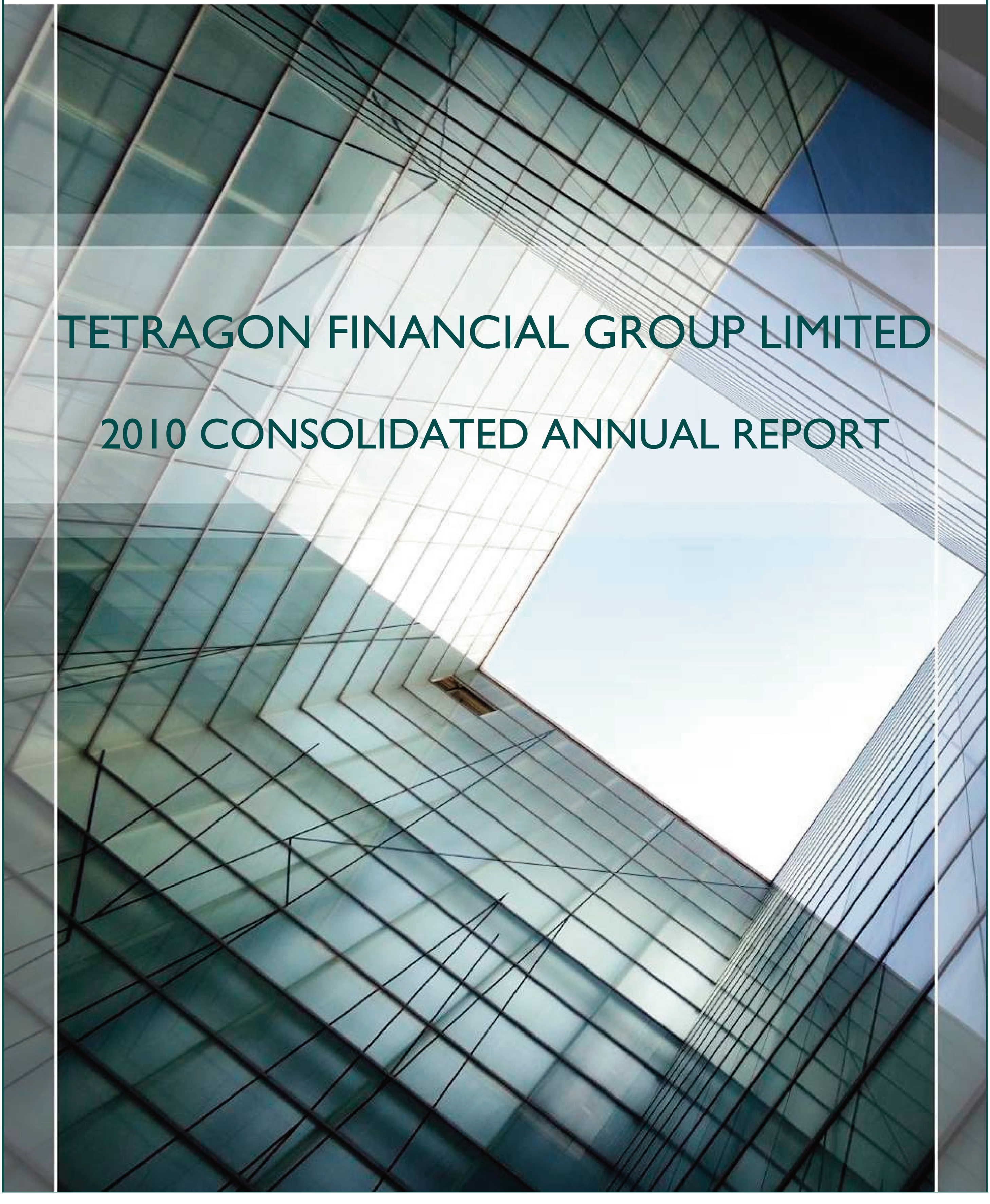
TETRAGON



TETRAGON FINANCIAL GROUP LIMITED

2010 CONSOLIDATED ANNUAL REPORT

TETRAGON

CORPORATE PROFILE

Tetragon Financial Group Limited ("TFG") is a Guernsey closed-ended investment company that currently invests primarily in selected securitized asset classes and aims to provide stable returns to investors across various credit and interest rate cycles. TFG is traded on the Euronext Amsterdam by NYSE Euronext under the ticker symbol "TFG", and commenced operations on 1 August 2005.

In this performance report, unless otherwise stated, we report on the consolidated business incorporating TFG and Tetragon Financial Group Master Fund Limited (the "Master Fund").(1) We refer to TFG and the Master Fund together as the "Company."

INVESTMENT OBJECTIVE

TFG's investment objective is to generate distributable income and capital appreciation. To achieve this objective, and to aim to provide stable returns to investors across various interest rate and credit cycles, Tetragon Financial Management LP (the "Investment Manager") seeks to identify opportunities, assets and asset classes it believes to be attractive and asset managers it believes to be superior based on their track record and expertise. It also seeks to use the market experience of the Investment Manager to negotiate favorable transactions. As part of this current investment strategy, the Investment Manager may employ hedging strategies and leverage in seeking to provide attractive returns while managing risk.

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(1) TFG invests substantially all its capital through the Master Fund, in which it holds a 100% share.

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TO OUR SHAREHOLDERS

We are pleased to present what we believe are very strong operating and financial results for 2010, which reflect the following key themes:

- TFG's portfolio of collateralized loan obligation ("CLO") equity has generally weathered the financial storms of 2008 and 2009 well and has recovered strongly. Key performance metrics for the Company's U.S. CLO investments have, on average, returned to, or exceeded, expected long-term norms. European CLOs, which constitute a significantly smaller share of TFG's portfolio and have mostly lagged behind the performance of U.S. CLOs, are also beginning to show some encouraging signs of potential recovery.

- Cash flows from CLO investments increased significantly year-over-year in 2010, and we believe there is further potential for growth in the coming year.

- TFG also continued to execute on its current strategy of diversifying its income stream into asset management platforms and investments both within and beyond the leveraged loan market.

  - The completion of the acquisition and integration of LCM Asset Management LLC ("LCM") in early 2010 was successful and has, as planned, provided a platform for TFG to take what we believe is a leading role in the new issue CLO market and to exploit CLO manager consolidation opportunities.

  - During Q3 2010, after reviewing many investment opportunities in asset management platforms, TFG entered into a venture with GreenOak Real Estate ("GreenOak"), which has provided for an equity interest in the business as well as co-investment opportunities at discounted fee levels in future investment programs.

- The strong investment performance experienced during 2010 has enabled the company to increase dividends throughout the year and to continue its share buy-back program.

In contrast to the volatility and uncertainty which characterized the prior two years, 2010 witnessed a gradual stabilization of macroeconomic conditions and improvements in corporate credit quality, particularly in the United States. Numerous indicators reflected these positive trends, including: declines in leveraged loan defaults and fewer downgrades to Caa1/CCC+ and below, gains in leveraged loan prices, robust activity in the new issue high yield bond and leveraged loan markets, and a rally in secondary CLO debt and equity prices. In the context of these conditions, TFG's CLO investment portfolio outperformed average market default and Caa1/CCC+ holdings. For example, TFG's 2010 corporate loan default rate reached a level below the WARF-implied annualized default rate used as a historical average within TFG's cash flow modeling framework.[1] In addition, a number of TFG's U.S. CLOs also outperformed certain long-term norms. Cushions to the junior-most O/C tests for certain of TFG's U.S. CLOs improved beyond initial levels reached as of their effective dates. European CLOs, on the other hand, continued to underperform their U.S. counterparts. Despite this, we have seen encouraging signs of potential recovery in the European CLO portfolio and continue to hold these investments with a long-term view.

These portfolio-wide improvements helped drive the significant increase of TFG's investment cash flows from approximately $153.0 million in 2009 to $262.7 million in 2010. In addition, CLO managers were generally able to reinvest funds within their CLOs into wider-spread assets and, in some cases, assets with LIBOR floors. This in many cases led to a widening of the excess interest margin available for distribution to the equity tranches of these CLOs. The overall strengthening of junior-most O/C tests allowed a number of TFG's investments, especially U.S. CLOs, to resume their equity distributions. We believe that, absent an unforeseen macroeconomic shock or other potential widespread financial disruption, these positive trends will continue, which should allow for further increases to cash flows from CLO investments in 2011.

2010 was also a year of strategic expansion of TFG's asset management platform. The integration of LCM into TFG's platform has been smooth and we believe that the LCM team had a very successful 2010. LCM's assets under management grew from approximately $2.5 billion at the end of 2009 to approximately $3.0 billion at the end 2010. This growth was a result of the assumption of collateral management duties of a U.S. CLO and the issuance of LCM VIII, a new U.S. CLO, in which the Company acquired a majority stake in the equity tranche.

TO OUR SHAREHOLDERS (continued)

The successful execution of LCM VIII was a considerable achievement for the team as we believe it was the only arbitrage-driven U.S. CLO closed in 2010 where a significant portion of the equity tranche was sold to investors unaffiliated with the collateral manager. We believe that this was a testament to LCM's strong market reputation and ability to attract third-party capital. In addition, during Q1 2010, TFG launched a direct U.S. loan investment program leveraging LCM's credit expertise to generate attractive risk-adjusted returns while seeking to ensure appropriate liquidity.

In an effort to continue its transformation into a broad-based financial services firm that functions not only as an investment holding company, but also as a firm that owns interests in multiple operating businesses, TFG acquired a 10% interest in a new multi-jurisdictional real estate venture, GreenOak, in Q3 2010, along with access to future co-investment opportunities in investment programs managed by GreenOak at discounted fee levels.[(2)] Having evaluated a number of opportunities during the year, we chose to invest in GreenOak because we believe this investment will strengthen TFG's asset management capabilities and along with LCM, form a foundation for the platform as we look for opportunities both within and beyond the leveraged loan asset class.

TFG's strong performance during 2010 has allowed the Company to continue to return value to its shareholders. In the first quarter of the year TFG paid a dividend of $0.06 per share, followed by increased dividends of $0.08 per share in each of Q2 and Q3 2010. On 25 February 2011, the Company announced a further increase in the dividend to $0.09 per share with respect to Q4 2010, to be paid on 25 March 2011.[(3)] We are also pleased to note that TFG's share price experienced positive momentum during the year. An investment in TFG's shares on 31 December 2009 would have grown by approximately 55% during the year via capital appreciation and dividend income.[(4)] In addition, on 1 October 2010, TFG announced the continuation of its share repurchase program. In 2010, the Company repurchased 5,742,119 TFG shares at an average price of $4.45 per share for a total value of approximately $25.5 million.

Turning to the broader landscape, U.S. corporate credit and macroeconomic fundamentals are projected to continue to improve over the near to mid-term. With this in mind, we are optimistic in our outlook for both TFG's investment portfolio and its asset management platform, which we will look to continue to expand. We expect that TFG's U.S. CLO investments will continue to improve in 2011, and although substantial systemic problems remain unresolved in Europe, we believe there are encouraging signs for the long-term performance of our European CLO portfolio. Furthermore, having recalibrated certain of TFG's modeling assumptions to reflect, among other things, lower credit loss expectations for 2011, we expect to continue to review those assumptions, as well as the discount rates applied to projected cash flows for purposes of calculating the fair value of the Company's CLO investments, and adjust such inputs when appropriate.

While we expect that cash flows from the Company's CLO investments will remain substantial in 2011, we are nonetheless mindful that CLO equity tranches, like their underlying loan assets, are amortizing instruments, with reinvestment periods typically ending six to seven years before their legal maturities. Our expectation of considerable, but naturally declining cash flows will necessitate the redeployment of the Company's capital over the next several years in order to maintain our desired returns. This redeployment may come in the form of, among others, investments in new issue or secondary CLOs and loans, investments in asset management firms and capital distributions to shareholders. We are particularly focused on growing our asset management platform by supporting LCM and GreenOak, and by seeking other investment opportunities both within and outside the leveraged loan asset class. We believe that TFG's transition beyond an investment holding company to an owner of interests in multiple operating companies across diversified asset classes will ultimately create significant value for our fellow shareholders.

With regards,

Board of Directors

28 February 2011

2010 PERFORMANCE AT A GLANCE

Investment Manager's 2010 Highlights:

In the context of improving fundamental, corporate credit and capital markets conditions, TFG achieved the following:

- **Cash Flow:** The Company experienced a significant improvement in cash generation in 2010, with CLO investment cash receipts of approximately $262.7 million, up from approximately $153.0 million in 2009.

- **Portfolio Management:** The Company realized value from its majority (or significant) positions in seven CLO investments during 2010, by positively affecting the outcome of certain corporate governance actions within those transactions, and by increasing our economics via upfront consent fees or long-term fee sharing arrangements.

- **CLO Investment Performance:** The Company's portfolio of CLO investments as a whole out-performed market-wide averages across several key performance metrics, including:

    - ***Defaults***: TFG's 2010 corporate loan default rate fell to approximately 1.7%, down from 6.5% recorded as of the end of Q4 2009, and approximately 11% below the 1.9% lagging 12-month institutional U.S. loan default rate, based on the total par amount outstanding, reported by S&P/LCD for the 12-months ending on 31 December 2010.[5] TFG's 2010 corporate loan default rate was also approximately 24% below the 2.2% annual WARF-implied default rate used as a historical average rate within TFG's cash flow modeling framework.

    - ***Collateral Coverage Test (O/C) Compliance***: As of 31 December 2010, 100% of TFG's U.S. CLOs and approximately 94% of TFG's CLO investments on a portfolio-wide basis were passing their junior most O/C tests, when measured on a number of transactions basis.[6] This compared favorably with the U.S. market-wide average of approximately 92.0% of U.S. CLOs estimated to be in compliance with their junior O/C tests as of the end of 2010.[7][8]

    - ***Credit Quality***: The weighted-average percentage of corporate obligors rated Caa1/CCC+ or below in our 70 CLO investments ended the year at 8.3% compared to an approximate 7.9% weighted-average maximum level permitted under the terms of our investments.[9] This statistic was considerably lower than the market-wide median level of CCC-rated asset holdings among U.S. CLOs – estimated to be approximately 8.6% as of the end of Q4 2010.[10]

- **Direct Loan Investments:** In Q1 2010, TFG launched a direct U.S. loan investment program leveraging LCM's credit expertise to generate attractive risk-adjusted returns while ensuring appropriate liquidity. As of 31 December 2010, the direct loan portfolio totaled approximately $100.0 million in par amount and $97.6 million in fair value and had generated $1.1 million of net realized gains through the end of Q4 2010.

- **Cash Reserves and Corporate-Level Borrowings:** The Company had no outstanding corporate-level borrowings during all of 2010 and its net cash position stood at $103.4 million.[11]

- **Capital Distributions, Dividends and Share Repurchases:** The Company maintained dividends throughout 2010 and increased its dividend for Q4 2010 to $0.09 per share. The Company also announced the continuation of its share repurchase program. Overall in 2010, the Company purchased 5,742,119 TFG shares at an average price of $4.45 per share for a total value of approximately $25.5 million.

2010 PERFORMANCE AT A GLANCE (continued)

Investment Manager's 2010 Highlights (continued):

♦ **Asset Management Platform**

TFG also continued to execute on its current strategy of diversifying its income stream into asset management platforms.

- ***LCM Developments***: LCM achieved strong operating and financial performance during 2010. Assets under management grew from approximately $2.5 billion at the end of 2009 to approximately $3.0 billion at year-end 2010. This growth was a result of the assumption of collateral management duties on Hewett's Island IV, a U.S. CLO, and the issuance of LCM VIII, a new U.S. CLO, in which TFG acquired a majority stake in the equity tranche. As of 31 December 2010, all senior and subordinated CLO management fees on LCM Cash Flow CLOs were current and taking into account all LCM-managed vehicles, the gross income year-to-date for LCM totaled $12.6 million.[(12)] Pre-tax profit for the entire LCM business, of which TFG owns 75%, reached approximately $5.8 million for the same period.

- ***GreenOak Investment***: In Q3 2010, TFG acquired a 10% equity interest in GreenOak. GreenOak is a real estate focused principal investing and advisory firm formed in 2010 to capitalize on opportunities in the rapidly changing landscape of real estate investing. It is a highly focused platform currently executing on advisory assignments and continuing to evaluate funds in select markets where we believe the GreenOak principals and local teams have deep, longstanding market presence, access and experience. As reported previously, we currently do not expect to see operating income benefits from the venture in the immediate future as it is a medium-term investment.

Financial Results:

♦ **Net Income:** Consolidated net income of $385.2 million was recorded in 2010 against a loss of $315.1 million for 2009. This strong return to profit was driven by, among other things, significant improvements in the credit quality and structural strength of the Company's CLO investments. Value was captured through increased actual cash receipts versus projections and an increase, and greater confidence in, expected future cash flows.

♦ **Earnings per Share (EPS):** Consolidated EPS for 2010 was $3.15 compared to a loss of $2.50 for 2009. The EPS recorded during the second half of the year was particularly strong, mirroring improvements in the structural strength and collateral quality of TFG's investment portfolio experienced during the latter half of the year.

♦ **Cash Flows from Operations:** Total cash receipts from CLO investments in 2010 reached approximately $262.7 million (or $2.16 per weighted average share) compared to approximately $153.0 million in 2009 (or $1.21 per weighted average share) as certain CLO investments saw the resumption of distributions to the equity tranches and general improvements in the excess interest margin available for distribution.[(13)]

♦ **Dividend:** During 2010, TFG paid a dividend of $0.06 per share with respect to Q1 2010, followed by an increased dividend of $0.08 per share paid with respect to each of Q2 and Q3 2010. The dividend was increased further to $0.09 per share with respect to Q4 2010, which is payable in March 2011.

♦ **Leverage:** TFG had no outstanding borrowings during all of 2010.

♦ **Net Asset Value (NAV) per Share:** NAV per share at the end of 2010 was $9.47, up from $6.47 at the end of 2009, reflecting overall improvements in performance and distributions to shareholders.

♦ **Portfolio Size:** As of the end of 2010, the fair value of TFG's CLO investment portfolio totaled approximately $932.7 million with exposure to approximately $17.5 billion of leveraged loans. The fair value of the direct loan portfolio totaled approximately $97.6 million.

2010 PERFORMANCE AT A GLANCE (continued)

Investment Portfolio Summary:

- **CLO Portfolio Composition:** As of the end of 2010, TFG's performing CLO portfolio consisted solely of 70 CLO investments managed by 28 external CLO managers and LCM. The number of external CLO managers fell to 28, owing to certain manager consolidations that were announced during the year.

- **IRRs:** The weighted-average IRR as of the end of 2010 was 15.1%, up from 11.9% at the end of 2009.

- **Performance Fee:** Performance fees of $22.3 million, $16.5 million, and $39.3 million were paid with respect to Q1, Q2 and Q3 2010, respectively. A performance fee of $41.5 million was accrued in Q4 2010 in accordance with TFG's investment management agreement and based on a "Reference NAV" with respect to Q3 2010. The hurdle rate for the Q1 2011 incentive fee has been reset at 2.9507% (Q4: 2.9385%) as per the process outlined in TFG's 2010 Audited Financial Statements and in accordance with TFG's investment management agreement.(14)

INVESTMENT MANAGER'S REPORT

PORTFOLIO OVERVIEW

As of 31 December 2010, the fair value of TFG's performing CDO investment portfolio totaled approximately $932.7 million and was 100% invested in CLO transactions while the fair value of the direct loan portfolio totaled approximately $97.6 million. TFG's CLO portfolio continued to be diversified across underlying asset classes and geographies, with approximately 74.1% of risk capital invested in CLOs with primary exposure to U.S. broadly syndicated senior secured loans, 16.3% in CLOs with primary exposure to U.S. middle market senior secured loans, and 9.6% in CLOs with primary exposure to European broadly syndicated senior secured loans.[15][16]

Having gone through the financial storms of 2008-2009, the Company's CLO investments rebounded strongly during the year, benefiting from improving fundamental and capital market conditions, particularly in the United States. Positive gains were registered across key structural and credit quality metrics. As of the end of Q4 2010, approximately 98% of TFG's CLO investments were passing their junior-most O/C tests, weighted by fair value, up from approximately 87% as of the end of 2009.[17] When measured on a number of transactions basis, 62, or approximately 94%, of the Company's CLO investments were passing their junior-most O/C tests, an increase from 41, or approximately 68%, at the end of Q4 2009.[18] The Company's U.S. CLOs, which represented approximately 89.4% of the total fair value of TFG's CLO investment portfolio as of 31 December 2010, experienced the most significant improvements during the year with 100% of these deals passing their junior-most O/C tests as of the end of Q4 2010.[19][20] This statistic outperformed the market-wide average of U.S. CLOs passing their junior O/C tests estimated to be approximately 92.0% as of the end of Q4 2010 (when measured as % of transactions).[21] While credit improvements in TFG's European CLOs lagged the performance of U.S. transactions, the share of TFG's European CLOs in compliance with their junior-most O/C tests also increased during the year to 83% by fair value and 60% when measured by number of transactions as of the end of Q4 2010, up from 41% and 20% respectively, as of the end of 2009. We believe that the faster pace of recovery of U.S. CLOs versus their European counterparts was a function of not only the differences in GDP growth rates in the two regions, but also of less favorable legal and market characteristics of selected European loan markets and certain structural features of European CLOs.

In the U.S., we believe that the positive credit trends of 2010 were mainly grounded in improving corporate earnings as well as greater capital markets liquidity, which facilitated significant reductions in the size of the so called "maturity wall." Within the sample universe of publicly filling S&P/LSTA Index issuers, for example, Q3 2010 EBITDA rose by approximately 24%, on the heels of the implementation of cost rationalization measures and/or top-line growth.[22] Furthermore, the stabilization of macroeconomic fundamentals and low interest rates drove strong investor demand for leveraged loan and high yield bond assets, fueling a surge of new issue activity in those markets. Accordingly, 2010 total U.S. institutional loan volumes was up over 300% on the year, totaling $158.0 billion in 2010.[23] Similarly, high yield bond new issue volume rose over 70%, year-over-year, reaching a record $284.0 billion in 2010.[24] A significant portion of these proceeds was used to repay or extend upcoming loan maturities. As a result, approximately $154.0 billion of institutional loans due by year-end 2014 have been extinguished bringing the amount of S&P/LSTA Index loans that are due by year-end 2014 to $265.0 billion, down from $418.0 billion at the end of 2009.[25] In addition, amend-to-extend activity continued, as approximately $50.0 billion of institutional loans launched such extensions during 2010, up from $23.0 billion in 2009.[26] The positive U.S. loan market story was rounded out by continued increases in secondary loan prices and a declining number of obligors rated Caa1/CCC+ or below. The S&P/LSTA Index returned approximately 10.1% during 2010, reaching an average price of 93.6% of par at the end of the year.[27] Finally, the rolling 3-month CCC downgrade rate fell to just 0.07% as of the end of December 2010, down from an average of 3.26% recorded during 2009.[28]

With accelerating U.S. loan prepayments, which rose from approximately 15.6% in 2009 to 27.7% in 2010,[29] many U.S. CLOs were able to rotate a meaningful share of their portfolios into wider-spread new issue loans. In addition, U.S. CLO portfolios continued to benefit from amendment fees, spread increases, and the introduction of LIBOR floors, which further increased the excess interest margin available for distribution to equity tranche holders, such as TFG. Accordingly, equity distributions of U.S. CLOs improved significantly in 2010, as reflected in the over 70% increase in cash receipts from investments experienced by TFG's CLO portfolio during 2010 versus the prior year. TFG's direct bank loan portfolio also benefited from these constructive trends, generating $1.1 million of net realized gains through the end of 2010.

PORTFOLIO OVERVIEW (continued)

The European leveraged loan market, on the other hand, continued to be weighted-down by sluggish E.U. GDP growth and sovereign debt problems in a number of member countries. Nonetheless, European primary issuance volumes recovered from their 2009 lows. During 2010, approximately €42.4 billion of new issue leveraged loans were brought to market in Europe, up from €15.4 billion in 2009.[30] In addition, the S&P European Leveraged Loan Index (ELLI) returned 8.4% (excluding currency effects), ending the year at a weighted average bid price of 91.6% of par, as the share of ELLI constituents priced at 90% or above rose to 61% as of 31 December 2010 from 40% at the end of June 2010.[31] In the European CLO context, the slow and uneven pace of macroeconomic recovery was reflected in only modest average gains in European CLO O/C test cushions and persistently high Caa1/CCC-rated asset holdings. Accordingly, the percentage of European CLOs passing their junior O/C test increased to only 60% as of the end of Q4 2010, up from 46% as of the end of Q4 2009.[32][33] Furthermore, the performance of European CLOs was characterized by significant variance among transactions of the same vintage, reflecting, among other factors, the impact of differing exposures to certain periphery countries and legal jurisdictions as well as collateral manager quality and deal structure.

Consistent with the significant credit quality and price gains experienced by the leveraged loan market, secondary CLO debt and equity prices posted an impressive rally during 2010, particularly during the latter half of the year. Mezzanine debt and equity tranches experienced the most significant gains – with mezzanine tranches gaining from 13-26 points in 2010.[34] Bid-list activity rose by approximately 50% to $18.0 billion in trading during 2010 as mezzanine tranches accounted for approximately 39% of this volume, in contrast to previous years when trading activity was dominated by originally AAA-rated or other senior debt.[35]

Primary CLO issuance activity also began to recover during 2010, with a pick-up in the issuance of arbitrage-driven transactions in the U.S. During 2010, 39 CLO transactions were priced globally totaling approximately $89.0 billion, with over 50% of this volume consisting of European balance sheet deals.[36] Nonetheless, several U.S. arbitrage CLOs totaling approximately $3.3 billion were priced during the year, signaling a revival of arbitrage-driven CLO issuance. Having demonstrated their relative resilience through the 2007-2009 recession and financial crisis, we expect that arbitrage CLOs will remain an important vehicle for accessing diversified leveraged loan risk. Arbitrage CLO equity is typically characterized by a relatively high current yield and low duration, which we believe provide for a compelling return profile for certain investors. Furthermore, with interest rates expected to rise in the mid to long-term, the floating-rate basis of leveraged loans is expected to serve as an important driver of capital inflows into the loan and CLO markets. Consequently, market participants anticipate that 2011 may see continued momentum in primary U.S. arbitrage CLO issuance with volumes of $15.0 to $20.0 billion.[37] This constructive view is grounded in the expectation that fundamental conditions continue to improve or remain stable, and that the funding spread, or the difference between the weighted-average asset spread and liability plus management/administrative costs, will remain wide enough to provide investors with attractive risk-adjusted returns, on both an absolute and relative basis. This will require that, among other factors, credit loss expectations remain low and CLO new issue liability spreads keep pace with leveraged loan spread tightening, which is expected to take place as the U.S. economy recovers.

FAIR VALUE DETERMINATION OF TFG's CLO INVESTMENTS

In accordance with the Company's valuation policies as set forth on the Company's website, the values of TFG's CLO investments are determined using a third-party cash flow modeling tool. The model contains certain assumption inputs that are reviewed and adjusted as appropriate to factor in historic, current and potential market developments on the performance of TFG's CLO investments. Since this involves modeling, among other things, forward projections over multiple years, this is not an exercise in recalibrating future assumptions to the latest quarter's historical data.

Subject to the foregoing, when determining the U.S. GAAP-compliant fair value of TFG's portfolio, the Company seeks to derive a value at which market participants could transact in an orderly market and also seeks to benchmark our inputs and resulting outputs to observable market data when available and appropriate. Fundamentally, the valuation process involves two stages. In stage one, future cash flows for each deal in the CLO portfolio are modeled, using base case assumptions. This generates both the investment IRRs, which are used to drive the recognition of income, and the associated amortized cost. In stage two, a discount rate reflecting the perceived level of risk is applied to those future cash flows to generate a fair value for each investment. Due to elevated market risk premia over the last two years, among other factors, this effective discount rate has typically been higher than the deal's IRR and therefore, in such instances, has resulted in a fair value which is lower than the deal's amortized cost. The difference between these two figures, on an aggregate basis across the CLO portfolio, has been characterized as the "ALR Fair Value Adjustment" or "ALR."[38]

FORWARD-LOOKING CASH FLOW MODELING ASSUMPTIONS

The Investment Manager reviews, and adjusts as appropriate the CLO investment portfolio's future modeling assumptions to factor in historic, current and potential market developments on the performance of TFG's CLO investments. During this year certain key modeling assumptions were recalibrated at the end of Q1 2010 with a further recalibration at the end of Q4 2010.

At the end of Q4 2010, certain key assumptions were as indicated below (listed in no particular order): [39]

– **Constant Annual Default Rate ("CADR"):** The assumed CADR was approximately 2.2%, which is 1.0x the WARF-implied base-case default rate, until the end of 2011 and approximately 3.2%, or 1.5x the WARF-implied base-case default rate, for 2012-2014 before returning to 1.0x the WARF-implied base-case default rate thereafter.

– **Recovery Rate:** The assumed recovery rate was approximately 71%, or 1.0x the original base-case assumed weighted-average recovery rate for the life of each transaction.[40]

– **Prepayment Rate:** Loan prepayments were assumed to be 20% p.a. or 1.0x the original base-case prepayment rate with a 0% prepayment rate on bonds throughout the life of each transaction.

– **Reinvestment Price and Spread:** The assumed reinvestment price for 2011 was 99% of par, a level that generates an effective spread over LIBOR of approximately 285 bps on broadly syndicated U.S. loans, 316 bps on European loans, and 355 bps on middle market loans. From the beginning of 2012 onwards, the reinvestment price assumption remains at par until the maturity of each of our investments.

These recalibrations, which were described in more detail in the Q1 2010 and Q4 2010 Performance Reports, were intended to better align TFG's cash flow modeling assumptions with observable market data. The changes at the end of Q1 2010 did not have a significant impact on fair value and sought to reduce near-term loss assumptions whilst recognizing the heightened risk around the so-called "maturity cliff" of 2012-2014. Subsequently, the Q4 2010 recalibration continued the adjustment of near-term assumptions to reflect, among other things, the improving market default outlook, as well as the actual performance of TFG's CLO portfolio. These Q4 2010 changes resulted in an increase in fair value of approximately $32.7 million relative to the immediately preceding assumptions utilized.

APPLICATION OF DISCOUNT RATE TO PROJECTED CASH FLOWS AND ALR

Over the first half of the year the effective discount rate applied to the CLO portfolio was in the 28-30% range, which represented a significant spread over the prevailing BB-rated CLO tranche yields. As described in the Q3 2010 Performance Report a combination of a significant decline in observable risk premia and continued improvements in the credit quality and structural strength of many of TFG's CLOs, led to a modification of the discount rates being applied to future expected cash flows.

The 23% discount rate applied to the stronger portion of TFG's CLOs still represents a significant spread over observable yields on BB-rated CLO tranches, but also reflects a recognition that the risk premium demanded on CLO equity has fallen from the peak levels reached during the financial crisis. For the remainder of the portfolio a 30% discount rate has been maintained. When these changes were implemented in Q3 2010 the impact was to increase the carrying value of certain CLO investments and the aggregate portfolio fair value increased by approximately $43.0 million.

Over the course of Q4 2010 and into early 2011 certain observable data and research suggested that this risk premium has been declining further, as evidenced by significant tightening of credit and CLO debt spreads. From a valuation perspective, however, we are mindful of potential volatility, and have therefore maintained the existing discount rates at the end of Q4 2010. Going forward, if, among other things, observable risk premia demonstrate sustainability at these reduced levels it is likely that the aforementioned discount rates will be reduced.

Through the valuation process described above, as at the end of 2010, the ALR has been reduced to approximately $258.0 million as compared to approximately $349.0 million at the start of the year.

PORTFOLIO CORPORATE ACTIONS

TFG and the Investment Manager continued to leverage the Company's majority (or significant) ownership positions in certain CLO transactions to monitor the performance of its CLO investments and to affect the outcome of certain corporate actions so as to protect or enhance the value of those investments. During 2010, TFG consented to the transfer of the Hewett's Island IV CLO transaction onto the LCM platform. In addition, TFG facilitated the appointment of a sub-advisor on two of its CLOs and the outright assignment of collateral management responsibilities on four additional transactions. We expect that these management changes will have a positive effect on the long-term performance of the affected CLOs and will therefore enhance the value of TFG's investments. Due in large part to its majority (or significant) ownership strategy, TFG will also receive a significant share of ongoing management fees in these deals (in the case of Hewett's Island IV, LCM will receive 100% of the ongoing management fees), further improving the economics of these investments.

We believe that these developments highlight the ability of the Investment Manager to create and capitalize upon synergies between TFG's contractual rights, majority (or significant) ownership positions and access to an in-house asset management platform. We expect to continue to utilize these strategic assets to take advantage of similar opportunities to enhance the value of TFG's CLO investments and/or asset management platform in the coming years.

FINANCING SOURCES AND HEDGING ACTIVITY

As of 31 December 2010, TFG had no outstanding debt and the net cash on its balance sheet stood at $103.4 million, compared to $151.6 million at the end of 2009. In addition, the Company owned a direct bank loan portfolio, with a fair value of approximately $97.6 million as of the end of Q4 2010.

As of 31 December 2010, the Company had no credit hedges in place but employed hedges to mitigate its exposure to Euro-USD foreign exchange risk. We review our hedging strategy on an on-going basis as we seek to address identified risks to the extent practicable and in a cost-effective manner. In the future, our hedging strategy may include the use of single name or index credit hedges, foreign exchange rate hedges, and interest rate hedges, among others.

The Investment Manager continues to examine ways to improve liquidity for TFG shares through, for example, improved analyst and broker coverage, investor communication and "non-deal" road shows. In 2010, the average daily trading volume for TFG shares on Euronext Amsterdam by NYSE Euronext increased to approximately 235,000 from approximately 150,000 in 2009. The Company currently expects to continue to publicly list its shares solely on Euronext Amsterdam by NYSE Euronext as it believes that exchange is favorably suited to address relevant legal, regulatory, liquidity and other commercial considerations.

CAPITAL DISTRIBUTIONS 2010: DIVIDENDS AND SHARE REPURCHASES

The Company has sought to continue to return value to its shareholders. During 2010 TFG paid a dividend of $0.06 per share with respect to Q1 2010, followed by an increased dividend of $0.08 per share paid with respect to each of Q2 and Q3 2010. The dividend was increased further to $0.09 per share with respect to Q4 2010, and will be paid on 25 March 2011. This will result in a total dividend of $0.31 per share for the year.(41)

During 2010, the Company repurchased 5,742,119 TFG shares at an average price of $4.45 per share for a total value of $25.5 million, which brought the total number of shares purchased under the share repurchase program to 11,025,162 at an average price of $4.24 per share. On 1 October 2010, TFG announced the continuation of its share repurchase program. We continue to be confident in the long-term prospects of TFG and believe that the purchase of shares in the market may, at appropriate price levels below NAV, represent an attractive use of TFG's free cash.

Finally, TFG remains focused on returning capital to its shareholders in a manner consistent with protecting the prospects of the Company and pursuing other investment opportunities, both within and beyond the leveraged loan asset class.

ASSET MANAGEMENT PLATFORM

The Company remains committed to its current strategy of expanding its asset management platform and its efforts to continue its transformation into a broad-based financial services firm that functions not only as an investment holding company, but also as a firm that owns interests in multiple operating businesses.

LCM

LCM achieved strong results during 2010, characterized by robust performance of its CLOs and growth of assets under management. As of 31 December 2010, all of LCM Cash Flow CLOs continued to pay senior and subordinated management fees and enjoyed significant cushions to their junior-most O/C tests. Taking into account all LCM-managed vehicles, the gross income year-to-date for LCM totaled $12.6 million. Pre-tax profit for the entire LCM business, of which TFG owns 75%, reached approximately $5.8 million as of 31 December 2010.

LCM Asset Management Performance Snapshot				
	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Gross Fee Income ($MM)	$3.4	$3.0	$2.9	$3.3
Pre-tax Income ($MM)	$1.1	$1.4	$1.4	$1.9

LCM's assets under management grew from approximately $2.5 billion at the end of 2009 to approximately $3.0 billion at year-end 2010. On 8 October 2010, LCM assumed the management of a U.S. CLO, Hewett's Island IV, with the consent of TFG (as a majority equity holder) and certain other debt investors. LCM also closed a new issue CLO, LCM VIII, on 23 November 2010. We were particularly pleased with the successful execution of LCM VIII as we believe it was the only arbitrage-driven U.S. CLO issued in 2010 where a significant portion of the equity tranche was sold to investors unaffiliated with the collateral manager, highlighting LCM's positive market reputation.

In addition, during Q1 2010, TFG launched a direct U.S. loan investment program leveraging LCM's credit expertise to generate attractive risk-adjusted returns while ensuring appropriate liquidity.(42) The portfolio earned $2.7 million of interest income and discount premium and generated approximately $1.1 million of net realized gains from inception through the end of Q4 2010. No defaults or downgrades were registered in the direct loan portfolio. We expect to continue to leverage LCM's expertise to manage TFG's direct bank loan portfolio.

Looking forward, we expect to continue to support the growth of LCM's business via primary CLO issuance, managed accounts, and CLO manager consolidation, as well as other strategic opportunities. We anticipate that, market conditions permitting, LCM will be able to continue to grow its assets under management in a measured and disciplined manner that leverages LCM's expertise, investment style, and performance track record.

ASSET MANAGEMENT PLATFORM (continued)

GREENOAK

During Q3 2010, after evaluating a number of opportunities during the year, TFG acquired a 10% interest in a new multi-jurisdictional real estate venture, GreenOak.[(43)] GreenOak is a real estate focused principal investing and advisory firm formed in 2010 to capitalize on opportunities in the rapidly changing real estate investing landscape. The firm was founded by John Carrafiell, Sonny Kalsi and Fred Schmidt, collectively, the “GreenOak Founders,” who previously worked together for more than a decade at Morgan Stanley managing various real estate businesses.

In exchange for its 10% equity interest in GreenOak, TFG agreed to provide GreenOak with, among other things, a working capital loan of up to $10.0 million (a portion of which has been funded as of year-end) and a $100.0 million co-investment commitment (the “GP Co-Investment”) that is expected to fund up to a limited fixed percentage amount of any GreenOak sponsored investment program with TFG retaining the option to invest further amounts.[(44)] TFG’s GP Co-Investment (including amounts invested at its option) will benefit from discounted fees in the applicable investment program. As of year-end, there had been no drawings on the GP Co-Investment. TFG also granted to the GreenOak Founders options with respect to approximately 3% of TFG’s listed shares (exercisable after five years and subject to further conditions) at a strike price of $5.50.

We believe that the GreenOak investment is a continuation of the TFG model of seeking to partner with superior asset managers. In addition, the investment is expected to diversify the Company’s income stream and underlying asset exposure by providing it with access to the global real estate markets at attractive fee levels. We believe this venture will strengthen TFG’s asset management capabilities and along with LCM, will form a foundation for TFG’s asset management platform as we look for opportunities both within and beyond the leveraged loan asset class.

GreenOak is currently executing on advisory assignments and continuing to evaluate funds in select markets where we believe the GreenOak Founders and local teams have deep, longstanding market presence, access and experience. As reported previously, we currently do not expect to see operating income benefits from the venture in the immediate future as it is a medium-term investment.

SUMMARY, OUTLOOK AND STRATEGY

2010 was a year of significant improvement in the U.S. leveraged loan markets, characterized by gains in both credit quality and price levels. Having withstood the impact of the U.S. recession and disruption in global capital markets experienced during 2007-2009, U.S. CLOs, on average, experienced significant improvements in collateral quality, structural strength and current yields. While Europe continued to struggle with the consequences of the recession, financial crisis and sovereign debt issues of certain countries, the European leveraged loan and CLO markets also registered modest gains during 2010.

In the eyes of many market participants, the validity of the arbitrage cash-flow CLO model has therefore been once again tested and affirmed. Firstly, we believe that leveraged loans have proven to be an appropriate asset class for securitization, given their senior position in corporate capital structures and historically robust recoveries. Secondly, unlike market-value CLOs and total return swap (TRS) programs, which suffered from aggressive de-leveraging in the face of the price dislocation experienced in the depths of the crisis, cash flow CLOs generally benefited from being largely insulated from market-wide price declines.[45] Thirdly, structural protections which in the face of collateral quality deterioration diverted and/or shut off cash flows to junior and subordinated note holders in order to re-build asset coverage and/or de-leverage the structures, broadly performed as designed allowing for the restoration of cash flows to the equity tranches once the relevant O/C and/or reinvestment tests were brought back into compliance. Finally, and equally importantly in our view, the value of active management and manager selection has once again been borne out through this crisis, as evidenced by the wide range of performance outcomes among CLOs of the same vintage.

As outlined in previous reports, we believe that TFG's strategy of acquiring majority (or significant) equity positions, and maintaining an active, on-going dialogue with our portfolio collateral managers in monitoring the Company's CLO investments, has proven to be an appropriate investment approach to employ in the context of the CLO equity asset class. During 2010, this strategy has allowed us to facilitate the transfer of several CLO transactions to what we believe are more suitable management firms, including the transfer of a U.S. CLO transaction onto the LCM platform, and to appoint a sub-advisor on certain other CLOs. In addition to these management changes, which we believe will have a positive effect on the long-term performance of TFG's CLO investments, the Company will receive a significant share of ongoing management fees in these deals, further improving their economics.

With consensus default expectations for 2011 falling to historical average levels and growing confidence around the sustainability of the current macroeconomic recovery, we are encouraged about the prospects for TFG's investment portfolio. We anticipate that, absent an exogenous shock to certain key global economies or financial markets or other widespread financial market disruption, the Company's CLO investments will continue to generate significant cash flows during the upcoming year, supported by low credit losses, continued reinvestment at attractive yields, stable structural leverage, and the resumption of cash flows on certain CLO transactions which are currently breaching their junior-most O/C tests. In accordance with the Company's valuation policies, as set forth on the Company's website, we also expect to continue to evaluate the appropriateness of certain cash flow modeling assumptions used to generate the investment IRRs, which drive the recognition of income and the associated amortized cost, as well as the discount rates applied to those future cash flows to generate the fair value of each investment. We expect to remain particularly focused on monitoring the sustainability of the decline in observable risk premia on mezzanine CLO debt and equity tranches recorded during 2010, and expect that the aforementioned discount rates may be reduced should these reduced levels persist for a reasonable period of time.

We are also encouraged about the prospects for further growth of primary arbitrage CLO issuance, particularly in the U.S., which we believe will provide us with attractive third-party investments as well as opportunities to continue to grow LCM's asset management platform. Still a number of challenges remain on the horizon which we believe will need to be addressed before a return to normalized issuance levels is possible. First, the preservation of sufficient CLO equity arbitrage, driven primarily by the gap between asset spreads and liability costs, will require further tightening of CLO liability spreads, particularly at the AAA-rated level, as loan spreads trend lower in the context of improving economic conditions. Furthermore, regulatory uncertainty surrounding the implementation of risk retention rules in the United States and Europe may need to be clarified, before certain institutional investors, particularly banks, begin to participate in the new issue market in a meaningful way. Nonetheless, we anticipate that positive drivers of primary CLO issuance, such as the continued quest for yield, rising rates and relative attractiveness of leveraged loan returns, may tend to outweigh the negative factors, leading to continued growth in primary CLO issuance volumes. We believe that LCM will be well-positioned to take advantage of these CLO new issuance opportunities given its strong performance track record, and in our view, favorable market reputation.

SUMMARY, OUTLOOK AND STRATEGY (continued)

Throughout 2008 and 2009, we were focused on preserving the Company's CLO investments, financial position, and long-term prospects, a strategy which was necessitated by the economic downturn and disruption in the capital markets that characterized that period. During 2010, with TFG's investment cash flows improved, we returned our focus to identifying opportunities, assets and asset classes that we believe to be superior based on their long-term track record, and to making investments that we believed could achieve this aim. To that end, TFG expanded its asset management platform with its acquisition of a 10% interest in GreenOak and increased its CLO investment portfolio through the purchase of a majority position in a new issue CLO, LCM VIII, as well as a small secondary equity purchase. The Company was also able to leverage LCM's expertise to make direct investments in loan assets, which totaled approximately $100.0 million in par amount at the end of the year.

In 2011, we expect to use TFG's strong cash flows to build value for shareholders in a variety of ways. In particular, we are focused on continuing TFG's transition beyond an investment holding company to an owner of interests in multiple operating companies across different asset classes. As such, we will look to continue to grow LCM's assets under management through the issuance of new issue CLOs and the assumption of existing management contracts, as well as to continue to provide the agreed support to GreenOak during the year. In order to strengthen and diversify our asset management businesses, we expect to continue to explore investment opportunities in management companies both within and beyond the leveraged loan market. With regards to our investment portfolio, we intend to evaluate potential investments in new issue CLOs, especially those managed by LCM. Furthermore, we will continue to seek opportunities to enact positive changes to our CLO investments. Finally, as we have done in the past, we will look to return capital to TFG shareholders through dividends, share repurchases or other means.

Please refer to the section entitled "Risk Factors" herein and a more complete description of risks and uncertainties pertaining to an investment in TFG on the Company's website at: www.tetragoninv.com.

FINANCIAL REVIEW 2010

OVERVIEW

2010 turned out to be a year of stellar performance for TFG, with a mix of strong portfolio performance and improving outlook for CLOs – the driving force behind the robust financial results recorded during the year. The first half of 2010 saw a continuation of the recovery that began in the latter half of 2009, with many deals curing junior O/C test breaches, switching-on equity cash flows, and benefiting from increased excess interest margins, thereby boosting future cash flow expectations. As we moved into the second half of 2010, CLO performance improved at a rapid pace, against a backdrop of improving expectations for the U.S. leveraged loan market and renewed investor appetite for CLO risk across all tranches. The last two developments were key drivers of the recalibration of assumptions and adjustment of discount rates applied to the deals, which further assisted the Company's performance.

CONSOLIDATED INCOME COMPARISON 2010 VS. 2009

	2010	2009
Statement of Operations	**Consolidated ($MM)**	**Consolidated ($MM)**
Interest Income	178.9	165.7
CLO Management Fee Income	12.6	-
Other Income	2.5	1.2
Investment Income	194.0	166.9
Management and Performance Fees	(133.5)	(42.2)
Other Expenses	(10.7)	(3.0)
Total Operating Expenses	(144.2)	(45.2)
Net Investment Income	49.8	121.7
Net Change in Unrealized Appreciation/(Depreciation) in Investments	336.0	(427.7)
Realized Gain/(Loss) on Investments	1.1	-
Realized and Unrealized Gains/(Losses) from Hedging and FX	2.1	(9.1)
Realized / Unrealized Losses from Investments and FX	339.2	(436.8)
Income Taxes	(2.4)	-
Noncontrolling Interest	(1.4)	-
Net Increase/(Decrease) in Net Assets from Operations	385.2	(315.1)

2010 net income of $385.2 million was driven by the combination of interest income ($178.9 million) and unrealized appreciation on investments ($336.0 million). As expected, this combined income was generated almost exclusively from the CLO portfolio, although the direct loan portfolio contributed approximately $4.5 million of income via interest and unrealized appreciation, with an additional $1.1 million of realized income. In addition, CLO management fee income from the LCM asset management platform contributed $12.6 million to investment income during the year, while other income from CLO corporate action consent fees approximately doubled to $2.5 million.

As expected, expenses grew during the year, with incentive and management fees increasing to $133.5 million as a result of the increase in NAV and strong performance. The increase in other expenses to $10.7 million was primarily a result of the addition of LCM onto the TFG platform, which incurred $6.7 million of operating expenses.

CONSOLIDATED INCOME - 2010 QUARTER ON QUARTER COMPARISON

The quarter-on-quarter comparison of consolidated net income (see table below) reinforces the message of strong performance throughout the period, but with two stand-out quarters recorded at the end of the year.

TFG Quarterly Statement of Operations

Statement of Operations	Q4 2010 ($MM)	Q3 2010 ($MM)	Q2 2010 ($MM)	Q1 2010 ($MM)	Total 2010 ($MM)
Interest Income from Investments	46.5	45.8	43.4	43.2	178.9
CLO Management Fee Income	3.4	3.0	2.9	3.3	12.6
Other Income	1.4	0.5	0.3	0.3	2.5
Investment Income	51.3	49.3	46.6	46.8	194.0
Management and Performance Fees	(45.6)	(42.7)	(19.8)	(25.4)	(133.5)
Other Expenses	(3.5)	(2.7)	(2.6)	(1.9)	(10.7)
Total Operating Expenses	(49.1)	(45.4)	(22.4)	(27.3)	(144.2)
Net Investment Income	2.2	3.9	24.2	19.5	49.8
Net Change in Unrealized (Depreciation) / Appreciation in Investments	128.8	121.3	31.4	54.5	336.0
Net Realized Gain / (Loss) on Investments	0.5	0.3	0.3	-	1.1
Realized / Unrealized Gains / (Losses) From Hedging and FX	1.2	0.2	0.7	-	2.1
Realized / Unrealized Gains / (Losses) from Investments and FX	130.5	121.8	32.4	54.5	339.2
Income Taxes	(0.4)	(0.4)	(0.4)	(1.2)	(2.4)
Noncontrolling Interest	(0.3)	(0.3)	(0.6)	(0.2)	(1.4)
Net Increase / (Decrease) in Net Assets from Operations	132.0	125.0	55.6	72.6	385.2

FINANCIAL HIGHLIGHTS TABLE

The table below illustrates a number of key financial and other metrics, certain of which have been the focus of previous parts of the Financial Review section. Cash generated by the CLO investment portfolio staged a strong comeback during 2010 as deals repaired themselves and cash flow payments to the equity tranches resumed. By the end of Q4 2010 cash receipts of $0.66 per share were the highest since the end of Q2 2008.

Financial Highlights								
	Q4 2010	**Q3 2010**	**Q2 2010**	**Q1 2010**	**Q4 2009**	**Q3 2009**	**Q2 2009**	**Q1 2009**
Net Income ($MM)	$132.0	$125.0	$55.6	$72.6	$94.7	$31.2	$(26.7)	$(414.3)
EPS ($)	$1.09	$1.03	$0.45	$0.58	$0.76	$0.25	$(0.21)	$(3.29)
Cash Receipts ($MM)[46]	$78.9	$71.8	$60.9	$51.1	$38.4	$35.3	$31.9	$47.1
Cash Receipts per Share ($)	$0.66	$0.59	$0.50	$0.41	$0.31	$0.28	$0.25	$0.37
Net Cash Balance ($MM)	$140.6	$187.9	$156.2	$172.6	$174.4	$149.7	$123.8	$94.3
Net Assets ($MM)	$1,138	$1,019	$909	$867	$807	$721	$693	$723
Number of Shares Outstanding (million)	120.1	120.8	122.2	123.6	124.8	126.2	125.9	125.7
NAV per Share ($)	$9.47	$8.43	$7.44	$7.02	$6.47	$5.71	$5.50	$5.75
DPS ($)	$0.09	$0.08	$0.08	$0.06	$0.06	$0.03	$0.03	$0.03
Weighted Average IRR on Completed Transactions (%)	15.1%	13.7%	13.1%	12.3%	11.9%	10.3%	9.2%	10.6%
Number of Investments[47]	70	68	68	68	61	61	61	61
ALR Fair Value Adjustment ($MM)	$(258.0)	$(274.7)	$(330.7)	$(339.5)	$(349.0)	$(333.8)	$(254.1)	$(315.0)

CASH FLOW FROM OPERATIONS

2010 cash flows from operating activities increased by almost 90% year-over-year, reflecting the recovery in CLO cash flows described previously. In 2009 these cash flows were largely added to the overall cash balance as the Company took a protective stance towards the portfolio. By contrast, during 2010 TFG was able to allocate $126.9 million to net purchases of investments, in addition to increasing the share buy-back and dividend programs as well as paying incentive fees generated by the Company's strong performance.

Cash Flow From Operations	2010	2009
	$MM	$MM
Operating Activities		
Operating Cash Flows Before Movements in Working Capital	259.4	139.6
Increase / (Decrease) in Payables	2.3	(0.6)
Cash Flows from Operating Activities	**261.7**	**139.0**
Investment Activities		
Proceeds on Sales of Investments	71.0	-
Purchase of Investments	(205.7)	-
Cash Flows from Operating and Investing Activities	**127.0**	**139.0**
Amounts Due from Brokers	1.6	108.5
Net Purchase of Shares	(20.3)	(4.9)
Dividends Paid to Shareholders	(34.2)	(15.1)
Repayments on Repurchase and Swap Agreements	-	(117.5)
Distribution to Noncontrolling Interest	(0.1)	-
Incentive Fees Paid	(107.8)	-
Cash Flows from Financing Activities	**(160.8)**	**(29.0)**
Net (Decrease) / Increase in Cash and Cash Equivalents	(33.8)	110.0
Cash and Cash Equivalents at Beginning of Period	174.4	63.0
Effect of Exchange Rate Fluctuations on Cash and Cash Equivalents	-	1.4
Cash and Cash Equivalents at End of Period	**140.6**	**174.4**

NET ASSETS

Net assets returned to levels last seen at the end of 2008, as the fair value of TFG's CLO portfolio bounced back strongly and, as mentioned previously, the Company added a portfolio of approximately $100.0 million of directly held U.S. leveraged loans. The $5.2 million of other investments represents the initial carrying value of the investment in GreenOak, the fair value of the working capital loan that TFG made to GreenOak, and the CLO management contracts held.

Consolidated Balance Sheet Summary	2010	2009
	$MM	$MM
Investments in CLO Equity	932.7	655.2
Investments in Bank Loans	97.6	-
Other Investments	5.2	-
Cash and Cash Equivalents	140.6	174.4
Other Assets/Liabilities	(37.2)	(22.8)
Net Assets Before Noncontrolling Interest	**1,138.9**	**806.8**
Noncontrolling Interest	1.4	-
Total Equity Attributable to TFG	**1,137.5**	**806.8**

DESCRIPTION OF BUSINESS

TFG (company number 43321) is a Guernsey closed-ended investment company that currently invests primarily in selected securitized asset classes and aims to provide stable returns to investors across various credit and interest rate cycles. TFG is registered in the public register of the Netherlands Authority for the Financial Markets ("AFM") under section 1:107 of the Netherlands Financial Markets Supervision Act ("FMSA") as a collective investment scheme from a designated country.

As described above, the Company's investment objective is to generate distributable income and capital appreciation. To achieve this objective, and to aim to provide stable returns to investors across various interest rate and credit cycles, Tetragon Financial Management LP (the "Investment Manager") seeks to identify opportunities, assets and asset classes it believes to be attractive and asset managers it believes to be superior based on their track record and expertise. It also seeks to use the market experience of the Investment Manager to negotiate favorable transactions. As part of this current investment strategy, the Investment Manager may employ hedging strategies and leverage in seeking to provide attractive returns while managing risk.

From inception through 31 December 2010, the Tetragon Financial Group Master Fund Limited (company number 43322) has acquired CLO investments with an end-of-year fair value of approximately $932.7 million.

Senior secured bank loans represent the substantial majority of assets underlying the CLO portfolio. The Company currently gains exposure to these assets primarily through investments in the residual tranches or equity tranches of CLO products ("Residual Tranches") and also has had exposure through previous investments in the Residual Tranches of collateralized debt obligation products, which are both securitized interests in underlying assets assembled by asset managers and divided into tranches based on their degree of credit risk ("Securitization Vehicles").

The Company currently invests in a broad range of CLO products, utilizing 29 asset managers, and its underlying assets are diversified on a geographic and industry sector basis. Interest rate and funding risk are sought to be mitigated through the long-term matched funding embedded in the CLO structure (i.e., the assets acquired bear interest by reference to a floating rate similar to the funding source for those assets).

The Company remains committed to its current strategy of expanding its asset management platform and its efforts to continue its transformation into a broad-based financial services firm that functions not only as an investment holding company, but also as a firm that owns interests in multiple operating businesses.

The Company also owns a 75% interest in LCM, an asset manager with approximately $3.0 billion of loan assets under management as of year-end 2010 that yielded positive results for the Company's investment performance. The Company also owns a 10% an equity interest in GreenOak, which it views as a medium-term investment.

On 22 February 2011, TFG and the Master Fund and their six directors were served with proceedings in the Royal Court of Guernsey (the "Proceedings") instigated by one of Company's former directors, Alexander Jackson. Mr. Jackson was given notice to vacate office as a director on 24 January 2011.[48]

CERTAIN CORPORATE BACKGROUND

Shares of TFG (the "Shares") are publicly traded solely on the Euronext Amsterdam by NYSE Euronext under the ticker symbol "TFG". The Shares do not carry any voting rights other than limited voting rights in respect of variation of their class rights. The voting shares of TFG are owned by Polygon Credit Holdings II Limited, which is a non-U.S. affiliate of the Investment Manager and the Service Providers (as defined below). Polygon Credit Holdings II Limited is controlled by Reade Griffith, Alexander Jackson, and Paddy Dear. The voting shares are not entitled to receive dividends.

The current exchange listing, corporate structure and governance and investment management arrangements of TFG were established to help foster the achievement of the Company's investment objective. In particular, at the time of its initial public offering and in consultation with the Company's underwriters and its legal and financial advisors, the Investment Manager concluded, and continues to believe, after analyzing various listing alternatives within the United States and Europe, that Euronext Amsterdam is favorably suited to facilitate the Company's pursuit of its investment objective and to address relevant legal, regulatory, liquidity and other commercial considerations. Similarly, TFG's corporate structure and governance were designed to seek to position the Company to best serve its investment objective as well as to address a variety of relevant considerations, including applicable legal requirements. For example, the TFG corporate structure and governance combined with the Investment Manager's actions in addressing financing risk helped the Company effectively execute a buy-and-hold strategy that yielded positive results for the Company's investment performance.

INVESTMENT MANAGEMENT

Tetragon Financial Management LP (the "Investment Manager") has been appointed the investment manager of TFG and the Master Fund pursuant to an investment management agreement dated 26 April 2007 (the "Investment Management Agreement"). The management and control of the Investment Manager is vested in its general partner, Tetragon Financial Management GP LLC (the "General Partner"), which is responsible for all actions of the Investment Manager. The General Partner is directly or indirectly controlled by Reade Griffith, Alexander Jackson, and Paddy Dear. The General Partner and the Investment Manager are affiliated with Polygon Investment Partners LLP (together with its other affiliated management companies, other than the Investment Manager and the General Partner, "Polygon") which is controlled by Reade Griffith and Paddy Dear. As the General Partner is responsible for all actions of the Investment Manager, any references to the Investment Manager in this Annual Report or in any of our disclosure shall be deemed to include a reference to the General Partner to the extent applicable. The Investment Manager is registered as an investment adviser under the U.S. Investment Advisers Act of 1940.

The investment committee of the Investment Manager (the "Investment Committee") currently consists of Jeffrey Herlyn, Michael Rosenberg, David Wishnow, Reade Griffith, Alexander Jackson and Paddy Dear (the "Principals") and is responsible for the investment management of the portfolio and the business. The Investment Committee currently sets forth the investment strategy and approves each significant investment by the Master Fund.

The Risk Committee of the Investment Manager currently consists of the Principals. The Risk Committee is currently responsible for the risk management of the portfolio and the business and performs active and regular oversight and risk monitoring.

Polygon Investment Partners LLP and Polygon Investment Partners LP (together, the "Service Providers") provide the Investment Manager with certain services in relation to Company pursuant to a Services Agreement dated 26 April 2007. The Service Providers also provide operating, infrastructure and administrative services to LCM and GreenOak and to various Polygon managers pursuant to applicable services agreements.

INVESTMENT MANAGEMENT (continued)

In recognition of the work performed by the Investment Manager in successfully arranging the global offering and the associated raising of new capital for the Company, the Company granted to the Investment Manager options (the "Investment Management Options") to purchase 12,545,330 of the Company's Non-Voting Shares at an exercise price per share equal to the IPO offer price (U.S. $10). The Investment Management Options are fully vested and immediately exercisable on the date of admission to the NYSE Euronext Amsterdam Exchange and will remain exercisable until the 10th anniversary of that date.

For more information on TFG's investment manager, including a summary of key terms of the Investment Management Agreement, please refer to the Company's website at www.tetragoninv.com.

HISTORICAL APPROACH TO INVESTMENTS

The Investment Manager has sourced investment opportunities both within and beyond the leveraged loan market through a variety of channels, including the Investment Manager's network of direct relationships with major commercial and investment banks and asset managers.

The current performing CLO investment portfolio is composed solely of substantial positions in the Residual Tranches of a broad range of CLO products. Residual Tranches will in most cases be unrated and represent the "equity" or "first loss" position of a CLO.

The Investment Manager believes by taking majority or substantial positions in the Residual Tranches, the Company may influence various features within a CLO or its applicable collateral management terms that could improve the value of its investment.

CLO ASSET CLASS SELECTION

The Investment Manager has to date focused primarily on utilizing CLO Securitization Vehicles to achieve its investment objective and has sought to employ a multiple asset class investment strategy, including through such Securitization Vehicles.

The Investment Manager has sought to select the Company's target asset classes following an analysis of key factors affecting returns; including (i) credit spread risk premiums, (ii) economic and credit cycles, and (iii) rating agency analyses.

As previously described, the asset class primarily represented in the Company's current CLO portfolio consists of leveraged loans, comprised of (a) broadly syndicated senior secured loans of U.S. borrowers; (b) broadly syndicated senior secured loans of European borrowers; and (c) middle-market senior secured loans of U.S. borrowers. Notwithstanding the Investment Manager's focus to date on the leveraged loan asset class, the Investment Manager has and may continue to seek to achieve its investment objective through investments in other opportunities, assets or asset classes, which may be unrelated to the leveraged loan asset class.

ASSET MANAGER SELECTION

In selecting asset managers, the Investment Manager has sought to take advantage of the significant experience of certain of the Principals. In conducting its assessment of an asset manager, the Investment Manager reviews certain aspects of such asset manager's business, such as the manager's reputation, personnel, research capabilities, financial strength, business infrastructure, asset manager ratings, and, generally, its ability to appropriately manage the underlying asset portfolio as well as its prior dealings with the Company or its Principals.

The Investment Manager has sought to select asset managers (including, LCM and GreenOak) that it believes to be superior and has looked to select asset managers with a demonstrated strength in the applicable market, fundamental analysis and the management of assets on a long-term basis consistent with its buy-and-hold strategy. Notwithstanding the acquisition of LCM, the Company expects to continue to seek and enjoy diversification of CLO asset managers.

ASSET MANAGER SELECTION (continued)

The Company believes that, as a result of (among other things) the reduction in CLO issuance volumes from 2008 through 2010, the CLO asset manager industry may continue to face some consolidation pressures as was evidenced in years past as several managers exited the market or otherwise reorganized, including certain of the Company's CLO managers. The Company realized value on several of its CLO investments in connection with such activity in 2010.

The Company continues to selectively explore strategic business opportunities in asset management, both within and beyond the leveraged loan market as such opportunities may offer, among other benefits, high quality, repeatable, income streams that diversify the Company's current income.

ASSET DIVERSIFICATION

The Investment Manager has sought to diversify its exposures across underlying asset classes, industry sectors, geographies and asset managers. For risk management purposes, the Investment Manager analyzes risks and may where appropriate engage in hedging strategies on both a portfolio-wide basis as well as a single-name basis.

At any given time, certain geographic areas, asset types or industry sectors may provide more attractive investment opportunities than others and, as a result, the Company's investment portfolio may be concentrated in particular geographic areas, asset types or industry sectors. Please refer to the Company's monthly updates on the Company's website (www.tetragoninv.com) for a review of the Company's underlying investments' bank loan industry exposure for the relevant period. Due to the overlap of investments of different asset managers, there may be concentrations of individual credits from time to time.

The substantial majority of the Company's currently performing investments are in CLOs. Notwithstanding the efforts of the Investment Manager to diversify across underlying assets, the Company's investments (including, LCM) could face significant downward pressure as Securitization Vehicles, such as CLOs, generally come under increased market pressure. For example, many of the Company's investments in Securitization Vehicles are and will be illiquid and have values that are susceptible to changes in the ratings and market values of such vehicles' underlying assets, which may make it difficult for the Company to sell such holdings. Similarly, the fee revenue earned by LCM, in its capacity as collateral manager to certain CLOs, may be negatively impacted by the performance of such CLOs underlying assets.

BUY-AND-HOLD STRATEGY

The emphasis of the Investment Manager's existing strategy for the Company has been on the selection and structuring of investment positions that are then intended to be held for returns based on cash flows and other revenues to provide a stable stream of income for the Company. The Investment Manager believes, for example, that its buy-and-hold strategy has allowed the Company to take a long-term view on the expected cash flows from a CLO or other Securitization Vehicle. Market developments, however, have and may continue to, impact the fair value of a Securitization Vehicle and/or its underlying assets. The Investment Manager may dispose of portfolio positions from time to time and may reallocate investments in the portfolio within and among asset classes on a discretionary basis. The Company believes the Investment Manager's asset liability management and its strategy of taking majority (or substantial) positions in its CLO investments has made a buy-and-hold strategy more attractive, as the Investment Manager may in certain cases influence the performance of a CLO investment through, among other things, the support of amendments to the CLO structure or the collateral management agreement.

VALUATION

State Street Fund Services (Guernsey) Limited serves as the Company's independent administrator and values the investments of the Master Fund on an ongoing basis. The NAV per Share is expected to fluctuate over time with the performance of TFG's investments. The NAV of TFG and the Master Fund and the NAV per Share are determined as at the close of business on the last business day of each fiscal quarter for purposes of calculating incentive fees. As TFG makes all of its investments through the Master Fund, TFG's NAV will equal the NAV of the Master Fund before incentive fees. The Company's valuation policies are set forth on the Company's website at www.tetragoninv.com. The information on the "Valuation" page of the website supersedes any other disclosure by the Company with respect to such information. Subject to the foregoing, additional information with respect to TFG's or the Master Fund's valuation policies may be found in each company's annual audited financial statements accompanying this Annual Report.

CAPITAL DISTRIBUTIONS

The Company has sought to continue to return value to its shareholders, including through dividends and share repurchases.

The Board of Directors will have the authority to declare dividend payments, based upon the recommendation of the Investment Manager, subject to the approval of the voting shares of TFG and adherence to applicable law, including the satisfaction of a solvency test as required pursuant to the Companies (Guernsey) Law, 2008, as amended. The Investment Manager's recommendation with respect to the declaration of dividends (and other capital distributions) may be informed by a variety of considerations, including (i) the expected sustainability of the Company's cash generation capacity in the short and medium term, (ii) the current and anticipated performance of the Company, (iii) the current and anticipated operating and economic environment and (iv) other potential uses of cash ranging from preservation of the Company's investments and financial position to other investment opportunities. TFG has and may continue to also pay scrip dividends currently conducted through an optional dividend reinvestment program. If the Board of Directors declares a cash dividend payable by TFG, they will also (in their capacity as directors of the Master Fund) declare an equal dividend per share payable concurrently by the Master Fund. TFG has and may also continue to engage in share repurchases in the market from time to time. Such purchases may at appropriate price levels below NAV represent an attractive use of TFG's excess cash and an efficient means to return cash to Shareholders. Any decision to engage in share repurchases will be made by the Investment Manager, upon consideration of relevant factors, and will be subject to, among other things, applicable law and profits at the time. The Company also continues to explore methods of improving the liquidity of its shares.

Please refer to the section entitled "Risk Factors" herein and a more complete description of risks and uncertainties pertaining to an investment in TFG on the Company's website at: www.tetragoninv.com .

REPORTING

In accordance with applicable regulations under Dutch law, TFG publishes monthly statements on its website for the benefit of its investors containing the following information: the total value of the investments of the Master Fund; a general statement of the composition of the investments of the Master Fund; and the number of outstanding shares of TFG.

In addition, in accordance with the requirements of Euronext Amsterdam by NYSE Euronext and applicable regulations under Dutch law, TFG provides annual and semi-annual reports to its shareholders, including year-end financial statements, which in the case of the financial statements provided in its annual reports, will be reported in accordance with U.S. GAAP and audited in accordance with international auditing standards. TFG also provides interim management statements to investors in accordance with section 5:25e of the FMSA. The NAV of TFG is available to investors on a monthly basis on the Company's website at www.tetragoninv.com.

DIRECTORS STATEMENTS

The Directors of TFG confirm that (i) this Annual Report constitutes the TFG management review for the twelve month period ended 31 December 2010 and contains a fair review of that period and (ii) the 2010 audited financial statements accompanying this Annual Report for TFG have been prepared in accordance with applicable laws and in conformity with accounting principles generally accepted in the United States of America.

RISK FACTORS

An investment in TFG involves substantial risks and uncertainties. Investors may review a more detailed description of these risks and uncertainties and others to which the Company is subject on the Company's website at www.tetragoninv.com. These risks and uncertainties include, among others, those listed below.

- Many of the Company's investments are in the form of highly subordinated securities, which are susceptible to losses of up to 100% of the initial investments, including losses resulting from changes in the financial rating ascribed to, or changes in the market value or fair value of, the underlying assets of an investment. CLO vehicles generally invest in fixed income securities rated lower than Baa by Moody's or lower than BBB by S&P (or, if not rated, of comparable quality) and may be regarded as predominantly speculative with respect to the issuer's continuing ability to meet principal and interest payments. Moreover, market developments (including, without limitation, deteriorating economic outlook, rising defaults and rating agency downgrades) may impact the fair value of an investment and/or its underlying assets, as we experienced during the period from the third quarter of 2008 through the first half of 2009.
- Defaults, their resulting losses and other losses on underlying assets (including bank loans) may have a negative impact on the value of the Company's portfolio and cash flows received. In addition, bank loans may require substantial workout negotiations or restructuring in the event of a default or liquidation which could result in a substantial reduction in the interest rate and/or principal.
- The modeled cash flow predictions and assumptions used to calculate the IRR and fair value of each CLO investment may prove to be inaccurate and require adjustment. Factors affecting the accuracy of such modeled cash flow predictions include: (1) uncertainty in predicting future market values of certain distressed asset types, (2) the inability to accurately model collateral manager behavior, and (3) the divergence of assumed variables from realized levels over the period covered by the model.
- Bank loans are generally subject to liquidity risks and, consequently, there may be limited liquidity if a Securitization Vehicle is required to sell or otherwise dispose of such bank loans.
- Many of the Company's investments in Securitization Vehicles are and will be illiquid and have values that are susceptible to changes in the ratings and market values of such vehicles' underlying assets, which may make it difficult for the Company to sell such holdings.
- The Company may be exposed to counterparty risk, which could make it difficult for the Company to collect on the obligations represented by investments and result in significant losses.
- The Company's organizational, ownership and investment structure may create significant conflicts of interest that may be resolved in a manner which is not always in the best interests of the Company or the shareholders of TFG.
- The Investment Manager may devote time and commitment to other activities.
- Shares of TFG (the "Shares") do not carry any voting rights other than limited voting rights in respect of variation of their class rights. The holder of the voting shares of TFG will be able to control the composition of the Board of Directors and exercise extensive influence over TFG's and the Master Fund's business and affairs. Furthermore, no formal corporate governance code applies to TFG. Additional information on the organizational structure and corporate governance of TFG may be found on the Company's website at www.tetragoninv.com.

RISK FACTORS (continued)

- The performance of many of the Company's investments may depend to a significant extent upon the performance of its asset managers (internal and external).
- The Company is subject to concentration risk in its investment portfolio, which may increase the risk of an investment in TFG.
- The Company's CLO investments are subject to (i) interest rate risk, which could cause the Company's cash flow, fair value of its assets and operating results to decrease and (ii) currency risk, which could cause the value of the Company's CLO investments in U.S. Dollars to decrease regardless of the inherent value of the underlying investments.
- TFG's principal source of cash will be the investments that it makes through the Master Fund. TFG's ability to pay dividends will depend on it receiving distributions from the Master Fund.
- The ability of Securitization Vehicles in which the Company invests to sell assets and reinvest the proceeds may be restricted, which may reduce the yield from the Company's investment in those Securitization Vehicles.
- The shares of TFG may continue to trade below NAV. The NAV per Share will change over time with the performance of the Company's investments and will be determined by the Company's valuation principles. The fees payable to the Investment Manager will be based on NAV and changes in NAV, which will not necessarily correlate to changes in the market value of the shares of TFG.
- TFG and the Master Fund have approved a very broad investment objective and the Investment Manager will have substantial discretion when making investment decisions. In addition, the Investment Manager's strategies may not achieve the Company's investment objective.
- Shareholders will not be able to terminate the Company's investment management agreement. None of the Investment Manager or the Service Providers owe fiduciary duties to the shareholders of TFG.
- The Company may become involved in litigation that adversely affects the Company's business, investments and results of operations.
- If the Company's relationship with the Investment Manager and its principals were to end or such principals or other key professionals were to depart, it could have a material adverse effect on the Company.
- The Investment Manager's compensation structure may encourage the Investment Manager to invest in high risk investments.
- The liability of the Investment Manager to the Company is limited and the Company's indemnity of the Investment Manager may lead the Investment Manager to assume greater risks when making investment related decisions than it otherwise would.
- The Shares are subject to legal and other restrictions on resale and the Euronext Amsterdam by NYSE Euronext trading market is less liquid than other major exchanges, which could affect the price of the Shares. TFG may decide in the future to list the Shares on a stock exchange other than Euronext Amsterdam by NYSE Euronext. There can be no assurance that an active trading market would develop on such an exchange.
- The performance of LCM and, in turn, the Company's operating results, may be negatively influenced by various factors, including the (i) performance of LCM-managed CLOs, which in general are subject to the same risks as the Company's CLO investments and are currently the primary source of LCM's revenues and (ii) ability of LCM to retain key personnel, the loss of whom may negatively affect LCM's ability to provide asset and collateral management services in a fashion, and of a quality, consistent with its prior practice. Furthermore, the Company's ownership of LCM may negatively impact certain aspects of the Company's CLO investment strategy and as a result the Company's performance as well as the Company's ability to diversify its investments across multiple asset managers.

RISK FACTORS (continued)

- GreenOak is a newly formed entity with no prior operating history and it may be unable to successfully operate its business or achieve its investment objectives. In connection with the transaction with GreenOak, the Company will invest its capital, directly and indirectly, in certain real estate investments. Real estate investments are subject to various risks and fluctuations and cycles in value and demand, many of which are beyond the Company's control
- As the Company invests in new asset classes and as its asset mix changes, its revenues and profitability could be reduced.
- As the Company becomes more of a financial services firm that functions not only as an investment holding company, but also as a company that owns operating companies, it may face difficulties as it invests in asset classes in which it does not have substantial experience.
- Direct investments in asset managers will expose the Company's business to additional risks, including: a decline in the price of securities, regulatory environment, and competition.
- The Company may issue additional securities that dilute existing holders of Shares, including as a result of the exercise of the Investment Management Options.

The foregoing is not a comprehensive list of the risks and uncertainties to which the Company is subject.

END NOTES

LETTER TO SHAREHOLDERS

(1) TFG's corporate loan default rate for 2010 of 1.7% was approximately 24% below the 2.2% annual WARF-implied default rate used as a historical average rate within TFG's assumption framework. WARF is a par-weighted average of the Rating Factors of each of the assets in the collateral pool. A Rating Factor is a numerical value assigned to each rating category by Moody's. For example a "B2" rating has a Rating Factor of 2,720 whereas a B3 rating corresponds to a Rating Factor of 3,490. Please refer to "Moody's Approach to Rating Collateralized Loan Obligations", published on 31 December 2008 for additional information.
(2) Please refer to a press release as of 8 August 2010 titled "Tetragon Financial Group Limited ("TFG") to Pursue Real Estate Venture" for additional information.
(3) For additional information please refer to the Company's website at www.tetragoninv.com.
(4) Such return is based on the following assumptions: TFG shares were purchased at a price of $3.91 per share on 31 December 2009, quarterly dividends of $0.28 per share for the year were reinvested into the shares of TFG on each dividend ex-date during the year (1 March 2009 at $3.90 per share, 29 April 2010 at $4.38 per share, 3 August 2010 at $4.18 per share, and 1 November 2010 at $5.38 per share) and all shares were sold at the closing price of $5.70 per share on 31 December 2010.

2010 PERFORMANCE AT A GLANCE

(5) S&P/LCD U.S. Leveraged Lending Review 4Q 2010. Please note that TFG's investment portfolio includes approximately 9.6% CLOs with primary exposure to European broadly syndicated senior secured loans and such loans are included in the calculation of TFG's corporate loan default rate.
(6) Based on the most recent trustee reports available for our investments as of 31 December 2010.
(7) Morgan Stanley CDO Market Tracker, 5 January 2011; based on a sample of 477 U.S. CLO transactions.
(8) Please note that as of 31 December 2010, TFG's investment portfolio included approximately 9.6% CLOs with primary exposure to European broadly syndicated senior secured loans and such loans are included in the calculation of TFG's % of CLOs failing junior par coverage tests and % of Caa1/CCC+ or below rated assets. Since the market-level statistics cited above are limited to U.S. CLOs they may not be perfectly comparable to TFG's portfolio.
(9) Excess Caa/CCC+ or below rated assets above the transaction specific permitted maximum holding levels are generally haircut in our transactions at market value for purposes of the over-collateralization and/or interest reinvestment test ratios.
(10) Morgan Stanley CDO Market Tracker, 5 January 2011; based on a sample of 477 U.S. CLO transactions. Please note that as of 31 December 2010, TFG's investment portfolio included approximately 9.6% CLOs with primary exposure to European broadly syndicated senior secured loans and such loans are included in the calculation of % of Caa1/CCC+ or below rated assets.
(11) The net cash position is calculated as total cash less net liabilities.
(12) The LCM I, LCM II, LCM III, LCM IV, LCM V, LCM VI, and LCM VIII CLOs are referred to as the "LCM Cash Flow CLOs." The LCM VII CLO was a market value CLO previously managed by LCM, which was liquidated commencing in 2008, and is not included in the mentioned statistics. In addition, these statistics do not include the performance of certain transactions that were developed and previously managed by a third-party prior to being assigned to LCM, some of which continue to be managed by LCM.
(13) Based on a weighted average share count, excluding treasury shares, of 120.1 million for 2010 and 125.8 million for 2009.
(14) The hurdle rate is reset each quarter using 3M USD LIBOR plus a spread of 2.647858% in accordance with TFG's investment management agreement. Please see the TFG website, www.tetragoninv.com, for more details.

INVESTMENT MANAGER'S REPORT
PORTFOLIO OVERVIEW

(15) The CLO asset characterizations referenced above reflect the primary asset focus of the vehicles. These transactions, however, may allow for limited exposure to other asset classes including unsecured loans, high yield bonds, or structured finance securities.
(16) As of 31 December 2010 TFG continued to hold two non-performing CDO investments, all of which were in the form of securitization vehicles other than CLOs. We do not expect to collect any additional cash flows from these investments.
(17) Based on the most recent trustee reports available for both our U.S. and European CLO investments as of 31 December 2010.
(18) Please note that the number of unique CLO transactions held by TFG has increased from 60 as of 31 December 2009 to 66 as of 31 December 2010.
(19) As of 31 December 2010, European CLOs represented approximately 9.6% of TFG's investment portfolio; approximately 83% of the fair value of TFG's European CLOs and 60%, when measured on a percentage of European transactions basis, were passing their junior-most O/C tests as of the end of Q4 2010.

END NOTES (continued)

INVESTMENT MANAGER'S REPORT
PORTFOLIO OVERVIEW (continued)

(20) As O/C tests are breached, CLO structures may divert excess interest cash flows away from the equity tranche holders, such as TFG, to pay down the CLO's debt thereby curing the O/C breach via deleveraging. Accordingly, the affected investments ceased to generate cash flows to TFG or are expected to cease generating cash flows on the next applicable payment date. Once enough debt has been repaid to cure the O/C test breach, distributions of excess interest cash to equity holders may resume to the extent not precluded by the investments' realized or unrealized losses.
(21) Morgan Stanley CDO Market Tracker, 5 January 2011; based on a sample of 477 U.S. CLO transactions.
(22) S&P/LCD Quarterly Review, Q4 2010.
(23) S&P/LCD Quarterly Review, Q4 2010.
(24) S&P/LCD Quarterly Review, Q4 2010.
(25) S&P/LCD Quarterly Review, Q4 2010.
(26) S&P/LCD Quarterly Review, Q4 2010.
(27) S&P Leveraged Commentary and Data, "Full Index analysis: Loans return 10.13% in no-drama 2010." 4 January 2011.
(28) S&P/LCD Quarterly Review, Q4 2010.
(29) S&P/LCD Quarterly Review, Q4 2010.
(30) S&P Leveraged Commentary and Data, "(EUR) Leveraged loan volume recovers in 2010 after miserable 2009," 4 January 2011.
(31) S&P Leveraged Commentary and Data, "(EUR) S&P ELLI finishes 2010 with December rally," 13 January, 2011.
(32) Morgan Stanley CDO Market Tracker, 5 January 2011; based on a sample of 196 European CLO transactions.
(33) Morgan Stanley CDO Market Tracker, 8 January 2010; based on a sample of 207 European CLO transactions.
(34) Morgan Stanley CDO Market Tracker, 5 January 2011.
(35) Morgan Stanley CDO Market Tracker, 5 January 2011.
(36) Morgan Stanley CDO Market Tracker, 5 January 2011. Balance sheet deals are typically securitizations of bank-held portfolios and are motivated by capital relief goals rather than arbitrage opportunities.
(37) Morgan Stanley CDO Market Tracker, 5 January 2011.

FAIR VALUE DETERMINATION OF TFG's CLO INVESTMENTS

(38) The Accelerated Loss Reserve is transaction specific. The Accelerated Loss Reserve is a direct adjustment to the fair value of an investment to account for the potential impact of certain potential losses and the cumulative value of such adjustments is evidenced in TFG's financial statements.

FORWARD-LOOKING CASH FLOW MODELING ASSUMPTIONS

(39) Please note that TFG undertakes no obligation to update public disclosure with respect to these or other modeling assumptions, except as required by law.
(40) The base-case weighted-average recovery rate represents the weighted average of expected recoveries for each transaction based on our assumed recoveries on each asset class and each transactions' targeted asset mix, assuming 75% recovery on first-lien U.S. loans, 70% on first-lien European loans, 50% recovery on U.S. second-lien loans and mezzanine loans, and 30% recovery on high yield bonds.

CAPITAL DISTRIBUTIONS 2010: DIVIDENDS AND SHARE REPURCHASES

(41) For additional information please refer to the Company's website at www.tetragoninv.com.

LCM

(42) As of 31 December 2010, this direct loan portfolio totaled approximately $100.0 million in par amount with a fair value of $97.6 million.

GREEN OAK

(43) Please refer to a press release as of 8 August 2010 titled "Tetragon Financial Group Limited ("TFG") to Pursue Real Estate Venture" for additional information.
(44) In connection with the transaction, an affiliate of the Investment Manager, Polygon Management L.P. ("Polygon Management"), agreed to also provide GreenOak with a working capital loan and has made a limited co-investment commitment. Furthermore, certain Polygon Management affiliates entered into an agreement with GreenOak to provide operating, infrastructure and administrative services to the business. Polygon Management also provided the GreenOak Founders with an equity interest in Polygon. Polygon Management, in turn, received an equity interest in GreenOak.

END NOTES (continued)

SUMMARY, OUTLOOK AND STRATEGY

(45) Cash flow CLOs are not fully insulated from price declines in the underlying assets as a number of “stressed” asset categories, including excess Caa1/CCC+ and defaulted assets are typically carried at the lower of market value and rating-agency assigned recovery rate for O/C test purposes.

FINANCIAL HIGHLIGHTS TABLE

(46) Gross cash receipts from CLO portfolio.
(47) Excludes CDO-squared and ABS CDO transactions written off in October 2007. TFG continues to hold the economic rights to 3 of these written-off transactions.

DESCRIPTION OF BUSINESS

(48) By the Proceedings, Mr. Jackson seeks to impugn TFG’s decision of 29 July 2010, announced on 2 August 2010, to enter into a joint venture with GreenOak Real Estate (the “GreenOak Transaction”). The Proceedings are confined to claims for damages and other relief against the Company’s directors, and do not seek to reverse or interfere with the GreenOak Transaction, which was implemented in the third quarter of 2010. The Company and its directors believe that there is no merit whatsoever in the Proceedings and will take all necessary steps to ensure the Proceedings are dismissed as quickly as possible. The Investment Manager has concluded that it is untenable for Mr. Jackson to continue in his current role as a consultant with respect to investment and risk matters relating to the Company and, therefore, is taking steps to ensure that he will no longer continue in that capacity, although he remains a shareholder of the Investment Manager.

BOARD OF DIRECTORS

Paddy Dear
Rupert Dorey*
Reade Griffith
David Jeffreys*
Byron Knief*
Greville Ward*
*Independent Director

SHAREHOLDER INFORMATION

Registered Office of TFG and the Master Fund
Tetragon Financial Group Limited
Tetragon Financial Group Master Fund Limited
Tudor House
Le Bordage
St. Peter Port, Guernsey
Channel Islands GYI 3PF

Investment Manager
Tetragon Financial Management LP
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New York, NY 10022
United States of America

General Partner of Investment Manager
Tetragon Financial Management GP LLC
399 Park Avenue, 22nd Floor
New York, NY 10022
United States of America

Investor Relations
David Wishnow/Yuko Thomas
ir@tetragoninv.com

Press Inquiries
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Jonathan Glass / Pip Green
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Channel Islands GY1 4AN

Sub-Registrar and Transfer Agent
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United States of America

Issuing Agent, Dutch Paying and Transfer Agent
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United Kingdom

Legal Advisor (as to Guernsey law)
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Ogier House
St. Julian's Avenue
St. Peter Port, Guernsey
Channel Islands GY1 1WA

Legal Advisor (as to Dutch law)
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1082 MD Amsterdam
The Netherlands

Stock Listing
Euronext Amsterdam by NYSE Euronext

Administrator and Registrar
State Street Fund Services (Guernsey) Limited
Tudor House
Le Bordage
St. Peter Port, Guernsey
Channel Islands GYI 3PF

TETRAGON

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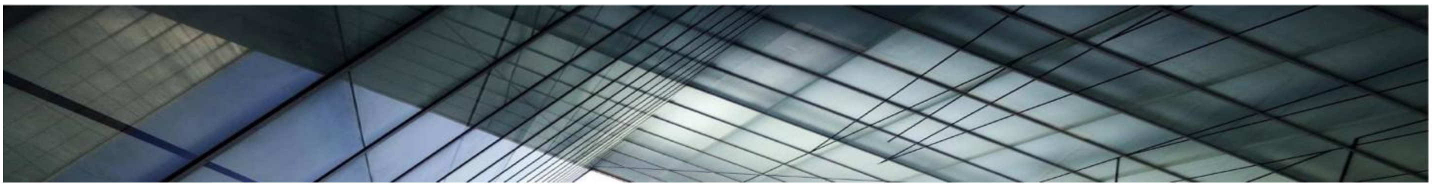
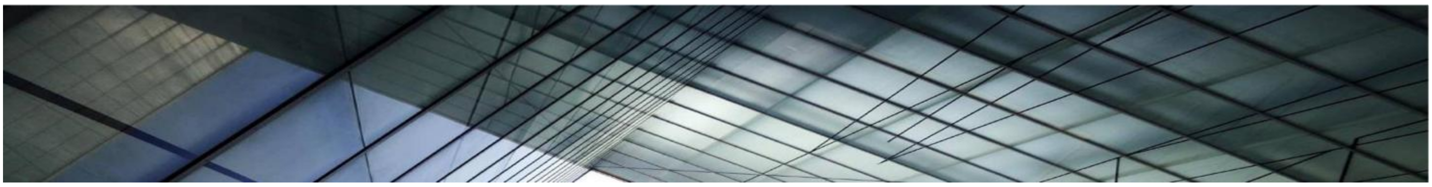


AUDITED CONSOLIDATED FINANCIAL STATEMENTS

TETRAGON FINANCIAL GROUP LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2010



TETRAGON FINANCIAL GROUP LIMITED

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

CONTENTS

TETRAGON FINANCIAL GROUP LIMITED

DIRECTORS’ REPORT
For the year ended 31 December 2010

The Directors present to the shareholders their report together with the audited consolidated financial statements for the year ended 31 December 2010.

THE COMPANY

Tetragon Financial Group Limited (the “Company”) was registered in Guernsey on 23 June 2005 as a company limited by shares, with registered number 43321. All Voting Shares of the Company are held by Polygon Credit Holdings II Limited (the “Voting Shareholder”). The Company continues to be registered and domiciled in Guernsey, and the Company's Shares are listed on the NYSE Euronext Amsterdam Exchange.

The Company acts as a feeder fund in a “master feeder structure” investing substantially all of its assets in Tetragon Financial Group Master Fund Limited (the “Master Fund”).

On 2 September 2010, Tetragon Financial Management LP (the "Investment Manager") changed its name from Polygon Credit Management LP.

INVESTMENT OBJECTIVE

The Company's investment objective is to generate distributable income and capital appreciation. To achieve this objective, and to aim to provide stable returns to investors across various interest rate and credit cycles, the Investment Manager seeks to identify opportunities, assets and asset classes it believes to be attractive and asset managers it believes to be superior based on their track record and expertise. It also seeks to use the market experience of the Investment Manager to negotiate favourable transactions. As part of this current investment strategy, the Master Fund may employ hedging strategies and leverage in seeking to provide attractive returns while managing risk.

RESULTS, ACTIVITIES AND FUTURE DEVELOPMENTS

The results of operations are set out on pages 8 to 9. A detailed review of activities and future developments is contained in the Investment Manager’s Report in the Annual Report to the Shareholders.

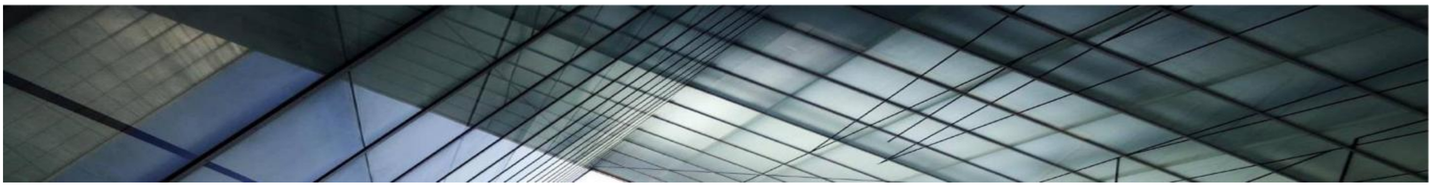
DIRECTORS

The Directors who held office during the year were:

Patrick Dear
Rupert Dorey*
Reade Griffith
Alex Jackson
David Jeffreys*
Byron Knief*
Lee Olesky* (resigned 30 April 2010)
Greville Ward* (appointed 30 April 2010)

*Independent non-executive Directors

The remuneration for Directors is determined by resolution of the Voting Shareholder. The Directors’ annual fee was US$ 50,000 in compensation for service on the Boards of Directors of both the Company and the Master Fund, until 30 September 2010, and was paid by the Master Fund. From 1 October 2010, the Directors’ annual fee is US$ 75,000 in compensation for service on the Boards of Directors of both the Company and the Master Fund, which is paid by the Master Fund. Patrick Dear, Reade Griffith and Alex Jackson have waived their entitlement to a fee.



DIRECTORS (continued)

Alex Jackson has ceased to be a Director of the Company effective 24 January 2011, having been given notice by all of the other Directors to vacate office.

The Directors are entitled to be repaid by the Company for all travel, hotel and other expenses reasonably incurred by them in the discharge of their duties. None of the Directors has a contract with the Company or the Master Fund providing for benefits upon termination of employment.

SECRETARY

State Street Fund Services (Guernsey) Limited held the office of Secretary throughout the year.

DIVIDENDS

The Board of Directors will have the authority to declare dividend payments, based upon the recommendation of the Investment Manager, subject to the approval of the voting shares of the Company and adherence to applicable law including the satisfaction of a solvency test as stated under the Companies (Guernsey) Law, 2008, as amended. The Investment Manager's recommendation with respect to the declaration of dividends (and other capital distributions) may be informed by a variety of considerations, including (i) the expected sustainability of the Company's cash generation capacity in the short and medium term, (ii) the current and anticipated performance of the Company, (iii) the current and anticipated operating and economic environment and (iv) other potential uses of cash ranging from preservation of the Company's investments and financial position to other investment opportunities. The Directors declared a dividend amounting to US$ 0.06 per share for the quarter ended 31 December 2009, US$ 0.06 per share for the Quarter Ended 31 March 2010, US$ 0.08 per share for the Quarter Ended 30 June 2010 and US$ 0.08 per share for the Quarter Ended 30 September 2010. The Directors have declared a dividend US$ 0.09 per share for the Quarter Ended 31 December 2010. Total dividends paid during the year ended 31 December 2009 amounted to US$ 0.12 per share.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

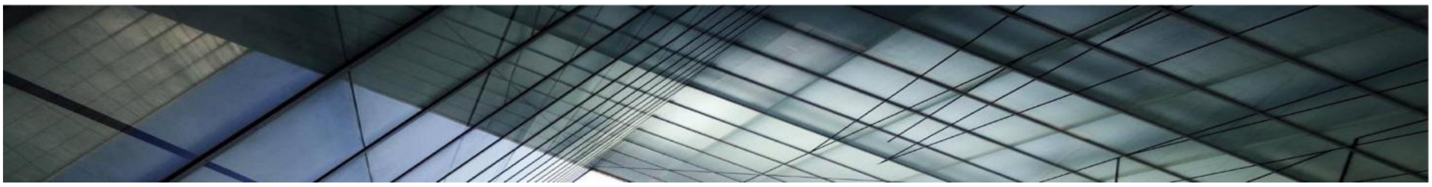
Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in conformity with accounting principles generally accepted in the United States of America and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.



TETRAGON FINANCIAL GROUP LIMITED

DIRECTORS' REPORT (continued)
For the year ended 31 December 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES (continued)

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

DISCLOSURE OF INFORMATION TO AUDITOR

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

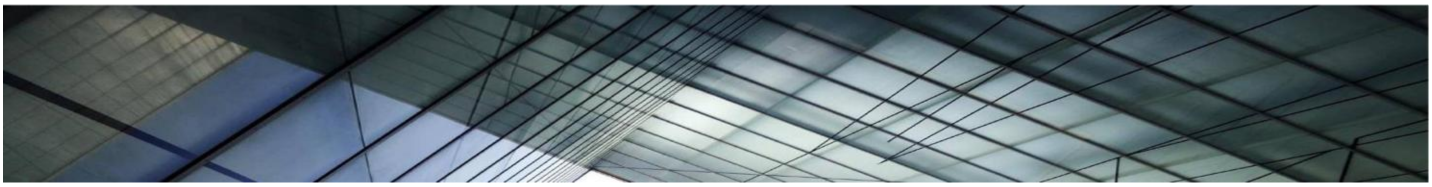
AUDITORS

KPMG Channel Islands Limited has been appointed as the independent auditors of the Company and they have expressed their willingness to continue in office. A resolution for the re-appointment of KPMG Channel Islands Limited will be proposed at the forthcoming Annual General Meeting.

Signed on behalf of the Board of Directors by:

Rupert Dorey, Director
David Jeffreys, Director

Date: 28 February 2011



TETRAGON FINANCIAL GROUP LIMITED

INDEPENDENT AUDITOR'S REPORT
For the year ended 31 December 2010

Independent auditor's report to the members of Tetragon Financial Group Limited

We have audited the consolidated financial statements of Tetragon Financial Group Limited (the "Company" or "Group") for the year ended 31 December 2010 which comprise the Consolidated Statements of Assets and Liabilities, the Consolidated Statements of Operations, the Consolidated Statements of Changes in Net Assets, the Consolidated Statements of Cash Flows, the Financial Highlights and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and accounting principles generally accepted in the United States of America.

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on pages 3 and 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

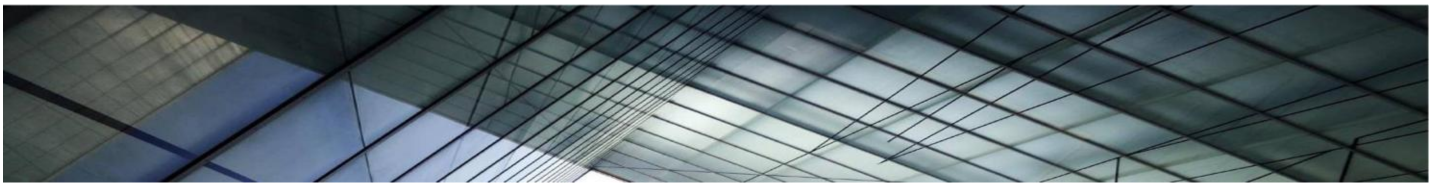
Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its net increase in net assets resulting from operations for the year then ended;
- are in conformity with accounting principles generally accepted in the United States of America; and
- comply with the Companies (Guernsey) Law, 2008.



TETRAGON FINANCIAL GROUP LIMITED

INDEPENDENT AUDITOR'S REPORT (continued)
For the year ended 31 December 2010

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law 2008 requires us to report to you if, in our opinion:

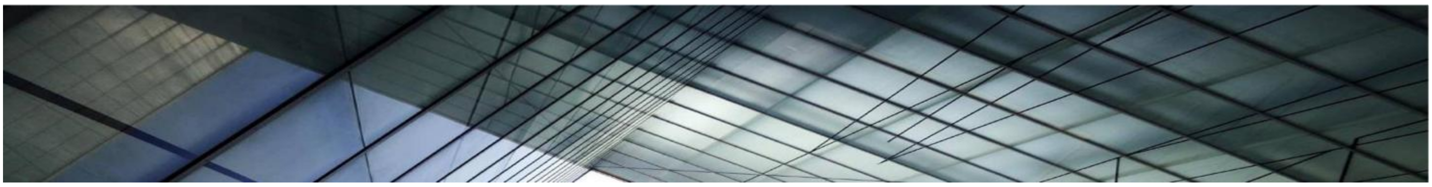
- the Company has not kept proper accounting records, or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

Dermot A Dempsey
for and on behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors

Date: 28 February 2011

The maintenance and integrity of the Tetragon Financial Group Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements or audit report since they were initially presented on the website.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



TETRAGON FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
As at 31 December 2010

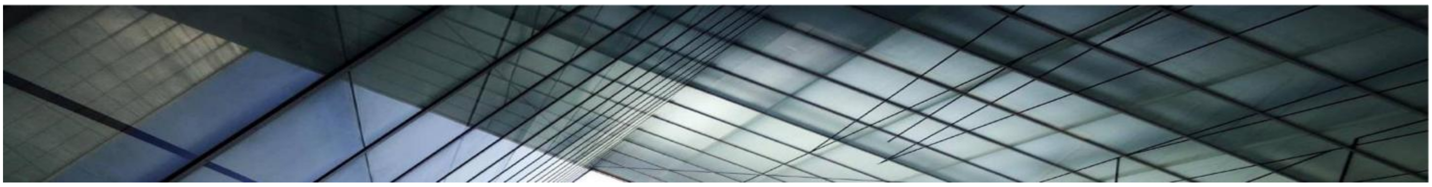
	Note	31 Dec 2010 US$	31 Dec 2009 US$
Assets			
Investment in Master Fund	3	1,180,537,381	836,628,677
Amounts receivable from Master Fund		-	212,635
Total assets		1,180,537,381	836,841,312
Liabilities			
Accrued incentive fee	5	41,532,519	29,781,872
Amounts payable on Share options	4	1,458,368	-
Amounts payable on Treasury Shares	6	-	212,635
Total liabilities		42,990,887	29,994,507
Net assets		1,137,546,494	806,846,805
Equity			
Share capital	6	120,134	124,769
Share premium	7	1,157,051,372	1,177,331,614
Capital reserve in respect of share options	8	11,789,336	11,789,336
Earnings	11	(31,414,348)	(382,398,914)
		1,137,546,494	806,846,805
Shares outstanding		**Number**	**Number**
Shares	6	120,133,690	124,768,684
Net Asset Value per Share			
Shares		US$ 9.47	US$ 6.47

The accompanying notes are an integral part of the consolidated financial statements.

Signed on behalf of the Board of Directors by:

Rupert Dorey, Director
David Jeffreys, Director

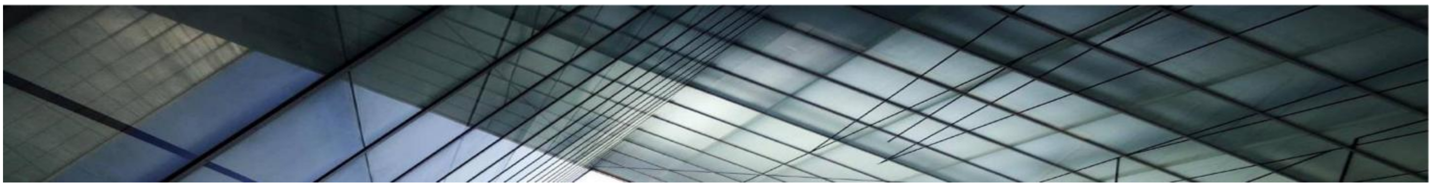
Date: 28 February 2011



TETRAGON FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS
For the year ended 31 December 2010

	Note	Year ended 31 Dec 2010 US$	Year ended 31 Dec 2009 US$
Investment income allocated from the Master Fund			
Interest income		178,932,970	165,705,095
CLO management fee income		12,631,564	-
Other income		2,503,561	1,236,051
Investment income allocated from the Master Fund		194,068,095	166,941,146
Direct expenses			
Incentive fee	5	(119,537,655)	(29,781,872)
Total direct expenses		(119,537,655)	(29,781,872)
Operating expenses allocated from the Master Fund			
Management fees	8	(14,001,647)	(12,350,251)
Employee costs		(5,365,486)	-
Legal and professional fees		(1,452,041)	(431,783)
Administration and custodian fees		(813,287)	(653,876)
Market data fees		(277,339)	-
Audit fees		(241,400)	(297,537)
Directors' fees	8	(225,317)	(200,004)
Other operating and administrative expenses		(2,316,516)	(892,082)
Interest expense		-	(592,021)
Total operating expenses allocated from the Master Fund		(24,693,033)	(15,417,554)
Total operating expenses		(144,230,688)	(45,199,426)
Net investment income		49,837,407	121,741,720
Net increase in unrealized depreciation on:			
Share options		(1,458,368)	-
Net increase in unrealized depreciation arising from direct operations		(1,458,368)	-

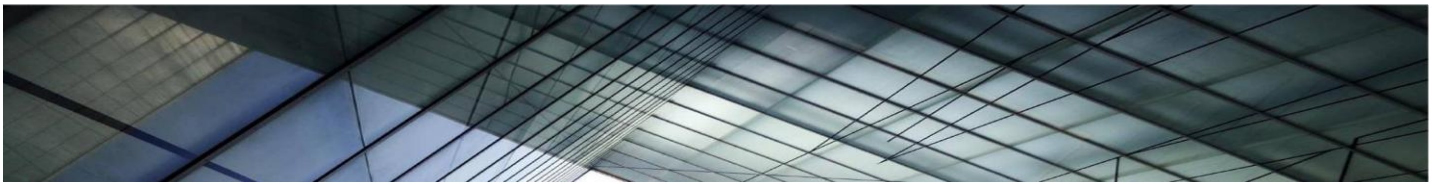


TETRAGON FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS (continued)
For the year ended 31 December 2010

	Note	Year ended 31 Dec 2010 US$	Year ended 31 Dec 2009 US$
Net realized and unrealized gain / (loss) from investments and foreign currency allocated from the Master Fund			
Net realized gain / (loss) from:			
Investments		1,124,072	-
Foreign exchange options		-	(2,547,325)
Foreign currency transactions		1,764,624	3,122,017
		2,888,696	574,692
Net increase / (decrease) in unrealized appreciation / (depreciation) on:			
Investments		337,424,241	(427,694,344)
Forward foreign exchange contracts		1,288,378	6,437,177
Foreign exchange options		-	(2,930,275)
Translation of assets and liabilities in foreign currencies		(919,233)	(13,230,641)
		337,793,386	(437,418,083)
Net realized and unrealized gain / (loss) from investments and foreign currencies allocated from the Master Fund		340,682,082	(436,843,391)
Net increase / (decrease) in net assets resulting from operations before tax		389,061,121	(315,101,671)
Income and deferred tax expense		(2,501,950)	-
Net income		386,559,171	(315,101,671)
Less net income attributable to noncontrolling interest		(1,388,434)	-
Net increase / (decrease) in net assets resulting from operations		385,170,737	(315,101,671)
Earnings per Share			
Basic	10	US$ 3.15	US$ (2.50)
Diluted	10	US$ 3.15	US$ (2.50)
Weighted average Shares outstanding		**Number**	**Number**
Basic	10	122,165,663	125,811,272
Diluted	10	122,165,663	125,811,272

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

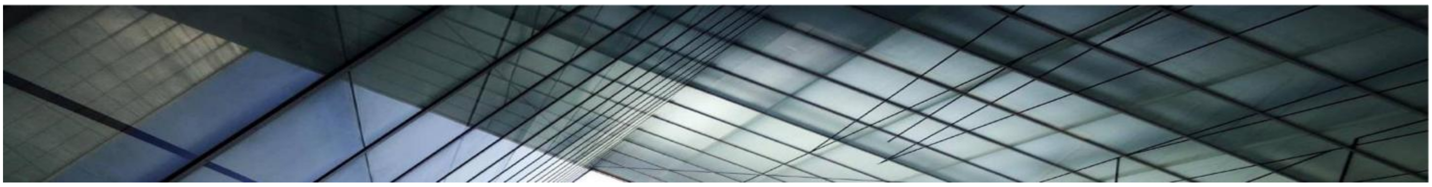


TETRAGON FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For the year ended 31 December 2010

	Note	Year ended 31 Dec 2010 US$	Year ended 31 Dec 2009 US$
Total investment income		194,068,095	166,941,146
Total operating expenses		(144,230,688)	(45,199,426)
Net unrealized depreciation on share options		(1,458,368)	-
Net realized gain from investments and foreign currency allocated from the Master Fund		2,888,696	574,692
Net unrealized gain / (loss) from investments and foreign currency allocated from the Master Fund		337,793,386	(437,418,083)
Income and deferred tax expense		(2,501,950)	-
Income attributable to noncontrolling interests		(1,388,434)	-
Net increase / (decrease) in net assets resulting from operations		385,170,737	(315,101,671)
Dividends paid to shareholders	9	(34,186,171)	(15,099,666)
Issue of Shares	6	5,240,598	1,738,061
Treasury Shares	6	(25,525,475)	(6,640,113)
Decrease in net assets resulting from net Share transactions		(20,284,877)	(4,902,052)
Total increase / (decrease) in net assets		330,699,689	(335,103,389)
Net assets at start of year		806,846,805	1,141,950,194
Net assets at end of year		1,137,546,494	806,846,805

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

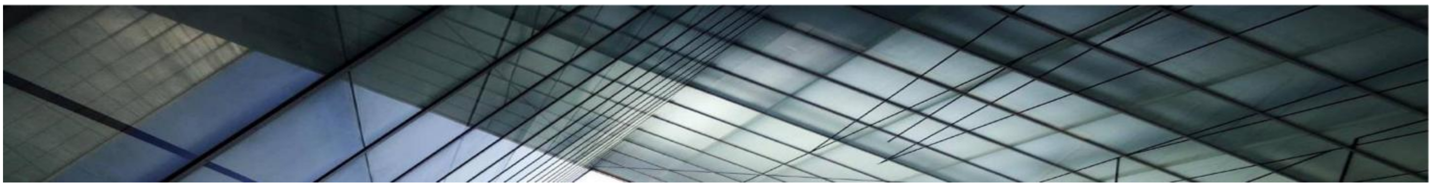


TETRAGON FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the year ended 31 December 2010

	Year ended 31 Dec 2010 US$	Year ended 31 Dec 2009 US$
Operating activities		
Net increase / (decrease) in net assets resulting from operations	385,170,737	(315,101,671)
Adjustments for:		
Net unrealized depreciation on share options	1,458,368	-
Net unrealized (appreciation) / depreciation on investments in Master Fund	(343,908,704)	305,321,517
Operating cash flows before movements in working capital	42,720,401	(9,780,154)
Decrease / (increase) in receivables	212,635	(138,269)
Increase in payables	11,538,012	29,920,141
Net cash provided by operating activities	54,471,048	20,001,718
Financing activities		
Issue of Shares	5,240,598	1,738,061
Treasury Shares	(25,525,475)	(6,640,113)
Dividends paid to shareholders	(34,186,171)	(15,099,666)
Net cash used in financing activities	(54,471,048)	(20,001,718)
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at end of year	-	-

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



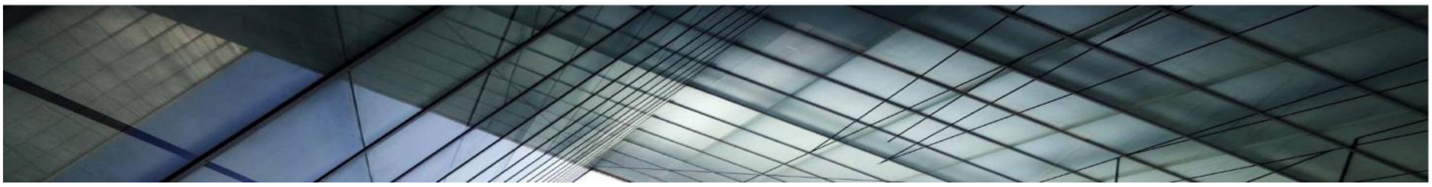
TETRAGON FINANCIAL GROUP LIMITED

FINANCIAL HIGHLIGHTS
For the year ended 31 December 2010 and the year ended 31 December 2009

The following represents selected per Share operating performance of the Company, ratios to average net assets and total return information for the year ended 31 December 2010 and the year ended 31 December 2009.

	31 Dec 2010 US$	31 Dec 2009 US$
Per Share operating performance		
Net Asset Value at start of year	6.47	9.06
Net investment income (excluding performance fee)	1.54	1.17
Performance fee	(1.09)	(0.23)
Net realized and unrealized gain / (loss) loss from investments and foreign currencies	3.08	(3.38)
Dividends paid to shareholders	(0.31)	(0.12)
Income and deferred tax expense and noncontrolling interest	(0.04)	-
Other capital transactions	(0.18)	(0.03)
Net Asset Value at the end of the year	9.47	6.47
Total return (NAV change excluding dividends and other capital transactions) before performance fee	70.79%	(24.72)%
Performance fee	(16.85)%	(2.54)%
Total return (NAV change excluding dividends and other capital transactions) after performance fee	53.94%	(27.26)%
Ratios and supplemental data		
Ratio to average net assets:		
Operating expenses allocated from the Master Fund	2.59%	1.95%
Total operating expenses	2.59%	1.95%
Performance fee	12.56%	3.76%
Net investment income	5.24%	15.36%

An individual shareholder’s per Share operating performance and ratios may vary from the above based on the timing of capital transactions.



TETRAGON FINANCIAL GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

Note 1 General Information

Tetragon Financial Group Limited (the “Company”) was registered in Guernsey on 23 June 2005 as a company limited by shares with registered number 43321. All Voting Shares of the Company are held by Polygon Credit Holdings II Limited (the “Voting Shareholder”).

The registered office of the Company is Tudor House, Le Bordage, St. Peter Port, Guernsey, Channel Islands, GY1 3PF.

The Company acts as a feeder fund in a “master feeder structure” investing substantially all of its assets in Tetragon Financial Group Master Fund Limited (the “Master Fund”). The Company's shares are listed on the NYSE Euronext Amsterdam Exchange.

Note 2 Significant Accounting Policies

Basis of Presentation

The financial statements give a true and fair view, are prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP") and comply with the Companies (Guernsey) Law, 2008.

The Company’s investment in the Master Fund is valued based on the accounting Net Asset Value per share obtained from the Master Fund’s Administrator, which is the Company’s proportionate interest in the Net Assets of the Master Fund. The performance of the Company is directly affected by the performance of the Master Fund. The Company’s Statements of Operations includes its pro-rata share of each type of gain, loss, income and expense of the Master Fund’s Statements of Operations. Attached are the audited consolidated financial statements of the Master Fund, which are an integral part of these consolidated financial statements. As at 31 December 2010, the Company had 100% (31 December 2009: 100%) ownership interest in the Master Fund. As the Company owns 100% of the Fund and the audited consolidated financial statements of the Fund are attached, a separate Consolidated Schedule of Investments for the Company has not been included.

For financial statement reporting purposes, the Company is an investment company and follows Financial Services - Investment Companies (ASC 946).

The accounting policies have been consistently applied by the Company during the year ended 31 December 2010 and are consistent with those used in the previous year. The financial statements are presented in United States Dollars.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes, including the valuation of investments. The Company’s management believes that the estimates utilized in preparing the financial statements are reasonable and prudent. Actual results could differ materially from these estimates.

Note 2 Significant Accounting Policies (continued)

Valuation of Investments

The value of the investment in the Master Fund is based on the accounting Net Asset Value per share obtained from the Master Fund's administrator.

Expenses

Expenses are recognized in the Consolidated Statements of Operations on an accrual basis.

Taxation

The Company is exempt from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and is charged GBP600 per annum.

Share Options

The fair value of options granted to the Investment Manager was recognized as a charge to the share premium account, with a corresponding increase in equity, over the period in which the Investment Manager became unconditionally entitled to the options. The options were fully vested and immediately exercisable from the date of the grant, on 26 April 2007 and remain exercisable for ten years.

The fair value of options issued to GreenOak were recognized as a liability in the Statements of Assets and Liabilities, as the options contain certain other performance conditions. Any subsequent change in fair value will be recognized through the Statements of Operations.

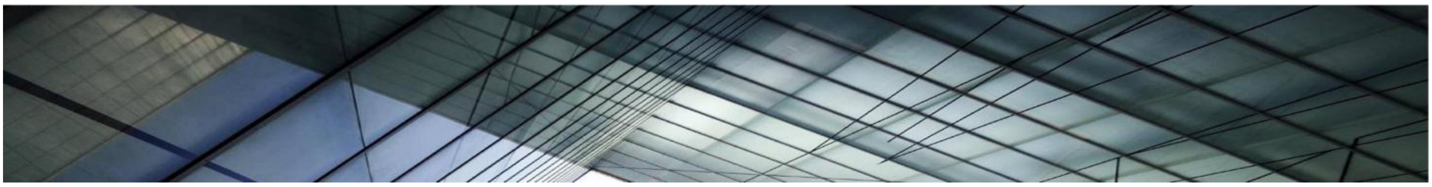
Dividend expense

Dividend expense from shares are recognized in the Consolidated Statements of Changes in Net Assets.

Treasury Shares

When share capital recognized as equity is repurchased the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings.

Shares may also be transferred out of the Treasury Account and into a wholly owned subsidiary. Where this occurs the status of the Shares is unchanged from an accounting perspective and they are not included in the Shares outstanding on the Statements of Assets and Liabilities.



Note 3 Investment in Master Fund

At the year end, the Master Fund held investments at fair value, cash and cash equivalents, forward contracts, and other receivables and payables.

As at 31 December 2010, the Company had an investment of US$ 1,180,537,381 in the Master Fund (31 December 2009: US$ 836,628,677).

Note 4 Share options issued to GreenOak

On 16 September 2010, the Master Fund entered into a transaction with GreenOak Real Estate ("GreenOak") whereby it received a 10% equity interest in GreenOak and agreed to provide, among other things, a working capital loan of up to US$ 10 million and a US$ 100 million co-investment commitment that is expected to fund up to a limited fixed percentage of any GreenOak sponsored investment program with the Master Fund retaining the option to invest further amounts.

Under the terms of the transaction, the Company granted to the GreenOak founders options to purchase 3,908,241 Shares (exercisable after 5 years and subject to further conditions) at a strike price of US$ 5.50. The aggregate fair value of the options granted at the transaction date was US$ 482,285. A discrete-dividend Black Scholes model was used to calculate the fair value with some of the following assumptions used: expected dividend yield 6%, volatility of 20% and the US yield curve as per Bloomberg. In order to fully reflect some key vesting requirements of the options which are not captured by Black-Scholes a 50% haircut has been applied to the valuation calculated. This has been derived as follows: restriction on transferability - 25%; requirement to repay working capital loan - 10%; exclusivity of founders - 15%. These haircut percentages will be reviewed on a regular basis.

The options are split approximately as follows: 50% exercisable 5 years after transaction date and expiring a year later; 25% exercisable 6 years after transaction date and expiring a year later; 25% exercisable 7 years after transaction date and expiring a year later.

At 31 December 2010, the fair value of the options was US$ 1,458,368.

As the Company owns 100% of the Master Fund, and therefore receives the benefit of the investments held by the Master Fund, no consideration was transferred to the Company in lieu of the options issued.

Note 5 Incentive Fee

The Company pays the Investment Manager an incentive fee for each Calculation Period (a period of three months ending on 31 March, 30 June, 30 September and 31 December in each year or as otherwise determined by the Directors) equal to 25% of the increase in the Net Asset Value of the Company during the Calculation Period (before deduction of any dividend paid or the amount of any redemptions or repurchases of the shares (or other relevant capital adjustments) during such Calculation Period) above the Reference Net Asset Value (as defined below) plus the Hurdle (as defined below) for the Calculation Period. If the Hurdle is not met in any Calculation Period (and no incentive fee is paid), the shortfall will not carry forward to any subsequent Calculation Period.

The "Hurdle" for any Calculation Period will equal (i) the Reference NAV multiplied by (ii) the Hurdle Rate (as defined below). The Hurdle Rate for any Calculation Period equals 3-month USD LIBOR determined as of 11:00 a.m. London time on the first London business day of the then current Calculation Period, plus the Hurdle Spread of 2.647858% in each case multiplied by (x) the actual number of days in the Calculation Period divided by 365.

Note 5 Incentive Fee (continued)

The ‘‘Reference NAV’’ is the greater of (i) NAV at the end of the Calculation Period immediately preceding the current Calculation Period and (ii) the NAV as of the end of the Calculation Period immediately preceding the Calculation Period referred to in clause (i). For the purpose of determining the Reference NAV at the end of a Calculation Period, NAV shall be adjusted by the amount of accrued dividends and the amounts of any redemptions or repurchase of the shares (or other relevant capital adjustments) and incentive fees to be paid with respect to that Calculation Period.

The incentive fee in respect of each Calculation Period is calculated by reference to the Net Asset Value before deduction of any accrued incentive fee. If the Investment Management Agreement is terminated other than at the end of a Calculation Period, the date of termination will be deemed to be the end of the Calculation Period. The incentive fee is normally payable in arrears within 14 calendar days of the end of the Calculation Period.

The incentive fee for the year ended 31 December 2010 was US$ 119,537,655 (31 December 2009: US$ 29,781,872). As at 31 December 2010, US$ 41,532,519 was outstanding (31 December 2009: US$ 29,781,872).

Note 6 Share Capital

Authorized

The Company has an authorized share capital of US$ 1,000,000 divided into 10 Voting Shares, having a par value of US$ 0.001 each and 999,999,990 Non-Voting Shares (which are the ‘‘Shares’’ referred to herein), having a par value of US$ 0.001 each. Shares are issuable either as certificated shares or uncertificated shares and in both cases as registered shares. Shares are only transferable pursuant to regulations that the Directors may adopt in their discretion.

Voting Shares

The 10 Voting Shares in issue were issued at par and are owned by the Voting Shareholder, which is a non-U.S. affiliate of the Investment Manager.

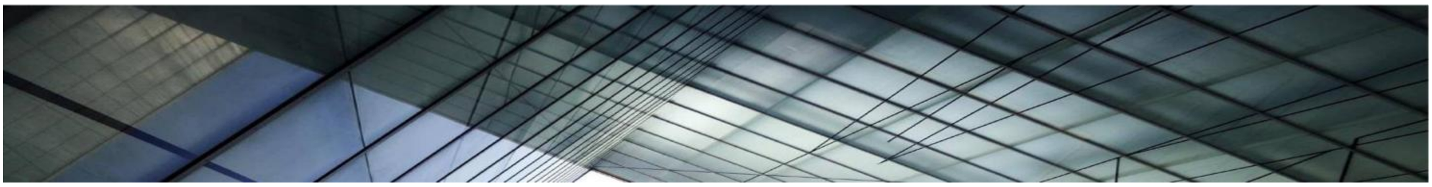
The Voting Shares are the only Shares of the Company entitled to vote for the election of Directors and on all other matters put to a vote of shareholders, subject to the limited rights of the shares described below. The Voting Shares are not entitled to receive dividends.

Shares

The Shares are not entitled to vote on any matter other than limited voting rights in respect of variation of their class rights. The Shares carry a right to any dividends or other distributions declared by the Company.

The Directors, upon the recommendation of the Investment Manager and with prior approval of a resolution of Voting Shares, may allot, issue or otherwise dispose of Shares to such persons, at such times, for such consideration and on such terms and conditions as they deem necessary or desirable. There are no pre-emption rights attaching to any shares.

The Directors, upon the recommendation of the Investment Manager, may grant options over the Shares. The Company may repurchase Shares and hold Shares as Treasury Shares.



Note 6 Share Capital (continued)

Share Transactions

	Voting Shares No.	Shares No.	Shares US$
Shares in issue at 31 December 2008	10	125,979,883	125,980
Issued	-	1,209,442	1,209
Treasury Shares	-	(2,420,641)	(2,421)
Shares in issue at 31 December 2009	10	124,768,684	124,769
Issued	-	1,107,125	1,107
Treasury Shares	-	(5,742,119)	(5,742)
Shares in issue at 31 December 2010	10	120,133,690	120,134

Optional Stock Dividend

The Company has an Optional Stock Dividend Plan which offers investors an opportunity to elect to receive any declared dividend in the form of dividend shares at a reference price determined by calculating the five-day weighted average price post ex-dividend date.

During the year a total dividend of US$ 34,186,171 (31 December 2009: US$ 15,099,666) was declared, of which US$ 28,945,573 (31 December 2009: US$ 13,361,605) was paid out as a cash dividend, and the remaining US$ 5,240,598 reinvested under the Optional Stock Dividend Plan (31 December 2009: US$ 1,738,061).

Treasury Shares

On 30 November 2007, the Company announced the implementation of a share repurchase program of their outstanding Shares. This program was subsequently updated and will now continue from 4 October 2010 until 31 October 2011 or until 5% of the Company's outstanding Shares have been repurchased under the updated program or until terminated by the Board. The Company purchases its Shares in the open market which are then held in a Treasury Account allowing them to be resold in the market at a later date. Whilst they are held in the Treasury Account, the Shares are neither eligible to receive dividends nor are they included in the Shares outstanding on the Statements of Assets and Liabilities.

On 15 November 2010, the Company transferred 3,908,241 shares from the Treasury Account to a wholly owned subsidiary, TFG Holdings I Limited. These Shares are neither eligible to receive dividends nor are they included in the Shares outstanding on the Statements of Assets and Liabilities. After giving effect to this transfer as at 31 December 2010, the Company held 7,116,921 shares in the Treasury Account (31 December 2009: 5,283,043).

Note 7 Share Premium

	31 Dec 2010 US$	31 Dec 2009 US$
Balance at start of year	1,177,331,614	1,182,232,455
Discount arising from net transaction of shares	(20,280,242)	(4,900,841)
Balance at end of year	1,157,051,372	1,177,331,614

Note 8 Related Party Transactions

The Investment Manager is entitled to receive management fees equal to 1.5% per annum of the Net Asset Value of the Company payable monthly in advance prior to the deduction of any accrued incentive fee. All fees and expenses of the Company including the Management and Administration fees, but excluding incentive fees from the Investment Manager, are paid by the Master Fund and allocated fully to the Company. An incentive fee may be paid to the Investment Manager as disclosed in Note 5.

The Company invests substantially all of its assets in the Master Fund, a Guernsey based closed-ended investment company which has the same Investment Manager as the Company.

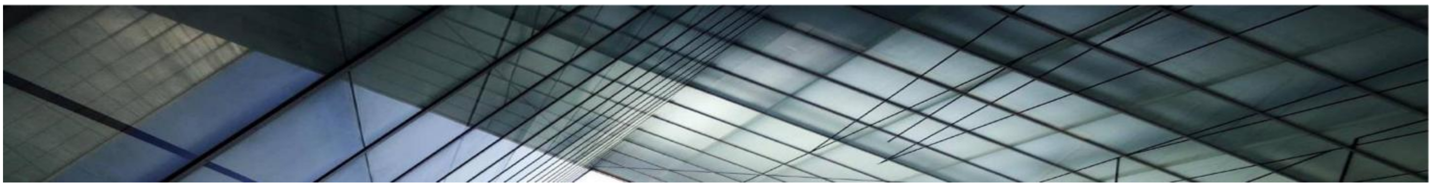
The remuneration for Directors shall be determined by resolution of the Voting Shareholder. The Directors' annual fee was US$ 50,000 in compensation for service on the Boards of Directors of both the Company and the Master Fund until 30 September 2010. From 1 October 2010, the Directors annual fee is US$ 75,000 in compensation for service on the Boards of Directors of both the Company and the Master Fund. The Master Fund will pay the Directors' fees. Patrick Dear, Reade Griffith and Alex Jackson have waived their entitlement to a fee. The Directors are entitled to be repaid by the Company all travel, hotel and other expenses reasonably incurred by them in the discharge of their duties. None of the Directors has a contract with the Company or the Master Fund providing for benefits upon termination of employment.

The Voting Shareholder is an affiliate of Polygon Investment Partners LLP and Polygon Investment Partners LP (the "Service Providers") and the Investment Manager and holds all of the Voting Shares. As a result of its ownership and the degree of control that it exercises, the Voting Shareholder will be able to control the appointment and removal of the Company's Directors. Affiliates of the Service Providers also control the Investment Manager and, accordingly, control the Company's business and affairs.

In recognition of the work performed by the Investment Manager in successfully arranging the global offering and the associated raising of new capital for the Company, the Company granted to Polygon Credit Management LP options (the "Investment Management Options") to purchase 12,545,330 of the Company's Non-Voting Shares at an exercise price per share equal to the Offer Price (US$ 10). The Investment Management Options are fully vested and immediately exercisable on the date of admission to the NYSE Euronext Amsterdam Exchange and will remain exercisable until the 10th anniversary of that date. The aggregate fair value of the options granted at the time of the global offering was US$ 11,789,336. The fair value of each option granted during 2007 was US$ 0.94 on the date of grant using the Binomial-pricing model with the following average assumptions: expected dividend yield 8%, risk-free interest rate of 5.306%, an expected life of 5 years and a volatility of 17.5%.

Byron Knief, Patrick Dear, Reade Griffith, Alex Jackson and Rupert Dorey, all Directors of the Company and Master Fund, were shareholders in the Company as at 31 December 2010, with holdings of 110,000, 285,195, 1,036,209, 417,458 and 79,778 shares, respectively (31 December 2009: 110,000, 276,092, 1,036,209, 417,458 and 75,203 shares, respectively).

The Master Fund owns a 10% equity interest in GreenOak Real Estate ("GreenOak"), a multi-jurisdictional real estate venture, in which it also provides a US$ 10.0 million working capital loan and a US$ 100.0 million co-investment commitment. PM, an affiliate of the Voting Shareholder, also owns a noncontrolling equity interest, as well as provides a similar working capital loan. The Service Providers have an agreement with GreenOak to provide certain operating, infrastructure and administrative services to the business. As part of the transaction the Company has issued 3,908,241 share options to the GreenOak founders.



Note 9 Dividends

	31 Dec 2010 US$	31 Dec 2009 US$
Quarter ended 31 December 2008 of US$ 0.03 per share	-	3,770,136
Quarter ended 31 March 2009 of US$ 0.03 per share	-	3,771,974
Quarter ended 30 June 2009 of US$ 0.03 per share	-	3,775,617
Quarter ended 30 September 2009 of US$ 0.03 per share	-	3,781,939
Quarter ended 31 December 2009 of US$ 0.06 per share	7,442,348	-
Quarter ended 31 March 2010 of US$ 0.06 per share	7,373,866	-
Quarter ended 30 June 2010 of US$ 0.08 per share	9,731,417	-
Quarter ended 30 September 2010 of US$ 0.08 per share	9,638,540	-
	34,186,171	15,099,666

The fourth quarter dividend of US$ 0.09 cents was approved by the Directors on 28 February 2011 and has not been included as a liability in these financial statements.

Note 10 Earnings per Share

	Year ended 31 Dec 2010 US$	Year ended 31 Dec 2009 US$
The calculation of the basic and diluted earnings per share is based on the following data:		
Earnings for the purposes of basic earnings per share being net profit / (loss) attributable to shareholders for the year	385,170,737	(315,101,671)
Weighted average number of Shares for the purposes of basic earnings per share	122,165,663	125,811,272
Effect of dilutive potential Shares:		
Share options	-	-
Weighted average number of Shares for the purposes of diluted earnings per share	122,165,663	125,811,272

There is no dilution as at 31 December 2010, as for both sets of options issued, the average share price under the "Treasury Stock Method" was below the option strike price for the purposes of the calculation.

Note 11 Earnings

	31 Dec 2010 US$	31 Dec 2009 US$
Balance at start of year	(382,398,914)	(52,197,577)
Net increase / (decrease) in net assets resulting from operations for the year	385,170,737	(315,101,671)
Dividends paid	(34,186,171)	(15,099,666)
Balance at end of year	(31,414,348)	(382,398,914)

Note 12 Subsequent Events

The Directors have evaluated subsequent events up to 28 February 2011, which is the date that the financial statements were approved, and have concluded that there are not any material events that require disclosure or adjustment to the financial statements other than disclosed below.

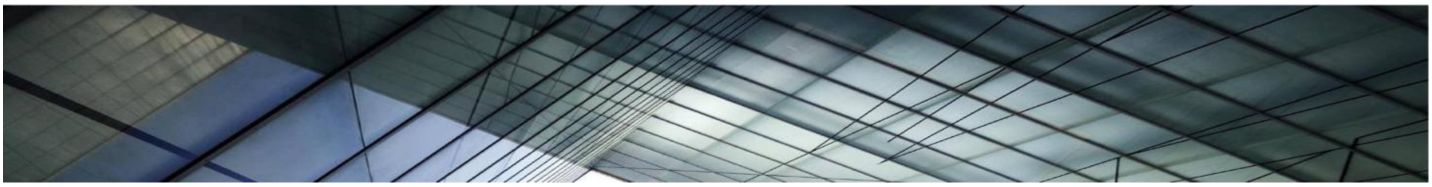
On 22 February 2011, the Company and the Master Fund and their six Directors were served with proceedings in the Royal Court of Guernsey (the "Proceedings") instigated by one of the Company's former Directors, Alexander Jackson. Mr. Jackson was given notice to vacate office as a Director on 24 January 2011. By the Proceedings, Mr. Jackson seeks to impugn the Company's decision of 29 July 2010, announced on 2 August 2010, to enter into a joint venture with GreenOak Real Estate (the "GreenOak Transaction"). The Proceedings are confined to claims for damages and other relief against the Company and the Master Fund's Directors, and do not seek to reverse or interfere with the GreenOak Transaction, which was implemented in the third quarter of 2010. The Company and the Master Fund have issued a public statement stating that they and their Directors believe that there is no merit whatsoever in the Proceedings and will take all necessary steps to ensure the Proceedings are dismissed as quickly as possible. The Investment Manager has concluded that it is untenable for Mr. Jackson to continue in his current role as a consultant with respect to investment and risk matters relating to the Company and the Master Fund and, therefore, is taking steps to ensure that he will no longer continue in that capacity, although he remains a shareholder of the Investment Manager.

Note 13 Recent Changes to US GAAP

Improving Disclosures about Fair Value Measurements (ASC 820). In January 2010, the FASB issued ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements." ASU No. 2010-06 provides amended disclosure requirements related to fair value measurements. Certain disclosure requirements of ASU No. 2010-06 were effective for the Company beginning in the first half of 2010, while other disclosure requirements of the ASU are effective for financial statements issued for reporting periods beginning after 15 December 2010. Since these amended principles require only additional disclosures concerning fair value measurements, adoption did not and will not affect the Company's financial condition, results of operations or cash flows.

Note 14 Approval of Financial Statements

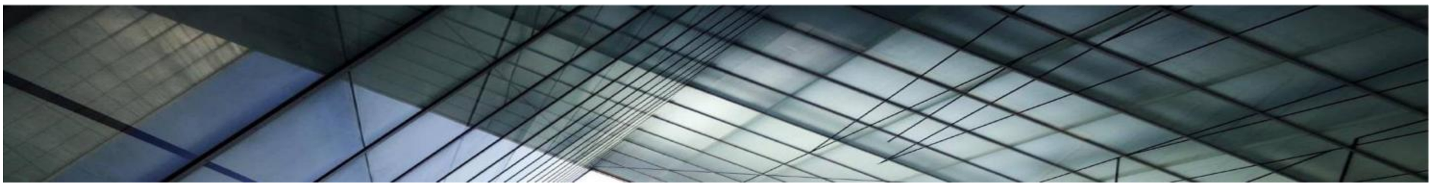
The Directors approved the financial statements on 28 February 2011.



AUDITED CONSOLIDATED FINANCIAL STATEMENTS

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2010



TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

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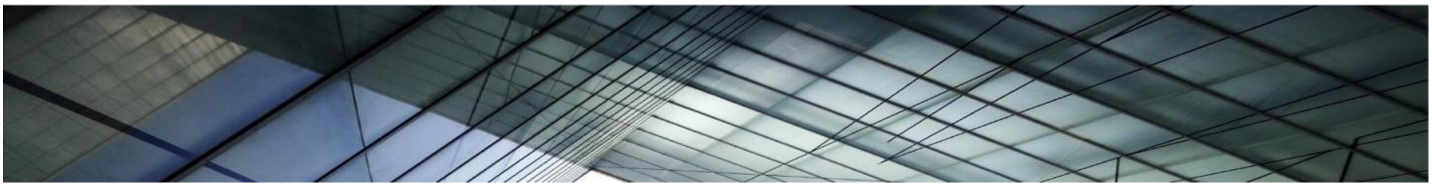


TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

DIRECTORS' REPORT
For the year ended 31 December 2010

The Directors present to the shareholders their report together with the audited consolidated financial statements for the year ended 31 December 2010.

THE FUND

Tetragon Financial Group Master Fund Limited (the "Fund") was registered in Guernsey on 23 June 2005 as a company limited by shares, with registered number 43322. All Voting Shares of the Fund are held by Polygon Credit Holdings II Limited (the "Voting Shareholder"). The Fund continues to be registered and domiciled in Guernsey.

On 2 September 2010, Tetragon Financial Management LP (the "Investment Manager") changed its name from Polygon Management LP.

INVESTMENT OBJECTIVE

The Fund's investment objective is to generate distributable income and capital appreciation. To achieve this objective, and to aim to provide stable returns to investors across various interest rate and credit cycles, the Investment Manager seeks to identify opportunities, assets and asset classes it believes to be attractive and asset managers it believes to be superior based on their track record and expertise. It also seeks to use the market experience of the Investment Manager to negotiate favorable transactions. As part of this current investment strategy, the Fund may employ hedging strategies and leverage in seeking to provide attractive returns while managing risk.

RESULTS, ACTIVITIES AND FUTURE DEVELOPMENTS

The results of operations are set out on page 8 to 9. A detailed review of activities and future developments is contained in the Investment Manager's Report in the Annual Report to the Shareholders of Tetragon Financial Group Limited.

DIRECTORS

The Directors who held office during the year were:

Patrick Dear
Rupert Dorey*
Reade Griffith
Alex Jackson
David Jeffreys*
Byron Knief*
Lee Olesky* (resigned 30 April 2010)
Greville Ward* (appointed 30 April 2010)

*Independent non-executive Directors

The remuneration for Directors is determined by resolution of the Voting Shareholder. The Directors' annual fee was US$ 50,000, in compensation for service on the Boards of Directors of both the Fund and Tetragon Financial Group Limited (the "Feeder") until 30 September 2010, which was paid by the Master Fund. From 1 October 2010, the Directors annual fee is US$ 75,000 in compensation for service on the Boards of Directors of both the Fund and the Feeder and is paid by the Fund. Patrick Dear, Reade Griffith and Alex Jackson have waived their entitlement to a fee.

The Directors are entitled to be repaid by the Fund for all travel, hotel and other expenses reasonably incurred by them in the discharge of their duties. None of the Directors has a contract with the Fund or the Feeder providing for benefits upon termination of employment.

Alex Jackson has ceased to be a Director of the Fund effective 24 January 2011, having been given notice by all of the other Directors to vacate office.

SECRETARY

State Street Fund Services (Guernsey) Limited held the office of Secretary throughout the year.

DIVIDENDS

The Board of Directors will have the authority to declare dividend payments, based upon the recommendation of the Investment Manager, subject to the approval of the voting shares of the Fund and adherence to applicable law including the satisfaction of a solvency test as stated under the Companies (Guernsey) Law, 2008, as amended. The Investment Manager's recommendation with respect to the declaration of dividends (and other capital distributions) may be informed by a variety of considerations, including (i) the expected sustainability of the Fund's cash generation capacity in the short and medium term, (ii) the current and anticipated performance of the Fund, (iii) the current and anticipated operating and economic environment and (iv) other potential uses of cash ranging from preservation of the Fund's investments and financial position to other investment opportunities. The Directors declared a dividend amounting to US$ 0.06 per share for the quarter ended 31 December 2009, US$ 0.06 per share for the quarter ended 31 March 2010, US$ 0.08 per share for the quarter ended 30 June 2010 and US$ 0.08 per share for the quarter ended 30 September 2010. The Directors have declared a dividend of US$ 0.09 per share for the quarter ended 31 December 2010. Total dividends paid during the year ended 31 December 2009 amounted to US$ 0.12 per share.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

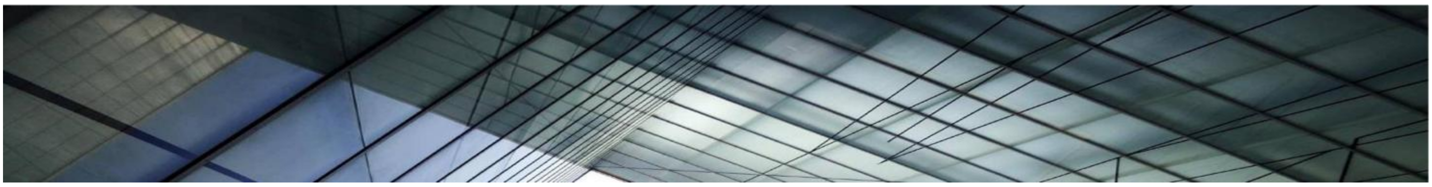
Company law requires the Directors to prepare financial statements for each financial year. Under that law, they have elected to prepare the financial statements in conformity with accounting principles generally accepted in the United States of America and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Fund and of the profit or loss of the Fund for that period.

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Fund will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.



TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

DIRECTORS’ REPORT (continued)
For the year ended 31 December 2010

STATEMENT OF DIRECTORS’ RESPONSIBILITIES (continued)

The Directors are responsible for the keeping of proper accounting records which disclose with reasonable accuracy at any time the financial position of the Fund and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITOR

So far as each of the Directors is aware, there is no relevant audit information of which the Fund’s auditor is unaware, and each has taken all the steps he ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Fund’s auditor is aware of that information.

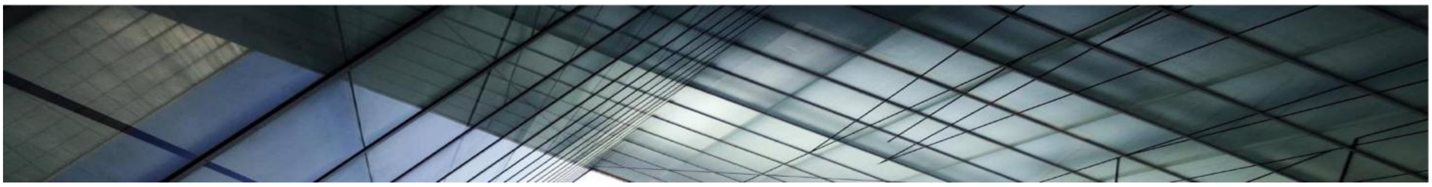
AUDITORS

KPMG Channel Islands Limited has been appointed as the independent auditors of the Fund and they have expressed their willingness to continue in office. A resolution for the re-appointment of KPMG Channel Islands Limited will be proposed at the forthcoming Annual General Meeting.

Signed on behalf of the Board of Directors by:

Rupert Dorey, Director
David Jeffreys, Director

Date: 28 February 2011



TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

INDEPENDENT AUDITOR'S REPORT
For the year ended 31 December 2010

Independent auditor's report to the members of Tetragon Financial Group Master Fund Limited

We have audited the consolidated financial statements of Tetragon Financial Group Master Fund Limited (the "Company" or "Group") for the year ended 31 December 2010 which comprise the Consolidated Statements of Assets and Liabilities, the Consolidated Schedule of Investments, the Consolidated Statements of Operations, the Consolidated Statements of Changes in Net Assets, the Consolidated Statements of Cash Flows, the Financial Highlights and the related notes. These financial statements have been prepared under the accounting policies set out therein. The financial reporting framework that has been applied in their preparation is in accordance with applicable law and conformity with accounting principles generally accepted in the United States of America.

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

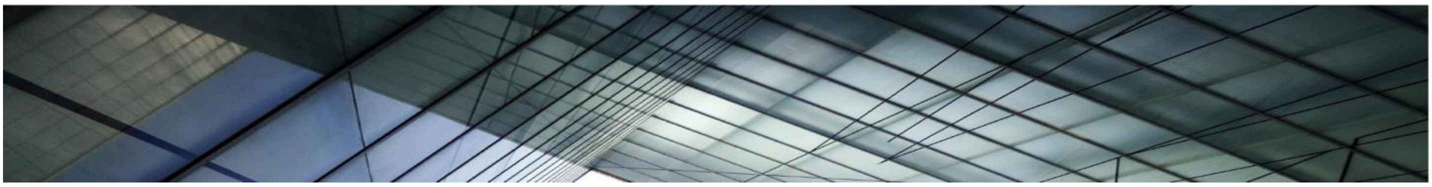
Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its net increase in net assets resulting from operations for the year then ended;
- are in conformity with accounting principles generally accepted in the United States of America; and
- comply with the Companies (Guernsey) Law, 2008.



TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

INDEPENDENT AUDITOR'S REPORT (continued)
For the year ended 31 December 2010

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law 2008 requires us to report to you if, in our opinion:

- the Fund has not kept proper accounting records, or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

KPMG Channel Islands Limited
Chartered Accountants

Date: 28 February 2011

The maintenance and integrity of the Tetragon Financial Group Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements or audit report since they were initially presented on the website.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
As at 31 December 2010

	Note	31 Dec 2010 US$	31 Dec 2009 US$
Assets			
Investments at fair value			
(cost US$ 1,510,475,221 (2009: US$ 1,389,420,696))	2, 3	1,035,278,679	655,234,320
Intangible assets - CLO management contracts	4, 18	210,301	-
Cash and cash equivalents	5	140,625,333	174,352,827
Amounts due from brokers	7	4,285,552	5,870,597
Derivative financial assets - forward contracts	2	2,883,979	1,595,601
Amounts receivable on sale of investments		8,848,210	-
Other receivables	8	1,737,490	186,393
Total assets		1,193,869,544	837,239,738
Liabilities			
Amounts payable for purchase of investments		7,422,999	-
Amounts payable to Feeder		-	212,635
Other payables and accrued expenses	9	4,150,673	398,426
Income tax payable	14	296,854	-
Deferred tax liability	14	92,995	-
Total liabilities		11,963,521	611,061
Net assets		1,181,906,023	836,628,677
Equity			
Share capital	10	120,134	124,769
Share premium	11	1,116,274,456	1,136,554,698
Earnings	13	64,142,791	(300,050,790)
Total equity attributable to Master Fund		1,180,537,381	836,628,677
Noncontrolling interest	10	1,368,642	-
Total shareholders equity		1,181,906,023	836,628,677
Shares outstanding		**Number**	**Number**
Shares	10	120,133,690	124,768,684
Net Asset Value per Share*			
Shares		US$ 9.83	US$ 6.71

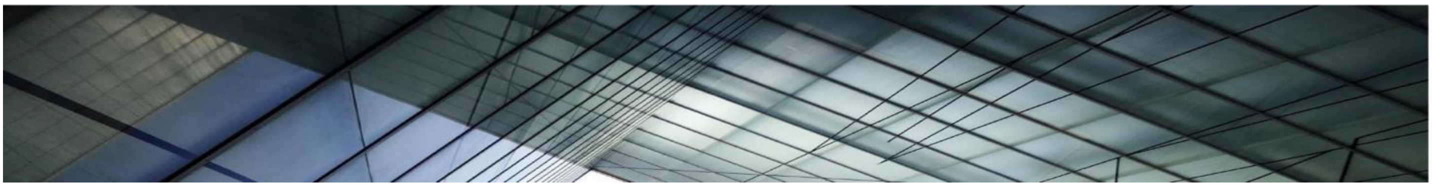
*calculated by dividing Total equity attributable to Master Fund by Shares outstanding.

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

Signed on behalf of the Board of Directors by:

Rupert Dorey, Director
David Jeffreys, Director

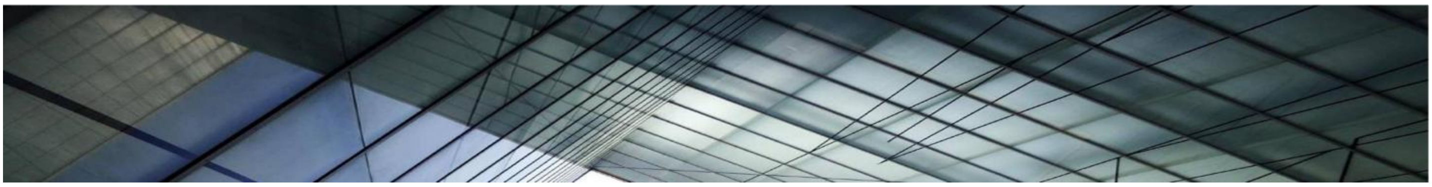
28 February 2011



TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS
For the year ended 31 December 2010

	Note	Year ended 31 Dec 2010 US$	Year ended 31 Dec 2009 US$
Interest income	15	178,932,970	165,705,095
CLO management fee income	16	12,631,564	-
Other income	17	2,503,561	1,236,051
Investment income		194,068,095	166,941,146
Management fees	19	(14,001,647)	(12,350,251)
Employee costs	18, 19	(5,365,486)	-
Legal and professional fees		(1,452,041)	(431,783)
Administration and custodian fees		(813,287)	(653,876)
Market data fees	18	(277,339)	-
Audit fees		(241,400)	(297,537)
Directors’ fees	19	(225,317)	(200,004)
Other operating and administrative expenses	18	(2,316,516)	(892,082)
Interest expense		-	(592,021)
Operating expenses		(24,693,033)	(15,417,554)
Net investment income		169,375,062	151,523,592
Net realized and unrealized gain / (loss) from investments and foreign currency			
Net realized gain / (loss) from:			
Investments		1,124,072	-
Foreign exchange options		-	(2,547,325)
Foreign currency transactions		1,764,624	3,122,017
		2,888,696	574,692
Net increase / (decrease) in unrealized appreciation / (depreciation) on:			
Investments		337,424,241	(427,694,344)
Forward foreign exchange contracts		1,288,378	6,437,177
Foreign exchange options		-	(2,930,275)
Translation of assets and liabilities in foreign currencies		(919,233)	(13,230,641)
		337,793,386	(437,418,083)
Net realized and unrealized gain / (loss) from investments and foreign currency		340,682,082	(436,843,391)

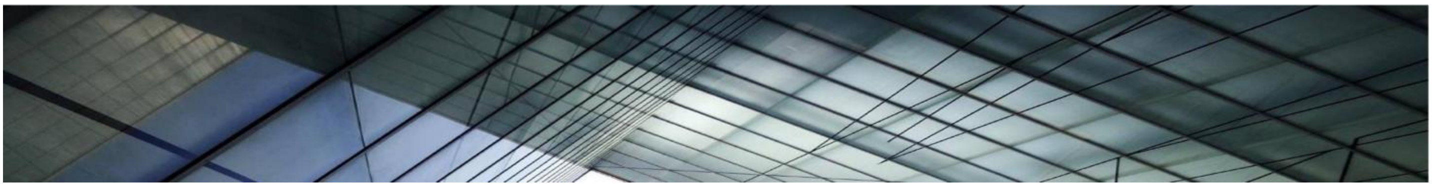


TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS (continued)
For the year ended 31 December 2010

	Note	Year ended 31 Dec 2010 US$	Year ended 31 Dec 2009 US$
Net increase / (decrease) in net assets resulting from operations before tax		510,057,144	(285,319,799)
Income and deferred tax expense	14	(2,501,950)	-
Net income / (loss)		507,555,194	(285,319,799)
Net income attributable to noncontrolling interest	10	(1,388,434)	-
Net increase / (decrease) in net assets resulting from operations		506,166,760	(285,319,799)

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



TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For the year ended 31 December 2010

	Note	Year ended 31 Dec 2010 US$	Year ended 31 Dec 2009 US$
Investment income		194,068,095	166,941,146
Operating expenses		(24,693,033)	(15,417,554)
Net realized gain from investments and foreign currency		2,888,696	574,692
Net unrealized appreciation / (depreciation) on investments and translation of assets and liabilities in foreign currencies		337,793,386	(437,418,083)
Income and deferred tax expense	14	(2,501,950)	-
Income attributable to noncontrolling interest	10	(1,388,434)	-
Net increase / (decrease) in net assets resulting from operations		506,166,760	(285,319,799)
Dividends paid to Feeder	12	(107,787,008)	-
Dividends paid to shareholders	12	(34,186,171)	(15,099,666)
Decrease in net assets resulting from dividends		(141,973,179)	(15,099,666)
Issue of Shares	10	5,240,598	1,738,061
Treasury Shares	10	(25,525,475)	(6,640,113)
Decrease in net assets resulting from net Share transactions		(20,284,877)	(4,902,052)
Total increase / (decrease) in net assets		343,908,704	(305,321,517)
Net assets at start of year		836,628,677	1,141,950,194
Net assets before noncontrolling interest		1,180,537,381	836,628,677
Noncontrolling interest	10	1,368,642	-
Net assets at end of year		1,181,906,023	836,628,677

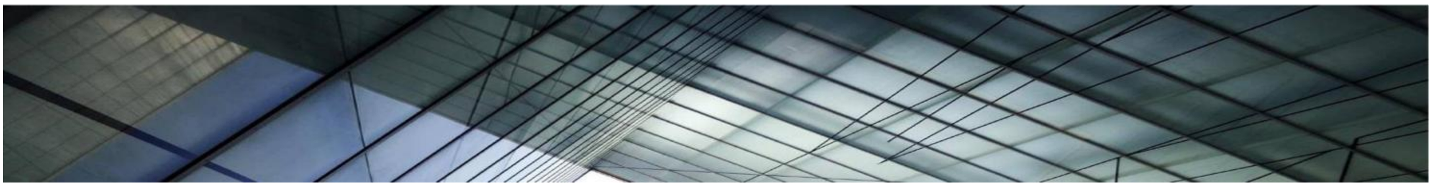
The accompanying notes are an integral part of the financial statements.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the year ended 31 December 2010

	Year ended 31 Dec 2010 US$	Year ended 31 Dec 2009 US$
Operating activities		
Net income / (loss)	507,555,194	(285,319,799)
Adjustments for:		
Realized gain on investments	(1,124,072)	-
Cash received on investments in excess / (deficit) of interest income	90,563,882	(12,511,844)
Accumulated amortization on intangible assets	92,533	-
Unrealized (gains) / losses	(337,793,386)	437,418,083
Deferred tax	92,995	-
Operating cash flows before movements in working capital	259,387,146	139,586,440
Increase in receivables	(1,551,097)	(10,201)
Increase / (decrease) in payables	3,836,466	(605,475)
Cash flows from operations	261,672,515	138,970,764
Proceeds from sale of investments	71,049,470	-
Purchase of investments	(205,376,231)	-
Purchase of CLO management contracts	(302,834)	-
Net cash provided by operating activities	127,042,920	138,970,764
Financing activities		
Amounts due from brokers	1,585,045	108,503,516
Proceeds from issue of Shares	5,240,598	1,738,061
Treasury Shares	(25,525,475)	(6,640,113)
Dividends paid to shareholders	(34,186,171)	(15,099,666)
Dividends paid to Feeder	(107,787,008)	-
Distributions to noncontrolling interest	(95,500)	-
Repayments on repurchase and swap agreements	-	(117,557,492)
Net cash used in financing activities	(160,768,511)	(29,055,694)
Net (decrease) / increase in cash and cash equivalents	(33,725,591)	109,915,070
Cash and cash equivalents at beginning of year	174,352,827	63,042,822
Effect of exchange rate fluctuations on cash and cash equivalents	(1,903)	1,394,935
Cash and cash equivalents at end of year	140,625,333	174,352,827

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



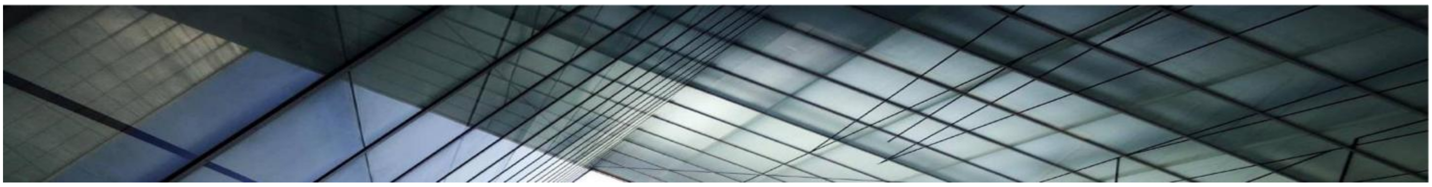
TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED SCHEDULE OF INVESTMENTS
As at 31 December 2010

Security Description	Nominal	Cost US$	Fair Value US$	% of Net Assets
US Dollar				
Cayman Islands - CLO debt equity security				
ABS and Structured Finance	18,400,000	17,572,000	-	-
Broadly Syndicated Senior Secured Loans	999,942,986	880,357,435	665,982,025	56.34%
CDOs Squared	17,250,000	16,640,250	-	-
Middle Market Senior Secured Loans	245,249,000	227,357,145	167,713,294	14.19%
	1,280,841,986	1,141,926,830	833,695,319	70.53%
Euro				
Ireland - CLO debt equity security				
Broadly Syndicated Senior Secured Loans	127,400,000	155,916,581	73,832,615	6.25%
	127,400,000	155,916,581	73,832,615	6.25%
Luxembourg - CLO debt equity security				
Broadly Syndicated Senior Secured Loans	65,100,000	80,651,697	12,974,610	1.10%
	65,100,000	80,651,697	12,974,610	1.10%
Netherlands - CLO debt equity security				
Broadly Syndicated Senior Secured Loans	24,000,000	31,758,532	12,174,195	1.03%
	24,000,000	31,758,532	12,174,195	1.03%
US Dollar - Loans				
Broadly Syndicated Senior Secured Loans	99,976,284	95,239,296	97,598,898	8.26%
Unsecured Loans	4,500,000	4,500,000	4,520,757	0.38%
	104,476,284	99,739,296	102,119,655	8.64%
US Dollar - Unlisted Stock				
Financial Real Estate		482,285	482,285	0.04%
		482,285	482,285	0.04%
Total Investments		1,510,475,221	1,035,278,679	87.59%

Financial Derivative Instruments

	Unrealized Gain US$	% of Net Assets
Forward foreign currency exchange contracts	2,883,979	0.25%
Total Financial Derivative Instruments	2,883,979	0.25%
Cash and Cash Equivalents	140,625,333	11.90%
Other Assets and Liabilities	3,118,032	0.26%
Net Assets	1,181,906,023	100.00%



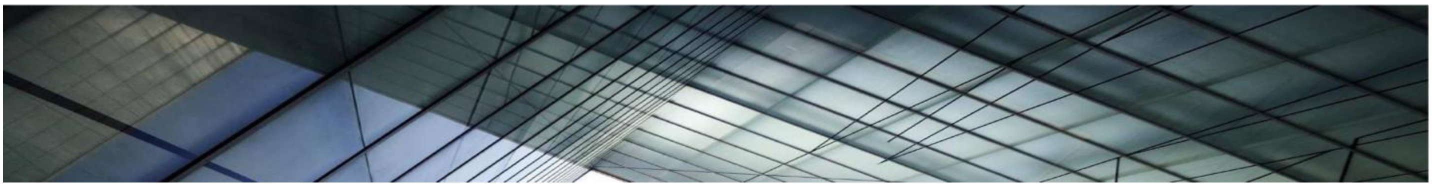
TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)
As at 31 December 2009

Security Description	**Nominal**	**Cost US$**	**Fair Value US$**	**% of Net Assets**
US Dollar				
Cayman Islands - CLO debt equity security				
ABS and Structured Finance	18,400,000	17,572,000	-	-
Broadly Syndicated Senior Secured Loans	940,375,986	858,664,741	473,608,932	56.61%
CDOs Squared	28,250,000	25,060,000	-	-
Middle Market Senior Secured Loans	236,249,000	219,797,145	137,793,706	16.47%
	1,223,274,986	1,121,093,886	611,402,638	73.08%
Euro				
Ireland - CLO debt equity security				
Broadly Syndicated Senior Secured Loans	127,400,000	155,916,581	27,855,736	3.33%
	127,400,000	155,916,581	27,855,736	3.33%
Luxembourg - CLO debt equity security				
Broadly Syndicated Senior Secured Loans	65,100,000	80,651,697	6,394,500	0.76%
	65,100,000	80,651,697	6,394,500	0.76%
Netherlands - CLO debt equity security				
Broadly Syndicated Senior Secured Loans	24,000,000	31,758,532	9,581,446	1.15%
	24,000,000	31,758,532	9,581,446	1.15%
Total Investments		1,389,420,696	655,234,320	78.32%

Financial Derivative Instruments

	Unrealized Gain US$	**% of Net Assets**
Forward foreign currency exchange contracts	1,595,601	0.20%
Total Financial Derivative Instruments	1,595,601	0.20%
Cash and Cash Equivalents	174,352,827	20.84%
Other Assets and Liabilities	5,445,929	0.64%
Net Assets	836,628,677	100.00%



TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

FINANCIAL HIGHLIGHTS
For the years ended 31 December 2010 and 31 December 2009

The following represents selected per Share operating performance of the Fund, ratios to average net assets and total return information for the year ended 31 December 2010 and the year ended 31 December 2009.

	31 Dec 2010 US$	31 Dec 2009 US$
Per Share operating performance		
Net Asset Value at start of year	6.71	9.06
Net investment income	1.53	1.17
Net realized and unrealized gain / (loss) from investments and foreign currencies	3.09	(3.37)
Dividends paid to shareholders	(1.29)	(0.12)
Income and deferred tax expense and noncontolling interest	(0.03)	-
Other capital transactions	(0.18)	(0.03)
Net Asset Value at the end of the year	9.83	6.71
Return (NAV change excluding dividends and other capital transactions)	68.55%	(24.28%)
Ratios and supplemental data		
Ratio to average net assets:		
Total operating expenses	(2.54%)	(1.93%)
Net investment income	17.41%	18.99%

An individual shareholder's per Share operating performance and ratios may vary from the above based on the timing of capital transactions.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

Note 1 General Information

Tetragon Financial Group Master Fund Limited (the “Fund”) was registered in Guernsey on 23 June 2005 as a company limited by shares, with registered number 43322. All Voting Shares of the Fund are held by Polygon Credit Holdings II Limited (the “Voting Shareholder”). The Fund continues to be registered and domiciled in Guernsey.

On 29 January 2010, the Fund closed a transaction with Calyon and certain of its affiliates to acquire Lyon Capital Management LLC, and certain CLO securities. LCM was subsequently renamed LCM Asset Management LLC ("LCM"). The Fund currently owns 75% of LCM through a 100% owned U.S. subsidiary, Tetragon Capital Management LLC (“TCM”) and consolidates the income and expenses and assets and liabilities of that entity in these accounts.

The registered office of the Fund is Tudor House, Le Bordage, St. Peter Port, Guernsey, Channel Islands GY1 3PF.

Note 2 Significant Accounting Policies

Basis of Presentation

The consolidated financial statements give a true and fair view, are prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP") and comply with the Companies (Guernsey) Law, 2008.

For financial statement reporting purposes, the Fund is an investment company and follows Financial Services - Investment Companies (ASC 946).

The accounting policies have been consistently applied by the Fund during the year ended 31 December 2010 and are consistent with those used in the previous year.

The financial statements are presented in United States Dollars.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes, including the valuation of investments. The Fund’s management believes that the estimates utilized in preparing the financial statements are reasonable and prudent, however actual results could differ materially from these estimates.

Foreign Currency Translation

Transactions in foreign currencies are translated at the foreign currency exchange rate ruling at the date of the transaction. All assets and liabilities denominated in foreign currencies are translated to US Dollars at the foreign currency closing exchange rate ruling at the reporting date. Foreign currency exchange differences arising on translation and realized gains and losses on disposals or settlements of monetary assets and liabilities are recognized in the Consolidated Statements of Operations.

Note 2 Significant Accounting Policies (continued)

Foreign Currency Translation (continued)

Foreign currency exchange differences relating to derivative financial instruments are included in foreign currency transactions and translation of assets and liabilities in foreign currencies in the Consolidated Statements of Operations. All other foreign currency exchange differences relating to monetary items, including cash and cash equivalents and investments, are included in the foreign currency transactions and translation of assets and liabilities in foreign currencies in the Consolidated Statements of Operations.

Investment Transactions and Investment Income

Investment transactions are recorded on a trade date basis (the trade date is the date that an entity commits to purchase or sell an asset). Realized gains and losses from equity “tranche” investments, leveraged loans, forwards and options are calculated on the identified cost basis. Interest income and expense is recognized in the Consolidated Statements of Operations as it accrues. Interest income is recognized on an effective interest rate basis.

Financial Instruments

Investments in CLO debt equity securities, at fair value

In the absence of an active market for the equity tranche investments in securitization vehicles, a mark to model approach has been adopted to determine their valuation. A third party valuation model that is used by the Investment Manager and the administrator has been selected for this purpose. The model contains characteristics of the securitization vehicle structure, including current assets and liabilities and inception to date performance, based upon information derived by a specialist firm, from data sources such as the trustee reports. Key model inputs include asset spreads, expected defaults and expected recovery rates for the relevant category of underlying collateral held in the securitization vehicle. These inputs are derived by reference to a variety of market sources, which are used by both the Investment Manager and the Administrator. The model is used to project performance (“Expected IRR”) for each investment, based on performance to date and expected future cash flows as well as calculate fair value. As cash is received from the securitization vehicle, only the Expected IRR is recognized as income and any difference is treated as an adjustment of principal.

The fair value calculations for the equity tranches are sensitive to the key model inputs, including defaults and recovery rates. The default rate, recovery rate and other assumptions are determined by reference to a variety of market sources and applied according to the quality and asset class mix of the underlying collateral.

The model assumptions are reviewed on a regular basis and adjusted as appropriate to factor in historic, current and potential market developments.

As at 31 December 2010, some of the modeling assumptions used, which were recalibrated as of 31 March 2010, and again as of 31 December 2010, are as follows:

- Constant Annual Default Rate (“CADR”): This is approximately 2.2%, which is 1.0x the original Weighted Average Rating Factor (“WARF”) derived base-case default rate, until the end of 2011 and approximately 3.2% or 1.5x the original base-case for 2012-14 before returning to 2.2% or 1.0x the original base-case thereafter.

Note 2 Significant Accounting Policies (continued)

Financial Instruments (continued)

Investments in CLO debt equity securities, at fair value (continued)

- Recovery Rate: The assumed recovery rate is 71%, or 1.0x of the original base-case assumed weighted-average recovery rate, for the life of the transaction.

- Prepayment Rate: Loan prepayments are assumed to be 20% p.a., the original base-case prepayment rate with a 0% prepayment rate on bonds throughout the life of the transaction.

- Reinvestment Price and Spread: The assumed reinvestment price is 99% of par, a level that generates an effective spread over LIBOR of approximately 285 bps on broadly U.S. syndicated loans, 316 bps on European loans, and 355 bps on middle market loans, until the end of 2011, followed by a return to par reinvestment price the original base case reinvestment price thereafter until maturity.

When determining the fair value of the equity tranches a discount rate is applied to the expected future cash flows derived from the third party valuation model. The discount rate applied to those future cash flows reflects the perceived level of risk that would be used by another market participant in determining fair value. In determining the discount rates to use the Investment Manager reviews, among other things, the observable yield on mezzanine CLO tranches as well as the individual deal's structural strength and credit quality.

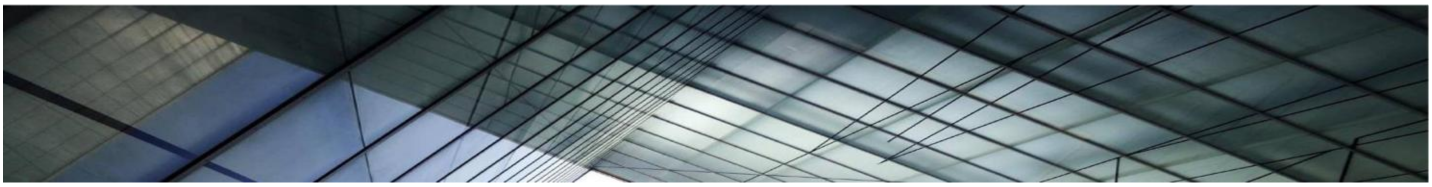
As at 31 December 2010, the Fund applies a 23% discount rate to those equity tranches adjudged to be relatively stronger in terms of structure and credit quality and 30% to the remainder. These discount rates represent a significant spread over observable yields on BB-rated CLO tranches at that date.

Due to elevated market risk premiums over the last two years, among other factors, this effective discount rate has typically been higher than the deal's IRR and therefore, in such instances, has resulted in a fair value which is lower than the deal's amortized cost. The difference between these two figures, on an aggregate basis across the CLO portfolio, has been characterized as the "ALR Fair Value Adjustment" or "ALR". At 31 December 2010, the ALR totaled approximately US$ 258.0 million (2009: US$ 349.0 million).

The Fund recognizes interest income and any impairment pursuant to 'Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets' (ASC 325). Recognition of Interest Income as impairment on purchased and Retained Beneficial Interest in Securitized Financial Assets sets forth rules for recognizing interest income and determining when an investment's amortized cost must be written down to fair value because of other than temporary impairments.

The Fund determines periodic interest income based on the principles of ASC 325. The excess of the estimated future cash flows over the initial investment is the accretable yield which is recognized as interest income over the life of the investment using the effective yield method. Cash distributions received from investments under ASC 325 may not necessarily equal the income earned during any given year or period. The amortized cost of each investment is equal to the initial investment plus the yield accrued to date less all cash received to date less any write downs for impairment.

Investments are evaluated for impairment as of each month end or more frequently if the Fund becomes aware of any material information that would lead it to believe an investment may be impaired. Unrealized gains and losses occur when actual cash receipts differ from the amounts initially estimated, discount rates and / or assumptions included in the fair valuation models (such as estimated default rates, prepayment or recovery rates) have changed. Any unrealized loss is tested for permanent impairment as required by ASC 325.



Note 2 Significant Accounting Policies (continued)

Financial Instruments (continued)

Investments in leveraged loans, at fair value

To the extent that the Fund’s leveraged loans are exchange traded and are priced or have sufficient bid price indications from normal course trading at or around the valuation date (financial reporting date), such bid pricing will determine fair value. Pricing service marks from third party pricing services may be used as an indication of fair value, depending on the volume and reliability of the marks, sufficient and reasonable correlation of bid and ask quotes, and, most importantly, the level of actual trading activity.

Interest income on leverage loans, including amortization of premium and accretion of discount, is recorded on an effective interest rate basis to the extent that such amounts are expected to be collected.

Investment in securities, unlisted common stock, at fair value

Investments in unlisted common stock are carried at fair value. Where applicable their cost price, the price at which any recent transaction in the security may have been effected and any other relevant factors may be considered, as well as valuation techniques which may be used by market participants.

Forward currency contracts, at fair value

Forward currency contracts are recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of fair value of a forward contract at initial recognition is the transaction price. Subsequent changes in the fair value of any forward contract are recognized immediately in the Consolidated Statements of Operations.

ASC 820, Fair Value Measurements

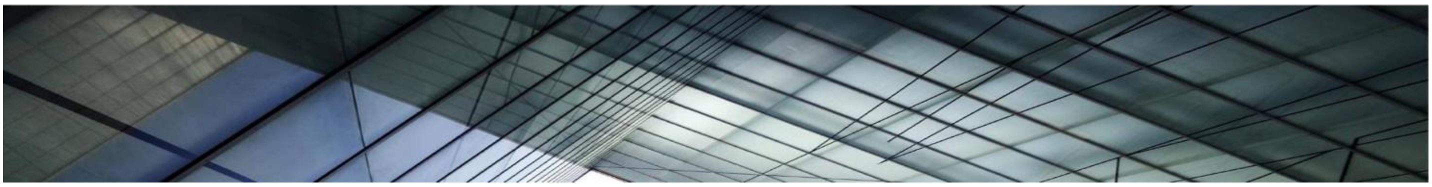
The Fund adopted the provisions of “Fair Value Measurements” (ASC 820). ASC 820 defines fair value as the price that the Fund would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date.

ASC 820 also establishes a framework for measuring fair value and a three level hierarchy for fair value measurement based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability.

The following is a summary of the inputs as of 31 December 2010 in valuing the Fund's assets carried at fair value.

The three levels of the fair value hierarchy are described below:

Level 1 - Quoted in active markets for identical investments.
Level 2 - Prices determined using other significant observable inputs. These may include quoted prices for similar securities, interest rates, prepayments speeds, credit risk and others.
Level 3 - Unobservable inputs. Unobservable inputs reflect assumptions market participants would be expected to use in pricing the asset or liability.



Note 2 Significant Accounting Policies (continued)

Financial Instruments (continued)

ASC 820, Fair Value Measurements (continued)

The following is a summary of the inputs used as of 31 December 2010 in valuing the Fund’s assets carried at fair value:

	CLO Debt Equity Securities US$	Broadly Syndicated Senior Secured Loans US$	Unsecured Loan US$	Net Unrealized Appreciation on forward foreign exchange contracts US$	Common Stock US$	Total US$
Level 1 - Quoted prices	-	-	-	-	-	-
Level 2 - Other significant observable inputs	-	97,598,898	-	2,883,979	-	100,482,877
Level 3 - Significant unobservable inputs	932,676,739	-	4,520,757	-	482,285	937,679,781
	932,676,739	97,598,898	4,520,757	2,883,979	482,285	1,038,162,658

There were no transfers of the Fund’s assets between level 1 and level 2 during the year ended 31 December 2010 or during the year ended 31 December 2009.

The following is a summary of the inputs used as of 31 December 2009 in valuing the Fund's assets carried at fair value:

	CLO Debt Equity Securities US$	Net Unrealized Appreciation on forward foreign exchange contracts US$	Total US$
Level 1 - Quoted prices	-	-	-
Level 2 - Other significant observable inputs	-	1,595,601	1,595,601
Level 3 - Significant unobservable inputs	655,234,320	-	655,234,320
	655,234,320	1,595,601	656,829,921

Note 2 Significant Accounting Policies (continued)

Financial Instruments (continued)

ASC 820, Fair Value Measurements (continued)

The following is a reconciliation of the Fund's assets in which significant unobservable inputs (Level 3) were used in determining fair value at 31 December 2010.

	31 Dec 2010 US$	31 Dec 2009 US$
Balance at start of year	655,234,320	1,082,495,071
Purchase of investments	34,071,852	-
Changes in unrealized appreciation / (depreciation)	338,465,221	(442,319,920)
(Amortisation) / Accretion	(90,091,612)	15,059,169
Balance at end of year	937,679,781	655,234,320

Cash and cash equivalents

Cash comprises current deposits with banks. Cash equivalents, short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Intangible assets, CLO management agreements

Intangible assets represent CLO management agreements and are amortized over its useful life. Intangible assets are stated at cost less accumulated amortisation and impairment.

Amortisation is recognized in profit or loss on a straight-line basis over the useful life of the agreements. The estimated useful life for the purposes of amortization is three years.

Income from CLO Management

Income from CLO management comprises discretionary portfolio management fees of senior management fee and subordinated management fee. Senior management fee income is recognized on an accruals basis. For the subordinated management fee income, the Fund makes estimate interim accruals of such subordinated income based on recent historical distributions and CLO's performance and adjusts such accruals on a quarterly basis to reflect actual distributions.

Other income

Other income, such as income and fees derived from consent given in connection with corporate actions in CLO vehicles in which the Fund has an investment, are recognized on an accruals basis.

Note 2 Significant Accounting Policies (continued)

Expenses

Expenses are recognized in the Consolidated Statements of Operations on an accrual basis.

Taxation

Income taxes, Fund

The Fund is exempt from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and is charged GBP 600 per annum. The Fund has however consolidated a US operating business which is subject to US federal, state and city taxes.

Income taxes, LCM and TCM

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Following the adoption of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (included in FASB ASC Subtopic 740-10 – Income Taxes – Overall), the Fund recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. There are no uncertain tax positions recognized at 31 December 2010.

Dividend expense

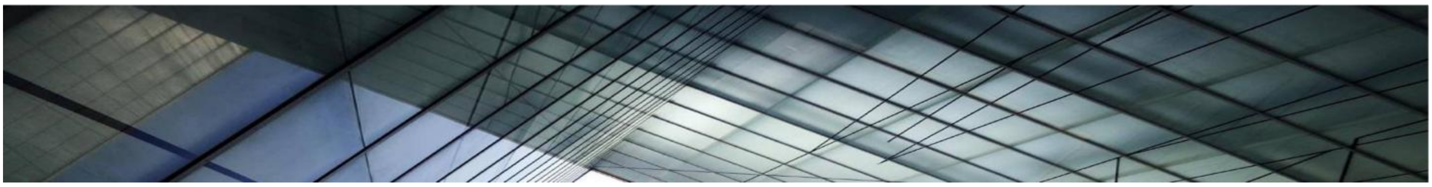
Dividend expense from shares are recognized in the Consolidated Statements of Changes in Net Assets.

Principles of Consolidation

The Fund owns 100% of a US subsidiary, TCM which owns 75% of an asset manager, LCM. The Fund has determined that it has control over LCM for the purposes of consolidation and therefore consolidates 100% of the income and expenses and assets and liabilities on a line by line basis. The remaining 25% is reflected through the Noncontrolling interest line.

The Fund owns a subsidiary, TFG Holdings I Limited, to which it may transfer some Shares previously held in a Treasury Account. Where this occurs the status of the Shares is unchanged from an accounting perspective and they are not included in the Shares outstanding on the Statements of Assets and Liabilities.

The Fund is the primary beneficiary of some securities which are considered variable interest entities (“VIE”). As the Fund is accounting for its investments at fair value in accordance with the accounting guidance in the AICPA Audit and Accounting Guide: Investment Companies and has determined that it does not have control over the significant operational and financial decisions of these securities, consolidation of these entities is not required. At 31 December 2010 the Fair value of these VIEs is approximately US$ 932,676,739. These are non-recourse securities with no contingent liabilities where the Fund‘s maximum loss exposure is capped at the current carrying value.



Note 3 GreenOak Loan

TCM LLC has provided GreenOak Real Estate ("GreenOak") with working capital of up US$ 10.0 million in the form of a seven-year non-recourse loan facility. Under the terms of this facility, the first US$ 5.0 million will earn an annual interest rate of 3% and the balance will earn an annual interest rate of 6%. The carrying value of the loan to GreenOak is also considered to be the fair value.

	31 Dec 2010 US$	31 Dec 2009 US$
Working capital advanced to GreenOak	4,500,000	-
Interest receivable on facility	20,757	-
	4,520,757	-

Note 4 Intangible Assets

	Gross carrying amount US$	31 December 2010 Weighted average outstanding amortization period	Accumulated amortization US$
CLO management contracts	210,301	2 years 1 month	(92,533)
Total	210,301		(92,533)

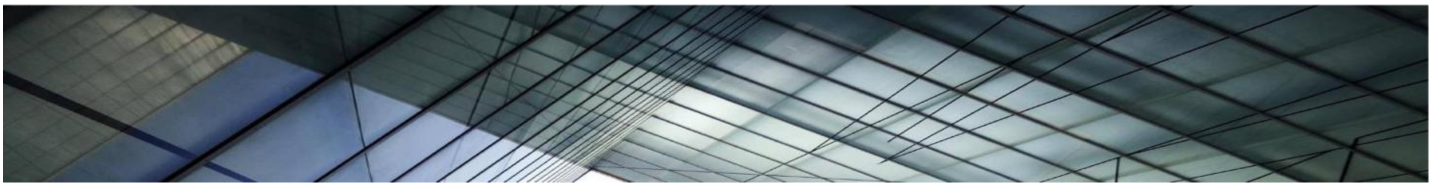
Aggregate amortization expense for amortizing intangible assets was US$ 92,533 for the year ended 31 December 2010. Estimated amortization expense for the next three years is US$ 100,945 in 2011, US$ 100,945 in 2012 and US$ 8,411 in 2013.

Note 5 Cash and Cash Equivalents

	31 Dec 2010 US$	31 Dec 2009 US$
Cash and current deposits with banks	140,405,829	174,282,168
Foreign currency cash (cost: US$ 206,128 (2009: US$ 55,380))	219,504	70,659
	140,625,333	174,352,827

Note 6 Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk

To the extent prices may be obtained on some or all of the Fund's assets, those prices may be extremely volatile, and will generally fluctuate due to a variety of factors that are inherently difficult to predict, including, but not limited to, changes in interest rates, prevailing credit spreads, general economic conditions, financial market conditions, domestic and international economic or political events, developments or trends in any particular industry, and the financial condition of the obligors of the Fund's assets.



Note 6 Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk (continued)

The Fund’s assets include securities or other financial instruments or obligations which are very thinly traded or for which no market exists or which are restricted as to their transferability under applicable securities laws. The valuation of equity tranche investments in securitization vehicles is determined utilizing a financial model that reflects numerous variables including, among other things, the Investment Manager’s assessment of the nature of the investment and the relevant collateral, security position, risk profile, expected default rates and the originator and servicer of the position.

As each of these factors involves subjective judgments and forward-looking determinations by the Investment Manager, the Investment Manager’s experience and knowledge is instrumental in the valuation process. Further, because of overall size or concentration in particular markets of positions held by the Fund, the value at which its investments can be liquidated may differ, sometimes significantly, from the interim valuations arrived at.

The majority of the Fund’s investments consist of interests in and / or economic exposures to limited recourse securities that are subordinated in right of payment and ranked junior to other securities that are secured by the same pool of assets. In the event of default by an issuer in relation to such investments holders of the issuer’s more senior securities will be entitled to payments in priority to the Fund.

Some of the Fund’s investments may also have structural features that divert payments of interest and / or principal to more senior classes secured by the same pool of assets when the delinquency or loss experience of the pool exceeds certain levels. This may lead to interruptions in the income stream that the Fund anticipates receiving from its investment portfolio. To the extent that actual losses on the underlying collateral exceed the level of assumed losses used to determine the fair value of the investment, the value of the investment may be reduced.

Some of the Fund's Assets are held by a custodian and the Fund is exposed to the credit risk of this counterparty. The Fund has also entered into derivative transactions which results in exposure to counterparty credit risk. The counterparty to these derivative transactions are major financial institutions.

As part of the Fund's current investment strategy it may employ hedging strategies and leverage in seeking to provide attractive returns from the portfolio while managing risk. The hedging strategy may include the use of single name or index credit hedges when and where appropriate as well as foreign exchange rate hedges. This is reviewed on an on-going basis in order to seek to address identified risks to the extent practicable and in a cost effective manner. As at 31 December 2010 and 31 December 2009 there were no credit hedges in place.

The Fund's investments that are denominated in currencies other than US Dollars are subject to the risk that the value of such currency will decrease in relation to the US Dollar. The Fund currently uses foreign exchange rate forwards to seek to hedge this currency risk, in whole or in part, to the extent practicable and in a cost effective manner. As described above, the hedging strategy (including, these currency hedges) are reviewed on an on-going basis.

Details of the Fund’s investment portfolio at the reporting date are disclosed in the Schedule of Investments on page 12.

Note 7 Amounts Due From Brokers

The amounts due from brokers is cash pledged as collateral on the forward contracts. At 31 December 2010, the collateral cash balance with UBS AG was US$ 4,285,552 (31 December 2009: US$ 5,677,691). US$ Nil is due to coupons not yet received as at 31 December 2010 (31 December 2009: US$ 192,906).

Note 8 Other Receivables

	31 Dec 2010 US$	31 Dec 2009 US$
Accrued CLO management fee income	1,460,150	-
Bank interest receivable	802	1,097
Prepaid insurance	163,239	185,296
Other receivables	113,299	-
	1,737,490	186,393

Note 9 Other Payables and Accrued Expenses

	31 Dec 2010 US$	31 Dec 2009 US$
Employee costs	3,452,051	-
Audit fee accrual	283,473	311,228
Other operating and administrative expenses	263,149	-
Legal and professional fee accrual	67,000	20,398
Directors’ fee accrual	75,000	50,000
Custodian fee accrual	10,000	16,800
	4,150,673	398,426

Note 10 Share Capital

Authorized

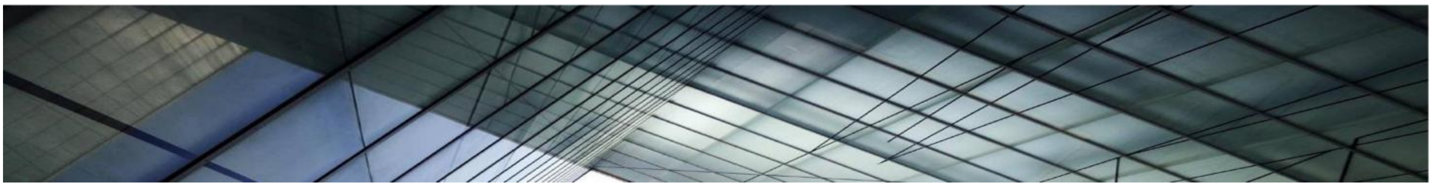
The Fund has an authorized share capital of US$ 1,000,000 divided into 10 Voting Shares, having a par value of US$ 0.001 each and 999,999,990 Non-Voting Shares (which are the "Shares" referred to herein), having a par value of US$ 0.001 each.

Voting Shares

All of the Fund’s Voting Shares are issued at par and are beneficially owned by the Voting Shareholder, a non-U.S. affiliate of the Investment Manager. The Voting Shares will be the only shares entitled to vote for the election of Directors and on all other matters put to a vote of shareholders, subject to the limited rights of the Shares described below. The Voting Shares are not entitled to receive dividends.

Non-Voting Shares

The Shares carry a right to any dividends or other distributions declared by the Fund. The Shares are not entitled to vote on any matter other than limited voting rights in respect of variation of their own class rights.



Note 10 Share Capital (continued)

Dividend Rights

Dividends may be paid to the holders of Shares at the sole and at the absolute discretion of the Directors. The Voting Shares carry no rights to dividends. Through the Optional Stock Dividend Plan, shareholders can elect to receive dividends in the form of new Shares in the Fund instead of cash dividends. The new shares are of the same class and type and will rank equally with the existing issued Shares in all respects.

Share Transactions

	Voting Shares No.	Shares No.	Shares US$
Shares in issue at 31 December 2008	10	125,979,883	125,980
Issued	-	1,209,442	1,210
Treasury Shares	-	(2,420,641)	(2,421)
Shares in issue at 31 December 2009	10	124,768,684	124,769
Issued	-	1,107,125	1,107
Treasury Shares	-	(5,742,119)	(5,742)
Shares in issue at 31 December 2010	10	120,133,690	120,134

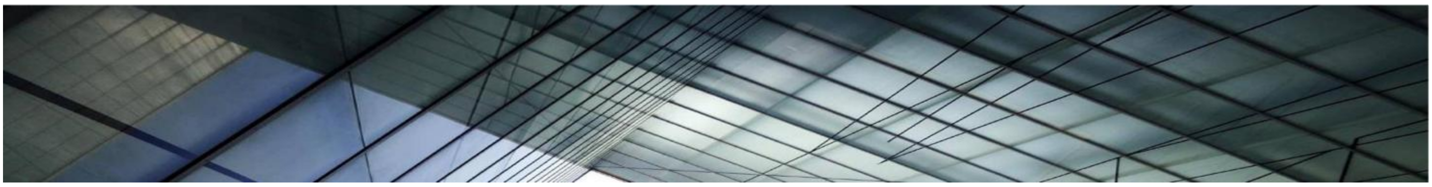
Treasury Shares

On 30 November 2007, the Feeder, an investor in the Fund, announced the implementation of a share repurchase program of their outstanding Shares. This program was subsequently updated and will now continue from 4 October 2010 until 31 October 2011 or until 5% of the Feeder's outstanding shares have been repurchased under the updated program or until terminated by the Board. In conjunction with this, the Fund has undertaken to repurchase an identical number of its own Shares from the Feeder as and when it makes these repurchases in the open market. The Fund will match the price per share paid by the Feeder. The Shares are held in a Treasury Account which allows them to be resold back to the Feeder if it resells its own shares back into the market at a later date. Whilst they are held in the Treasury Account the Shares are neither eligible to receive dividends nor are they included in the Shares outstanding on the Consolidated Statements of Assets and Liabilities.

On 15 November 2010, the Fund transferred 3,908,241 shares from the Treasury Account to a wholly owned subsidiary, TFG Holdings I Limited. These Shares are neither eligible to receive dividends nor are they included in the Shares outstanding on the Statements of Assets and Liabilities. After giving effect to this transfer as at 31 December 2010, the Fund held 7,116,921 shares in the Treasury Account (31 December 2009: 5,283,043).

Noncontrolling Interest relating to LCM

The Fund adopted "Noncontrolling Interests in Consolidated Financial Statements" which requires noncontrolling interests to be classified in the consolidated statements of operations as part of consolidated net earnings (US$ 1,388,434 for the year ended 31 December 2010) and to include the accumulated amount of noncontrolling interests in the consolidated statements of assets and liabilities as part of shareowners' equity (US$ 1,368,642 at 31 December 2010). If a change in ownership of a consolidated subsidiary results in loss of control and deconsolidation, any retained ownership interests are remeasured with the gain or loss reported in net earnings.



Note 11 Share Premium

	31 Dec 2010 US$	31 Dec 2009 US$
Balance at start of year	1,136,554,698	1,141,455,539
Discount arising from net transactions of shares	(20,280,242)	(4,900,841)
Balance at end of year	1,116,274,456	1,136,554,698

Note 12 Dividends

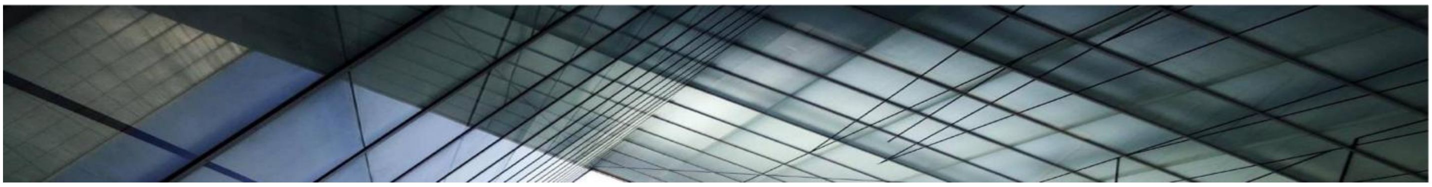
	31 Dec 2010 US$	31 Dec 2009 US$
Quarter ended 31 December 2008 of US$ 0.03 per share	-	3,770,136
Quarter ended 31 March 2009 of US$ 0.03 per share	-	3,771,974
Quarter ended 30 June 2009 of US$ 0.03 per share	-	3,775,617
Quarter ended 30 September 2009 of US$ 0.03 per share	-	3,781,939
Quarter ended 31 December 2009 of US$ 0.06 per share	7,442,348	-
Quarter ended 31 March 2010 of US$ 0.06 per share	7,373,866	-
Quarter ended 30 June 2010 of US$ 0.08 per share	9,731,417	-
Quarter ended 30 September 2010 of US$ 0.08 per share	9,638,540	-
	34,186,171	15,099,666

The fourth quarter dividend of US$ 0.09 cents was approved by the Directors on 28 February 2011 and has not been included as a liability in these financial statements.

The Fund pays a dividend to the Feeder that is sufficient to pay their incentive fee liability which in the year ended 31 December 2010 was US$ 107,787,008 (31 December 2009: US$ Nil).

Note 13 Earnings

	31 Dec 2010 US$	31 Dec 2009 US$
Balance at start of year	(300,050,790)	368,675
Net increase / (decrease) in net assets resulting from operations for the year	506,166,760	(285,319,799)
Dividends paid to shareholders	(34,186,171)	(15,099,666)
Dividends paid to Feeder	(107,787,008)	-
Balance at end of year	64,142,791	(300,050,790)



Note 14 Income and deferred tax expense

Income Tax

Income tax expense for the year ended 31 December 2010 consists of:

Year ended 31 December 2010:	**Current** **US$**	**Deferred** **US$**	**Total** **US$**
US federal (TCM)	1,419,589	92,995	1,512,584
State and local (TCM)	704,366	-	704,366
State (LCM)	285,000	-	285,000
	2,408,955	92,995	2,501,950

US$ 296 854 of current tax was outstanding at the year end. There was no income tax expense or payable for the year ended 31 December 2009.

Tax Rate Reconciliation

Income tax expense was US$ 2,501,950 for the year ended 31 December 2010, and differed from the amounts computed by applying the U.S. federal income tax rate of 34% to pretax increase in net assets as a result of the following:

	31 Dec 2010 **US$**
Net increase in net assets resulting from operations before tax	510,057,144
Computed "expected" tax expense at 34%	173,419,429
Increase (reduction) in income taxes resulting from:	
Income not subject to US tax	(171,998,840)
Deferred tax provision	92,995
State and local income taxes	989,366
Other exemptions net	(1,000)
Total income and deferred tax expense	2,501,950

Deferred Tax

A deferred tax liability of US$ 92,995 has been recognized with respect to undistributed earnings of TCM of US$ 309,983 at withholding tax rate of 30%.

Note 15 Interest Income

	31 Dec 2010 US$	31 Dec 2009 US$
Debt securities – CLO equity tranches	176,015,028	165,498,442
Debt securities – Leveraged loans	2,678,035	-
Cash and short term funds	219,150	206,653
Debt securities - Unsecured loans	20,757	-
	178,932,970	165,705,095

Note 16 CLO management fee income

	31 Dec 2010 US$	31 Dec 2009 US$
Senior fees	3,995,470	-
Subordinated fees	8,636,094	-
	12,631,564	-

Senior fees range from 0 bps to 20 bps per annum of collateral under management and subordinated fees range from 30bps to 50 bps per annum of collateral under management.

Note 17 Other income

	31 Dec 2010 US$	31 Dec 2009 US$
Fee and fee sharing from consent on CLO corporate actions	2,503,561	1,236,501
	2,503,561	1,236,501

Note 18 Acquisition

On 29 January 2010, after giving effect to the transaction, the Fund held 75% of the outstanding membership interests of LCM. The results of LCM's operations have been included in the consolidated financial statements since that date. LCM is a US based asset manager which currently manages eight performing CLO vehicles for which it receives management fees. LCM was purchased for cash consideration of US$ 302,834.

Note 18 Acquisition (continued)

The following table summarizes the consideration paid for LCM and the amounts of estimated fair value of the assets acquired and liabilities assumed at the acquisition date.

	31 Dec 2010 US$
Cash consideration	302,834
Fair value of total consideration transferred	302,834
Recognized amounts of identifiable assets acquired	
Intangible assets - CLO management contracts	302,834
Total identifiable net assets assumed	302,834

The acquired intangible assets, which are CLO management agreements, are being amortized over a period of three years.

As a result of the transaction there are a number of ongoing associated expenses which are now reflected through the Statements of Operations. These include US$ 5,365,486 of employee costs, US$ 277,339 of market data fees and US$ 1,057,471 of other operating and administrative expenses.

Note 19 Related Party Transactions

The Feeder, a Guernsey based closed-ended investment company, invests substantially all of its assets in the Fund, and has the same Investment Manager as the Fund.

All fees and expenses of the Feeder and the Fund (including management fees), except for the incentive fees, are paid by the Fund and allocated to the Feeder. An incentive fee may be paid to the Investment Manager by the Feeder.

The remuneration for Directors shall be determined by resolution of the Voting Shareholder. The Directors' annual fee was US$ 50,000 in compensation for service on the Boards of Directors of both the Feeder and the Fund until 30 September 2010. From 1 October 2010, the Directors annual fee is US$ 75,000 in compensation on the Boards of Directors of both the Feeder and the Fund. The Fund will pay the Directors' fees. Patrick Dear, Reade Griffith and Alex Jackson have waived their entitlement to a fee. The Directors are entitled to be repaid by the Fund for all travel, hotel and other expenses reasonably incurred by them in the discharge of their duties. None of the Directors has a contract with the Feeder or the Fund providing for benefits upon termination of employment.

The Voting Shareholder is an affiliate of Polygon Investment Partners LLP and Polygon Investment Partners LP (the "Service Providers") and the Investment Manager and holds all of the Voting Shares. As a result of its ownership and the degree of control that it exercises, the Voting Shareholder will be able to control the appointment and removal of the Feeder's Directors. Affiliates of the Service Providers also control the Investment Manager and, accordingly, control the Fund's business and affairs.

Note 19 Related Party Transactions (continued)

The Fund, through its 100% owned U.S. subsidiary TCM, purchased from CLCM Limited Partnership, an affiliate of Calyon New York Branch, 100% of LCM on 29 January 2010. As of the same date it subsequently sold 25% of LCM at cost to Polygon Management LP ("PM"), an affiliate of the Voting Shareholder. The Service Providers have an agreement to provide certain operating, infrastructure and administrative services to LCM. In 2010, the Service Providers recharged LCM US$ 6,700,295. This includes invoices from third parties with respect to services such as market data. At 31 December 2010 US$ 3,659,245 was payable.

On 23 November 2010, LCM VIII (the "Issuer"), a US$ 300.0 million CLO managed by LCM, was issued, in which the Fund purchased US$ 20.4 million equity tranche at a cost of US$ 18.8 million. Prior to the closure of this transaction, the Fund purchased and warehoused broadly syndicated US leveraged loans with a notional of US$ 44.5 million and a cost of US$ 43.9 million for the Issuer. These loans were purchased at market prices at the direction of the Issuer's manager, LCM, and subsequently sold to the Issuer at original cost. The Fund earned interest on these loans during the relevant period.

The Fund owns a 10% equity interest in GreenOak Real Estate ("GreenOak"), a multi-jurisdictional real estate venture, in which it also provides a US$ 10.0 million working capital loan and a US$ 100.0 million co-investment commitment. PM, an affiliate of the Voting Shareholder, also owns a noncontrolling equity interest, as well as provides a similar working capital loan. The Service Providers have an agreement with GreenOak to provide certain operating, infrastructure and administrative services to the business. As part of the transaction the Feeder has issued 3,908,241 share options to the GreenOak founders.

Note 20 Subsequent Events

The Directors have evaluated subsequent events up to 28 February 2011, which is the date that the financial statements were approved, and have concluded that there are not any material events that require disclosure or adjustment to the financial statements other than disclosed below.

On 22 February 2011, the Fund and the Feeder and their six Directors were served with proceedings in the Royal Court of Guernsey (the "Proceedings") instigated by one of the Fund's former Directors, Alexander Jackson. Mr. Jackson was given notice to vacate office as a Director on 24 January 2011. By the Proceedings, Mr. Jackson seeks to impugn the Fund's decision of 29 July 2010, announced on 2 August 2010, to enter into a joint venture with GreenOak Real Estate (the "GreenOak Transaction"). The Proceedings are confined to claims for damages and other relief against the Fund and the Feeder's Directors, and do not seek to reverse or interfere with the GreenOak Transaction, which was implemented in the third quarter of 2010. The Fund and the Feeder have issued a public statement stating that they and their directors believe that there is no merit whatsoever in the Proceedings and will take all necessary steps to ensure the Proceedings are dismissed as quickly as possible. The Investment Manager has concluded that it is untenable for Mr. Jackson to continue in his current role as a consultant with respect to investment and risk matters relating to the Fund and the Feeder and, therefore, is taking steps to ensure that he will no longer continue in that capacity, although he remains a shareholder of the Investment Manager.

Note 21 Recent changes to US GAAP

Improving Disclosures about Fair Value Measurements (ASC 820). In January 2010, the FASB issued ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820) — Improving Disclosures about Fair Value Measurements." ASU No. 2010-06 provides amended disclosure requirements related to fair value measurements. Certain disclosure requirements of ASU No. 2010-06 were effective for the Fund beginning in the first half of 2010, while other disclosure requirements of the ASU are effective for financial statements issued for reporting periods beginning after 15 December 2010. Since these amended principles require only additional disclosures concerning fair value measurements, adoption did not and will not affect the Fund's financial condition, results of operations or cash flows.

Note 21 Recent changes to US GAAP (continued)

Transfers of Financial Assets and Interests in Variable Interest Entities (ASC 860 and 810). In June 2009, the FASB issued amended accounting principles that changed the accounting for securitizations and VIEs. These principles were codified as ASU No. 2009-16, "Transfers and Servicing (Topic 860) — Accounting for Transfers of Financial Assets" and ASU No. 2009-17, "Consolidations (Topic 810) — Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities" in December 2009. ASU No. 2009-16 eliminates the concept of a qualifying special-purpose entity (QSPE), changes the requirements for derecognizing financial assets, and requires additional disclosures about transfers of financial assets, including securitization transactions and continuing involvement with transferred financial assets. ASU No. 2009-17 changes the accounting and requires additional disclosures for VIEs. Under ASU No. 2009-17, the determination of whether to consolidate a VIE is based on the power to direct the activities of the VIE that most significantly impact the VIE's economic performance together with either the obligation to absorb losses or the right to receive benefits that could be significant to the VIE, as well as the VIE's purpose and design. Additionally, entities previously classified as QSPEs are now required to be evaluated for consolidation and disclosure as VIEs. Previously, QSPEs were not consolidated and not considered for disclosure as VIEs and the determination of whether to consolidate a VIE was based on whether an enterprise had a variable interest, or combination of variable interests, that would absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. ASU Nos. 2009-16 and 2009-17 were effective for fiscal years beginning after 15 November 2009. In February 2010, the FASB issued ASU No. 2010-10, "Consolidations (Topic 810) — Amendments For Certain Investment Funds," which defers the requirements of ASU No. 2009-17 for certain interests in investment funds and certain similar entities.

The Fund adopted ASU Nos. 2009-16 and 2009-17 as of 1 January 2010 and reassessed whether it was the primary beneficiary of any VIEs in which it had variable interests (including VIEs that were formerly QSPEs) as of that date. Adoption did not have a material impact on the Company's results of operations or cash flows as all investments are carried at fair value in accordance Financial Services – Investment Companies (ASC 946) and as the Fund has determined that it does not have control over the significant operating, financial and investing decisions of the CLO securities that it invests.

Note 22 Approval of Financial Statements

The Directors approved the financial statements on 28 February 2011.