Financial Statements

Bear Stearns High-Grade Structured Credit Strategies Enhanced Leverage Master Fund, Ltd.

For the period from August 1, 2006 (commencement of operations) through December 31, 2006
with Independent Auditors' Report
(in U.S. dollars)

Financial Statements

For the period from August 1, 2006 (commencement of operations)
through December 31, 2006

Contents

Corporate Information

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bear Stearns High-Grade Structured Credit Strategies Enhanced Leverage Master Fund, Ltd.:

We have audited the accompanying statement of assets and liabilities of Bear Stearns High-Grade Structured Credit Strategies Enhanced Leverage Master Fund, Ltd. (the "Master Fund"), including the condensed schedule of investments, as of December 31, 2006, and the related statements of operations, changes in net assets, and cash flows for the period then ended (all expressed in United States dollars). These financial statements are the responsibility of the Master Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Master Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Master Fund as of December 31, 2006, the results of its operations, changes in its net assets, and its cash flows for the period then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, 63.10% of the Master Fund's net assets represents securities which were fair valued by the Master Fund's management. The Master Fund's management has estimated the fair values of these securities in the absence of readily ascertainable market values. These values may differ from the values that would have been used had a ready market for these investments existed, and the differences could be material.

Deloitte & Touche LLP

April 24, 2007

Member of
Deloitte Touche Tohmatsu

Statement of Assets and Liabilities

December 31, 2006
(in U.S. dollars)

Assets	
Investments in securities, at fair value (cost $8,870,424,097)	$ 8,895,432,292
Cash and cash equivalents (restricted cash $50,573,634)	78,440,641
Securities purchased under agreements to resell	312,052,148
Interest receivable	55,225,547
Receivables for investments sold	4,942,204
Premiums paid on swaps	13,969,960
Unrealized appreciation on swaps	43,172,610
Total assets	9,403,235,402
Liabilities	
Securities sold short, at fair value (proceeds $512,672,048)	510,575,039
Unrealized depreciation on swaps	40,264,991
Premiums received on swaps	15,173,578
Written swaptions, at fair value (premiums $89,244)	105,882
Securities sold under agreements to repurchase	7,466,265,936
Redemptions payable	3,519,305
Payable for investments purchased	398,618,087
Interest payable	32,585,142
Professional fees payable	218,025
Organization costs payable	116,846
Research fees payable	133,189
Accounting and administration fees payable	81,023
Directors' fees payable	1,563
Accrued expenses and other liabilities	6,220
Total liabilities	8,467,664,826
Net assets	$ 935,570,576
Net asset value per share*	
Redeemable common shares (873,118 shares outstanding)	$ 1,071.53

* The shares above are aggregate of all specified shares outstanding as of December 31, 2006.

See notes to financial statements.

Condensed Schedule of Investments

December 31, 2006
(in U.S. dollars)

Description	Percent Of Net Assets	Interest Rate (%)	Maturity Date	Face Amount	Value
PREFERRED STOCK - 1.60%					
Home Ownership Funding Corp.*					$ 14,927,644
Total Preferred Stock (cost - $18,756,351)					14,927,644
COMMON STOCK – 1.18%					
Pipelines – 0.83%					7,770,510
REITS - Mortgage - 0.13%					1,238,322
Special Purpose Entity - 0.22%					2,020,706
Web Portals / ISP - 0.00%					5,986
Total Common Stocks (cost - $10,301,416)					11,035,524
FIXED INCOME SECURITIES - 931.68%					
Asset Backed Securities – 100.59%					
Bank of America	21.36%	0.31%	2007	200,000,000	199,900,000
CIRC Capital Deposit*	5.69%	9.34%	2009	53,330,926	53,262,492
CIRC FLT*	5.35%	9.34%	2009-2010	48,313,100	50,028,698
Indymac Seconds Asset Backed Trust	12.80%	5.50%	2036	119,672,155	119,741,565
Ixion	13.36%	5.82%	2041	125,000,000	125,000,000
Prism Trident Orso Trust*	1.00%	5.68%	2009	9,185,000	9,379,722
Shamrock Capital PLC	8.18%	5.68% - 5.91%	2009	76,500,000	76,500,000
Terwin Mortgage Trust*	9.74%	4.75% - 6.00%	2034-2035	93,681,753	91,119,432
Other Asset Backed Securities	23.10%	5.33% - 9.98%	2008-2046	213,985,472	216,172,592
Total Asset Backed Securities (cost - $941,363,159)					941,104,501
Collateralized Bank Obligation Securities – 30.89%					
Westways Funding Ltd.	26.16%	5.82% - 5.87%	2010-2011	244,726,000	244,726,000
Other Collateralized Bank Obligations Securities	4.73%	5.88% - 6.50%	2010-2041	44,299,615	44,250,546
Total Collateralized Bank Obligation Securities (cost $288,990,068)					288,976,546
Collateralized Debt Obligation Securities - 466.22%					
Abacus Ltd.*	12.79%	5.47% - 5.87%	2040-2046	281,590,000	119,641,475
Amp CDO	7.85%	7.14%	2046	73,480,000	73,443,260
Augusta Fund Ltd.*	0.35%	0.00%	2037	8,000,000	3,244,509
Avanti Funding Ltd.	10.95%	5.67%	2046	102,505,000	102,453,748
Buchanon	15.18%	5.39 - 6.08%	2046	142,000,000	142,000,000
Caldecott CDO Ltd.	13.36%	5.76%	2048	125,000,000	125,000,000
Commodore CDO Ltd.	8.84%	5.72%	2036	82,700,000	82,700,000
Diversey Harbor ABS CDO Ltd.	5.09%	5.73%	2046	47,762,000	47,611,072
ESP Funding Ltd.	8.55%	5.76%	2046	80,000,000	80,000,000
Halcyon Securitized Products Investors Corporation	6.41%	5.85%	2050	60,000,000	60,000,000
Halyan CDO I PLC	5.88%	5.93%	2051	55,250,000	54,973,750
Highland Park CDO Ltd.	8.08%	5.69%	2051	75,630,000	75,587,647
High Grade Structured Credit CDO (1)	1.81%	5.58% - 6.73%	2040-2044	16,834,609	16,916,852
Ivy Lane CDO Ltd.	8.84%	5.81%	2046	82,665,000	82,665,000
Klio Funding Ltd.	6.13%	5.31%	2039	56,947,000	57,330,823

See notes to financial statements.

Condensed Schedule of Investments (continued)

December 31, 2006
(in U.S. dollars)

Description	Percent Of Net Assets	Interest Rate (%)	Maturity Date	Face Amount	Value
Collateralized Debt Obligation Securities - 466.22% (continued)					
Kingsland Ltd.	8.08%	5.82%	2021	$ 75,575,000	$ 75,575,000
Lexington Capital Funding	8.62%	5.76%	2049	80,672,000	80,672,000
Mantoloking CDO Ltd.	14.43%	5.67%	2046	135,000,000	135,000,000
Marathon Financing BV	9.35%	5.73%	2026	87,500,000	87,500,000
Midori CDO Ltd.	9.90%	5.79%	2047	92,500,000	92,597,125
Octans CDO Ltd.	9.62%	5.82%	2051	90,000,000	90,000,000
Orchid Structured Finance CDO Ltd.	10.39%	5.26%	2046	97,104,609	97,160,929
Parapet Ltd.	5.21%	6.37%	2045	48,750,992	48,750,992
Restoration Funding CDO	5.51%	6.04%	2013	51,436,000	51,519,326
Static Residential CDO Ltd.	7.56%	5.32%	2040	70,768,376	70,768,376
Tahoma CDO Ltd.	26.06%	5.80% - 5.97%	2046	243,810,000	243,810,000
Tallship Funding Ltd.	11.17%	5.82%	2047	104,490,000	104,490,000
Tasman CDO Ltd.	17.53%	5.79%	2047	164,000,000	164,000,000
Triaxx Prime CDO	38.71%	5.82% - 5.92%	2039	362,175,000	362,175,000
Other Collateralized Debt Obligation Securities	163.97%	0.00% - 15.38%	2007-2051	1,543,877,259	1,534,224,100
Total Collateralized Debt Obligation Securities (cost - $4,361,311,260)					4,361,810,984
Collateralized Loan Obligation Securities - 56.80%					
Capital Source Commercial Loan Trust	9.11%	5.65% - 6.00%	2022	85,000,000	85,262,400
Grayston CLO Ltd.	5.34%	5.70%	2021	50,000,000	49,920,500
NACM CLO	8.80%	5.62%	2019	82,298,000	82,298,000
Other Collateralized Loan Obligation Securities	33.55%	5.68% - 6.07%	2011-2046	315,396,980	313,890,340
Total Collateralized Loan Obligation Securities (cost - $530,514,958)					531,371,240
Collateralized Mortgage Obligation Securities - 105.24%					
Bear Stearns Structured Products,Inc. (1)	0.07%	5.50%	2034-2035	725,140	644,713
Chase Mortgage Finance Corp. 2006-S3 1A4*	2.19%	6.00%	2036	20,418,971	20,449,600
CMO Holding Corporation*	0.11%	5.50%	2034	999,987	987,801
Countrywide Home Loans	11.15%	5.00% - 5.97%	2035-2037	104,034,406	104,313,755
Citigroup Mortgage Loan Trust, Inc. 2006-8 A1*	3.70%	5.50%	2036	34,700,224	34,606,533
Greenwich Capital Commercial Funding Corporation	5.43%	5.48%	2037	50,958,000	50,770,984
Thornburg Mortgage Securities Trust 2005-A4	3.81%	5.60%	2045	35,633,816	35,626,796
Other Collateralized Mortgage Obligation Securities	78.78%	4.00% - 9.10%	2011-2046	736,535,609	737,279,065
Total Collateralized Mortgage Obligation Securities (cost - $981,965,102)					984,679,247
Corporate Bonds – 91.54%					
Corsair Jersey NO 4 Ltd.	5.34%	5.90%	2024	50,000,000	50,000,000
Pyxis Master	14.43%	0.00%	2043	135,000,000	135,000,000
Tiers Trust*	2.81%	6.07% - 6.20%	2009	25,718,000	26,258,831
Wachovia Capital Trust	5.15%	5.80%	2042	47,762,000	48,179,918
Other Corporate Bonds	63.81%	0.00% - 7.69%	2009-2049	614,639,289	596,983,159
Total Corporate Bonds (cost -$850,250,160)					856,421,908

See notes to financial statements.

Condensed Schedule of Investments (continued)

December 31, 2006
(in U.S. dollars)

Description	Percent Of Net Assets	Interest Rate (%)	Maturity Date	Face Amount	Value
Interest Only Securities (cost - $3,722,293) - 0.23%		0.00% - 5.88% ^	2010-2036	$ 3,951,495	$ 2,135,950
Management Fees – 2.23%					
CLSVF 2006-1A Junior management fees*	0.02%	13.02% ^	2014	221,705	220,499
CLSVF 2006-1A Senior management fees*	0.06%	7.77% ^	2014	520,538	517,628
Comstock Junior management fees*	0.08%	12.93% ^	2011	710,391	714,873
Comstock Senior management fees*	0.03%	7.68% ^	2011	268,223	270,055
Endeavor 2005-1X Junior management fees*	0.03%	13.50% ^	2010	312,152	315,189
Endeavor 2005-1X Senior management fees*	0.01%	6.99% ^	2010	113,817	114,693
HGSCS CDO 2004-1 Junior management fees*(1)	0.01%	20.29% ^	2007	66,716	69,979
HGSCS CDO 2004-1 Senior management fees*(1)	0.02%	8.43% ^	2007	206,696	211,464
HGSCS CDO 2005-1A Junior management fees*(1)	0.01%	15.00% ^	2008	105,744	108,076
HGSCS CDO 2005-1A Senior management fees*(1)	0.03%	7.40% ^	2008	260,040	260,227
KLIO 1 Management fees*(1)	0.23%	7.50% ^	2039	2,355,600	2,153,018
KLIO 2 Management fees*(1)	0.53%	7.50% ^	2039	5,249,776	4,955,001
KLIO 3 Management fees*(1)	0.53%	7.50% ^	2040	5,111,790	4,943,510
STCDO 2004-1 Junior capital management*	0.01%	13.16% ^	2008	126,229	126,455
STCDO 2005-2 Junior capital management*	0.02%	13.16% ^	2008	182,175	185,653
STCDO 2005-2 Senior capital management*	0.01%	8.16% ^	2008	98,138	99,709
THOM 2006-1A Senior capital management fees*	0.14%	7.21% ^	2010	1,354,098	1,347,395
TSHP 2006-1A Senior capital management fees*	0.20%	7.21% ^	2011	1,863,554	1,855,690
Other Management Fees	0.26%	0.01% - 7.21% ^	2009-2010	267,898,807	2,386,454
Total Management Fees (cost - $3,221,552)					20,855,568
Principal Only Securities - 0.93%					
Bear Stearns Structured Product, Inc. (1)	0.93%	22.22%^	2034	9,271,162	8,700,446
Total Principal Only Securities (cost - $8,435,019)					8,700,446
U.S. Treasury Note – 73.68%					
U.S. Treasury Note	73.68%	4.63%	2008	691,849,000	689,289,159
Total U.S. Treasury Note (cost - $692,023,650)					689,289,159
Warehouse CDO Facility Securities - 3.33%					
Merrill Lynch Euler Warehouse**	1.18%		2007	11,000,000	11,000,000
Merrill Lynch Libertas Warehouse**	0.98%		2007	9,185,000	9,185,000
Merrill Lynch Libertas Warehouse**	1.17%		2007	11,000,000	11,000,000
Total Warehouse CDO Facility Securities (cost - $31,185,000)					31,185,000
Total Fixed Income Securities (cost - $8,722,039,988)					8,716,530,549
Unregistered Investment Company - 15.82%					
Everquest*(1)	15.82%	3.73%	2045	5,697,154	148,012,061
Total Unregistered Investment Company (cost - $142,428,850)					148,012,061
Swaption (cost - $5,955,259) - 0.53%			2007-2008	100,000,899	4,926,514
Total Investment in Securities (cost - $8,870,424,097)					8,895,432,292

See notes to financial statements.

Condensed Schedule of Investments (concluded)

December 31, 2006
(in U.S. dollars)

Description	Percent Of Net Assets	Interest Rate (%)	Maturity Date	Face Amount	Value
SECURITIES SOLD SHORT - (54.58%)					
Asset Backed Securities - (21.38%)					
Bank of America	(21.38%)		2007	$ (200,000,000)	$ (200,000,000)
Total Asset Backed Securities (proceeds - $200,000,000)					(200,000,000)
Collateralized Loan Obligation Securities (proceeds - $1,837,000) - (0.20%)			2013	(1,837,000)	(1,837,000)
U.S. Treasury Notes - (33.00%)					
U.S. Treasury Notes	(27.77%)	4.50%	2011	(262,214,000)	(259,854,074)
Other U.S. Treasury Notes	(5.23%)	4.5% - 5.38%	2011-2031	(48,218,000)	(48,883,965)
Total U.S. Treasury Notes (proceeds - $310,835,048)					(308,738,039)
Total Securities Sold Short (proceeds - $512,672,048)					(510,575,039)
Written Swaption (premiums $89,244) - (0.01%)			2007	(202)	(105,882)
SWAPS - 0.18%					
Appreciated Swaps - 3.10%					
Credit Default Swaps (net premiums paid $13,024,533) – 2.54%					23,840,048
Interest Rate Swaps (net premiums $0) - 0.13%					1,174,831
Total Return Swaps (net premiums $0) - 0.02%					153,564
Variance Swaps (net premiums paid $945,427) - 0.41%					3,850,431
Total Appreciated Swaps (net premiums $13,969,960)					29,018,874
Depreciated Swaps - (2.92%)					
Credit Default Swaps (net premiums recieved $14,145,719) - (1.93%)					(18,032,653)
Interest Rate Swaps (net premiums $0) - (0.72%)					(6,766,167)
Total Return Swaps (net premiums $0) - (0.01%)					(119,140)
Variance Swaps (net premiums received $1,027,859) - (0.26%)					(2,396,913)
Total Depreciated Swaps (net premiums $15,173,578)					(27,314,873)
Total Swaps (net premiums $1,203,618)					1,704,001
Other liabilities in excess of other assets - (796.40%)					(7,450,884,796)
Net Assets - 100.00%					$ 935,570,576

* Security is being fair valued by the Investment Manager. See Note 2 for additional information.
** See Note 2 for information on yields associated with CDO warehouse facilities
(1) Investment in related party. See Note 5 for additional information.
^ Indicates yield as of 12/31/06

See notes to financial statements.

Statement of Operations

For the period from August 1, 2006 (commencement of operations)
through December 31, 2006
(in U.S. dollars)

Investment income	
Interest	$ 151,889,781
Dividend income	154,565
Total investment income	152,044,346
Expenses	
Interest expense	114,335,991
Professional fees	404,245
Custodian fees	300,929
Research fees	299,173
Organizational cost	210,000
Accounting and administration fees	193,418
Directors' fees	1,563
Other expenses	6,250
Total expenses	115,751,569
Net investment income	36,292,777
Realized and unrealized gain (loss) on investment transactions	
Net realized loss on investments in securities	(6,126,682)
Net realized gain on securities sold short	721,278
Net realized loss on written options	(1,314,710)
Net realized loss on swaps	(7,069,816)
Net realized loss on futures	(183,402)
Net realized gain on foreign currency transactions	111,554
Total net realized loss	$ (13,861,778)

See notes to financial statements.

Statement of Operations (continued)

For the period from August 1, 2006 (commencement of operations)
through December 31, 2006
(in U.S. dollars)

Realized and unrealized gain (loss) on investment transactions (continued)		
Net unrealized appreciation on investments in securities	$	25,008,195
Net unrealized appreciation on securities sold short		2,097,009
Net realized loss on written options		(16,638)
Net unrealized appreciation on swaps		2,907,620
Net unrealized appreciation on foreign currency transactions		22,309
Total net unrealized appreciation		30,018,495
Net realized and unrealized gain on investment transactions		16,156,717
Net increase in net assets resulting from operations	$	52,449,494

See notes to financial statements.

Statement of Changes in Net Assets

For the period from August 1, 2006 (commencement of operations)
through December 31, 2006
(in U.S. dollars)

Net increase in net assets resulting from operations	
Net investment income	$ 36,292,777
Total net realized loss	(13,861,778)
Total net unrealized appreciation	30,018,495
Net increase in net assets resulting from operations	52,449,494
Increase in net assets resulting from capital transactions	
Issuance of shares	890,503,313
Redemption of shares	(7,382,231)
Net increase in net assets resulting from capital transactions	883,121,082
Total increase in net assets	935,570,576
Net assets	
Beginning of period	–
End of period	$ 935,570,576

See notes to financial statements.

Statement of Cash Flows

For the period from August 1, 2006 (commencement of operations)
through December 31, 2006
(in U.S. dollars)

Cash flows from operating activities

Net increase in net assets resulting from operations	$ 52,449,494
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:	
Cost of securities purchased	(12,638,979,629)
Proceeds from securities sold	3,593,044,511
Proceeds from securities sold short	724,664,816
Purchases of securities sold short	(211,184,048)
Proceeds from paydowns	158,513,934
Net proceeds from written options	2,175,216
Foreign currency transactions, net	133,863
Net realized loss	13,861,778
Net unrealized appreciation	(30,018,495)
Amortized premium	1,332,682
Interest receivable	(55,225,547)
Receivables for securities sold	(4,942,204)
Payable for investments purchased	398,618,087
Interest payable	32,585,142
Professional fees payable	218,025
Organizational costs payable	116,846
Research fees payable	133,189
Accounting and administration fees payable	81,023
Directors' fees payable	1,563
Accrued expenses and other liabilities	6,220
Restricted cash	(50,573,634)
Net cash used in operating activities	$ (8,012,987,168)

See notes to financial statements.

Statement of Cash Flows (continued)

For the period from August 1, 2006 (commencement of operations)
through December 31, 2006
(in U.S. dollars)

Cash flows from financing activities	
Proceeds from issuance of shares	$ 890,503,313
Payments for redemptions of shares(net of redemption payable)	(3,862,926)
Securities purchased under agreements to resell	(312,052,148)
Securities sold under agreements to repurchase	7,466,265,936
Net cash provided by financing activities	8,040,854,175
Net increase unrestricted cash and cash equivalents	27,867,007
Unrestricted cash and cash equivalents at beginning of period	–
Unrestricted cash and cash equivalents at end of period	$ 27,867,007
Supplemental disclosure of other operating activities	
Cash paid during the period for interest	$ 81,750,849

See notes to financial statements.

Notes to Financial Statements

For the period from August 1, 2006 (commencement of operations) through December 31, 2006

1. Organization

Bear Stearns High-Grade Structured Credit Strategies Enhanced Leverage Master Fund, Ltd. (the "Master Fund") is an exempted company formed under the laws of the Cayman Islands. Bear Stearns Asset Management Inc. (the "Investment Manager") is responsible for the management of the Master Fund's affairs. The Master Fund commenced operations on August 1, 2006. The Master Fund is a reference portfolio for a leveraged total return swap (the "Leveraged Instrument") with Barclays Bank PLC, which is invested by the Bear Stearns High-Grade Structured Credit Strategies Enhanced Leverage (Overseas) Ltd. (the "Fund") and the Bear Stearns High-Grade Structured Credit Strategies Enhanced Leverage Fund, L.P. (the "Partnership"). The Master Fund allocates its returns to the Leveraged Instrument, which then allocates the return to the Fund and the Partnership. In return for this allocation, the Fund and the Partnership pay a floating rate of interest back to the Leveraged Instrument.

The Master Fund's investment objective is high current income and capital appreciation relative to USD London Inter-Bank Offered Rate ("LIBOR"). The Master Fund intends to achieve its objective through leveraged investments in investment-grade structured finance securities with an emphasis on collateralized debt obligations ("CDOs") rated from AAA to AA- by Standard & Poor's, from Aaa to Aa3 by Moody's or from AAA to AA- by Fitch. The Master Fund also makes investments in other structured finance assets including asset-backed securities, mortgage-backed securities (MBS), and global structured asset securitizations. In addition, various derivatives, including primarily credit-default swaps, but also options, swaps, swaptions, futures and forward contracts (both listed and over-the-counter) on various financial instruments, equity securities and currencies, may be used for hedging purposes. There can be no assurance that the Master Fund will achieve its investment objective or avoid substantial losses.

The Master Fund intends to concentrate its investments in investment-grade CDOs and other structured finance securities. The Master Fund has targeted a portfolio rating composition of CDOs and structured finance securities of approximately 90% rated from AAA to AA- by Standard & Poor's, from Aaa to Aa3 by Moody's or from AAA to AA- by Fitch. Up to 10% of the portfolio may be invested in lower rated or unrated securities. The percentages above are target concentrations only. The Master Fund is not required to sell any security that is downgraded subsequent to its purchase by the Master Fund.

The Fund and the Partnership invest substantially all of their assets through the Leverage Instrument, conducting all of their investment and trading activities indirectly through an investment in the Leverage Instrument. The purpose of the Master Fund is to achieve trading and administrative efficiencies. As the Master Fund's positions are expected to be highly leveraged, the net asset value may increase or decrease at a greater rate than if leverage were not used.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and reflect the following significant accounting policies:

Securities Valuation

For the purposes of allocating the net profits or losses of the Master Fund and determining the value of the shares of the Master Fund for each fiscal period, the Investment Manager prices the Master Fund's portfolio based upon prices for such securities received from independent brokers or dealers.

The Investment Manager normally seeks prices from at least three such brokers or dealers. Other portfolio investments are priced using independent pricing services, independent broker or dealer prices, or such other means as determined in good faith by the Investment Manager. The resulting unrealized gains and losses are reflected in the statement of operations. As of December 31, 2006, approximately 63.10% of net assets are fair valued by the Investment Manager.

Investment Transactions

The Master Fund records its transactions in securities on a trade date basis. Realized gains and losses from securities are calculated on an identified cost basis.

Investment Income and Expense

Investment income is recorded on an accrual basis. Amortization of premium and accretion of discount are recorded using the effective yield method. Paydown gains and losses on asset-backed securities are presented as an adjustment to interest income.

Collateralized Debt, Bond or Loan Obligations ("CDO, CBO and CLO")

The Master Fund enters into investment grade bonds backed by a pool of variously rated bonds, including junk bonds. CDOs, CBOs and CLOs are similar in concept to Collateralized Mortgage Obligations ("CMOs"), but differ in that CDOs, CBOs and CLOs represent different degrees of credit quality rather than different maturities. Underwriters of CDOs, CBOs and CLOs package a large and diversified pool of bonds, including high risk, high yield junk bonds, which is then separated into "tiers". Typically, top tier represents the higher quality collateral and pays the lower interest rate; a middle tier is backed by riskier bonds and pays a higher rate; the bottom tier represents the lowest credit quality and, instead of receiving a fixed interest rate, receives the residuals interest payments.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Financial Futures Contracts

The Master Fund may enter into financial futures contracts for the delayed delivery of securities, currency or contracts based on financial indices at a fixed price on a future date. Initial margin deposits are made upon entering into futures contracts and can be either cash or securities. During the period that the futures contract is open, changes in the value of the contract are recorded as unrealized gains or losses by "marking-to-market" to reflect the market value of the contract at the end of each day's trading. Variation margin payments are paid or received daily, depending upon whether unrealized gains or losses result.

When the contract is closed, the Master Fund records a realized gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the Master Fund's basis in the contract.

Should interest rates or other underlying variables move unexpectedly, the Master Fund may not achieve the anticipated benefits of the financial futures contracts and may realize a loss. The use of futures transactions involves the risk of imperfect correlation in movements in the price of futures contracts, interest rates and the underlying hedged assets. The Master Fund is also at risk of not being able to enter into a closing transaction for the futures contract because of an illiquid secondary market.

Purchased/Written Options

When the Master Fund purchases or writes an option, an amount equal to the premium paid or received by the Master Fund is recorded as an asset or a liability and is subsequently adjusted to the current market value of the option purchased or written. Premiums received or paid from writing or purchasing options that expire unexercised are treated by the Master Fund on the expiration date as realized gains or losses. The difference between the initial premium received or paid and the amount paid or received on effecting a closing purchase or sale transaction, including brokerage commissions, is also treated as a realized gain or loss. If an option is exercised, the cost basis of the security or currency purchased or sold is adjusted by the premium paid or received on that option. The Master Fund, as writer of an option, may have no control over whether the underlying securities may be sold (call) or purchased (put) and as a result bears the market risk of an unfavorable change in the price of the security underlying the written option.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Purchased/Written Options (continued)

A call option gives the purchaser of the option the right (but not obligation) to buy, and obligates the seller to sell (if the option is exercised) the underlying position at the exercise price at any time or at a specified time during the option period. A put option gives the holder the right to sell and obligates the writer to buy, the underlying position at the exercise price at any time or at a specific time during the option period. Put options can be purchased to effectively hedge a position or a portfolio against price declines if a portfolio is long. In the same sense, call options can be purchased to hedge a short position or a portfolio that is short. The Master Fund can also sell (or write) covered call options and put options to hedge portfolio positions or the overall portfolio. Options, when used by the Master Fund, help in maintaining a targeted duration. Duration is a measure of price sensitivity of a security or a portfolio to relative changes in interest rates.

The main risk associated with purchasing options is that the option expires without being exercised. In this case, the option expires worthless and the premium paid for the option is considered a realized loss. The risk associated with writing call options is that the option is exercised and the Master Fund forgoes the opportunity for profit if the market value of the underlying position increases. The risk in writing put options is that the Master Fund may incur a loss if the market value of the underlying position decreases and the option is exercised. In addition, as with futures contracts, the Master Fund risks not being able to enter into a closing transaction for the written option as the result of an illiquid market.

Interest Rate Swaps

In a simple interest rate swap, one investor pays a floating rate of interest on a notional principal amount and receives a fixed rate of interest on the same notional principal amount for a specified period of time. Alternatively, an investor may pay a fixed rate and receive a floating rate. Interest rate swaps are asset/liability management tools.

During the term of the interest rate swap, unrealized gains or losses are recorded as a result of "marking-to-market" the swap. When the swap is terminated, the Master Fund will record a realized gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the Master Fund's basis in the contract, if any. Swaps involve a risk that interest rates will move contrary to the Master Fund's expectations, thereby increasing its payment obligation or reducing the payment received. All periodic payments and amortization of initial payments made or received when the agreement is entered into are recorded to realized gain or loss.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Interest Rate Swaps (continued)

The Master Fund is exposed to credit loss in the event of nonperformance by the counterparty to the swap. Should interest rates move unexpectedly, the Master Fund may not achieve the anticipated benefits of the interest rate swap and may realize a loss. However, the Master Fund does not anticipate nonperformance by any counterparty.

Swap Options

Swap options are similar to options on securities except that instead of selling or purchasing the right to buy or sell a security, the writer or purchaser of the swap option is granting or buying the right to enter into a previously agreed upon interest rate swap agreement at any time before the expiration of the option. Premiums received or paid from writing or purchasing options are recorded as liabilities or assets and are subsequently adjusted to the current market value of the options written or purchased. Premiums received or paid from writing or purchasing options that expire unexercised are recognized by the Master Fund on the expiration date as realized gains or losses. The difference between the premium and the amount paid or received on affecting a closing purchase or sale transaction, including brokerage commission, is also recognized as a realized gain or loss. If an option is exercised, the cost basis of the swap is adjusted by the premium paid or received on that option.

The main risk associated with purchasing swap options is that the swap option expires without being exercised. In this case, the option expires worthless and the premium paid for the swap option is considered a realized loss. The main risk associated with the writing of a swap option is the market risk of an unfavorable change in the value of the interest rate swap underlying the written swap option.

Swap options may be used by the Master Fund, among other things, to manage the duration of the Master Fund's portfolio or as part of an income producing strategy reflecting the view of the Master Fund's management in the direction of interest rates.

The Master Fund is exposed to credit loss in the event of nonperformance by the counterparty. However, the Master Fund does not anticipate nonperformance by any counterparty.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Credit Default Swaps

The Master Fund enters into credit default swaps which are agreements in which one party pays fixed periodic payments to a counterparty in consideration for a guarantee from the counterparty to make a specific payment should a negative credit event take place. Risks arise from the possible inability of counterparties to meet the terms of their contracts. The unrealized gains or losses on open credit default swaps are included in the statement of assets and liabilities, with net changes in unrealized gains or losses included in the statement of operations. All periodic payments and amortization of initial payments made or received when the agreement is entered into are recorded to realized gain or loss.

Total Return Swaps

Total return swaps are agreements in which one party receives all interest and/or dividend payments as well as capital gains and losses of a security in return for a either a fixed or floating cash flow that is unrelated to the security. The risk associated with these agreements is the change in the value of the security and that any payments will not offset the cash flow (or will be higher than the cash flow received) depending upon which part of the agreement the Master Fund is holding.

During the term of the total return swap, unrealized gains or losses are recorded as a result of "marking-to-market" the swap. When the swap is terminated, the Master Fund will record a realized gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the Master Fund's basis in the contract, if any. All periodic payments and amortization of initial payments paid or received when the agreement is entered into are recorded to realized gain or loss.

Variance Swaps

Variance Swaps are agreements based on the volatility of the forward value of the underlying security from the strike. Cash flows are exchanged between the parties based against a reference level assigned in the agreement. Variance Swaps do not have directional risk, they are solely based on the level of the volatility of the underlying securities.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Variance Swaps (continued)

During the term of the variance swap, unrealized gains or losses are recorded as a result of "marking-to-market" the swap. When the swap is terminated, the Master Fund will record a realized gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the Master Fund's basis in the contract, if any. All periodic payments and amortization of initial payments made or received when the agreement is entered into are recorded to realized gain or loss.

Collateralized Mortgage Obligations

The Master Fund invests in mortgage-backed securities, including interest only ("IOs") securities and principal only ("POs"). A collateralized obligation is a debt security issued by a corporation, trust or custodian, or by a U.S. Government agency or instrumentality, that is collateralized by a portfolio or pool of mortgages, mortgage pass-through securities, U.S. Government securities or other assets.

Stripped mortgage-backed securities are mortgage-backed securities that have been divided into interest and principal components. IOs receive the interest payments on the underlying mortgages. The cash flows and yields on IO classes are extremely sensitive to the rate of principal payments (including prepayments) on the underlying mortgage loans. If the underlying mortgages experience higher than anticipated prepayments, an investor in an IO class of a stripped mortgage-backed security may fail to recoup fully its initial investment, even if the IO class is highly rated or is derived from a security guaranteed by the U.S. Government. Unlike other fixed-income and other mortgage-backed securities, the value of IOs tends to move in the same direction as interest rates. POs receive the principal payments on the underlying mortgages. The total payments received by POs are fixed and the only uncertainty is the timing of the payments. Prepayments of the underlying principal are beneficial to the Master Fund as the Master Fund receives payments earlier. The value of POs are inversely affected by the change in interest rates.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Deposits in Warehouse Agreements

In the normal course of business, the Master Fund may enter into an agreement which requires a deposit for the purpose of covering a portion of any losses or cost associated with the accumulation of securities under a warehouse agreement. Such a deposit of cash allows for notional participation in the income generated by the assets, acquired within the warehouse arrangement, after deducting the notional debt cost (the "Carry"). At the termination of the agreement, depending on the performance of the collateral securities accumulated in the warehouse, the Master Fund has the potential to either lose its deposit or earn a residual carry and LIBOR based interest along with the return of its deposit. The Master Fund is obligated to acquire 100% of the equity of the CDOs should the CDO closing fail to occur and the existing collateral manager is replaced by BSAM.

These agreements are treated as derivatives for accounting purposes and are reported at fair value.

As of December 31, 2006, the Master Fund had deposited $31,185,000 in three wharehouse agreements which also represents the fair value.

Management Fees

These investments represent the purchase of cash flows by the fund representing the reimbursements of the collateral management fees owed to the Collateral Manager of the underlying CDO based on a percentage of the aggregrate portolio balance. Payments on the management fees are not guaranteed.

Presentation of Investments

The condensed schedule of investments presents condensed securities as industries unless the total of all positions of an individual issuer held by the Master Fund is greater than 5% of net assets.

Income Taxes

There is currently no taxation imposed on income or capital gains by the government of the Cayman Islands. The only taxes payable by the Master Fund are withholding taxes applicable to certain investment income. As a result, no tax liability or expense has been recorded in the financial statements.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash equivalents may include highly liquid investments with a maturity of three months or less when purchased. Cash and cash equivalents may also include short-term liquid investments such as money market funds. Restricted cash represents funds held by brokers as collateral for certain investments in securities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Master Fund's management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Master Fund's management believes that the estimates utilized in preparing the Master Fund's financial statements are reasonable and prudent; however, actual results could differ from these estimates and these differences may be material.

Research Fees

The Master Fund uses various researching agencies for the securities that are held in its portfolio. These research agencies include: Intex, a security data and valuation service, BCA Research, a macro economic research provider, Credit Sights, a corporate fixed income research service that provides reports and updates on the corporate credits in the portfolio, Moody's, a corporate credit analysis and research provider, EAM Partners, a commodity research and portfolio modeling company, Loan Performance, provides underlying loan information for the positions held by the fund, and Markit Partners, a credit (CDS) data and pricing provider. Fees paid to such agencies are listed as research fees on the Statement of Operations.

3. Contribution by Leverage Instrument

The Fund and the Partnership are expected to have up to 2.75 times leveraged exposure to the Master Fund. At December 31, 2006, the amount of leverage provided by Barclays to the feeders and invested directly into the Master Fund was $275,000,000.

Notes to Financial Statements (continued)

4. Allocation of Profits and Losses

Profits and losses are allocated on a pro-rata basis to all shareholders in accordance with the provisions set forth in the memorandum and articles of association.

5. Securities Sold Under Agreements to Repurchase and Securities Purchased Under Agreements to Resell

Securities sold under agreements to repurchase generally are collateralized by investments in fixed income securities and are carried at the amounts at which the securities will be subsequently repurchased. It is the Master Fund's policy to take possession of securities sold under agreements to repurchase. Counterparties are large institutional dealers in fixed income securities. Collateral is valued daily and counterparties may require additional collateral when appropriate. At December 31, 2006, the Master Fund received cash of $7,466,265,936 and pledged fixed income securities as collateral for which the counterparty has the right to sell or re-pledge the securities. At December 31, 2006, the Master Fund provided cash of $312,052,148 and received securities as collateral under resale agreements.

Approximately 1.32% of all securities sold under agreements to repurchase and securities purchased under agreements to resell are executed with Bear Stearns & Co., Inc. or Bear Stearns International Ltd., affiliates of the Investment Manager. The affiliate earns a return on these transactions at a rate based on market conditions.

6. Related Party Transactions

The Investment Manager is registered with the United States Securities and Exchange Commission as an investment adviser. The Investment Manager provides the Master Fund with management services pursuant to an investment advisory agreement and receives its compensation in the form of advisory fees from the Fund and the Partnership.

Bear, Stearns Securities Corp., a wholly owned subsidiary of The Bear Stearns Companies Inc., serves as the Master Fund's custodian (the "Custodian"). For the period from August 1, 2006 (commencement of operations) through December 31, 2006, the Master Fund incurred custody fees of $300,929.

Notes to Financial Statements (continued)

6. Related Party Transactions (continued)

At December 31, 2006, all securities owned and unrestricted cash on deposit with brokers reflected in the statement of assets and liabilities are positions held by and amounts due to the Custodian, a subsidiary of Bear Stearns Companies Inc., and is the custodian used by the Master Fund. Substantially all of the Master Fund's cash and securities positions are either held as collateral by the custodian against various margin obligations of the Master Fund or deposited with the custodian for safekeeping purposes. All securities and cash owned were held in a margin account with the Custodian. Margin interest is paid based on the Federal Funds Rate. For the period from August 1, 2006 (commencement of operations) through December 31, 2006, the amount of interest received was $262,795.

The Master Fund may invest in securities issued by Bear, Stearns & Co., Inc., or an affiliate. At December 31, 2006, $473,302,969 (approximately 71.54% of net assets) is invested in such securities.

The Master Fund allows the Investment Manager to execute trades on a principal basis with Bear Stearns & Co., Inc. For the period from August 1, 2006 (commencement of operations) through December 31, 2006, approximately 0.40% of the trades executed on a principal basis were with Bear Stearns & Co., Inc.

On August 1, 2006, under the direction of the Investment Manager, the Bear Stearns High Grade Structured Credit Strategies Enhanced Leverage Master Fund, Ltd., (the "Leveraged Fund") and feeder funds investing in the Leveraged Instrument commenced operations upon the sale of securities from the Bear Stearns High Grade Structured Credit Strategies Master Fund, Ltd. (the "Unleveraged Fund") and the subsequent repurchase of those securities by the Leveraged Fund.

Prior to the Leveraged Fund's inception, investors in the Unleveraged Fund were given an opportunity to redeem all or a portion of their capital balances to invest into the Leveraged Fund. This transaction caused no effect to the capital balances of the investors remaining in the Unleveraged Fund. The resulting amount of capital transferred to the Leveraged Fund was $548,113,820 and represented 35.35% of the Unleveraged Fund's net assets on the date of transfer.

Notes to Financial Statements (continued)

7. Financial Instruments with Off-Balance Sheet Risk or Concentration of Credit Risk

The Master Fund, in the normal course of its investing and trading activities, enters into transactions in derivative financial instruments with elements of off-balance sheet, credit and market risk in excess of the amount recognized in the statement of assets and liabilities. Market risk is the potential adverse change in value caused by unfavorable movements in interest rates, foreign exchange rates or market prices of other financial instruments. The Master Fund monitors and manages its exposure to market risk. The Master Fund's exposure to market risk is determined by a number of factors including the size, composition and diversification of positions held, the absolute and relative levels of interest rates and market volatility. The Master Fund also invests in fixed income securities. Until the fixed income securities are sold or mature, the Master Fund is exposed to credit risk relating to whether the issuer will meet its obligations as they come due. In addition, an increase in the interest payments on the Master Fund's financings relative to the interest earned on the Master Fund's mortgage-backed securities may adversely affect profitability.

Derivative Financial Instruments

In the normal course of business, the Master Fund enters into derivative contracts for trading purposes. The derivative contracts that the Master Fund holds or issues include futures contracts and swap contracts. Typically, derivative contracts serve as components of the Master Fund's investment strategies and are utilized primarily to structure and hedge investments to economically match the investment objectives of the Master Fund. The notional or contractual amount of derivative financial instruments provides only a measure of the Master Fund's involvement in these types of transactions and does not represent the amounts subject to market risk or credit risk.

CDO, CBO and CLO Investment Related Risks

The market value of Collateralized Debt Obligations ("CDOs"), Collateralized Bank Obligations ("CBOs") and Collateralized Loan Obligations ("CLOs") will generally fluctuate with, among other things, the financial condition of the obligors on the underlying debt obligations or, with respect to synthetic securities, of the obligors on or issuers of the reference obligations, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates.

Notes to Financial Statements (continued)

7. Financial Instruments with Off-Balance Sheet Risk or Concentration of Credit Risk (continued)

CDO, CBO and CLO Investment Related Risks (continued)

CDOs, CBOs and CLOs are subject to credit, liquidity and interest rate risks. In particular, investment-grade CDOs, CBOs and CLOs will have greater liquidity risk than investment grade sovereign or corporate bonds. There is no established, liquid secondary market for many of the CDO, CBO and CLO securities the Master Fund may purchase. The lack of such an established, liquid secondary market may have an adverse effect on the market value of such CDO, CBO and CLO securities and the Master Fund's ability to sell them. Further, CDOs, CBOs and CLOs will be subject to certain transfer restrictions that may further restrict liquidity. Therefore, no assurance can be given that if the Master Fund were to dispose of a particular CDO, CBO and CLO held by the Master Fund, it could dispose of such investment at the previously prevailing market price.

Securities Sold Short

The Master Fund may sell a security it does not own in anticipation of a decline in the market value of the security (short sale). Short sales represent obligations of the Master Fund to deliver the specified security, and thereby creates a liability to purchase the security in the market at prevailing prices. A gain, limited to the price at which the Master Fund sold the security short, or a loss, unlimited in magnitude, will be recognized upon the termination of a sale if the market price at termination is less than or greater than, respectively, the proceeds originally received.

Concentration of Credit Risk

All security positions of the Master Fund are cleared by Bear, Stearns Securities Corp., a registered broker/dealer, pursuant to a customer agreement. At December 31, 2006 and throughout the period, the Master Fund had all its individual counterparty concentration with this broker.

Notes to Financial Statements (continued)

8. Redeemable Shares

The Master Fund's authorized share capital is U.S. $3,000 divided into 1,000 ordinary shares (the "Ordinary Master Fund Shares") of U.S. $0.001 par value each, all of which have been issued to, and will be divided equally among and held on an ongoing basis by the swap; and 2,999,000 participating shares, U.S. $0.001 par value each (the "Participating Master Fund Shares" or "Master Fund Shares"). The Ordinary Master Fund Shares have the entire voting power of the Master Fund, but do not participate in the Master Fund's profits and are not redeemable, and on a winding up are entitled only to return of their par value, and then only after the payment of the par value of the Participating Master Fund Shares. Each Ordinary Master Fund Share is entitled to one vote. Except with respect to the material adverse variation or abrogation of rights attached to any separate class of Participating Master Fund Shares, the holders of Participating Master Fund Shares do not have any right to vote. Participating Master Fund Shares are participating and redeemable. The holders of Participating Master Fund Shares are entitled to receive, to the exclusion of the Ordinary Master Fund Shares, any dividends which may be declared by the board of directors or any committee of the board of directors of the Master Fund. Master Fund Shares were issued at the Master Fund's commencement at $1,000.00 per share, and are purchased or redeemed at net asset value thereafter.

Transactions in the Master Fund's shares for the period from August 1, 2006 (commencement of operations) through December 31, 2006 were as follows:

	Shares
At August 1, 2006	–
Subscribed	880,079
Redeemed	(6,961)
At December 31, 2006	873,118

9. Indemnifications

The Master Fund may enter into contracts that may contain routine indemnification clauses. The Master Fund's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Master Fund that may have not yet occurred. However, based on experience, the Master Fund expects the risk of loss to be remote.

Notes to Financial Statements (continued)

10. Recently Issued Accounting Standards & Interpretation

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that the Master Fund recognize in its financial statements the impact of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Master Fund believes that there will be no impact to its financial statements as a result of the adoption of FIN 48.

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007. The Master Fund believes that there will be no impact to its financial statements as a result of the adoption of SFAS No. 157.

11. Financial Highlights

In accordance with financial reporting requirements applicable to all investment companies, the Master Fund has included below certain financial highlight information.

The ratios and total return amounts are calculated based on the shareholder group taken as a whole. An individual shareholder's results may vary from those shown below due to the timing of capital transactions.

The below ratios are calculated by dividing total dollars of income or expenses as applicable by the average of total monthly share capital.

For the period from August 1, 2006 (commencement of operations) through December 31, 2006:

	Non-Annualized	**Annulized***
Net investment income	4.94%	11.93%
Total expenses	15.75%	37.85%
Total expenses before interest expense	0.19%	0.50%

Notes to Financial Statements (concluded)

11. Financial Highlights (continued)

Total return amounts are calculated by geometrically linking returns based on the change in value during each accounting period.

*Annualized, except for organizational costs.

For the period from August 1, 2006 (commencement of operations) through December 31, 2006:

Total return**	7.15%

** The effect of amortizing organizational costs over 60 months for tax purposes would have increased the return by 0.03%. Without considering the organizational cost amortization adjustment, the return would have been 7.18%.

Per share operating performance:

Net asset value, at beginning of period	$ 1,000.00
Net investment income	51.38
Net realized and unrealized gain on investment transactions	20.15
Total from investment operations	71.53
Net asset value, at end of period	$ 1,071.53

12. Subsequent Events

For the period from January 1, 2007 through April 1, 2007, subscriptions totaling $54,266,885 were accepted into the Master Fund and redemptions totaling $38,015,893 were submitted to the Master Fund. All such capital transactions were initiated by the Fund and the Partnership and conducted through the Leveraged Instrument.