

Queen's Walk Investment Limited
Financial Results Announcement and Accounts for the
Third Quarter Ended 31 December 2009

Queen's Walk Investment Limited reports €0.6 million profit for quarter ended 31 December 2009

Queen's Walk Investment Limited (the "Company"), a Guernsey-incorporated investment company, has reported a net profit of €0.6 million, or €0.02 per ordinary share¹, for the quarter ended 31 December 2009, compared to a net profit of €3.6 million, or €0.14 per ordinary share², for the quarter ended 30 September 2009.

Fair value write-downs for the quarter were €2.4 million, compared to €0.6 million of write-ups for the quarter ended 30 September 2009. The Company's net asset value ("NAV") at quarter end was €3.69 per share² compared to €3.75 per share³ at the previous quarter end.

The investment portfolio generated more cash than forecast. Total cash proceeds of €8.3 million received in the quarter exceeded the forecast of €5 million. The Company's overall cash position at the end of the quarter was €13.7 million, compared with a forecast of €10.0 million. The cash position was €14.8 million on 30 September 2009.

The Board of Directors of the Company has declared an interim dividend of €0.08 per share for the quarter ended 31 December 2009, unchanged from the previous quarter.

Strategy of buying undervalued ABS bonds delivering profit

Since the end of the third quarter, Queen's Walk has realised gains on the Investment Grade bonds it began acquiring in 2008. On 22 January 2010, the Company sold €3.4 million (face value) of AAA RMBS bonds, recording an annualised return on these investments of 28.2%. The average sale price was 92.4 cents versus an average purchase price of 74.2 cents. This return highlights the Company's success in implementing its strategy of investing in undervalued ABS bonds.

Tom Chandos, Chairman of Queen's Walk Investment Limited, said: "We are very pleased that our strategy of investing in undervalued investment grade bonds is proving successful and believe that market conditions will allow us to take further advantage of these opportunities for the foreseeable future. The portfolio as a whole continues to generate cash, enabling us to reduce our debt and make regular dividend payments".

Sale of Portuguese mortgage portfolio supports NAV

On 26 February 2010, the Company sold its Magellan 2 mortgage portfolio to the bank that originated these mortgages. The sale price was in-line with the Company's 31 December 2009 valuation and underscores the NAV at the end of the quarter. The Magellan 2 portfolio accounted for 8.5% of the investment portfolio as at quarter end.

Third Quarter Highlights

- Quarterly dividend of €0.08 per share; total paid or declared dividends of €2.37 per share since the IPO.
- Next quarter cash flow estimated at €4.5 million.
- Investment Grade portfolio made up 9.8% of assets under management as of 31 December 2009, up from 7.3%.
- Debt reduced to €8.6 million as at 1 March 2010, down from €22.0 million as at 30 September 2009.
- Loss adjusted gross cash flow forecast of €161 million.

1 These calculations per share are based on the weighted average number of Ordinary Shares as shown in Note 8 of the financial statements for the quarter ended 31 December 2009.

2 These calculations per share are based on the weighted average number of Ordinary Shares as shown in Note 8 of the financial statements for the quarter ended 31 December 2009.

3 These calculations per share are based on the number of Ordinary Shares outstanding at the end of each respective period.

Conference Call & Further Information

A conference call to review the Company's financial results for the third quarter ended 31 December 2009 will take place at 10:30 AM London time on 11 March 2010. The conference call can be accessed by dialing +44 (0) 20 7138 0817, ten minutes prior to the scheduled start of the call. Please reference Queen's Walk Investment Limited Third Quarter Results. A results presentation will be available on the Queen's Walk website (www.queenswalkinv.com).

A webcast of the conference call will also be available on a listen-only basis at www.queenswalkinv.com. Please allow extra time prior to the call to visit the site and download the necessary software required to listen to the internet broadcast. A replay of the webcast will be available for three months following the call.

For further information please contact:

Investor Relations: Caroline Villiers +44 (0)20 7920 2321

About the Company

Queen's Walk Investment Limited is a Guernsey-incorporated investment company listed on the London Stock Exchange. The Company invests primarily in a diversified portfolio of subordinated tranches of asset-backed securities, including the unrated "equity" or "first loss" residual income positions typically retained by the banks or other financial institutions which have originated the loan assets that collateralise a securitisation transaction. The Company makes such investments where its investment manager, Cheyne Capital Management (UK) LLP ("Cheyne Capital" or the "Investment Manager"), considers the coupon or cash flows from the investment to be attractive relative to the credit exposure of the underlying asset collateral.

This announcement includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "forecasts", "estimates", "anticipates", "expects", "intends", "considers", "may", "will" or "should". By their nature, forward-looking statements involve risks and uncertainties and readers are cautioned that any such forward-looking statements are not guarantees of future performance. The Company's actual results and performance may differ materially from the impression created by the forward-looking statements and should not be relied upon. The Company undertakes no obligation to publicly update or revise forward-looking statements, except as may be required by applicable law and regulation (including the Listing Rules).

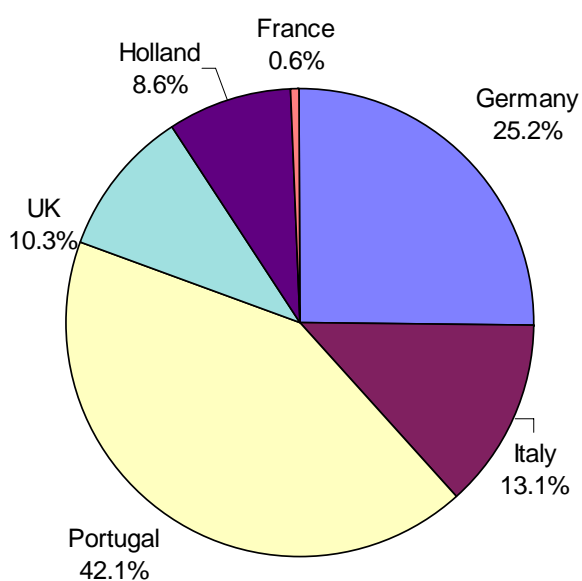
Financial Highlights

	Revenue	Fair value gains and losses	Total Quarter ended 30 September 2009	Revenue	Fair value gains and losses	Total Quarter ended 31 December 2009
Operating Income	4,143,683		4,143,683	4,106,756		4,106,756
Gains and losses on fair value through profit or loss financial instruments		627,299	627,299		(2,375,133)	(2,375,133)
	4,143,683	627,299	4,770,982	4,106,756	(2,375,133)	1,731,623
Operating Expenses	(978,049)		(978,049)	(979,731)		(979,731)
Finance Costs	(158,278)		(158,278)	(119,116)		(119,116)
Net profit / (loss)	3,007,356	627,299	3,634,655	3,007,909	(2,375,133)	632,776
Total Assets			125,752,331			120,000,313
Total Liabilities			25,818,613			21,565,392
Equity Capital			99,933,718			98,434,921
NAV per share			3.75			3.69
Shares Outstanding			26,644,657			26,644,657

Investment Portfolio

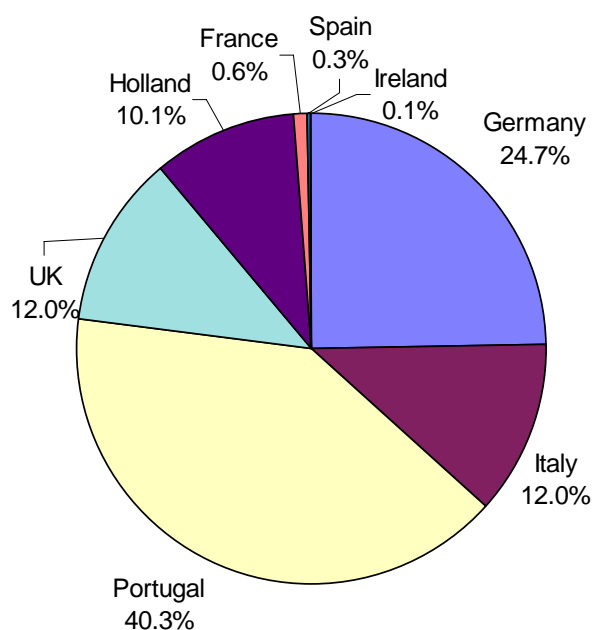
A breakdown of the Company's investment portfolio by jurisdiction (by reference to underlying asset originator) is set out below. The investment grade bonds are included in the charts and are also detailed in the next section. Percentages for each asset class are in relation to the value of the Company's investment portfolio excluding cash and hedges.

30 September 2009



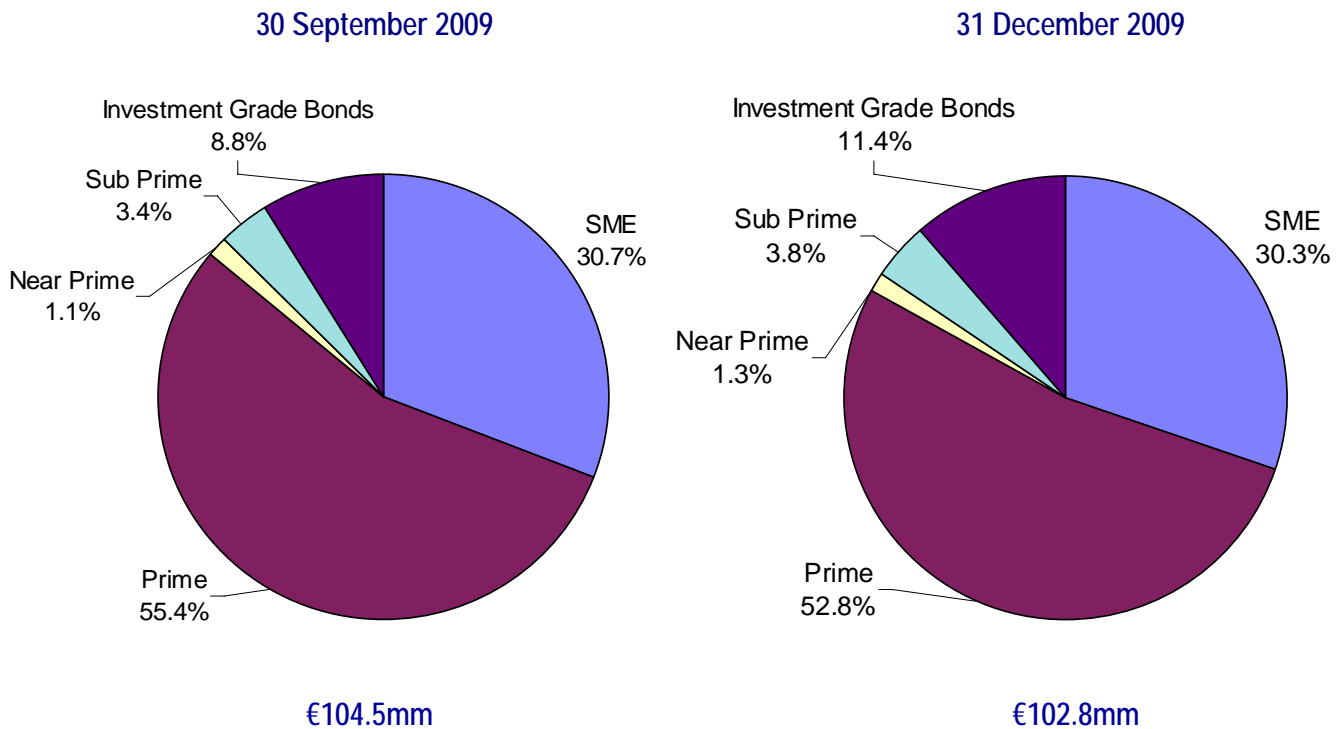
€104.5mm

31 December 2009



€102.8mm

A breakdown of the Company's investment portfolio by asset type (by reference to underlying asset collateral) is set out below. Percentages for each asset class are in relation to the value of the Company's investment portfolio, excluding cash and hedges.

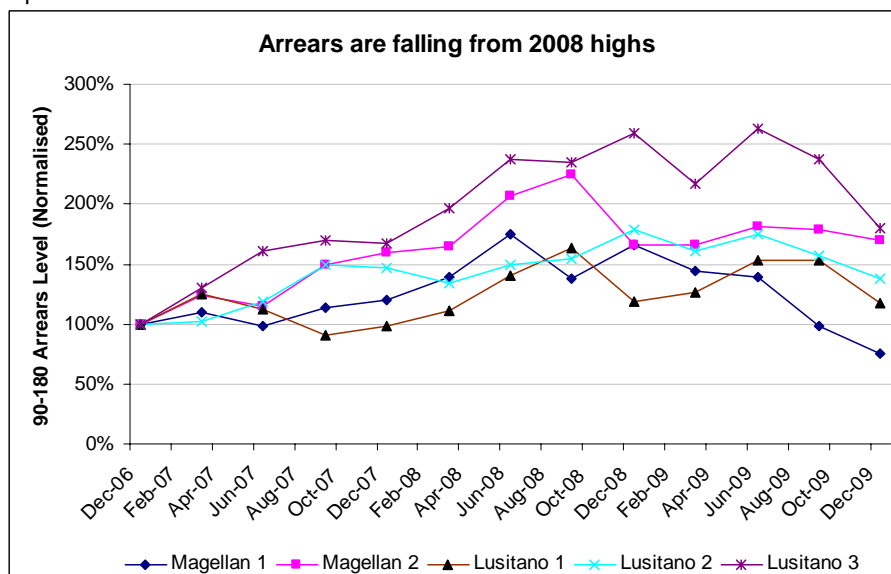


N.B. 'Prime' indicates that the underlying pool of loans comprises mortgages made to borrowers with good credit records and whose incomes were verified at the time of the origination.

European Mortgage Portfolio (44.1% of GAV)

The Company's European mortgage residuals continue to perform satisfactorily, generating cash flow for the quarter ended 31 December 2009 of €2.6 million. This was in line with average cash flows of previous quarters.

The lower Euribor rate has had a positive effect on the Portuguese mortgage portfolio, with fewer mortgage borrowers falling into arrears. The percentage of loans in the portfolio which are 90 to 180 days in arrears has decreased since its peak in 2008.



In the longer term, we expect lower arrears to translate to a lower default rate, if Euribor rates remain low. For the short term, however, the Company is still anticipating higher default rates. In the quarter ended 31 December 2009, the average default rate of the Portuguese mortgage portfolio rose to 1.49% from 1.41% in the previous quarter. We have increased the default rate expectation of the Lusitano 1 and Magellan 2 portfolio this quarter to reflect the possibility of a further increase in defaults in the short term.

Write-downs of the Sestante Italian mortgage portfolio were €1.7 million as a result of higher mortgage defaults. The originator of the mortgages, Meliorbanca was recently purchased by Banca Popolare di Emilia Romagna which has led to complications with respect to mortgage loan servicing. Cheyne is working with Meliorbanca to improve the quality of servicing in the portfolio.

On 26 February 2010, the Company sold its Magellan 2 mortgage portfolio to the bank that originated these mortgages. The sale price was in-line with the Company's 31 December 2010 valuation. Through this sale, the Company's exposure to the Portuguese market has fallen to 35.8% from 40.3% of the overall investment portfolio.

Market concerns about Portuguese sovereign risk have led to materially wider credit spreads in Portuguese government bonds and related credits. In the short term, this should have no impact on the performance of the Portuguese mortgage portfolios because a substantial majority of loans are indexed to Euribor. The key risk to the portfolio remains an increase in unemployment and resulting mortgage defaults as a result of possible austerity measures introduced by the government.

SME Portfolio Investments (26.0% of GAV)

The Company's SME portfolio continues to perform in line with expectations. Cash flows in the quarter ended 31 December 2009 totalled €1.8 million, compared to €1.9 million in the previous quarter.

The portfolio has experienced volatility in default rates in line with expectations set out by the Company in prior announcements. The average default rate for the SME portfolio increased in the quarter ended 31 December 2009 to 1.84%, up from 0.63% in the previous quarter. Gate 05-2 produced the highest rise in default rates, and was the main driver behind the increase in the average across the portfolio. Gate 05-2's default rate increased to 5.71% from 0.55% in the prior quarter as a small number of loans, previously identified as being in arrears, defaulted. Subsequent to these defaults, the balance of loans in arrears has dropped from €6.0 million to €0.5 million.

Against a backdrop of continued economic uncertainty, we continue to use a higher model default rate to forecast cash flows relative to actual default rates in the December quarter. The Company intends not to lower its model default rates until a more sustained trend towards improved credit quality is evident. The table below summarises the actual default rates for the SME portfolio in the past three quarters and the model default rates that the Company has used to determine its cash flow estimates for the fourth quarter.

	June 2009 Default Rate (annualised)	September 2009 Default Rate (annualised)	December 2009 Default Rate (annualised)	December Model Default Rate
Amstel 06-1	0.38%	0.00%	0.25%	0.60%
Smart 06-1	0.71%	1.13%	1.33%	2.00%
Gate 06-1	1.28%	0.83%	0.06%	1.15%
Gate 05-2	2.52%	0.55%	5.71%	4.00%
Average	1.22%	0.63%	1.84%	1.94%

Investment Grade Bond Portfolio (9.8% of GAV)

The Investment Grade Bond portfolio recorded cash flows of €0.8 million in the quarter ended 31 December 2009, up from €0.3 million in the previous quarter. The annualised cash-on-cash yield of the bond portfolio in the quarter ended 31 December 2009 was approximately 28%⁴.

Appetite for high quality AAA-rated ABS bonds increased substantially in the early weeks of 2010. To take advantage of the resulting price rally, on 22 January 2010, the Company sold €3.4 million face value of AAA RMBS bonds. The average sale price was 92.4 cents versus an average purchase price of 74.2 cents, giving an annualised return on the investments of 28.2%.

The Company began investing in ABS bonds in August 2008. As at 1 March 2010, the Company held a portfolio of 18 bonds at a cost value of €10.6 million⁵ and with a face value of €21.2 million.

The following tables detail the European ABS bonds that were purchased by the Company up to 10 March 2010⁶ and reflects the bonds sold in January 2010. The weighted average rating of the portfolio (based on the invested amount) is approximately BBB⁷.

Percentage of Portfolio by Cost Price (as at 1 March 2010)

Rating by Vintage ¹	2004	2005	2006	2007	Total
AAA	0.0%	0.0%	11.66%	0.0%	11.66%
AA	2.15%	0.0%	19.57%	0.0%	21.72%
A	0.0%	5.92%	17.11%	9.22%	32.25%
BBB	0.0%	7.58%	15.78%	11.01%	34.37%
Total	2.15%	13.50%	64.12%	20.23%	100.00%

1. Vintage reflects the issue date of the bond. Rating at time of purchase.

Percentage of Portfolio by Cost Price (as at 1 March 2010)

Rating by Type ¹	UK Prime RMBS ²	UK Buy To Let RMBS ²	UK Non-Conforming RMBS ²	UK CMBS ³	Euro CMBS ³	SME	Total
AAA	0.0%	0.0%	0.0%	6.87%	4.79%	0.0%	11.66%
AA	2.15%	19.57%	0.0%	0.0%	0.0%	0.0%	21.72%
A	0.0%	0.0%	2.93%	6.61%	22.71%	0.0%	32.25%
BBB	7.58%	0.0%	9.53%	0.0%	10.44%	6.81%	34.37%
Total	9.73%	19.57%	12.46%	13.48%	37.95%	6.81%	100.00%

1. Rating at time of purchase

2. Residential Mortgage Backed Securities

3. Commercial Mortgage Backed Securities

UK Mortgage Portfolio (5.8% of GAV)

The UK Mortgage portfolio recorded cash flows of £1.2 million in the quarter ended 31 December 2009 compared to £1.0 million in the previous quarter.

The Company has increased the valuation of its RMAC assets by €1.3 million, as a result of lower defaults in the current period and lower forecast defaults versus our previous assumptions. The Company maintains conservative forecasts of defaults for the UK mortgage portfolio.

⁴ Total cash proceeds received in the quarter divided by amortised cost value of the bonds.

⁵ Net of sales completed in January 2010.

⁶ The tables include the bonds purchased at their cost using FX rates at the time of purchase.

⁷ Calculated using Moody's WARF (weighted average risk factor) methodology.

Portfolio Valuation

In accordance with the Company's valuation procedures, the fair value of the Company's investments is calculated on the basis of observable market data, market discount rates and the Investment Manager's expectations regarding future trends. Given the re-structurings at many investment banks, there is a lack of reliable independent broker marks for the residual portfolio. Therefore, from the year ended 31 March 2009 onwards, the Company has elected to use a model-based approach to value its residual investments. An external valuation agent has reviewed the underlying pricing assumptions. The Company has used a 15% discount rate for the European and UK mortgage portfolios and a 20% discount rate for the SME portfolios. These discount rates are applied to the loss-adjusted cash flows. The Company received broker marks for all of its investment grade bonds.

Changes in the balance sheet value of the residual portfolio between 30 September and 31 December 2009 totalled -€4.2 million. This was divided between -€2.1 million of principal amortisation and fair value losses of -€2.1 million. In relation to the investment grade bond portfolio, the balance sheet value increased by €2.4 million. There were €1.9 million new purchases, fair value gains of €1.3 million and principal amortisations of -€0.8 million. After giving effect to these balance sheet changes in the quarter ended 31 December 2009, the NAV of the Company was €3.69 per share as at 31 December 2009 (versus €3.75 per share as at 30 September 2009).

The Company recorded total cash flows of €8.3 million in the quarter, of which €6.5 million came from the investment portfolio, €1.2 million were received at the expiry of the UK house price put option and a further €0.6 million were received from the interest rate swaps the Company purchased to hedge against a fall in interest rates.

The table below summarises the changes in balance sheet values of the Company's investment portfolio by asset class:

Asset Class	30 Sep 2009 B/S Value ^{1,2} (€mm)	31 Dec 2009 B/S Value ² (€mm)	Change to B/S Value Since 30 Sep 2009 (€mm)	Cash flows Received in the Quarter Ended 31 Dec 2009 (€mm)	Cash flows Received in the Quarter Ended 30 Sep 2009 ³ (€mm)
UK Mortgages	6.6	7.0	0.4	1.3	1.0
Euro Mortgages	56.6	52.9	-3.7	2.6	2.5
SME	32.1	31.2	-0.9	1.8	1.9
Investment Grade Bonds	9.3	11.8	2.4	0.8	0.3
TOTAL⁴	104.6	102.8	-1.8	6.5	5.8

1. Balance sheet values as at 30 September 2009 are expressed using 31 December 2009 FX rates.
2. The balance sheet value figures for 30 September 2009 and 31 December 2009 include accrued interest.
3. Cash flows for 30 September 2009 are expressed using 31 December 2009 FX rates.
4. The values for each column may not sum to the total due to rounding differences.

Company Outlook

Over the coming months, the Company plans to continue its strategy of selectively purchasing mis-priced bonds in the ABS markets. Given the rally in AAA-rated ABS bonds, the Company will consider purchases in AA to BBB rated bonds, and in particular will focus on opportunities in commercial mortgage-backed bonds. Should bond prices for a part of the portfolio increase, the Company may seek to sell certain assets and use the proceeds to repay debt or make new investments.

The Company expects to identify further buying opportunities in 2010 as rating downgrades of ABS bonds and capital pressures prompt selling by banks and other financial institutions. Given the continued ability of the investment portfolio to generate cash flow, the Company remains well-positioned to take advantage of these opportunities.

There are some early signs of stabilisation in the Portuguese mortgage portfolios; however, sustained stability depends on continued global economic growth and a low interest rate environment. The Company expects default

levels to rise in its SME portfolios and has maintained default rate forecasts at a higher level than actual performance. We caution, however, that slowing growth or a return to recession remain possibilities.

The Company estimates cash balances will be approximately €16.5 million at 31 March 2010 and expects to reduce its outstanding debt to approximately €5.0 million following the 31 March 2010 quarter end, versus a target loan balance of €25 million. The Company projects cash flow of approximately €4.5 million per quarter for the coming quarters.

QUEEN'S WALK INVESTMENT LIMITED

Unaudited Condensed Consolidated Statement of Comprehensive Income

For the quarter ended 31 December 2009 and quarter ended 30 September 2009

	Note	Quarter ended 31 December 2009 Euro	Quarter ended 30 September 2009 Euro
Interest income	5	4,106,756	4,143,683
(Losses)/gains on fair value through profit or loss financial instruments	4	(2,375,133)	627,299
		<u>1,731,623</u>	<u>4,770,982</u>
Operating expenses	6	(979,731)	(978,049)
Finance costs	5	(119,116)	(158,278)
Net profit		<u>632,776</u>	<u>3,634,655</u>
Profit per Ordinary Share			
Basic	8	Euro 0.02	Euro 0.14
Diluted	8	Euro 0.02	Euro 0.14
Weighted average Ordinary Shares outstanding			
		Number	Number
Basic	8	26,644,657	26,644,657
Diluted	8	26,644,657	26,644,657

All items in the above statement are derived from continuing operations.

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

QUEEN'S WALK INVESTMENT LIMITED

Unaudited Condensed Consolidated Statement of Changes in Equity

For the quarter ended 31 December 2009 and quarter ended 30 September 2009

	Note	Share Capital Euro	Reserves Euro	TOTAL Euro
Balance at 30 June 2009		-	98,430,636	98,430,636
Net profit for the quarter		-	3,634,655	3,634,655
Distribution to the Ordinary Shareholders of the Company	7	-	(2,131,573)	(2,131,573)
Balance at 30 September 2009		-	99,933,718	99,933,718
Net profit for the quarter		-	632,776	632,776
Distribution to the Ordinary Shareholders of the Company	7	-	(2,131,573)	(2,131,573)
Balance at 31 December 2009		-	98,434,921	98,434,921

QUEEN'S WALK INVESTMENT LIMITED

Unaudited Condensed Consolidated Statement of Financial Position

As at 31 December 2009

	Note	31 December 2009 Euro	30 September 2009 Euro
Non-current assets			
Investments at fair value through profit or loss	10	101,639,329	103,272,053
		<u>101,639,329</u>	<u>103,272,053</u>
Current assets			
Cash and cash equivalents		13,741,922	14,817,812
Derivative financial assets – options held for trading	10	343,900	2,878,420
Derivative financial assets – unrealised gain on interest rate swap agreements	12	2,671,501	3,169,257
Other assets	11	1,603,661	1,614,789
		<u>18,360,984</u>	<u>22,480,278</u>
Total assets		<u>120,000,313</u>	<u>125,752,331</u>
Equity and liabilities			
Equity			
Reserves	16	98,434,921	99,933,718
		<u>98,434,921</u>	<u>99,933,718</u>
Current liabilities			
Distribution payable	7	2,131,573	2,131,573
Other liabilities	14	1,133,254	1,659,718
		<u>3,264,827</u>	<u>3,791,291</u>
Non-current liabilities			
Loans	13	18,300,565	22,027,322
Total liabilities		<u>21,565,392</u>	<u>25,818,613</u>
Total equity and liabilities		<u>120,000,313</u>	<u>125,752,331</u>

QUEEN'S WALK INVESTMENT LIMITED

Unaudited Condensed Consolidated Statement of Cash Flows

For the quarter ended 31 December 2009 and quarter ended 30 September 2009

	Note	Quarter ended 31 December 2009 Euro	Quarter ended 30 September 2009 Euro
Net cash inflow from operating activities	17	4,743,622	5,312,183
Financing activities			
Net repayment of borrowings from loans		(3,726,757)	(1,531,197)
Dividends paid to shareholders	7	<u>(2,131,573)</u>	<u>(2,131,573)</u>
Cash flows from financing activities		<u>(5,858,330)</u>	<u>(3,662,770)</u>
Net (decrease)/increase in cash		<u>(1,114,708)</u>	<u>1,649,413</u>
Reconciliation of net cash flow to movement in net cash			
Net (decrease)/increase in cash and cash equivalents		(1,114,708)	1,649,413
Cash and cash equivalents at start of period		14,817,812	13,263,228
Effect of exchange rate fluctuations on cash and cash equivalents		<u>38,818</u>	<u>(94,829)</u>
Cash and cash equivalents at end of period		<u>13,741,922</u>	<u>14,817,812</u>

QUEEN'S WALK INVESTMENT LIMITED

Unaudited Condensed Consolidated Statement of Cash Flows

For the quarter ended 31 December 2009 and quarter ended 30 September 2009

1. General information

Queen's Walk Investment Limited (the "Company") was registered on 6 September 2005 with registered number 43634 and is domiciled in Guernsey, Channel Islands. The Company commenced its operations on 8 December 2005. The Company is a closed-ended investment company with limited liability formed under The Companies (Guernsey) Law, 2008 and its Ordinary Shares are listed on the London Stock Exchange. The registered office of the Company is Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 3BG, Channel Islands. "Group" is defined as the Company and its subsidiary. At 31 December 2009, the Company's only subsidiary was Trebuchet Finance Limited.

The Group's investment objective is to preserve capital and provide stable returns to Shareholders in the form of quarterly dividends. It seeks to achieve this by investing primarily in a diversified portfolio of tranches of asset-backed securities ("ABS") where the Investment Manager considers that the coupon or cash flows on the tranche are attractive relative to the underlying credit. These are and will be, in most cases, below investment grade or unrated and do or will, in many cases, represent the residual income positions typically retained by the originator of a securitisation transaction as the "equity" or "first loss" position.

The Group's investment management activities are managed by its Investment Manager, Cheyne Capital Management (UK) LLP (the "Investment Manager"), an investment management firm authorised and regulated by the Financial Services Authority. The Group has entered into an Investment Management Agreement (the "Investment Management Agreement") under which the Investment Manager manages its day-to-day investment operations, subject to the supervision of the Company's Board of Directors. The Group has no direct employees. For its services, the Investment Manager receives a monthly management fee (which includes a reimbursement of expenses) and a quarterly performance-related fee. The Group has no ownership interest in the Investment Manager. The Company is administered by Kleinwort Benson (Channel Islands) Fund Services Limited (the "Administrator"). Investors Fund Services (Ireland) Limited provide certain administration services to the Group in its capacity as sub-administrator.

2. Significant accounting policies

Statement of compliance

The condensed consolidated quarterly report has been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS"). The same accounting policies, presentation and methods of computation are followed in this report as applied in the Company's latest annual audited financial statements dated 31 March 2009.

Basis of preparation

The quarterly report of the Group is prepared on the historical cost or amortised cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading and financial instruments classified or designated as fair value through profit or loss.

The majority of the Group's investments are financial instruments that are classified as fair value through profit or loss. Where bid prices are not available from a third party in a liquid market, the fair value of the financial instrument is estimated by reference to market information, which includes but is not limited to broker marks, prices on comparable assets and a pricing model that incorporates discounted cash flow techniques.

These pricing models apply assumptions regarding asset-specific factors and economic conditions generally, including delinquency rates, severity rates, prepayment rates, default rates, maturity profiles, interest rates and other factors that may be relevant to each financial asset. Where such pricing models are used, assumptions are reviewed and updated on the basis of actual performance data as it is received and on the basis of market conditions as at the Statement of Financial Position date. See note 2 – *Fair value* and *Interest income* and note 3 – *Critical accounting judgements and key sources of estimation uncertainty* for further information regarding assumptions and critical judgements.

QUEEN'S WALK INVESTMENT LIMITED

Unaudited Condensed Consolidated Statement of Cash Flows

For the quarter ended 31 December 2009 and quarter ended 30 September 2009

2. Significant accounting policies (continued)

Basis of preparation (continued)

The Directors believe it is appropriate to adopt the going concern basis in preparing the condensed consolidated quarterly report as, after due consideration, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Regarding the ongoing funding (per notes 13 and 19) the Directors have taken into account the current cash balance, the forecast cash inflows from the investments and liquidity of the bond portfolio, the required financing repayments and operating expenses, and consider the Company able to meet the required repayment of the loan in accordance with the agreed schedule of repayments. In addition, the Directors note the cash resources currently available (Euro 13.7m), of which some will be used to pay the proposed dividend, which are sufficient to cover normal operational costs and current liabilities.

These financial statements are presented in Euro because that is the currency of the primary economic environment in which the Group operates. The functional currency of the Group is also considered to be Euro.

Basis of consolidation

Subsidiaries are entities controlled by the Company (note 9). The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. At 31 December 2009, the Group is made up of the Company and its only subsidiary, Trebuchet Finance Limited.

In accordance with the Standing Interpretations Committee Interpretation 12 "Consolidation-Special Purpose Entities" ("SIC 12"), the Company consolidates only entities over which control is indicated by activities, decision making, benefits and residual risks of ownership. In accordance with SIC 12 the Company does not consolidate an SPE in which it holds less than a substantial interest in the residual income position. Where it holds more than a substantial interest, it does not consolidate the SPE where the residual income position represents only a small part of the gross assets of the SPE and the Company was neither involved in the establishment of the SPE or the origination of the assets owned by the SPE, on the basis that the Company is not exposed to the majority of the risks and benefits of the assets owned by the SPE, provided control is not otherwise indicated by the Company's activities, decision making, benefits and residual risks or ownership.

Trebuchet Finance Limited, the Company's only subsidiary, is an SPE over which the Company exercises control and its financial statements are therefore included in the consolidated financial statements of the Company. The Company does not consolidate any of the SPEs in which it holds a residual income position as it is not exposed to the majority of the risks and benefits of the assets owned by the relevant SPEs and does not control any of them.

Investments

Investments in residual interests and investment grade bonds are recognised initially at their acquisition cost (being fair value at acquisition date) as debt securities. Thereafter they are re-measured at fair value and are designated as fair value through profit or loss investments in accordance with the Amendment to International Accounting Standard 39 ("IAS 39") Financial Instruments: Recognition and Measurement-The Fair Value

Option, as the Group is an investment Group whose business is investing in financial assets with a view to profiting from their total return in the form of interest and changes in fair value.

Financial assets classified as at fair value through profit or loss are recognised/derecognised by the Group on the date it commits to purchase/sell the investments in regular way trades.

Cash and cash equivalents

Cash and cash equivalents includes amounts held in interest bearing accounts and overdraft facilities.

QUEEN'S WALK INVESTMENT LIMITED

Unaudited Condensed Consolidated Statement of Cash Flows

For the quarter ended 31 December 2009 and quarter ended 30 September 2009

2. Significant accounting policies (continued)

Derivative financial instruments

Derivative financial instruments used by the Group to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities that do not qualify for hedge accounting are accounted for as trading instruments. The Group may also enter into credit default or total return swap arrangements where the underlying asset or assets would otherwise be within the Group's investment policy in order to obtain substantially the same economic exposure to the returns and risks associated with holding such underlying asset or assets.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Consolidated Statement of Comprehensive Income.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the Statement of Financial Position date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

The fair value of options is their quoted market price at the date of the Statement of Financial Position. Broker marks are obtained for these positions. The change in value is recorded in net gains/(losses) in the Consolidated Statement of Comprehensive Income. Realised gains and losses are recognised on the maturity or sale of the option.

Fair value

All financial assets carried at fair value are initially recognised at fair value and subsequently re-measured at fair value based on bid prices where such bids are available from a third party in a liquid market. If bid prices are unavailable, the fair value of the financial asset is estimated by reference to market information which includes but is not limited to broker marks, prices on comparable assets and using pricing models incorporating discounted cash flow techniques. These pricing models apply assumptions regarding asset-specific factors and economic conditions generally, including delinquency rates, severity rates, prepayment rates, default rates, maturity profiles, interest rates and other factors that may be relevant to each financial asset. The objective of a fair value measurement is the price at which an orderly transaction would take place between market participants on the measurement date; it is not a forced liquidation or distressed sale. Where the Group has considered all available information and there is evidence that the transaction was forced, it will not use a transaction price as being determinative of fair value.

Where a forced sale price is not used the Group will estimate the fair value with reference to other market data as described above. With regard to residual income positions, historical performance and observable market data is analysed to determine the average level of these factors and their volatility over time. These assumptions are typically derived by reference to the historical delinquencies, defaults, recoveries and prepayments actually realised by the originator of the underlying assets and any empirical data available that may be available in respect of any of these factors for the particular asset class.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported within assets and liabilities when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Derecognition of a financial asset

A financial asset is derecognised only if substantially all of the asset's risks and rewards of ownership are transferred or control is transferred in the event that not substantially all of the asset's risks and rewards of ownership are transferred. However, if substantially all of the risks and rewards are retained, the asset is not derecognised. Control is transferred if the transferee has the practical ability to sell the asset unilaterally without needing to impose additional restrictions on the transfer.

QUEEN'S WALK INVESTMENT LIMITED

Unaudited Condensed Consolidated Statement of Cash Flows

For the quarter ended 31 December 2009 and quarter ended 30 September 2009

2. Significant accounting policies (continued)

Interest-bearing loans and borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Consolidated Statement of Comprehensive Income using the effective interest rate method. Financing costs associated with the issuance of financings are recognised in the Consolidated Statement of Comprehensive Income using the effective interest rate method.

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Statement of Financial Position date are translated to Euro at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Consolidated Statement of Comprehensive Income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Euro at foreign exchange rates ruling at the dates the fair value was determined.

Transaction expenses

The preliminary expenses of the Group directly attributable to its initial public offering and any costs associated with the establishment of the Group are charged to the share premium or other reserve account.

Share options granted to the Investment Manager are treated as a transaction expense on the basis that they are granted by the Group as a fee for the Investment Manager's work in raising capital for the Group. The fair value of such options is charged to the share premium account. The share premium account is credited with the fair value of such options at the time that such options are vested.

Interest income

Interest income is accrued over the projected lives of the investments using the effective interest method as defined under International Accounting Standard 39. Where the Group adjusts its expected cash flow projections to take account of any change in underlying assumptions, such adjustments are recognised in the Consolidated Statement of Comprehensive Income by reflecting changes in a revised amortised cost value of the investment and applying the original effective interest rate to this revised amortised cost value for the purposes of calculating future income.

Taxation

The Company is a tax-exempt Guernsey limited Company. Accordingly, no provision for income taxes is made. Trebuchet Finance Limited is a "qualifying Company" within the meaning of section 110 of the Irish Taxes Consolidation Act 1997 and accordingly its taxable profits are subject to tax at a rate of 25 per cent. Payments under the Participation Note are paid gross to the Company and the income portion of such payments is deductible by Trebuchet Finance Limited. Consequently, Trebuchet Finance Limited has a minimal amount of taxable income. The activities of Trebuchet Finance Limited are exempt for Irish Value Added Tax (VAT) purposes under the Irish VAT Act of 1972.

Other receivables

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

Financial liabilities and equity

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

QUEEN'S WALK INVESTMENT LIMITED

Unaudited Condensed Consolidated Statement of Cash Flows

For the quarter ended 31 December 2009 and quarter ended 30 September 2009

2. Significant accounting policies (continued)

Other accruals and payables

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

3. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies (described in note 2 above), the Group has determined that the following judgements and estimates have the most significant effect on the amounts recognised in the financial statements:

Income recognition

The Group invests primarily in a diversified portfolio of residual income positions, being the subordinated tranches of asset-backed securities ("ABS"). ABS are securities that are typically backed by consumer finance receivables (such as mortgage loans) and commercial loans and receivables (including commercial mortgage loans and loans to small-and-medium sized enterprises).

Residual income positions are typically unrated or rated below investment grade and are often referred to as the "equity" or "first loss" position of a securitisation transaction.

Unlike a more conventional debt instrument and the more senior tranches of ABS (which generally hold the rights to fixed levels of income), the cash flow profile of a residual income position does not generally include a contractually established schedule of fixed payments divided between interest and principal. Instead, the cash flows generally vary over time, and the periodic cash flows associated with a residual income position may include a significant element of principal repayment as well as income payments.

Where the cash payments generated by residual income positions do not typically follow the pattern of a standard cash-pay debt instrument (in that there is not a constant level of income in each period followed by a repayment of the principal amount at maturity), a given cash payment received in respect of a residual income position can generally be considered to represent a combination of the return on the investment and the repayment of some of the capital initially invested.

As a result, the stream of expected cash flows associated with a particular residual income position may have an uneven payout profile, in that the cash payment expected in one period (and the proportion of that payment that represents principal repayment versus interest income) may vary significantly from the cash payments expected in other periods.

The Group follows a policy of accounting for such investments at fair value through profit or loss and has elected to recognise income on an effective interest rate ("EIR") method in accordance with paragraph 30 of IAS 18 "Revenue".

The carrying value of a residual income position at any given measurement date after the Group's initial acquisition of the asset reflects repayments of principal in accordance with the effective interest method. This revised carrying value (adjusted to account for the accrual of interest and principal paydowns) is subject to further adjustment on the basis of market conditions and other factors that are likely to affect the fair value of the asset. Where actual performance data or expectations regarding defaults, delinquencies and prepayments received in respect of a given asset is notably different from the default, delinquency and prepayment assumptions incorporated in the pricing model for the asset, the assumptions are revised to reflect this data and the pricing model is updated accordingly. In addition to the actual performance data observed in respect of a particular asset, market factors are also taken into account within the model. Broker marks (where available) and any other available indicators are assessed to determine whether or not the market is attributing higher or lower default, delinquency or prepayment expectations to similar assets in determining whether or not the assumptions incorporated in the pricing model remain reasonable.

QUEEN'S WALK INVESTMENT LIMITED

Unaudited Condensed Consolidated Statement of Cash Flows

For the quarter ended 31 December 2009 and quarter ended 30 September 2009

3. Critical accounting judgements and key sources of estimation uncertainty

Income recognition (continued)

Interest income is recorded based on the original EIR calculated on acquisition for each individual residual income position. Where there is a carry value reduction driven by lower cashflow expectations, interest income will be reduced as it reflects the reduced cashflow expectations.

Valuation of investments

The market for subordinated asset-backed securities, including residual income positions is illiquid and regular traded prices are generally not available for such investments. There is no active secondary market in residual income positions and, further, there is no industry standard agreed methodology to value residual income positions.

In accordance with the Group's accounting policies, fair value of financial assets is based on quoted bid prices where such bids are available from a third party in a liquid market. At 31 December 2009 bid prices were not available for any of the Group's investments. There is very limited information available in relation to transactions in comparable investments. As quoted bid prices are unavailable, the fair value of the investments is estimated by reference to market information, which includes but is not limited to broker marks, prices of comparable assets, estimated fair value from the previous period updated for current period cash flows and a pricing model, that incorporates discounted cash flow techniques as required by IAS 39. The Group may use all or a combination of the prices from these sources in estimating the fair value of the investments. Broker marks are estimates of values provided by market participants who are typically the originators of the investments. Broker marks are not binding prices and there is no guarantee that the Group could transact at these prices in the current market. Due to the current market conditions, the Group has relied on pricing models to fair value its investments as broker marks become less reliable or unobtainable.

The assumptions upon which the pricing models are based are described in note 2 (*Fair Value*). Any change to assumptions surrounding the pricing models may result in changes to the fair values being attributed to the investments. Where the fair value of the investment is written down due to changes in assumptions and expected cash flows, the change in the fair value is taken to the Consolidated Statement of Comprehensive Income following the reassessment of the cash flows discounted at the current market rate estimated for the investment.

The fair value of the Group's investments is set out in note 10. Given the number of individual investments and the number of individual parameters that make up each pricing model, the Group believes that it would be impractical to disclose the effects of changes to each assumption in respect of each individual investment and this would not provide meaningful additional disclosure. However, general assumptions used in the pricing models are disclosed with sensitivities in the Group's annual report and financial statements.

QUEEN'S WALK INVESTMENT LIMITED

Unaudited Condensed Consolidated Statement of Cash Flows

For the quarter ended 31 December 2009 and quarter ended 30 September 2009

4. (Losses)/gains on financial instruments

The following table details the gains and losses, excluding interest income and finance costs, earned by the Group from financial assets and liabilities during the period:

	Quarter ended 31 December 2009 Euro	Quarter ended 30 September 2009 Euro
Net realised gains/(losses)		
Net realised gains/(losses) on asset backed securities and bonds	202,200	(210,923)
Net realised gains/(losses) on options	349,119	(778,736)
Net realised losses on foreign exchange instruments	(418,075)	(73,309)
Net realised gains/(losses)	<u>133,244</u>	<u>(1,062,968)</u>
Net unrealised gains/(losses)		
Net unrealised (losses)/gains on investments at fair value through profit or loss	(354,919)	878,307
Net unrealised losses on interest rate swap agreements	(497,756)	(68,476)
Net unrealised (losses)/gains on options	(1,694,520)	975,265
Net unrealised gains/(losses) on foreign bank balances	38,818	(94,829)
Net unrealised (losses)/gains	<u>(2,508,377)</u>	<u>1,690,267</u>
Net realised and unrealised (losses)/gains	<u>(2,375,133)</u>	<u>627,299</u>

5. Interest income and finance costs

The following table details interest income and finance costs from financial assets and liabilities during the period ended:

	Quarter ended 31 December 2009 Euro	Quarter ended 30 September 2009 Euro
Interest income		
Investments designated at fair value through profit or loss upon initial recognition	4,104,448	4,140,805
Loans and receivables (including cash and cash equivalents)	2,308	2,878
Total interest income	<u>4,106,756</u>	<u>4,143,683</u>
Finance Costs		
<i>Liabilities held at amortised cost:</i>		
Interest on loan	119,116	158,278
Total finance costs	<u>119,116</u>	<u>158,278</u>

QUEEN'S WALK INVESTMENT LIMITED

Unaudited Condensed Consolidated Statement of Cash Flows

For the quarter ended 31 December 2009 and quarter ended 30 September 2009

6. Operating expenses

	Note	Quarter ended 31 December 2009 Euro	Quarter ended 30 September 2009 Euro
Investment management, custodian and administration fees			
Investment management fee	18	442,339	441,031
Administration fee	18	48,784	49,442
Custodian fee	18	9,210	9,210
		<hr/>	<hr/>
		500,333	499,683
Other operating expenses			
Audit fees		42,849	42,849
Directors' fees payable to Directors of Queen's Walk Investment Limited		60,939	60,493
Directors' fees payable to Directors of Trebuchet Finance Limited		6,348	6,301
Legal fees		176,436	176,438
Pricing expenses		56,785	56,785
Other expenses		136,041	135,500
		<hr/>	<hr/>
		479,398	478,366
		<hr/>	<hr/>
Total operating expenses		979,731	978,049

The Group has no employees.

7. Dividends

The fourth interim dividend for the year ended 31 March 2009 of Euro 0.08 (2008: Euro 0.15) per share was declared on 16 June 2009 and an amount of Euro 2,131,573 was paid on 17 July 2009.

The first interim dividend for the year ended 31 March 2010 of Euro 0.08 per share was declared on 15 September 2009 and an amount of Euro 2,131,573 was paid to shareholders on 16 October 2009.

The second interim dividend for the year ended 31 March 2010 of Euro 0.08 per share was declared on 25 November 2009 and an amount of Euro 2,131,573 was paid to shareholders on 8 January 2010.

A dividend of Euro 0.08 per share has been declared by the Directors for the quarter ended 31 December 2009. The liability in respect of the third interim dividend has not yet been recognised in the Consolidated Statement of Financial Position of the Group for the quarter ended 31 December 2009 since this dividend had neither been declared nor approved at the quarter end date.

The Group's objective is to provide shareholders with stable returns in the form of quarterly dividends. The Group's dividend policy is to make dividend distributions from its distributable net income subject to retaining a portion of such income as a reserve for payment in subsequent periods.

Following the introduction of The Companies (Guernsey) Law, 2008, the Group is only able to pay a dividend if the Board of Directors is satisfied that the Company will, immediately after the payment, satisfy the solvency test and any other requirement in its Memorandum and Articles. The Board is satisfied that, in respect of the proposed dividend and the dividend paid in respect of the quarter ended 31 December 2009, the solvency test was satisfied.

QUEEN'S WALK INVESTMENT LIMITED

Unaudited Condensed Consolidated Statement of Cash Flows

For the quarter ended 31 December 2009 and quarter ended 30 September 2009

8. Profit per Ordinary Share

	Quarter ended 31 December 2009 Euro	Quarter ended 30 September 2009 Euro
<i>The calculation of the basic and diluted earnings per ordinary share is based on the following data:</i>		
Profit for the purposes of basic earnings per ordinary share being net loss attributable to equity holders	632,776	3,634,655
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	26,644,657	26,644,657
<i>Effect of dilutive potential Ordinary Shares:</i>		
Share options	-	-
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	26,644,657	26,644,657

There is no dilution as at 31 December 2009 or 30 September 2009, as the share price was below the option price for the period.

9. Subsidiary

Trebuchet Finance Limited was incorporated in Ireland on 19 May 2005 and, pursuant to the Articles of Association of Trebuchet Finance Limited, the Group has the right to appoint a majority of the Board of Directors of Trebuchet Finance Limited. Two of the Directors of the Group have been appointed Directors of Trebuchet Finance Limited. To ensure that the Group will be able to maintain a majority of the Board of Directors of Trebuchet Finance Limited in the future, the Group has been allotted a single share in Trebuchet Finance Limited carrying the right to appoint a majority of the Board of Directors. Trebuchet Finance Limited was established for the sole purpose of acquiring and holding interests in certain assets.

10. Investments

The following is a summary of the Group's investments:

	31 December 2009 Euro	30 September 2009 Euro
Asset-backed securities and bonds at fair value through profit or loss	101,639,329	103,272,053
Options purchased held for trading	414,400	2,973,630
Options written held for trading	(70,500)	(95,210)
	<u>101,983,229</u>	<u>106,150,473</u>
Asset-backed securities and bonds		
Opening cost	249,055,698	250,441,322
Purchases	1,914,988	2,578,135
Realised gain/(loss)	202,200	(210,923)
Principal payups	1,513,743	1,388,468
Principal paydowns	(4,908,736)	(5,141,304)
Closing cost	247,777,893	249,055,698
Unrealised losses	(146,138,564)	(145,783,645)

QUEEN'S WALK INVESTMENT LIMITED

Unaudited Condensed Consolidated Statement of Cash Flows

For the quarter ended 31 December 2009 and quarter ended 30 September 2009

Asset-backed securities and bonds at fair value	101,639,329	103,272,053
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10. Investments (continued)

Concentration of credit risk

The Group is subject to concentration of credit risk in that the four largest structures within the asset backed securities portfolio comprise approximately 38% (30 September 2009: 37.62%) of the total assets. The concentration of credit risk is substantially unchanged compared to the prior quarter. Two of the structures, comprising approximately 20% (30 September 2009: 21%) of its asset-backed securities portfolio have had a temporary suspension in cash flows from these structures as a result of prepayment rate triggers being breached.

The following options contracts were open as at 31 December 2009:

Counterparty	Expiration	Description	Currency	Notional Amount	Strike price	Unrealised Gains/(Losses) Euro
Goldman Sachs	29 Dec 2010	EUR Call GBP Put	Euro	10,000,000	0.9315	(727,600)
Goldman Sachs	29 Dec 2010	EUR Call GBP Put (Written Option)	Euro	10,000,000	1.300	99,500
						<u>(628,100)</u>

The following options contracts were open as at 30 September 2009:

Counterparty	Expiration	Description	Currency	Notional Amount	Strike price	Unrealised Gains/(Losses) Euro
Credit Suisse	05 Nov 2009	Halifax HPI Put option	Euro	14,000,000	583.02	1,574,020
Goldman Sachs	29 Dec 2010	EUR Call GBP Put	Euro	10,000,000	0.9315	(582,390)
Goldman Sachs	29 Dec 2010	EUR Call GBP Put (Written option)	Euro	10,000,000	1.300	74,790
						<u>1,066,420</u>

11. Other assets

	31 December 2009	30 September 2009
	Euro	Euro
Interest receivable on investment portfolio	1,184,232	1,216,167
Lehman claim	268,998	268,915
Interest receivable on cash and cash equivalents	150,431	129,707
	<u>1,603,661</u>	<u>1,614,789</u>

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

QUEEN'S WALK INVESTMENT LIMITED

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For the quarter ended 31 December 2009 and quarter ended 30 September 2009

12. Derivative contracts

The following interest rate and balance guaranteed interest rate swaps were unsettled at 31 December 2009.

Termination Date	Counterparty	Initial Notional Amount (GBP)	Unrealised Gain Euro
25 January, 2013	Goldman Sachs	451,431	15,848
30 October 2010	Goldman Sachs	388,684	2,119
15 October, 2011	Goldman Sachs	5,500,000	138,038
15 November, 2011	Goldman Sachs	1,300,000	30,545
25 January, 2013	Goldman Sachs	1,226,713	39,612
15 October, 2011	Goldman Sachs	3,000,000	69,134
12 September, 2011	Goldman Sachs	1,700,000	34,182
15 November, 2011	Goldman Sachs	1,100,000	21,314
27 March, 2011	Goldman Sachs	17,348,100	722,488
15 February, 2011	Goldman Sachs	10,424,462	394,976
15 January, 2011	Goldman Sachs	28,266,450	1,203,245
			<hr/>
			2,671,501

The following interest rate and balanced guaranteed interest rate swaps were unsettled at 30 September 2009:

Termination Date	Counterparty	Initial Notional Amount (GBP)	Unrealised Gain Euro
25 January, 2013	Goldman Sachs	451,431	17,102
15 October, 2011	Goldman Sachs	5,500,000	153,611
15 November, 2011	Goldman Sachs	1,300,000	34,434
30 October, 2010	Goldman Sachs	416,768	2,454
25 January , 2013	Goldman Sachs	1,226,713	39,111
15 October, 2011	Goldman Sachs	3,000,000	69,046
12 September, 2011	Goldman Sachs	1,700,000	36,086
15 November, 2011	Goldman Sachs	1,100,000	22,292
27 March, 2011	Goldman Sachs	17,348,100	868,631
15 February, 2011	Goldman Sachs	11,150,877	487,899
15 January, 2011	Goldman Sachs	28,963,861	1,438,591
			<hr/>
			3,169,257

Since 30 June 2008, the Group entered into EUR interest rate swaps with Goldman Sachs as detailed in the tables above. These swap floating rate for fixed on the notional of reference assets (being the SME residuals and some of the investment grade bonds) held in the portfolio. The investment grade bonds the Company has purchased are typically indexed to three month LIBOR. To hedge against falling LIBOR rates, the Company has entered into a series of fixed to floating interest rate swaps. The notional for the swaps is determined at the time of purchase, and the Company could be under- or over-hedged in relation to the outstanding amount of the bonds. The interest rate swaps are reviewed and hedges will be adjusted as required.

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13. Loans

	31 December 2009	30 September 2009
	Euro	Euro
Loans	18,300,565	22,027,322
	<u>18,300,565</u>	<u>22,027,322</u>

On 27 November 2008 the Company negotiated amended terms on a reduced facility, involving a flexible two year repayment schedule of the outstanding debt and amendments to material change clauses to reduce refinancing risk. The Company has committed to repay the outstanding balance of the facility by October 2011 (by March 2011 if Magellan 1 is refinanced), pursuant to an agreed loan amortisation schedule and will not make any further draw downs.

In addition, at the end of each quarter, the Company has pledged to keep the outstanding balance of the financing facility below the product of the then applicable advance rate ("Applicable Percentage") and the value of the investment portfolio plus cash (the "Borrowing Base"). As at 31 December 2009, the Company's Borrowing Base is approximately Euro 49.9 million versus a loan balance of Euro 18.3 million. At the end of each calendar quarter, the Company has agreed a target loan amount ("Target Loan Amount") with the lenders. The Company has also agreed to an Applicable Percentage for every quarter. The Target Loan Amount and Applicable Percentage Schedule are detailed below:

Date	Target Loan Amount	Applicable Percentage for Residuals
30 September 2009	28,500,000	30%
31 December 2009	27,000,000	27.5%
31 March 2010	25,000,000	20%
30 June 2010	12,000,000	20%
30 September 2010	10,000,000	20%
31 December 2010	0	20%
31 March 2011	0	10%

The Applicable Percentage for the Company's investment grade bond portfolio will be 50%, 40%, 30% and 15% for AA and above, A and above, BBB and above and BB and above; rated bonds respectively. The Target Loan Amount will reduce by Euro11 million in the event that the Magellan 1 transaction is re-financed by the originator, BCP Millennium, before June 2010. The Applicable Percentage for residuals will reduce to 25% if the Magellan 1 transaction is re-financed by BCP Millennium before 31 December 2009. The Company has committed to use a percentage of its Free Cash (cash proceeds in a quarter less dividends and operating expenses) to amortise the facility.

Prior to the Magellan 1 transaction being refinanced, 75% of the Company's Free Cash will be used to repay the facility. After the Magellan 1 transaction is called, 66% of the Free Cash will be used to repay the debt, and in this case once the outstanding balance of the facility is below Euro 22 million, 50% of the Free Cash will be used to repay the facility. If the outstanding balance of the loan facility is less than the Target Loan Amount on the relevant date, the dividend will be capped at Euro 2.25 million per quarter (or approximately a 19% dividend yield on the share price as at 26 November 2008). If the outstanding balance of the loan is greater than the Target Loan Amount, the dividend will be capped at 8% on the share price prevailing at the end of each quarter. A failure to meet the Target Loan Amount would not trigger an event of default. In the event that the balance of the facility is greater than the Borrowing Base, the Company will have 20 business days to remedy the breach. Failure to remedy the breach would constitute an event of default. No such breaches occurred during the period thereafter.

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14. Other liabilities

	31 December 2009	30 September 2009
	Euro	Euro
Interest payable	89,691	117,469
Due to related parties – Investment Manager (note 18)	146,522	143,741
Payable for investments purchased	-	734,336
Accrued expenses	897,041	664,172
	<u>1,133,254</u>	<u>1,659,718</u>

Other liabilities principally comprise amounts outstanding in respect of interest payable and ongoing costs. The Directors consider the carrying amount of other liabilities approximates their fair value.

15. Share capital

Authorised shares

	31 December 2009	31 December 2009	30 September 2009	30 September 2009
	Number of Ordinary Shares	Euro	Number of Ordinary Shares	Euro
Ordinary shares of no par value each	Unlimited	-	Unlimited	-

Issued and fully paid

Balance at beginning of period	26,644,657	-	26,644,657	-
Ordinary shares bought back during the quarter	-	-	-	-
Balance at end of period	<u>26,644,657</u>	-	<u>26,644,657</u>	-

Between 30 September 2009 and 31 December 2009 the Company did not purchase and cancel any of its Ordinary Shares through its buyback programme.

16. Reserves

	Quarter ended 31 December 2009		
	Accumulated Reserves Euro	Capital Reserves Euro	Total Reserves Euro
Balance at start of period	92,261,218	7,672,500	99,933,718
Net profit for the period	632,776	-	632,776
Distribution to the ordinary Shareholders of the Company	(2,131,573)	-	(2,131,573)
Balance at end of period	<u>90,762,421</u>	<u>7,672,500</u>	<u>98,434,921</u>

QUEEN'S WALK INVESTMENT LIMITED

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16. Reserves (continued)

	Quarter ended 30 September 2009		
	Accumulated Reserves Euro	Capital Reserves Euro	Total Reserves Euro
Balance at start of period	90,758,136	7,672,500	98,430,636
Net gain for the period	3,634,655	-	3,634,655
Distribution to the ordinary Shareholders of the Company	(2,131,573)	-	(2,131,573)
Balance at end of period	<u>92,261,218</u>	<u>7,672,500</u>	<u>99,933,718</u>

The Ordinary Shares of the Group have no par value. As such, the proceeds of the Initial Public Offering represent the premium on the issue of the Ordinary Shares. In accordance with the accounting policies of the Group and as allowed by The Companies (Guernsey) Law, 1994, the costs of the Initial Public Offering have been expensed against the share premium account.

The Group passed a special resolution cancelling the amount standing to the credit of its share premium account immediately following admission to the London Stock Exchange. In accordance with The Companies (Guernsey) Law, 1994 (as amended) (the "Companies Law"), the Directors applied to the Royal Court in Guernsey for an order confirming such cancellation of the share premium account following admission. The Other reserve created on cancellation is available as distributable profits to be used for all purposes permitted by the Companies Law, including the buy back of Ordinary Shares and the payment of dividends. Under Guernsey law a capital redemption reserve is created for the redemption of these Ordinary Shares. As the nominal value of these Ordinary Shares is Euro Nil, the amount transferred to this reserve is Euro Nil.

Following the introduction of the Companies (Guernsey) Law, 2008, the Group is no longer required to maintain separate classes of reserves. As such, the previously reported classes of reserves have been amalgamated into a single class on the Consolidated Statement of Financial Position.

QUEEN'S WALK INVESTMENT LIMITED

Unaudited Condensed Consolidated Statement of Cash Flows

For the quarter ended 31 December 2009 and quarter ended 30 September 2009

17. Notes to cash flow statement

	Quarter ended 31 December 2009 Euro	Quarter ended 30 September 2009 Euro
Net profit	632,776	3,634,655
Adjustments for:		
Net realised (gains)/losses on bonds	(202,200)	210,923
Net realised gains on matured options	(349,119)	778,736
Net unrealised losses/(gains) on investments at fair value through profit or loss	354,919	(878,307)
Unrealised losses on interest rate swap agreements	497,756	68,476
Unrealised losses/(gains) on options	1,694,520	(975,265)
Unrealised (gains)/losses on foreign exchange instruments	(38,818)	94,829
	<u>2,589,834</u>	<u>2,934,047</u>
Purchases of bonds	(1,914,988)	(2,578,135)
Purchase of options	-	199,867
Options matured	1,189,119	-
Principal Payups	(1,513,743)	(1,388,468)
Principal Paydowns	4,908,736	5,141,304
	<u>2,669,124</u>	<u>1,374,568</u>
Decrease in receivables	11,128	94,831
(Decrease)/Increase in payables	(526,464)	908,737
	<u>(515,336)</u>	<u>1,003,568</u>
Net cash inflow from operating activities	<u>4,743,622</u>	<u>5,312,183</u>

Purchases and sales of investments are considered to be operating activities of the Group, given its purpose, rather than investing activities. Cash and cash equivalents includes amounts held in interest bearing accounts and overdraft facilities.

18. Material agreements and related party transactions

Investment Manager

The Company and Trebuchet Finance Limited are parties to an Investment Management Agreement with the Investment Manager, dated 8 December 2005, pursuant to which each of the Company and Trebuchet Finance Limited has appointed the Investment Manager to manage their respective assets on a day-to-day basis in accordance with their respective investment objectives and policies, subject to the overall supervision and direction of their respective Boards of Directors.

The Group pays the Investment Manager a Management Fee and Incentive Fee (see note 6). During the quarter ended 31 December 2009, the Management Fee totalled Euro 442,339 (30 September 2009: Euro 441,031), of which Euro 146,522 (30 September 2009: Euro 143,741) was outstanding at the period end, and the Incentive Fee totalled Euro Nil (30 September 2009: Euro Nil).

QUEEN'S WALK INVESTMENT LIMITED

Unaudited Condensed Consolidated Statement of Cash Flows

For the quarter ended 31 December 2009 and quarter ended 30 September 2009

18. Material agreements and related party transactions (continued)

Management Fee

Under the terms of the Investment Management Agreement, the Investment Manager is entitled to receive from the Group an annual Management Fee of 1.75 per cent of the net asset value of the Group other than to the extent that such value is comprised of any investment where the underlying asset portfolio is managed by the Investment Manager (as is the case with Cheyne Finance plc, Cheyne High Grade ABS CDO Ltd. and Cheyne CLO Investments I Limited). The Management Fee is calculated and payable monthly in arrears.

Incentive Fee

Under the terms of the Investment Management Agreement, the Investment Manager is entitled to receive an incentive compensation fee in respect of each incentive period that is paid quarterly in arrears. An incentive period will comprise each successive quarter, except the first such period was the period from admission to the London Stock Exchange to 31 March 2006. The Incentive Fee for each incentive period is an amount equivalent to 25 per cent of the amount by which A exceeds $(B \times C)$ where:

- A = The Group's consolidated net income taking into account any realised or unrealised losses (but only to the extent they have not been deducted in a prior incentive period) and excluding any gains from the revaluation of investments, as shown in the Group's latest consolidated management accounts for the relevant quarter, before payment of any Incentive Fee;
- B = An amount equal to a simple interest rate equal to two per cent per quarter, subject to the reset mechanic described below (the "Hurdle Rate"); and
- C = The weighted average number of Shares outstanding during the relevant quarter multiplied by the weighted average offer price of such Shares.

For the purposes of calculating the Incentive Fee, the Hurdle Rate will be reset on 1 April 2010, and on each 1 April thereafter to equal the greater of (i) a simple interest rate equal two per cent per quarter, or (ii) one quarter of the sum of the then-prevailing yield per annum on ten-year German Bunds and 300 basis points. While the Group will not pay a Management Fee in respect of that portion of its portfolio that is comprised of investments where the Investment Manager receives fees for its management of the underlying asset portfolio, the income from such investments are included in the consolidated net income of the Group for the purpose of calculating the Incentive Fee.

The Incentive fee for the period was Euro Nil (30 September 2009: Euro Nil) of which Euro Nil (30 September 2009: Euro Nil) was outstanding at the quarter end.

Administration Fee

Under the terms of the Administration Agreement, the Administrator is entitled to receive from the Group an administration fee of 0.125 per cent of the gross asset value of the Group up to Euro 80,000,000 and 0.0325 per cent of the gross asset value of the Group greater than Euro 80,000,000. Investors Fund Services (Ireland) Limited, the sub-administrator, is paid by the Administrator.

Custodian Fee

Under the terms of the Custodian Agreement, the Custodian is entitled to receive from the Group a custodian fee of 0.03 per cent of the gross asset value of the Group up to Euro 80,000,000 and 0.02 per cent of the gross asset value of the Group greater than Euro 80,000,000, plus additional fees in relation to transaction fees, statutory reporting, corporate secretarial fees and other out of pocket expenses.

QUEEN'S WALK INVESTMENT LIMITED

Unaudited Condensed Consolidated Statement of Cash Flows

For the quarter ended 31 December 2009 and quarter ended 30 September 2009

18. Material agreements and related party transactions (continued)

Investment Manager Options

In recognition of the work performed by the Investment Manager in raising capital for the Group, the Group granted to Cheyne Global Services Limited on 8 December 2005 options representing the right to acquire 2,250,000 Shares, being 10 per cent of the number of Offer Shares (that is, excluding the Shares issued to Cheyne ABS Opportunities Fund LP and the Shares issued to the Directors), at an exercise price per share equal to the Offer Price (Euro 10). The Investment Manager Options are fully vested and immediately exercisable on the date of admission to the London Stock Exchange and will remain exercisable until the 10th anniversary of that date. The Group may grant further Investment Manager Options in connection with any future offering of Shares. Such options, if any, will represent the right to acquire Shares equal to not more than 10 per cent of the number of Shares being offered in respect of that future offering and will have an exercise price equal to the offer price for that offering.

Investment Manager Options

The aggregate fair value of the options granted at the time of the Initial Public Offering using a Black-Scholes valuation model was Euro 7,672,500 (reflecting a valuation of Euro 3.41 per option). This amount has been treated as a cost of the Initial Public Offering. As at 31 December 2009, these options were out of the money as the share price was below the Offer Price of Euro 10.

Controlling Party

Cheyne ABS Opportunities Fund has a controlling interest in the Company.

19. Significant Events during the period

On 2 October 2009 the Company paid back a further Euro 3,726,757 of the loan, leaving a loan amount outstanding at 31 December 2009 of Euro 18,300,565.

20. Subsequent Events

Subsequent to 31 December 2009 the Company paid back a further Euro 9,657,598 of the loan, leaving a loan outstanding amount at 9 March 2010 of Euro 8,642,967.

On 3 March 2010, the Company sold the Magellan 2 ABS portfolio at a price in line with its 31 December 2009 valuation.

There have been no other events subsequent to 31 December 2009 which require adjustment of or disclosure in the quarterly report or the notes thereto.

21. Comparative figures

The comparative figures are for the quarter ended 30 September 2009.

22. Unaudited Financial Statements

The financial statements contained in this report are unaudited.