that their total assets are greater than their NAV. The use of leverage will, therefore, magnify the volatility of changes in the value of the investments of such Clients.

Borrowings by Solus may be secured by the applicable Client's portfolio. Under certain circumstances pursuant to the conditions of a loan, the Clients may be required to liquidate all or a portion of their investments to pay off the loan. Liquidation under those circumstances could have adverse consequences. Funds borrowed for leveraging will be subject to interest costs that may or may not be recovered by the return on the Clients' portfolios.

Solus' participation in some investments may involve significant leverage. Additionally, in some investments, it is anticipated that Solus would retain either the most or one of the most subordinate tranches of the respective issuer's securities, which is the most leveraged investment in the issuer's structure.

In general, the anticipated use of short-term margin borrowings results in certain additional risks to the applicable Clients. For example, should the securities pledged to brokers to secure a Client's margin account declines in value, the Client could be subject to a "margin call," pursuant to which the Client must either deposit additional funds or securities with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden drop in the value of such Client's assets, the Client might not be able to liquidate assets quickly enough to satisfy its margin requirements.

In certain situations, including situations when a Liquidating SPV may be created to liquidate certain investments held by a Client (if applicable), the Client may need to deliver all or a portion of its investments. The Client may incur substantial costs in connection with deleveraging such capital, which costs may be borne by all investors in such Client.

Investments in Collateralized Debt Obligations. Solus expects to invest in cash and synthetic CDO debt securities ("CDO Securities"), including, through purchases on the secondary market, securities issued by CDOs that are structured, managed and/or advised by Solus or its affiliates. CDO Securities in which Solus invests will be backed by certain fixed-income securities, such as corporate leveraged loans, CDO Securities, credit default swaps, asset-

backed securities and other derivatives. CDO Securities are instruments representing interests in pools, the underlying asset classes of which include bonds, debentures, syndicated loans, and private placement debt and are limited-recourse obligations of the issuer thereof payable solely from the underlying securities in the portfolio of such issuer. CDO Securities are subject to various risks including the following credit, liquidity, interest rate and other risks:

(i) Limited Diversification. CDOs may invest in concentrated portfolios of assets. The concentration of an underlying portfolio in any one obligor would subject the holder of the related CDO Securities (and the related CDO equity securities in particular) to a greater degree of risk with respect to defaults by such obligor and the concentration of a portfolio in any one industry would subject the holder of the related CDO Securities (and the related CDO equity securities in particular) to a greater degree of risk with respect to economic downturns relating to such industry or region.

(ii) Leverage Risk. Solus' investments in CDOs involve significant leverage. Leverage is embedded in all classes of a CDO other than the most senior tranche, with the highest leverage applicable to an investment by Solus in CDO equity securities. While the leverage presents opportunities for increasing the Clients' total returns, it has the effect of potentially increasing losses as well. Accordingly, any event that adversely affects the value of an investment in a CDO would be magnified to the extent that a CDO security is leveraged. The cumulative effect of the use of leverage by a CDO in a market that moves adversely to the CDO's investments could result in a substantial loss to the investor in the CDO with the greatest loss applicable to the equity securities issued by the CDO. When Solus invests by entering into a credit derivative transaction, leverage often will be embedded in such transaction as well, which will expose the Clients to a greater risk of loss.

(iii) Risks of Investment Focus. The value of the CDO Securities owned by the Clients generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO ("CDO Collateral"), market conditions, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. CDO Securities are issued on a non-recourse basis and holders of CDO Securities must rely solely on distributions on the CDO Collateral or proceeds thereof for payment in respect thereof. If distributions on the CDO Collateral are insufficient to make payments on the CDO Securities, no other assets will be available for payment of the deficiency and following liquidation of the CDO Collateral, the obligations of such issuer to pay such deficiency will be extinguished.

(iv) Interest Rate Mismatch. CDOs are subject to significant interest rate risk. Some or all of the CDO Collateral of a CDO bears interest at a fixed rate, while the CDO Security typically bears interest at a floating rate. As a result, there could be a floating/fixed rate mismatch between such CDO Security and the CDO Collateral which bears interest at a fixed rate. In addition, the CDO Collateral which bears interest at floating rates will pay interest at rates that adjust more frequently or less frequently, on different dates and based on different indices than the interest rates on the CDO Security. As a result of such mismatches, an increase or decrease in the level of the floating rate indices could adversely impact the ability of the CDO to make payments on such CDO Security. Although many CDOs attempt to hedge this interest

rate risk, the hedges do not eliminate this risk and payments by the CDO under the hedges may significantly reduce the distributions on the CDO Securities.

(v) Lower Credit Quality Securities. There are no restrictions on the credit quality of the investments of the Clients. CDO Securities in which Solus invest may be deemed by rating agencies to have substantial vulnerability to default in payment of interest and/or principal. Other securities may have the lowest quality ratings or may be unrated. Solus may purchase CDO Securities which have ratings that have been downgraded or placed on “credit watch” for future downgrading. Lower rated and unrated securities in which Solus may invest have large uncertainties or major risk exposures to adverse conditions and are considered to be predominantly speculative. Generally, such securities offer a higher return potential than higher rated securities, but involve greater volatility of price and greater risk of loss of income and principal.

The market values of CDO Securities also tend to be more sensitive to changes in market or economic conditions than other securities. Declining real estate values or increasing default rates among borrowers, in particular, will increase the risk of loss upon default on CDO Securities backed by mortgage-backed securities and mortgage loans, and may lead to a downgrading of the securities by rating agencies. The value of the leveraged loans, asset-backed securities and mortgage-backed securities underlying a CDO may also be affected by changes in the market’s perception of the entity issuing or guaranteeing them, or by changes in government regulations and tax policies.

(vi) Liquidity of Markets. At times, the fixed-income markets have in the past experienced significant falloffs in liquidity. While such events may sometimes be attributable to changes in interest rates or other factors, the cause is not always apparent. During such periods of market illiquidity, a CDO may not be able to sell assets in its portfolio or may only be able to do so at unfavorable prices. Recently, the market for CDO Securities has experienced a rapid decline in liquidity. Such “liquidity risk” could adversely impact the value of the Clients’ portfolios, and may be difficult or impossible to hedge against. Further, Solus may not be able to readily dispose of portions of the Clients’ portfolios under such and other circumstances and, in some cases, may be contractually prohibited from disposing of certain portions of the Clients’ portfolios for a specified period of time. CDO Securities in the Clients’ portfolios will have no, or only a limited, trading market, which may make it difficult to sell them quickly without incurring significant losses. Because CDO Securities are illiquid, they can be difficult to value and the valuations are often based on models or an indicative price from a dealer, rather than on prices at which the security was actually sold; as a result a CDO Security may experience large movements in price that may not reflect the actual sales prices of the security. If holders of CDO Securities attempt to liquidate large portfolios of such securities over a short period of time, difficulties in the market for such securities may be exacerbated, resulting in further decreased liquidity and pricing.

(vii) Default and Recovery Rates of CDO Collateral. There are varying sources of statistical default and recovery rate data for asset-backed securities, loans and high yield securities and numerous methods for measuring default and recovery rates. The historical performance of the asset-backed market, the high yield market or the leveraged loan market is not necessarily indicative of its future performance.

(viii) Subordination of CDO Securities. A substantial portion of the Clients' portfolios may consist of subordinate CDO Securities. Subordinate CDO Securities generally are fully subordinated to the related CDO senior tranches. Thus, investments of Solus in a CDO often will rank behind other creditors of the CDO and an investment by Solus in the equity tranche of a CDO will rank behind all creditors of the CDO. To the extent that any losses are incurred by a CDO in respect of its related CDO Collateral, such losses will be borne first by the holders of the related CDO equity, next by the holders of any related subordinated CDO debt and finally by the holders of the related CDO senior tranches. In addition, if an event of default occurs under the governing instrument or underlying investment, as long as any CDO senior tranches are outstanding, the holders thereof generally will be entitled to determine the remedies to be exercised under the instrument governing the CDO. Remedies pursued by such holders could be adverse to the interests of the holders of any related subordinated CDO debt or CDO equity. Investments of the Clients may be the first to absorb any losses by the CDO on its underlying portfolios. This may result in losses on the invested proceeds of the Clients and could result in the complete loss of invested proceeds.

(ix) Illiquidity of CDO Securities Owned by the Clients. The value of the CDO Securities owned by the Clients will fluctuate with, among other things, changes in the market rates of interest, general economic conditions, economic conditions in particular industries, the condition of financial markets and the financial condition of the related CDOs. In addition, the lack of an established, liquid secondary market for CDO Securities may have an adverse effect on the market value of those CDO Securities and will make it difficult to dispose of such CDO Securities at market or near market prices. Additionally, the markets for CDO Securities recently have experienced high volatility and reduced liquidity. CDO Securities are subject to certain transfer restrictions that contribute to illiquidity. Therefore, if Solus decides to dispose of any particular CDO Security, no assurance can be given that it will be able to dispose such CDO Security at the value determined by Solus in accordance with the Clients' governing documents. Such illiquidity may adversely affect the price and timing of liquidations of CDO Securities by Solus.

(x) Mandatory Redemption of CDO Senior Tranches. Under certain circumstances, cash flows from CDO Collateral that otherwise would have been paid to the holders of its mezzanine CDO debt and the related CDO equity will be used to redeem the related CDO senior tranches. This could result in an elimination, deferral or reduction in the interest payments, principal repayments or other payments made to the holders of such CDO debt, which are the CDO Securities in which Solus will invest, which could adversely impact the returns to the Clients.

(xi) CDO Collateral. The CDO Collateral backing the CDO Securities that Solus will acquire and the reference obligations for the credit derivative transactions into which Solus will enter will include residential mortgage-backed securities ("RMBS"), asset-backed securities ("ABS"), commercial mortgage-backed securities ("CMBS"), and trust preferred securities ("TruPS"), as well as high yield debt securities, commercial loans, other CDO Securities, and interests in hedge funds and private equity funds.

(a) CMBS. The collateral underlying CMBS generally consists of mortgage loans secured by income producing property, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, rental apartments, nursing homes, senior

living centers and self storage properties. Performance of a commercial mortgage loan depends primarily on the net income generated by the underlying mortgaged property. The market value of a commercial property similarly depends on its income-generating ability. As a result, income generation will affect both the likelihood of default and the severity of losses with respect to a commercial mortgage loan. Any decrease in income or value of the commercial real estate underlying an issue of CMBS could result in cash flow delays and losses on the related issue of CMBS.

(b) RMBS. Holders of RMBS bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one- to four-family residential properties. Such loans may be prepaid at any time. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity. The rate of defaults and losses on residential mortgages will be affected by a number of factors, including general economic conditions and those in the area where the related mortgaged property is located, the borrower's equity in the mortgaged property and the financial circumstances of the borrower.

The rise in the rate of foreclosures of properties backing residential mortgages in certain states have prompted legislators, regulators and attorneys general at both the Federal and state level to try to prevent certain foreclosures and bring lawsuits against participants in the financing of residential mortgages, including issuers and underwriters of RMBS backed by such mortgages and investors in such RMBS (which may include the Clients). Restructuring of residential mortgages may extend the timeframe in which principal is repaid on RMBS and, in certain cases, may reduce the likelihood that principal is repaid in its entirety. Furthermore, lenders may voluntarily restructure residential mortgages without the consent of RMBS holders, which may violate the terms of loan documents between such holders and lenders. Ultimately, if a borrower defaults on a residential mortgage, foreclosure of such residential mortgage may be a lengthy and difficult process and may involve significant expenses. In addition, government policies may inhibit lenders from exercising legal rights in a default, which increases the risk of principal loss.

At any one time, a portfolio of RMBS may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few jurisdictions or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such area, such as adverse economic conditions, adverse events affecting industries located in such area and natural hazards affecting such area, than would be the case for a pool of mortgage loans having more diverse property locations. In addition, the residential mortgage loans may include so-called "jumbo" mortgage loans, having original principal balances that are higher than is generally the case for residential mortgage loans. As a result, such portfolio of RMBS may experience increased losses.

Each underlying residential mortgage loan in an issue of RMBS may have a balloon payment due on its maturity date. Balloon residential mortgage loans involve a greater risk to a lender than fully-amortizing loans, because the ability of a borrower to pay such amount will normally depend on its ability to obtain refinancing of the related mortgage loan or sell the related mortgaged property at a price sufficient to permit the borrower to make the balloon payment, which will depend on a number of factors prevailing at the time such refinancing or sale is required, including, without limitation, the strength of the residential real estate markets,

tax laws, the financial situation and operating history of the underlying property, interest rates and general economic conditions.

Prepayments on the underlying residential mortgage loans in an issue of RMBS will be influenced by the prepayment provisions of the related mortgage notes and may also be affected by a variety of economic, geographic and other factors, including the difference between the interest rates on the underlying residential mortgage loans (giving consideration to the cost of refinancing) and prevailing mortgage rates and the availability of refinancing. In general, if prevailing interest rates fall significantly below the interest rates on the related residential mortgage loans, the rate of prepayment on the underlying residential mortgage loans would be expected to increase. Conversely, if prevailing interest rates rise to a level significantly above the interest rates on the related mortgages, the rate of prepayment would be expected to decrease. Prepayments could reduce the yield received on the related issue of RMBS. RMBS are particularly susceptible to prepayment risks, as they generally do not contain prepayment penalties and a reduction in interest rates will increase the prepayments on the RMBS, resulting in a reduction in yield to maturity for holders of such securities.

Structural features of RMBS securities may contribute to the impact of increased delinquencies and defaults and lower recoveries on the underlying mortgage pool. In particular, there may be a decline in the interest rate payable under RMBS because the interest rate on RMBS typically is limited by the weighted average net coupon of the underlying mortgage loans themselves, often referred to as an “available funds cap.” Mortgage loans bearing interest at a higher rate will have a greater tendency to default than those with lower mortgage rates. Such defaults will reduce the weighted average coupon of the underlying mortgage loans and accordingly the interest rate payable to investors in the related RMBS security, including the Clients.

Since 2007, a number of originators and servicers of mortgage loans have experienced serious financial difficulties and, in some cases, have entered bankruptcy proceedings. Such financial difficulties may have a negative effect on the ability of servicers to pursue collection on mortgage loans that are experiencing increased delinquencies and defaults and to maximize recoveries on sale of underlying properties following foreclosure. The inability of the originator to repurchase such mortgage loans in the event of early payment defaults and loan representation breaches may also affect the performance of RMBS backed by those mortgage loans.

A number of servicers have entered into agreements with Federal and state government agencies committing the servicers to modify underlying mortgage loans in order to reduce interest rates on the loans, forgive delinquent interest (and in some cases principal) and to take other actions that are intended to delay or prevent foreclosure on the mortgaged property. Federal legislation has been proposed that would protect servicers who make such modifications to mortgages backing RMBS from claims brought by investors in the RMBS. Amendments to the U.S. Bankruptcy Code have also been proposed that would enable a bankruptcy court to reduce the principal amount of a mortgage loan without the consent of the owner of the mortgage loan.

Residential mortgage loans in an issue of RMBS may be subject to various laws, public policies and principles of equity that protect consumers, which among other things may regulate interest rates and other charges, require certain disclosures, require licensing of originators,

prohibit discriminatory lending practices, regulate the use of consumer credit information and regulate debt collection practices. Violation of certain provisions of these laws, public policies and principles may limit the servicer's ability to collect all or part of the principal of or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer to damages and sanctions. Any such violation could also result in cash flow delays and losses on the related issue of RMBS.

It is not expected that RMBS will be guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on RMBS will depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans.

(c) Commercial Loans. CDO Collateral may also consist of commercial loans. Such loans are typically negotiated by one or more commercial banks or other financial institutions and syndicated among a group of commercial banks and financial institutions and other investors. The loans will typically be to borrowers which have no ratings or below investment grade ratings and will generally be highly leveraged companies or "middle market" companies.

(d) TruPS. TruPS are generally issued by special purpose trust subsidiaries of financial institutions, insurance companies or REITs (defined below). The trust subsidiary uses the proceeds of the sale of its TruPS to purchase deferrable debentures (the "Corresponding Debentures") or other subordinated debt of its parent financial institution or holding company (the "Corresponding Debenture Issuer"). A trust's only source of cash to make payments on its TruPS will be the interest payments it receives on the Corresponding Debentures. The cash flow characteristics of the TruPS have maturities and coupons that mirror the Corresponding Debentures of the Corresponding Debenture Issuer.

TruPS issued by each trust will generally be redeemed when the Corresponding Debentures issued by its Corresponding Debenture Issuer are paid at maturity, or upon earlier redemption of the Corresponding Debentures. The TruPS may have varying coupon rates, distribution or payment dates and accrual periods, call prices and dates, maturity dates and other terms from one another.

Payments under the Corresponding Debentures, and in turn under the TruPS and the CDO Securities that they underlie, are highly dependent upon payments received from the relevant Corresponding Debenture Issuer and its subsidiaries. Furthermore, adverse developments with respect to the financial, insurance and real estate industries in general may adversely affect the ability of a Corresponding Debenture Issuer to make payments under the Corresponding Debentures.

(xii) Asset-Backed Securities. "ABS" generally refers to securities backed by assets other than mortgages, mortgage-backed securities or other mortgage-related assets. The Clients will be exposed to the risk of ABS (both indirectly) through investment in CDO Securities that are backed by ABS (and directly through investment in ABS). The investment characteristics of ABS differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that principal may be prepaid at any time because the underlying assets generally may be prepaid at any time. Credit card receivables, automobile, boat and recreational vehicle installment sales contracts, commercial and industrial bank loans, home equity loans and lines of credit,

manufactured housing loans, corporate debt securities and various types of accounts receivable commonly support ABS. However, there can be no assurance that innovation in the relevant markets will not transform ABS by adding new classes of assets, new structures or other features not now familiar in the asset-backed markets. ABS securities present certain risks that are not presented by mortgage-backed securities. Primarily, ABS securities are often backed by unsecured receivables. Credit card receivables, for example, are generally unsecured and the debtors are entitled to the protection of a number of state and Federal consumer loan laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. Most issuers of automobile receivables permit the servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related automobile receivables. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the automobile receivables may not have a proper security interest in all of the obligations backing such receivables. Therefore, there is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor. The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to defaults and foreclosures) occur on loans underlying ABS will be affected by a variety of factors including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors.

(xiii) Synthetic Assets. Solus may purchase or enter into CDO Securities synthetically with a synthetic asset counterparty through products such as credit default swaps, total return swaps, credit linked notes, structured notes, trust certificates and other derivative instruments (each, a “Synthetic Asset”). A Synthetic Asset could take many forms, including a credit derivative transaction which references a CDO debt or equity security or a credit derivative transaction which references a portfolio of corporate reference entities or a portfolio of reference obligations consisting of asset-backed securities, loans, high yield bonds or other financial instruments (each, a “Reference Obligation”). Exposure to such Reference Obligations through Synthetic Assets presents risks in addition to those resulting from direct purchases of such CDO debt and CDO equity. The Clients will have a contractual relationship only with the synthetic asset counterparty, and not with the issuer(s) (the “Reference Entity”) of the Reference Obligations unless a credit event occurs with respect to any such Reference Obligation, physical settlement applies and the synthetic asset counterparty delivers the Reference Obligation to the Clients. Other than in the event of such delivery, the Clients generally will have no right directly to enforce compliance by the Reference Entity with the terms of any such Reference Obligation and the Clients will not have any rights of set-off against the Reference Entity. In addition, the Clients generally will not have any voting or other consensual rights of ownership with respect to the Reference Obligation. The Clients also will not directly benefit from any collateral supporting the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation.

In the event of the insolvency of the synthetic asset counterparty, the Clients will be treated as a general creditor of such counterparty, and will not have any claim of title with respect to the Reference Obligation. Consequently, the Clients will be subject to the credit risk of the synthetic asset counterparty, as well as that of the Reference Entity. As a result, concentrations of Synthetic Assets entered into with any one synthetic asset counterparty will

subject such Synthetic Assets to an additional degree of risk with respect to defaults by such synthetic asset counterparty as well as by the respective Reference Entities.

Synthetic Assets (together with synthetic CDO obligations) may comprise a significant portion of the Clients' portfolio. While Solus expects that returns on a Synthetic Asset may reflect those of each related Reference Obligation, as a result of the terms of the Synthetic Asset and the assumption of the credit risk of the synthetic asset counterparty, a Synthetic Asset may have a different expected return, a different (and potentially greater) probability of default and different expected loss and recovery characteristics following a default.

(xiv) Optional Redemption of CDO Senior Tranches. An optional redemption by a CDO of its notes could require the collateral or portfolio manager of the related CDO to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the realized value of the items of CDO Collateral sold (and which in turn could adversely impact the holders of any related CDO equity securities including the Clients).

(xv) Price Volatility Risk. The prices of the CDO Collateral are highly volatile. Price movements are influenced by, among other things: changing supply and demand relationships; trade, fiscal, monetary and exchange control programs and policies of governments; U.S. and foreign political events and policies; changes in national and/or international interest rates and rates of inflation; currency devaluations and revaluations, and market sentiments. None of these factors can be controlled by Solus and no assurance can be given that the advice of Solus will result in profitable investments for the Clients.

(xvi) "Widening" Risk. For reasons not necessarily attributable to any of the risks set forth herein (for example, supply/demand imbalances or other market forces), the prices of the CDO Securities in which Solus invests may decline substantially. In particular, purchasing assets at what may appear to be "undervalued" levels is no guarantee that these assets will not be trading at even lower levels at a time of valuation or at the time of sale. It may not be possible to predict, or to hedge against, such "spread widening" risk.

Real Estate-Related Securities. Solus may invest in securities issued by entities which invest in real estate such as "real estate investment trusts" ("REITs"). Real estate investments generally will be subject to the risks incident to the ownership and operation of commercial real estate and/or risks incident to the making of nonrecourse mortgage loans secured by real estate. Such risks include, without limitation, the risks associated with both the domestic and international general economic climates; local real estate conditions; risks due to dependence on cash flow; risks and operating problems arising out of the absence of certain construction materials; changes in supply of, or demand for, competing properties in an area (as a result, for instance, of over-building); the financial condition of tenants, buyers and sellers of properties; changes in availability of debt financing; energy and supply shortages; changes in the tax, real estate, environmental, and zoning laws and regulations; various uninsured or uninsurable risks; natural disasters; and the ability of the Clients or third-party borrowers to manage the real properties. In addition, the Clients may incur the burdens of ownership of real property, which include the paying of expenses and taxes, maintaining such property and any improvements thereon, and ultimately disposing of such property.

Complexity and Market Shifts. Many of the securities and other financial instruments in which Solus invests are complex, and their market values are highly sensitive to changes in interest rates and/or prepayments. Returns on mortgage-backed securities, collateralized mortgage obligations (“CMOs”) and stripped mortgage-backed securities may be affected by relatively small changes in interest rates, prepayments or both. These security types, together with callable and putable bonds and other option-like instruments, are sensitive to changes in the volatility of interest rates. Solus’ ability to rebalance the portfolio could be reduced by a variety of factors such as very rapid changes in interest rates, spreads and volatility conditions, and by market dislocations caused by other factors such as unanticipated political and economic changes.

Insolvency Risks. Various laws enacted for the protection of creditors may apply to the issuers of the CDO Collateral (solely for purposes of this risk factor, an “Insolvent Company”). The information in this paragraph and the following paragraph is applicable with respect to U.S. issuers of CDO Collateral. Insolvency considerations may differ with respect to non-U.S. issuers of CDO Collateral. If a court in a lawsuit brought by an unpaid creditor or representative of creditors of an Insolvent Company, such as a trustee in bankruptcy, were to find that the issuer did not receive fair consideration or reasonably equivalent value for incurring the indebtedness constituting the CDO or CDO Collateral (as applicable) and, after giving effect to such indebtedness, the Insolvent Company (i) was insolvent, (ii) was engaged in a business for which the remaining assets of the Insolvent Company constituted unreasonably small capital or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could determine to invalidate, in whole or in part, such indebtedness as a fraudulent conveyance, to subordinate such indebtedness to existing or future creditors of the Insolvent Company or to recover amounts previously paid by such issuer in satisfaction of such indebtedness. The measure of insolvency for purposes of the foregoing will vary. Generally, an Insolvent Company would be considered insolvent at a particular time if the sum of its debts were then greater than all of its property at a fair valuation or if the present fair saleable value of its assets were then less than the amount that would be required to pay its probable liabilities on its existing debts as they became absolute and matured. There can be no assurance as to what standard a court would apply in order to determine whether the Insolvent Company was “insolvent” after giving effect to the incurrence of the indebtedness constituting the CDO or CDO Collateral (as applicable) or that, regardless of the method of valuation, a court would not determine that the Insolvent Company was “insolvent” upon giving effect to such incurrence. In addition, in the event of the insolvency of an Insolvent Company, payments made on such CDO or CDO Collateral (as applicable) could be subject to avoidance as a “preference” if made within a certain period of time (which may be as long as one year) before insolvency.

In general, if payments on a CDO or CDO Collateral (as applicable) are avoidable, whether as fraudulent conveyances or preferences, such payments can be recaptured either from the initial recipient (such as the Clients). However, a court in a bankruptcy or insolvency proceeding would be able to direct the recapture of any such payment only to the extent that such court has jurisdiction over such holder or its assets. Moreover, it is likely that avoidable payments could not be recaptured directly from a holder that has given value in exchange for its interest, in good faith and without knowledge that the payments were avoidable. Nevertheless, there can be no assurance that a Client will be able to avoid recapture on this or any other basis.

The preceding discussion is based upon principles of U.S. Federal and state laws. Insofar as the Clients' portfolios consist of the obligations of non-U.S. obligors, the laws of certain foreign jurisdictions may provide for avoidance remedies under factual circumstances similar to those described above or under different circumstances, with consequences that may or may not be analogous to those described above under U.S. Federal and state laws.

Adjustable Rate Mortgage-Backed Securities and Floating Rate CMOs. Certain mortgage-backed securities are backed by adjustable-rate loans. The market value of the adjustable rate mortgage securities in which Solus may invest may be adversely affected if the mortgage loans underlying these securities contain provisions limiting the amount by which their rates may be adjusted upward (periodic rate caps) in response to rising interest rates, or limiting the amount by which payments may be increased to accommodate upward adjustments in interest rates (periodic payment caps). The market value of adjustable-rate securities may also be adversely affected to the extent that mortgages are subject to lifetime rate caps.

Certain CMOs pay interest rates which float in direct or inverse relation to an underlying reference rate. These securities are typically backed by fixed rate mortgage loans. Most floating rate and inverse floating rate CMOs are subject to lifetime rate caps and floors, which may also adversely affect their returns in certain rate environments. In addition, since they are backed by fixed rate mortgage collateral, their returns may also be affected by the prepayment behavior of the underlying fixed rate mortgages. Certain CMO tranches may, through structural features, leverage both prepayment risk and the sensitivity of coupon return to rate changes.

Subprime Mortgage Lending. Delinquencies, defaults and foreclosures on residential mortgage loans have increased and may affect the performance of RMBS, in particular "Residential B/C Mortgage Securities" which are backed by subprime mortgage loans, as well as "Alt-A" and "Alt-B" loans. Subprime mortgage loans are generally made to borrowers with lower credit scores and having higher loan-to-value ratios. Alt-A and Alt-B loans may also have some of the characteristics of subprime mortgage loans. Accordingly, mortgage loans backing Residential B/C Mortgage Securities are more sensitive to economic factors that could affect the ability of borrowers to pay their obligations under the mortgage loans backing these securities.

Market conditions may impair borrowers' ability to refinance or sell their properties, which may contribute to higher delinquency and default rates. Borrowers seeking to avoid increased monthly payments by refinancing may no longer be able to find available replacement loans at comparably low interest rates. A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. Borrowers who intended to sell their homes on or before the expiration of the fixed rate periods on their mortgage loans may find that they cannot sell their property for an amount equal to or greater than the unpaid principal balance of their loans. In addition, some mortgage loans may include prepayment premiums that would further inhibit refinancing.

Since 2007, a number of originators and servicers of mortgage loans have experienced serious financial difficulties and, in some cases, have entered bankruptcy proceedings. These difficulties have resulted in part from declining markets for their mortgage loans as well as from claims for repurchases of mortgage loans previously sold under provisions that require repurchase in the event of early payment defaults or for breaches of representations regarding loan quality. Higher delinquencies and defaults may be contributing to these difficulties by

reducing the value of mortgage loan portfolios, requiring originators to sell their portfolios at greater discounts to par. In addition, the costs of servicing an increasingly delinquent mortgage loan portfolio may be rising without a corresponding increase in servicing compensation. The value of any residual interests retained by sellers of mortgage loans in the securitization market may also be declining in these market conditions. Declining real estate values may decrease the number of borrowers able to refinance their mortgage loans, resulting in a decrease in overall originations. In addition, recent regulatory oversight, legislation and/or governmental intervention designed to protect consumers may have an adverse impact on originators and servicers. These factors, among others, may have the overall effect of increasing costs and expenses of originators and servicers while at the same time decreasing servicing cash flow and loan origination revenues. Such financial difficulties may have a negative effect on the ability of servicers to pursue collection on mortgage loans that are experiencing increased delinquencies and defaults and to maximize recoveries on sale of underlying properties following foreclosure. The inability of the originator to repurchase such mortgage loans in the event of early payment defaults and other loan representation breaches may also affect the performance of RMBS backed by those mortgage loans.

Under certain circumstances, including a failure to perform its servicing obligations or a bankruptcy of the servicer, and, in some cases, certain loss and/or delinquency triggers being exceeded, investors will be entitled to remove and replace the existing servicer. There is no guarantee, however, that a suitable servicer could be found to assume the obligations of the existing servicer, and the transition of servicing responsibilities to a replacement servicer could have an adverse effect on performance of servicing functions during or following a transition period and a resulting increase in delinquencies and losses and decreases in recoveries.

RMBS may provide that the servicer is required to make advances in respect of delinquent mortgage loans. However, servicers experiencing financial difficulties may not be able to perform these obligations. Even if a servicer were able to advance amounts in respect of delinquent mortgage loans, its obligation to make such advances may be limited to the extent that it does not expect to recover such advances due to the deteriorating credit of the delinquent mortgage loans. In addition, a servicer's obligation to make such advances may be limited to the amount of its servicing fee.

Transfers of mortgage loans by the originator or seller will be characterized in the applicable sale agreement as a sale transaction. Nevertheless, in the event of a bankruptcy of the originator or seller, the trustee in bankruptcy could attempt to recharacterize the sale of the mortgage loans as a borrowing secured by a pledge of the mortgage loans. If such attempt were successful, the trustee in bankruptcy could prevent the trustee for the RMBS from exercising any of the rights of the owner of the mortgage loans and also could elect to liquidate the mortgage loans. Investors may suffer a loss to the extent that the proceeds of the liquidation of the underlying mortgage loans would not be sufficient to pay amounts owed in respect of their investments. If this occurs, investors would lose the right to future payments of interest and may fail to recover their initial investment. Regardless of whether a trustee elects to foreclose on the underlying mortgage loan pool, delays in payments on their investments and possible reductions in the amount of these payments could occur.

A portion of the RMBS purchased by Solus may be Residential B/C Mortgage Securities which were originated or are serviced (or both) by subprime mortgage companies which are

currently in bankruptcy proceedings or regulatory enforcement actions which have restricted the ability of the lender or its affiliates to originate mortgage loans and may affect its ability to service or subservice mortgage loans. Servicers who have sought bankruptcy protection may, due to the application of applicable law in this proceeding, may also no longer be required to make service advances.

These adverse changes in market conditions may reduce the cashflow which the Clients receive from RMBS held by the Clients (or credit default swaps and embedded credit default swaps that reference RMBS) and increase the incidence and severity of credit events and floating amount events under the credit default swaps and embedded credit default swaps. In addition, interest rate spreads for Residential B/C Mortgage Securities (and fixed rates on synthetic securities which reference them) have widened and are more volatile when compared to the recent past due to these adverse changes in market conditions. In the event that interest rate spreads for RMBS (and/or fixed rates on synthetic securities referencing RMBS), continue to widen following the purchase of such RMBS by Solus, the market value of such RMBS is likely to decline and, in the case of a substantial spread widening, could decline by a substantial amount.

Prepayment Risk. The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to defaults and foreclosures) occur on loans underlying MBS and ABS will be affected by a variety of factors including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. Generally, mortgage obligors tend to prepay their mortgages when prevailing mortgage rates fall below the interest rates on their mortgage loans. Although ABS are generally less likely to experience substantial prepayments than are MBS, certain of the factors that affect the rate of prepayments on MBS also affect the rate of prepayments on ABS. However, during any particular period, the predominant factors affecting prepayment rates on MBS and ABS may be different.

In general, “premium” securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and “discount” securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since many MBS and ABS will be discount securities when interest rates are high, and will be premium securities when interest rates are low, these MBS and ABS may be adversely affected by changes in prepayments in any interest rate environment.

The adverse effects of prepayments may impact the Clients’ portfolios in two ways. First, particular investments may experience outright losses, as in the case of an interest-only security in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that Solus may have constructed for these investments, resulting in a loss to the Clients’ overall portfolio. In particular, prepayments (at par) may limit the potential upside of many MBS and ABS to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

Default and Recovery Rates of Loans and High Yield Securities. There are varying sources of statistical default and recovery rate data for loans and high yield securities and numerous methods for measuring default and recovery rates. The historical performance of the

high yield market or the leveraged loan market is not necessarily indicative of its future performance.

Contingent Liabilities. From time to time the Clients may incur contingent liabilities in connection with an investment. For example, Solus may purchase from a lender a revolving credit facility that has not yet been fully drawn. If the borrower subsequently draws down on the facility, the Clients would be obligated to fund the amounts due. Solus may also enter into agreements pursuant to which the Clients agree to assume responsibility for default risk presented by a third party, and may, on the other hand, enter into agreements through which third parties offer default protection to the Clients.

Ability to Lend on Advantageous Terms: Competition and Supply. Solus may purchase loans. Solus' success in this area will depend, in part, on its ability to obtain loans on advantageous terms. In purchasing loans, Solus will compete with a broad spectrum of lenders, many of which have substantially greater financial resources and are better known than Solus. Increased competition for, or a diminution in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to investors.

Fraud. Of paramount concern in lending is the possibility of material misrepresentation or omission on the part of a borrower. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying a loan or may adversely affect the ability of Solus to perfect or effectuate a lien on the collateral securing the loan. Solus will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to the Clients may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Swap Agreements. Solus may enter into swap agreements and options on swap agreements ("swaptions"). These agreements can be individually negotiated and structured to include exposure to a variety of different types of investments, asset classes or market factors. Solus, for instance, may enter into swap agreements with respect to interest rates, credit defaults, currencies, securities, indexes of securities and other assets or other measures of risk or return. Depending on their structure, swap agreements may increase or decrease the Clients' exposure to, for example, equity securities, long-term or short-term interest rates, foreign currency values, credit spreads or other factors. Swap agreements can take many different forms and are known by a variety of names. Solus is not limited to any particular form of swap agreement if consistent with the investment objectives.

Whether Solus' use of swap agreements or swaptions will be successful will depend on its ability to select appropriate transactions for the Clients. Swap transactions may be highly illiquid and may increase or decrease the volatility of the Clients' portfolios. Moreover, the Clients bear the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. The Clients will also bear the risk of loss related to swap agreements, for example, for breaches of such agreements or the failure of the Clients to post or maintain required collateral. Many swap markets are relatively new and still developing. It is possible that developments in the swap markets, including potential government regulation, could adversely affect the Clients' ability to terminate existing swap transactions or to realize amounts to be received under such transactions.

Limitations Due to Regulatory Restrictions. Solus may seek to acquire a significant stake in certain financial instruments. In the event such stake exceeds certain percentage or value limits, the Clients may be required to file a notification with one or more governmental agencies or comply with other regulatory requirements. Certain notice filings are subject to review that require a delay in the acquisition of the financial instrument. Compliance with such filing and other requirements may result in additional costs to the Clients, and may delay the Clients' ability to respond in a timely manner to changes in the markets with respect to such financial instruments.

Taxes and Derivatives. The regulatory and tax environment globally for derivative instruments in which Solus may participate is evolving, and changes in the regulation or taxation of such investments may materially adversely affect the value of such investments and the ability of Solus to pursue its investment strategies.

Futures Contracts. The value of futures depends upon the price of the financial instruments, such as commodities, underlying them. The prices of futures are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, investments in futures are also subject to the risk of the failure of any of the exchanges on which Solus' positions trade or of its clearing houses or counterparties.

Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent Solus from promptly liquidating unfavorable positions and subject the Clients to substantial losses or prevent it from entering into desired trades. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

Exchange-Traded Funds. Solus may invest in ETFs, which are shares of publicly-traded unit investment trusts, open-end funds, or depository receipts that seek to track the performance and dividend yield of specific indexes or companies in related industries. These indexes may be either broad-based, sector, or international. However, ETF shareholders are generally subject to the same risk as holders of the underlying securities they are designed to track. ETFs are also subject to certain additional risks, including, without limitation, the risk that their prices may not correlate perfectly with changes in the prices of the underlying securities they are designed to track, and the risk of trading in an ETF halting due to market conditions or other reasons, based on the policies of the exchange upon which the ETF trades. In addition, the Clients may bear, along with other shareholders of an ETF, their *pro rata* portion of the ETF's expenses, including management fees, which can have a material adverse effect on the return on capital of the Clients.

Illiquid Portfolio Investments. Solus may make investments in securities or other assets, such as bank loans, that 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 Solus 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. The sale of restricted securities and illiquid investments often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Solus may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. Restricted securities and other types of illiquid assets may sell at a price lower than similar investments that are not subject to restrictions on resale.

Assets and liabilities for which no such market prices are available will generally be carried on the books of the Clients at fair value (which may be cost) as reasonably determined by Solus. There is no guarantee that fair value will represent the value that will be realized by the Clients on the eventual disposition of the investment or that would, in fact, be realized upon an immediate disposition of the investment.

Investments in Real Estate. Solus may invest a portion of its assets directly in real estate that Solus believes is undervalued, nonrecourse mortgages where the mortgagor is not a significant operating company and in the securities or obligations of single purpose companies whose primary asset is real estate. Risks associated with real estate investments include (i) lack of demand for commercial or housing space in a locale, (ii) changes in general economic or local conditions, (iii) changes in supply of, or demand for, similar or competing properties in an area, (iv) uncertainty of cash flow to meet loan and other fixed obligations, (v) changes in interest rates, (vi) unavailability of mortgage financing which may render the sale or refinancing of property difficult, (vii) changes in tax, real estate, environmental and zoning laws and (viii) potential U.S. taxation on income effectively connected with the conduct of a U.S. trade or business and taxes levied on non-U.S. persons (such as the Clients) which own U.S. real estate. Additionally, in connection with the ownership (direct or indirect) of real properties, the Clients may face potential costs and liabilities related to environmental laws, such as those related to the removal of hazardous and toxic substances.

Real Estate Investments Are Not as Liquid as Certain Other Types of Assets. Real estate investments are not as liquid as other types of investments and this lack of liquidity may tend to limit Solus' ability to react promptly to changes in economic or other conditions. In addition, significant expenditures associated with real estate investments, such as mortgage payments, real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investments. The Clients may need to comply with certain legal, tax and other requirements prior to liquidating such investments.

Relative Value. To the extent Solus implements such strategy, the success of the relative value investment strategy will depend on Solus' ability to identify and exploit perceived inefficiencies in the pricing of securities, financial products, or markets. Identification and exploitation of such discrepancies involve uncertainty. There can be no assurance that Solus will be able to locate investment opportunities or to exploit pricing inefficiencies in the securities markets. A reduction in the pricing inefficiency of the markets in which Solus may seek to

invest will reduce the scope for the Clients' investment strategies. In the event that the perceived mispricings underlying the Clients' positions were to fail to converge toward, or were to diverge further from, relationships expected by Solus, the Clients may incur losses. A relative value investment strategy may result in high portfolio turnover and, consequently, high transaction costs. In addition, a relative value strategy is designed to be uncorrelated with respect to the movements in equity markets and risk-free interest rates. Depending upon the investment strategies employed and market conditions, unforeseen events involving such matters as political crises, or changes in currency exchange rates or interest rates, forced redemptions of securities, or general lack of market liquidity may have a material adverse effect on such strategy.

"Market Neutral" Strategies. A portfolio manager that uses "market neutral" trading strategies generally does not make trades which it considers to constitute directional "bets" on absolute price movements. Instead, it attempts to exploit relative mispricings among interrelated instruments (securities/securities; securities/derivatives; securities/futures; derivatives/futures and futures/futures). Mispricings, even if correctly identified, may not be corrected by the market, at least within a timeframe over which it is feasible for the portfolio manager to maintain a position. Even pure arbitrage positions can result in significant losses if a portfolio investment is not able to maintain both sides of the position until expiration/maturity. A portfolio investment may trade at a high degree of leverage and could be forced to liquidate positions prematurely in order to meet margin calls, causing an otherwise "pure" arbitrage position to result in major losses.

Structured Note Risk. Solus may also invest in structured notes, variable rate mortgage-backed and asset-backed securities, each with rates of interest that vary based on a designated floating rate formula or index. The value of these investments is closely tied to the absolute levels of such rates or indices, or the market's perception of anticipated changes in those rates or indices. The movements in specific indices or interest rates may be difficult or impossible to hedge.

Equity Price Risk. The Clients' investment portfolios may include long and short positions in equity securities of public and private, listed and unlisted companies. Equity securities fluctuate in value in response to many factors, including, among others, the activities and financial condition of individual companies, geographic markets, industry market conditions, interest rates and general economic environments. In addition, events such as the domestic and international political environments, terrorism and natural disasters, may be unforeseeable and contribute to market volatility in ways that may adversely affect investments made by Solus.

Convertible Arbitrage. Convertible arbitrage strategies involve investing in convertible securities that appear incorrectly valued relative to their theoretical value. The strategy consists of the purchase (or short sale) of a convertible security coupled with the short sale (or purchase) of the underlying security for which the convertible security can be exchanged to exploit price differentials. Solus may seek to hedge out the risk inherent in the stock; the remaining risk may or may not be hedged.

Convertible arbitrage strategies generally involve spreads between two or more positions. To the extent the price relationships between such positions remain constant, no gain or loss on the position will occur. Such positions do, however, entail a substantial risk that the price differential could change unfavorably, causing a loss to the spread position. Substantial risks

also are involved in borrowing and lending against such investments. The prices of these investments can be volatile, market movements are difficult to predict, and financing sources and related interest and exchange rates are subject to rapid change. Certain corporate securities may be subordinated (and thus exposed to the first level of default risk) or otherwise subject to substantial credit risks.

Capital Structure Arbitrage. To the extent Solus implements such strategy, the success of the capital structure arbitrage strategy will depend on the ability of Solus to identify and exploit the relationships between movements in different financial instruments within an issuer's capital structure (including, bank debt, convertible and non-convertible senior and subordinated debt and preferred and common stock). Identification and exploitation of these opportunities involve uncertainty. There can be no assurance that Solus will be able to locate investment opportunities or to correctly exploit price discrepancies. A reduction in the pricing inefficiency of the markets in which Solus will seek to invest will reduce the scope for Solus' investment strategies. In the event that the perceived mispricings underlying the Clients' positions fail to materialize, these investment strategies could be unsuccessful or result in losses.

Structured Product Arbitrage. The structured product arbitrage strategies will involve the purchase or sale of various categories of structured products and derivatives. To the extent Solus implements such strategies, the success of these strategies will depend on Solus' ability to identify and exploit the inefficient pricing of portfolio risk and the implicit correlations of time to default. In the event that the perceived mispricings underlying the Clients' positions were incorrect, the Clients could incur losses. In addition, the lack of an established, liquid secondary market for some structured products (including CDOs) may make it difficult to realize the perceived value of such securities.

Merger Arbitrage. Merger or "risk" arbitrage strategies attempt to exploit merger activity to capture (or sell short) the spread between current market values of securities and their values after successful completion of a merger, restructuring or similar corporate transaction. Merger arbitrage investments often incur significant losses when anticipated merger or acquisition transactions are not consummated. The consummation of mergers, tender offers and exchange offers can be prevented or delayed by a variety of factors, including: (i) regulatory and antitrust restrictions; (ii) political factors; (iii) industry weakness; (iv) stock-specific events; and (v) failed financings. Merger arbitrage positions also are subject to the risk of overall market movements. To the extent that a general increase or decline in equity values affects the stocks involved in a merger arbitrage position differently, the position may be exposed to loss. Merger arbitrage strategies also depend for success on the overall volume of merger activity, which historically has been cyclical in nature.

Convertible Securities. Convertible securities are stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula.

The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest

rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security's investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases as the convertible security approaches maturity.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by the Clients is called for redemption, the Clients will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on the Clients' ability to achieve their investment objectives.

Preferred Stock. Preferred stock generally has a preference as to dividends and upon the event of liquidation over an issuer's common stock, but it ranks junior to debt securities in an issuer's capital structure. Preferred stock generally pays dividends in cash (or additional shares of preferred stock) at a defined rate, but unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Dividends on preferred stock may be cumulative, meaning that, in the event the issuer fails to make one or more dividend payments on the preferred stock, no dividends may be paid on the issuer's common stock until all unpaid preferred stock dividends have been paid. Preferred stock may also be subject to optional or mandatory redemption provisions.

Stock Index Options. Solus may purchase and sell call and put options on stock indices listed on securities exchanges or traded in the over-the-counter market. A stock index fluctuates with changes in the market values of the stocks included in the index. Because the value of an index option depends upon movements in the level of the index rather than the price of a particular stock, whether the Clients will realize gains or losses from the purchase or writing of options on indices depends upon movements in the level of stock prices in the stock market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular stocks. Accordingly, successful use by Solus of options on stock indices will be subject to Solus' ability to correctly predict movements in the direction of the stock market generally or of particular industries or market segments. This requires different skills and techniques than predicting changes in the price of individual stocks.

Similar elements of risk arise in the event of the bankruptcy or insolvency of the buyer.

IPO Securities. Solus may purchase securities of companies in initial public offerings or shortly thereafter. Special risks associated with these securities may include a limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the company and limited operating history. These factors may contribute to substantial price volatility for the shares of these companies and, thus, for the value of the Clients' interests. The limited number

of shares available for trading in some initial public offerings may make it more difficult for Solus to buy or sell a significant number of shares without an unfavorable impact on prevailing market prices. In addition, some companies in initial public offerings are involved in relatively new industries or lines of business, which may not be widely understood by investors. Some of these companies may be undercapitalized or regarded as developmental stage companies, without revenues or operating income, or the near-term prospects of achieving them.

Small- and Medium-Capitalization Companies. Solus may invest a portion of its assets in the securities of companies with small- to medium-sized market capitalizations. While Solus believes they often provide significant potential for appreciation, such securities, particularly of companies having small capitalization, involve higher risks in some respects than do investments in securities of larger companies. For example, prices of securities of small-capitalization and even medium-capitalization companies are often more volatile than prices of securities of large-capitalization companies and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) is higher than for larger, “blue-chip” companies. In addition, due to thin trading in the securities of some small-capitalization companies, an investment in those companies may be illiquid. The securities of less seasoned and smaller-capitalized companies are often traded in the over-the-counter market and have fewer market makers and wider price spreads, which may in turn result in more abrupt and erratic price movements and make the Clients’ investments more vulnerable to adverse general market or economic developments than would investments in large, more established companies. It is more difficult to obtain information about less seasoned and smaller-capitalized companies because they tend to be less well known and have shorter operating histories and because they tend not to have significant ownership by large investors or be followed by many securities analysts. Additionally, these companies may have limited product lines, markets or financial resources, or they may be dependent upon a limited management group that may lack depth and experience. Investments in larger and more established companies present certain advantages in that such companies generally have greater financial resources, more extensive research and development, manufacturing, marketing and service capabilities, more stability and greater depth of management and technical personnel.

Position Limits. Position limits imposed by various regulators may also limit Solus’ ability to effect desired trades. Position limits are the maximum amounts of gross, net long or net short positions that any one person or entity may own or control in a particular financial instrument. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. Thus, even if Solus does not intend to exceed applicable position limits, it is possible that different accounts managed by Solus or its affiliates may be aggregated. If at any time positions managed by Solus were to exceed applicable position limits, Solus would be required to liquidate positions, which might include positions of the Clients, to the extent necessary to come within those limits. Further, to avoid exceeding the position limits, Solus might have to forego or modify certain of its contemplated trades.

ITEM 9 - DISCIPLINARY INFORMATION

Solus has not had any legal or disciplinary events that would be material to a Client's or prospective Client's evaluation of its business or the integrity of its management.

ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

A. Broker-Dealer, Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Advisor Registration Status

Solus is not registered and does not have an application pending as a securities broker-dealer, futures commission merchant, commodity pool operator or commodity trading adviser.

B. Material Relationships or Arrangements with Industry Participants

Solus Advisors LLC serves as the managing member or the general partner (as the case may be) of the Domestic Hedge Funds and the special shareholder of the Offshore Intermediate Funds. As described in Item 5, Incentive Allocations are made by the Domestic Hedge Funds to Solus Advisors LLC, while Management Fees and Incentive Fees charged to the Hedge Fund Clients are generally paid to Solus.

Solus PE GP LLC serves as the general partner to the Recovery Funds. As described in Item 5, Solus PE GP LLC receives the any Carried Interest attributable to disposition proceeds from such Funds, while Management Fees owed by such Funds are paid to Solus.

Solus and Highland Strategies, L.L.C., formed Carpathia Management LLC (“Carpathia”), a Delaware limited liability company that acts as investment advisor to Highland Sola Fund Ltd (“Highland Sola”). Pursuant to the terms of Carpathia’s operating agreement, Solus has the authority to direct the investment and re-investment of Highland Sola’s assets and manage its investments. Highland Sola invests indirectly in the Sola Master Fund through its investment in Sola Intermediate Fund Ltd. As mentioned in Item 4, Solus advises both the Sola Master Fund and Sola Intermediate Fund Ltd.

The principals of Solus (the “Principals”) have sold any interest they had in Loan Star Hedge Fund Services (an entity that provides loan and claim closing and documentation services to Clients). Clients are no longer being charged for services provided to them by Spectrum Hedge Solutions LLC (a portfolio management reporting and reconciliation services entity owned by certain of the Principals).

ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN *CLIENT* TRANSACTIONS AND PERSONAL TRADING

A. Code of Ethics

Solus has adopted a Code of Ethics (“Code”) pursuant to Rule 204A-1 under the Investment Advisors Act of 1940, as amended (the “Advisers Act”). The Code incorporates the general principle that Solus partners, officers and employees (“personnel”) are under a duty at all times to place the interests of Solus’ Clients first and foremost. The Code also includes specific policies and procedures that are designed to address actual or potential conflicts of interest with Solus’ Clients and are consistent with Solus’ fiduciary duty to its Clients. As part of the policies and procedures, Solus imposes pre-clearance procedures on certain securities transactions for certain personnel and in certain personnel-related accounts. Solus requires its personnel to disclose certain personal securities transactions and their personal securities holdings initially upon becoming associated with Solus and annually thereafter.

Subject to the Code, Solus and Solus’ personnel may invest on behalf of themselves through their own accounts in securities and other instruments that would be appropriate for, are held by, or may fall within the investment guidelines of Solus’ Clients. Solus and Solus’ personnel may give advice or take action for their own accounts that may differ from, conflict with or be adverse to advice given to or action taken for Clients. Solus and Solus’ personnel may also have ongoing relationships with companies whose securities are in or are being considered for the portfolios of Solus’ Clients. Solus has established policies and procedures to monitor and address conflicts and will endeavor to address conflicts with respect to investment opportunities in a manner it deems equitable to the extent possible under the prevailing facts and circumstances.

The Code also includes informational wall and insider trading policies and procedures (the “Insider Trading Policies”) that are designed to prevent the misuse of material non-public information. Solus personnel are required to certify to their compliance with the Code, including the Insider Trading Policies, on an annual basis. Upon written request, investors or prospective investors of the Clients may obtain a copy of Solus’ Code by contacting Solus’ Investor Relations department at request@soluslp.com.

B. Securities in which Solus or a Related Person Has a Material Financial Interest

1. Cross Trades

From time to time, subject to applicable obligations under the Employment Retirement Income Security Act of 1974, as amended, as well as Client or investment guidelines and restrictions, Solus may direct one Client account to sell investments to another Client account through an internal cross transaction in which Solus will receive no compensation. In most cases an independent pricing mechanism (for example, the last sales price on the exchange where the security is primarily traded as of the close of business) will be used to ensure objectivity. However, there could be times in which that pricing mechanism is not feasible or fair to the Clients, a different type of pricing mechanism may be utilized (e.g. volume weighted average price) based upon the principles of fairness to both Clients.

2. Principal Transactions

To the extent that any such cross transaction may be viewed as a principal transaction due to the ownership interest in the Client account by Solus and its personnel, Solus will comply with the requirements of Section 206(3) of the Advisers Act and provide written notification to the Client and obtain Client consent either prior to the cross transaction or prior to its settlement.

C. Investing in Securities that Solus or a Related Person Recommends to Clients and Other Potential Conflicts

Solus may from time to time invest its own excess funds in securities or instruments in which Solus may invest its Clients' assets. Similarly, Solus' personnel may from time to time make personal investments in securities or instruments in which Solus may invest its Clients' assets. Solus and its personnel may buy, sell or hold securities or other instruments for its own or their own accounts while entering into different investment decisions for one or more Client accounts. The Code addresses the possible conflicts arising out of personal trading of Solus personnel by, among other things, requiring Solus personnel to pre-clear securities transactions and generally imposing a ninety (90) day holding period on securities purchased by such personnel.

The above-referenced personal trading policies and procedures seek to address the risk that personal trading activities may adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more Client. Potential conflicts also may arise due to the facts that:

- Solus and its personnel may have investments in some Clients but not in others or may have different levels of investments in the various Clients; and
- Clients may pay different levels of fees to Solus.

In addition, Solus may give advice or take action with respect to the investments of one or more Client accounts that may not be given or taken with respect to other Client accounts with similar investment programs, objectives, and strategies. Accordingly, Client accounts with similar strategies may not hold the same securities or instruments or achieve the same performance. Solus also may advise Client accounts with conflicting programs, objectives or strategies. These activities also may adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more Client accounts. Further, Managed Account Clients wholly owned by certain personnel of Solus may from time to time invest in issuers or positions already held or concurrently acquired by other Clients upon the determination that such transaction is consistent with Solus' fiduciary duties.

Solus' personnel or affiliates may also have ongoing relationships with companies whose securities are in or are being considered for the portfolios of Solus' Clients. To address this fact, Solus personnel are required to disclose to the Solus Compliance department certain relationships (e.g., directorships, family members that work in the financial services industry). As a result of such policies and procedures these potential conflicts can be considered prior to making an investment decision for a Client that may be affected by such relationship.

From time to time Solus may acquire securities or other financial instruments of an issuer for one Client account which are senior or junior to securities or financial instruments of the same issuer that are held by, or acquired for, another Client account (e.g., one Client account may acquire senior debt while another Client account may acquire subordinated debt). Solus recognizes that conflicts may arise under such circumstances and will endeavor to treat all Clients fairly and equitably.

ITEM 12 - BROKERAGE PRACTICES

A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions

In selecting brokers and dealers to effect transactions for its Clients, Solus considers such factors as the ability of the brokers or dealers to effect the transactions, their facilities, reliability and financial responsibility, execution capability, commission rates, responsiveness to Solus and brokerage and research services provided to Solus (e.g., research ideas, analysis, investment strategies, special execution and block positioning capabilities, clearance and settlement and custodial services). Solus does not need to solicit competitive bids and does not have an obligation to seek the lowest available commission or other transaction cost. Accordingly, the commissions and other transaction costs (which may include dealer markups or markdowns) charged to the Clients by brokers or dealers in the foregoing circumstances may be higher than those charged by other brokers or dealers that may not offer such products and services.

From time to time, Solus may execute over-the-counter trades on an agency basis rather than on a principal basis. In these situations, the broker used by Solus may acquire or dispose of a security through a market-maker (a practice known as “interpositioning”). The transaction may thus be subject to both a commission and a markup or markdown. Solus believes that the use of a broker in such instances is consistent with its duty of obtaining best execution for its Clients. The use of a broker can provide anonymity in connection with a transaction. In addition, a broker may, in certain cases, have greater expertise or greater capability in connection with both accessing the market and executing a transaction.

The majority of bond dealers and commercial banks, as principals, effect bank loan transactions. Some loan transactions involve market makers that may earn a mark up on the transaction. Less frequently, brokers may be used, in which case only a small number of brokers typically are available, particularly for transactions involving distressed bank loans.

Brokers may provide Solus with capital introduction, marketing assistance, consulting with respect to technology, operations, equipment, commitment of capital, access to company management and access to deal flow. Neither Solus nor its Clients will separately compensate any broker for any of these services. Solus has adopted policies and procedures that seek to reduce the likelihood that the provision of such services improperly influence the selection of brokers.

1. Research and Other Soft Dollar Benefits; Broker Considerations.

Solus does not currently use soft dollars but has the right to do so. If Solus uses soft dollars, brokerage and research services provided to Solus may include research reports on particular industries and companies, economic surveys and analyses, advice from legal, strategic, financial and industry consultants and advisors, recommendations as to specific securities and other services (e.g., research- and trading-related computer software) providing lawful and appropriate assistance to Solus in connection with its investment advisory responsibilities. Any use of commissions or “soft dollars” generated by Solus’ Clients through agency and certain riskless principal transactions to pay for brokerage or research and research-related services will fall within the safe harbor created by Section 28(e) of the Securities Exchange Act of 1934, as amended. Under Section 28(e), brokerage and research services obtained with “soft dollars”

generated by one of Solus' Clients may be used by Solus to service other Solus Clients, including Clients that may not have paid for the soft dollar benefits. Where brokerage or research services obtained with soft dollars provides both research and non-research assistance to Solus (e.g., a "mixed use" item), Solus will not seek to allocate soft dollar benefits to Client accounts in proportion to the soft dollar credits the Client accounts generate. Solus will make a reasonable allocation of any cost paid for with soft dollars.

Brokers sometimes suggest a level of business they would like to receive in return for the various brokerage and research services they provide. Actual brokerage business received by any broker may be less than the suggested allocation, but can (and often does) exceed the suggested level, because total brokerage is allocated on the basis of all of the considerations described above. A broker is not excluded from receiving business because it has not been identified as providing brokerage or research services. Instead, brokers are selected on a best execution basis.

Representatives of Solus from time to time may speak at conferences and programs for investors interested in investing in hedge funds which are sponsored by prime brokers. These conferences and programs may be a means by which Solus can be introduced to potential investors in its Clients. The prime brokers are not compensated by Solus, Solus' Clients, or potential investors for providing such "capital introduction" opportunities.

The investment programs of Solus' Clients emphasize active management of the Clients' portfolios. As a result, portfolio turnover and brokerage commission expenses may exceed those of other investment entities of comparable size.

2. Brokerage for Client Referrals.

Neither Solus nor any related person receives Client referrals from any broker-dealer or third party that provides brokerage services to the Solus Funds. However, as discussed above, subject to best execution, Solus may utilize capital introduction and marketing assistance provided by broker-dealers for the Funds. Solus has adopted policies and procedures that seek to reduce the likelihood that the provision of such services improperly influence the selection of brokers-dealers.

3. Directed Brokerage.

In the future, a Managed Account may designate a particular broker-dealer to effect transactions. If this occurs, Solus' ability to obtain best execution may be impaired and the Managed Account may not obtain best execution. In addition, Managed Accounts that designate a particular broker-dealer may not receive efficiencies that are available to other Clients (including Funds) that participate in an aggregated trade. Orders directed to a particular broker-dealer shall be entered after Solus places its orders for Clients who have not designated a particular broker-dealer, and Solus assumes no responsibility for any adverse consequences that may occur as a result from the use of a designated broker-dealer.

B. Order Aggregation

It is the policy of Solus to allocate investment opportunities to its Clients fairly and equitably, to the extent practicable, over a period of time. Solus will have no obligation to

purchase, sell or exchange any security or financial instrument for any Client which Solus may purchase, sell or exchange for another Client if Solus believes in good faith at the time the investment decision is made that such transaction or investment would be unsuitable, impractical or undesirable for the Client. If it is determined by Solus that it would be appropriate for more than one Client to participate in an investment opportunity, Solus will seek to execute orders for all such participating Clients on a fair and equitable basis. Due to the nature of the fixed income and other financial markets, as well as specific Client investment guidelines and objectives, *pro rata* allocation of investment opportunities will not always be desirable or feasible. When allocating investment opportunities among Clients, Solus will consider with respect to each Client such factors as the relative amounts of capital available for new investments, the investment objectives, investment programs and portfolio positions of the Clients, the availability of leverage, relative exposure to market trends, transaction costs, the manner in which the investment in question is likely to affect the amount of available capital after the investment is made, investment guidelines and restrictions, concentrations and diversification within an account, tax and regulatory issues, the nature and size of existing portfolio holdings and cash positions, risk/return objectives and anticipated redemptions and subscriptions (liquidity). In certain circumstances, Solus may give special consideration to certain Clients such as new Clients (including those in which Solus or its affiliates may have an interest) with a substantial amount of available cash. With respect to initial public offerings of securities (“new issues”), Solus will determine which Clients are suitable and eligible to receive such new issues, taking into consideration the factors described above. Whenever practicable, new issues will be allocated *pro rata* among all suitable and eligible Clients in proportion to their relative capital balances, as determined by Solus in its sole discretion.

If Solus determines that the purchase or sale of the same security is in the best interest of more than one Client, Solus may, but is not obligated to, aggregate orders placed simultaneously in order to obtain best execution and reduce transaction costs, to the extent permitted by applicable law. When an aggregated order is filled through multiple trades at different prices on the same day, each participating Client will receive the average price with transaction costs allocated *pro rata* based on the size of each Client’s participation in the order (or allocation in the event of a partial fill) as determined by Solus. In the event of a partial fill, allocations may be modified on a basis that Solus deems to be appropriate, including, for example, in order to avoid odd lots or *de minimis* allocations. Generally, trades that are not aggregated are processed in the order they are placed with the broker or counterparty selected by Solus. As a result, certain trades in the same security or instrument for one Client (including a Client in which Solus and its affiliates may have a direct or indirect interest) may receive more or less favorable prices or terms than another Client and orders placed later may not be filled entirely or at all, based upon the prevailing market prices at the time of the order or trade. In addition, some opportunities for reduced transaction costs and economies of scale may not be achieved.

ITEM 13 - REVIEW OF ACCOUNTS

The CIO/CEO, the Portfolio Managers, the Chief Risk and Operations Officer and other investment professionals generally meet daily to discuss investments held by Client accounts. The group typically discusses recent business news, including earnings results versus expectations and business developments on an industry and company specific level.

Investors in Solus' Funds receive written monthly reports, either directly and/or from the applicable Fund's administrator. These reports document the status of each investor's account and/or provide general commentary on the relevant markets. Certain investors may request additional information and reporting, and, although such additional information and reporting will generally be available to all investors in the same Fund, some investors may not request, and therefore not receive, such additional information. Solus expects to provide annual audited financial statements to its Clients and investors in the Funds within 120 days of the applicable Client's fiscal year end.

In addition, Solus personnel may participate in monthly portfolio reviews with investors in the Funds.

ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION

Solus does not receive any economic benefit from non-clients in connection with giving advice to Clients.

Solus compensates a placement agent for certain investor referrals to the Recovery Funds. That placement agent receives a portion of the management fees associated with such referred investors.

ITEM 15 - CUSTODY

Solus is deemed to have custody of the Funds assets and securities because it has authority to obtain these assets and securities. In compliance with the requirements of Rule 206(4)-2 under the Advisers Act, Solus maintains Fund assets with the Bank of New York Mellon Trust Company, N.A., as custodian, and who, along with prime brokers, act as “qualified custodians.” The prime brokers used by Solus on behalf of its Funds include Goldman Sachs & Co., JP Morgan Chase Bank, Credit Suisse Securities (USA) LLC, Barclays Capital Securities Limited, Barclays Capital Inc., and Merrill Lynch Professional Clearing Corp.

Solus maintains the right to cease the use of a particular custodian or prime broker or to add custodians or prime brokers in its discretion.

Investors in the Funds receive their capital account statements directly from Solus’ administrator on a monthly basis.

Solus does not have custody of the assets or securities of its pension plan Managed Account Clients. The custodian of such Solus-advised Managed Accounts maintains custody of those assets and securities. Such Managed Accounts may receive account statements directly from the qualified custodian. The owners of such Solus-advised Managed Accounts are urged to compare account statements received from the qualified custodian with any account statements received from Solus.

ITEM 16 - INVESTMENT DISCRETION

Solus has full discretionary authority to manage fiduciary accounts for its Clients, including the ability to decide which securities are bought and sold, the amount and price of those securities, the principals or brokers, if any, selected to execute a particular transaction and commissions paid, where applicable. With respect to limitations on its authority regarding which securities and amount of securities that are to be bought or sold, Solus is limited by its own internal policies and procedures and each Client's investment guidelines.

In instances that pertain to a Managed Account, any investment guidelines and restrictions must be provided to Solus in writing.

Solus or an affiliate of Solus was granted discretionary trading authority over each Fund and Managed Account, including through entering into investment managements or similar arrangements.

ITEM 17 - VOTING CLIENT SECURITIES

Solus generally has discretion to make decisions regarding corporate actions or proxies, if any, in connection with investments held by its Clients. In this regard, Solus has adopted proxy voting policies and procedures, pursuant to Rule 206(4)-6 under the Advisers Act, reasonably designed to ensure that proxies and corporate actions are determined in the best economic interest of Solus' Clients and to avoid conflicts between the interests of Solus and its Clients, as determined by Solus in its discretion. Solus will refrain from voting proxies where Solus believes that voting would be inappropriate. Upon written request, investors of the Clients may obtain a copy of the proxy policies and procedures and details as to how the securities or corporate actions were voted in their respective portfolios by contacting Solus' Investor Relations department at request@soluslp.com.

To the extent that Solus does not have authority to vote proxies on behalf of a Solus-advised Managed Account, such Managed Account retains the responsibility for receiving and voting proxies for any and all securities maintained in its portfolio.

ITEM 18 - FINANCIAL INFORMATION

Solus is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to Clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.