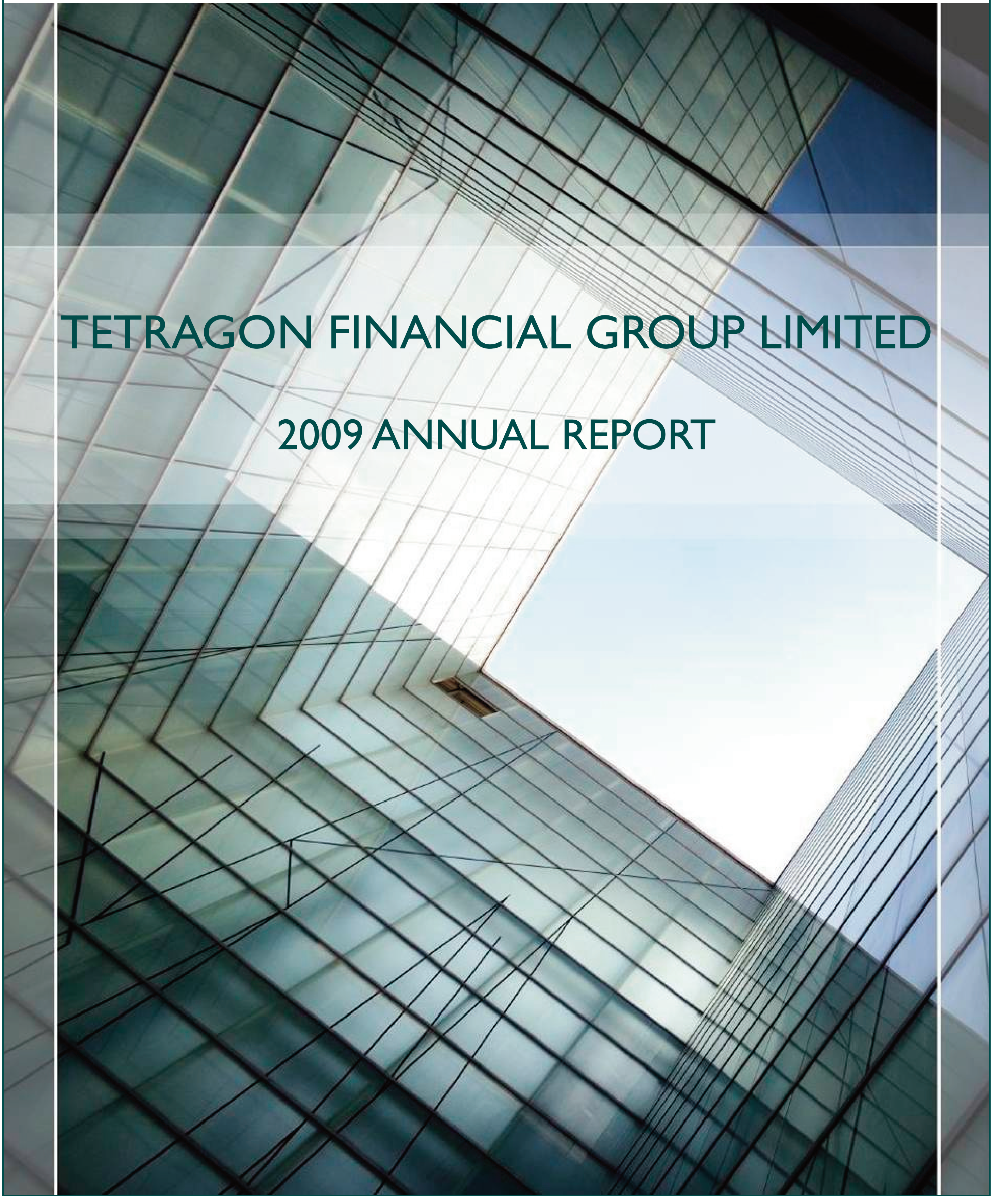
TETRAGON

TETRAGON FINANCIAL GROUP LIMITED

2009 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, Polygon Credit 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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TO OUR SHAREHOLDERS

2009 was a year of significant economic and financial market challenges and was, in many ways, a year of two contrasting halves. We believe that TFG's results of operations and share price performance for 2009 are reflective of that. In 2009 and throughout the recent financial crisis, the Investment Manager has sought to position the Company to withstand an array of significant challenges, including a macro-economic downturn, rating agency downgrades, a prolonged rise in leveraged loan defaults, suppressed loan default recoveries, loan price declines, counterparty and financing risks and general market volatility. By the middle of 2009, the economic and market environment began to show signs of improvement and we believe that TFG's performance both in the most difficult period and thereafter has demonstrated the value of the steps the Investment Manager and TFG had taken to address these challenges as well as the importance of the corporate structure of the Company. We note in particular that despite these challenges, TFG continued to return value to its shareholders in 2009 through its dividend and increased share repurchase program and in the fourth quarter took a step to diversify its income stream through the acquisition of LCM Asset Management LLC ("LCM"). Having come through a period of significant turbulence and despite a good measure of remaining market uncertainty, the Board believes that TFG is well positioned to respond to future challenges and opportunities.

We are pleased to report that an investment in TFG's shares on 31 December 2008 would have grown by approximately 50.5% during the year via capital appreciation and dividend income.[(1)] Furthermore, the Company has sought to continue to return value to its shareholders: in each of the first three quarters of 2009, TFG declared a dividend of $0.03 per share and on 25 February 2010, the Company approved a doubling of the dividend to $0.06 per share for Q4 2009, to be paid on 25 March 2010.[(2)] In addition, on 23 October 2009, TFG updated its share repurchase program to allow for a significantly greater daily amount of purchases of the Company's shares. During 2009, the Company purchased 2,420,641 TFG shares at an average price of $2.74 per share for a total value of over $6.5 million.

This year of challenge and change was readily apparent in the leveraged loan market. 2009 began with loan prices near historical lows as a confluence of negative developments, including supply-demand imbalances, the deleveraging of market-value sensitive investors and a dramatic increase in defaults and ratings downgrades, exerted pressure on that market. In addition, weakness in the financial institution sector reduced capital markets activity and limited the ability of corporate borrowers to effectively manage their balance sheets and financing requirements. As the year progressed, however, loan fundamentals improved, as corporate borrowers began to reduce their financial leverage, enhance their operating flexibility and take advantage of the re-opening of the capital markets, leading to a decline in default volumes and ratings downgrades. In addition, loan prices rallied on a significant scale beginning in the second quarter of the year as billions of dollars in government spending under the Troubled Assets Relief Program ("TARP") and monetary easing by the U.S. Federal Reserve provided the financial markets with significant incremental liquidity resulting in an inflow of funds into various assets, including leveraged loans.

The dramatic increase and subsequent deceleration in the volume of defaults and ratings downgrades of loans were particularly illustrative of the volatility which characterized 2009. TFG's financial performance mirrored this rapidly changing credit environment, but TFG nonetheless outperformed the overall market, including in certain key metrics such as defaults, collateral coverage (O/C) compliance and credit quality. In addition, TFG's overall collateralized loan obligation ("CLO") investment portfolio continued to generate substantial cash in 2009, with approximately $153.0 million received during the year.

Since its formation and public listing and throughout the recent economic crisis, the Investment Manager has sought to preserve TFG's investments and ensure the long-term prospects of the company. In 2008 and 2009, addressing counterparty and financing risks and maintaining liquidity have been key prongs to achieving this goal. Based on the Investment Manager's actions, TFG is pleased to have avoided the Lehman Brothers bankruptcy as TFG repaid its repurchase borrowings and cleared its repurchase account held at Lehman Brothers prior to that company's bankruptcy filing. TFG also transferred all of its un-financed securities from a prime brokerage account to a segregated custodial account with a U.S. financial institution to help ensure their accessibility. Finally, TFG aggressively repaid all of its corporate-level borrowings as financing lines generally looked increasingly uncertain. As of 31 December 2009, TFG had no outstanding borrowings and the net cash on balance sheet increased to $151.6 million at the end of 2009.

TO OUR SHAREHOLDERS (continued)

In addition to the steps TFG and the Investment Manager have taken with respect to corporate liquidity and counterparty risks, we believe the Company's buy-and-hold strategy, majority (or significant) investment positions and asset manager interaction have also helped TFG navigate the challenges of 2009. In particular, the Investment Manager's decision to eliminate all corporate level borrowings and utilize long-term funding provided by its CLO investments combined with its buy-and-hold strategy allowed TFG to take a long-term view on the expected cash flows from its CLO investments and to avoid any forced sales. Furthermore, we believe TFG's majority position strategy, allowing for "voting control" in certain corporate actions, has also demonstrated significant value. For example, on 12 separate occasions it has helped the Company positively affect the outcome of CLO management changes within its portfolio and to improve its investment economics either via upfront consent fees or long-term fee sharing arrangements, both of which increased the profitability of TFG's investments.

Finally, in Q4 2009 TFG entered into an agreement with Calyon New York Branch and certain of its affiliates to purchase Lyon Capital Management LLC, since renamed LCM Asset Management LLC, and certain CLOs with an aggregate face amount of $39.0 million for a combined purchase price of $10.0 million in an accretive transaction for the Company. As of 31 December 2009, LCM had approximately $2.5 billion of loan assets under management. The purchase agreement provided that management fees earned by LCM and cash flows received from the CLO securities from (and including) 16 August 2009, less certain expenses of LCM, accrued for the benefit of TFG, significantly reducing the net purchase price of the acquisition. LCM served as a manager for two of TFG's CLOs prior to the acquisition and the Company has been particularly impressed with their ability to perform in a tough market environment. LCM is a profitable operating business that we believe may provide the Company with a high quality, repeatable income stream and a scalable business model which we expect should allow TFG to capitalize on growth and consolidation opportunities in loan and CLO management.

We believe that the Company's success in navigating a difficult economic environment and its resulting strong balance sheet places TFG in a good position to take advantage of meaningful opportunities where some of its peers may be more constrained. Our outlook for 2010 is generally positive. Although, compared to 2009, we anticipate lower credit losses potentially resulting in stronger cash flows on TFG's CLO investments, we believe that a sustained economic recovery will require job growth and an expansion in aggregate demand as government stimulus spending winds down. Accordingly, there remains a good measure of uncertainty surrounding the economic environment and the CLO and loan markets, which we believe demands caution and prudence. In 2010, we will continue to seek ways to return value to our shareholders and serve the Company's investment objective of generating distributable income and capital appreciation. We will also continue to explore a variety of opportunities in which to deploy our resources, including dividends and share repurchases, investments within the CLO and leveraged loan markets or in other assets, and further asset manager acquisitions. We believe that the strength of TFG's cash flow generation capacity, existing cash reserves and LCM's strong performance track record position TFG well to take advantage of not only these prospects, but also other strategic opportunities in asset management, both within and beyond the leveraged loan market.

With regards,

Board of Directors

25 February 2010

2009 PERFORMANCE AT A GLANCE

Investment Manager's 2009 Highlights:

In the context of a year that presented significant economic and financial market challenges, TFG achieved the following:

- **Cash Flow:** The Company continued to generate significant cash flows with $153.0 million being generated during 2009, despite very difficult credit market conditions.

- **Portfolio Management:** The Company realized value from its majority (or significant) positions in 12 CLO investments during 2009, by positively affecting the outcome of certain corporate governance actions or management changes 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 the market-wide average across several key performance metrics, including:

    - *Defaults*: TFG's 2009 corporate loan defaults were approximately 6.50%, an increase from the 2.81% default rate recorded during 2008, but approximately 30% below the 9.61% 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 in December 2009.[1]

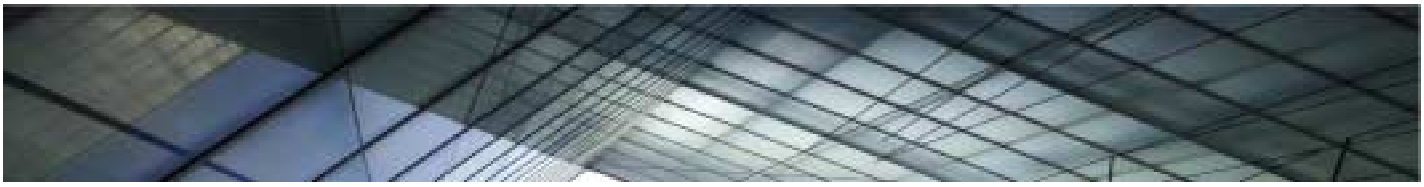
    - *Collateral Coverage Test (O/C) Compliance*: As of 31 December 2009, approximately 68% of TFG's CLO investments were passing their most junior O/C tests,[2] and comparing favorably with the U.S. market-wide average of approximately 62.0% of U.S. CLOs estimated to be in compliance with their junior O/C tests as of the end of 2009.[3][4]

    - *Credit Quality*: The weighted-average percentage of corporate obligors rated Caa1/CCC+ or below in our 61 CLO investments ended the year at 12.0% compared to an approximate 7.8% weighted-average maximum level permitted under the terms of our investments.[5] This statistic was considerably lower than the market-wide median level of CCC-rated asset holdings among CLOs – estimated to be approximately 16.5% as of the end of 2009.[6]

- **Cash Reserves and Corporate-Level Borrowings:** The Company repaid all outstanding corporate-level borrowings in 2009 and increased its net cash position to $151.6 million by year-end to, among other things, help navigate a demanding and changing market environment.

- **Counterparty and Financing Risk:** Building on its success in avoiding the Lehman Brothers bankruptcy, the Company continued to effectively address counterparty and financing risks.

- **Capital Distributions, Dividends and Share Repurchases:** The Company maintained dividends throughout 2009 and doubled its dividend for Q4 2009 to $0.06 per share. The Company also updated its share repurchase program to allow for significantly greater daily purchases and overall in 2009 purchased 2,420,641 TFG shares at an average price of $2.74 per share for a total value of over $6.5 million.



2009 PERFORMANCE AT A GLANCE (continued)

Investment Manager's 2009 Highlights (continued):

- **LCM Acquisition:** The Company agreed to purchase and now owns 75% of Lyon Capital Management LLC, since renamed LCM Asset Management LLC, at what it believes was a very attractive price in an accretive transaction for the Company. LCM has been one of our top-performing CLO managers to date and we are very pleased to have added the team onto the TFG platform. We believe that this acquisition may add a new, repeatable and high quality income stream to the Company and position TFG well to take advantage of further manager consolidation in loan or CLO management, the re-opening of the new issue CLO markets as well as other strategic asset management opportunities.

Financial Results:

- **Net Investment Income:** Net investment income decreased to $121.7 million in 2009, down from $163.5 million in 2008, primarily as a result of a reduction in the top-line investment income generated by the investment portfolio. This investment income reduction was partially offset by lower interest expense for 2009.

- **Realized/ Unrealized Losses from Investments:** Against a back drop of deteriorating credit conditions, the fair value of TFG's portfolio was written down by $427.7 million of unrealized losses during 2009, of which $208.0 million was an increase to the Accelerated Loss Reserve, mainly taken in Q1 2009 to reflect the increased uncertainty of future cash flows. Despite improvements in Q3 and Q4 2009, no amount of the Accelerated Loss Reserve was released back into the NAV in 2009.

- **Net Income:** A consolidated net loss of $(315.1) million was recorded in 2009 against a loss of $(46.6) million for 2008. Unrealized losses incurred in the first half of 2009 that were driven primarily by deterioration in the performance of certain CLO investments and resulted in an overall loss for the year in spite of some recovery in CLO investment performance in the second half of 2009.

- **Earnings per Share (EPS):** Consolidated EPS for 2009 was $(2.50) compared to $(0.37) for 2008. The 2009 EPS is comprised of an EPS loss of $(3.50) in the first half of the year against a gain of approximately $1.00 in the second half of the year.

- **Cash Flows from Operations:** Total cash receipts of approximately $153.0 million (or $1.21 per weighted average share) in 2009 compared to $345.0 million in 2008 ($2.74 per weighted average share) as certain CLO investments ceased to generate cash flow due to, among other things, underlying loan defaults or negative rating migration.[7]

- **Dividend:** Throughout 2009 TFG maintained the payment of a quarterly dividend with $0.03 cents per share being paid with respect to the first three quarters and $0.06 per share declared with respect to Q4 2009.

- **Leverage:** TFG continued the corporate level de-leveraging process which had begun in 2008 and had paid down all outstanding borrowings by the end of Q1 2009.

- **Net Asset Value (NAV) per Share:** NAV per share at the end of the year was $6.47, down from $9.06 at the end of 2008, reflecting overall performance and distributions to shareholders.

Portfolio Summary:

- **Portfolio Size:** As of the end of 2009, the fair value of the CLO investment portfolio totaled approximately $655.2 million with exposure to approximately $17.0 billion of leveraged loans.

- **Portfolio Composition:** As of the end of 2009, TFG's performing CLO portfolio consisted solely of 61 CLO investments managed by 32 CLO managers.

- **IRRs:** The weighted-average IRR as of 2009 year-end declined to approximately 11.9%, down from 13.8% at the end of 2008.

2009 PERFORMANCE AT A GLANCE (continued)

Portfolio Summary (continued):

- **Life-to-date Net Loss Reserve:** Approximately $215.0 million of net excess losses have been factored into our IRR calculations as of the end of December 2009, up from approximately $115.0 million as of the end of Q4 2008.(8)

- **Accelerated Loss Reserve (ALR):** The ALR totaled $349.0 million at the end of the year, up from $141.0 million at the end of 2008.(9)

- **Performance Fee:** No performance fees were paid for Q1, Q2 or Q3 2009. A performance fee of $29.8 million was accrued in Q4 2009 in accordance with TFG's investment management agreement and based on a "Reference NAV" of Q3 2009. The hurdle rate for Q1 2010 incentive fee has been reset at 2.9022% (Q4: 2.9329%) as per the process outlined in TFG's 2009 Audited Financial Statements and in accordance with TFG's investment management agreement.(10)

INVESTMENT MANAGER'S REPORT

PORTFOLIO OVERVIEW

As of 31 December 2009, the fair value of the performing investment portfolio totaled approximately $655.2 million and was 100% invested in CLO transactions. TFG's CLO portfolio continued to be diversified across underlying asset classes and geographies, with approximately 72.3% of risk capital invested in CLOs with primary exposure to U.S. broadly syndicated senior secured loans, 6.7% in CLOs with primary exposure to European broadly syndicated senior secured loans and 21.0% in CLOs with primary exposure to U.S. middle market senior secured loans.(1)(2)

TFG's portfolio ended the challenging year of 2009 on a positive note with improvement in the condition of TFG's CLO investments versus the prior quarter and continued outperformance of the market-wide average in terms of, among other metrics, the percentage of transactions passing their junior-most O/C tests. As of 31 December 2009 approximately 68% of TFG's CLO investments were passing their most junior O/C tests, an increase from 60% at the end of Q3 2009, and comparing favorably with the U.S. market-wide average of approximately 62.0% of U.S. CLOs estimated to be in compliance with their junior O/C tests as of the end of 2009. (3)(4)(5) Measures of general credit quality of TFG's underlying investments also improved during Q4 2009. For example, the weighted-average percentage of corporate obligors rated Caa1/CCC+ or below in our 61 CLO investments ended the year at 12.0% versus 12.6% at Q3 2009, compared to an approximate 7.8% weighted-average maximum level permitted under the terms of our investments.(6) Furthermore, this statistic was considerably lower than the market-wide median level of CCC-rated asset holdings among CLOs – estimated to be approximately 16.5% as of the end of 2009.(7) Each of these foregoing TFG portfolio statistics represents a weighted-average summary of all of TFG's 61 investments; each individual investment's metrics will differ from this average and vary across the portfolio.(8)

The above mentioned improvements in the condition of TFG's CLO portfolio at year-end nonetheless followed a very difficult beginning to the year. In the first half of 2009, TFG's CLO portfolio was negatively impacted by a continuation of the pressures evident in 2008, including, negative economic growth in both the United States and Europe, stalled and weak credit markets, declining corporate earnings, rising leveraged loan defaults, declining loan recoveries and rating agency downgrades. The U.S. S&P/LSTA Leveraged Loan Index price hit a 2009 low of $63.01 on 10 March 2009 as the annualized quarterly default rate reached 19.54% as of Q1 2009, its highest level on record since S&P/LCD has been collecting loan market data.(9) In addition to increased default levels and low loan prices (particularly for distressed assets), the CLO market was also negatively impacted by underlying collateral rating downgrades to Caa1/CCC+ or below, as rating agencies took an increasingly negative view of the prospects of many leveraged loan issuers. Caa1/CCC+ or below rated asset exposure over pre-defined limits in CLO investments may temporarily or permanently cause cash diversion away from CLO equity tranches (TFG's investments) and at the extreme may cause senior O/C test breaches potentially leading to "Events of Default" in certain transactions and a complete liquidation of the investment's underlying collateral as well as a complete cessation of cash flows. The confluence of these pressures and the resulting realized and unrealized losses incurred by CLOs across the market generally led to a deterioration of U.S. and European CLO collateral coverage, or O/C, ratio levels. Numerous CLO transactions (including, those owned by the Company) failed to comply with certain O/C tests, and accordingly, ceased to generate cash flows to subordinated note holders, or equity tranche holders (such as the Company).

In the context of these detrimental developments, the condition of many of TFG's CLO investments deteriorated significantly in Q1 2009 and the majority of the ALR established at 2008 year-end ($141.0 million) was utilized during the quarter. Consequently, given the potential for, and uncertainty surrounding, further deterioration in cash flows (including negative impacts stemming from, among other things, rating agency downgrades), TFG increased the ALR (with a corresponding reduction in the fair value of TFG's CLO investments) in March 2009 by $290.0 million. As described elsewhere in this report, many of TFG's investments started to recover in the second half of 2009, during which time we have rebuilt the ALR to stand at $ 349.0 million at the end of 2009.(10)

The latter half of the year fortunately witnessed some stabilization and capital markets recovery. In the leveraged loan market, this recuperation process was the result of multiple endeavors. Firstly, potential defaults were averted via a variety of amendments and out-of-court restructurings. These took the form of covenant-relief amendments, maturity extensions, debt buy-backs, and distressed exchanges. To quantify the significance of this theme, covenant-relief amendments were implemented by a record $122.1 billion of loans in the U.S. in 2009, up from $54.3 billion in 2008, with "amend-to-extend" activity alone totaling $58.9 billion in 2009 (up from $0.0 in 2008).(11)

PORTFOLIO OVERVIEW (continued)

Loan investors often received amendment fees, spread increases, and LIBOR floors, in exchange for their consent to these amendments, thereby re-pricing the affected loans at wider levels. During 2009, U.S. S&P/LSTA Leveraged Loan Index issuers received approximately 8.8 bps of fee income and increased the average spread of the index by approximately 27 bps.[12] TFG's CLO investments benefited from such spread re-sets since wider asset spreads facilitate the generation of greater excess interest income available for direct distribution to the equity tranches or the cure of O/C tests (given the CLOs' locked-in liability spreads).

Secondly, various types of distressed exchanges, where lenders exchanged existing bonds for a lower notional of new bonds, equity, or a combination of both, materially reduced the realized default rate for the year.[13] According to S&P/LSTA, 18 distressed exchanges were completed during 2009, which had they been included in the U.S.12-month rolling default rate (by principal amount) would have raised this rate to 16.8% as of year-end, as opposed to the 9.61% actually realized.[14] In addition to reducing the volume of monetary defaults and bankruptcy filings, such distressed exchanges improved the credit position of the senior secured bank loans affected, which comprise the vast majority of TFG's underlying assets, by reducing the overall leverage and interest burden of the companies involved.

Finally, as the high yield capital markets opened up, approximately $19.5 billion of loans in 2009 were repaid via bond-for-loan take outs, increasing the average loan prepayment rate to approximately 14.3% for 2009, up from 8.8% in 2008, and providing an important source of cash for reinvestment into the loan market.[15] Greater prepayment inflows are also a positive development for TFG's CLO investments in the current spread environment since prepayment proceeds can be reinvested by our CLO managers at wider spreads and/or lower purchase prices. All in all, by the end of the year, the U.S. S&P/LSTA Index posted a 44% gain[16] and the European Leveraged Loan Index ("ELLI") was up 35.8%.[17]

In the U.S. CLO market the improvement in loan prices, moderation of default rates and rating agency downgrades to Caa1/CCC+ or below, led to, among other things, improved O/C levels via the gradual restoration of previously incurred unrealized O/C losses and a corresponding improvement in CLO investment performance and cash distributions to subordinated note holders, such as TFG. While the initial stages of the loan market rally affected primarily highly-rated, "blue-chip" credits, the positive price momentum shifted to stressed credits during the second half of the year. For example, the return of CCC-rated U.S. S&P/LSTA Loan Index credits shifted from (-7.6%) as of Q1 2009 to 88.6% for all of 2009.[18] In addition, the average price of defaulted S&P/LSTA Loan Index issuers rose from an all-time low of $37.0 in Q1 2009 to $66.0 as of the end of the fourth quarter.[19] The pace of U.S. CLO market recovery, therefore, accelerated during the latter half of 2009, particularly for CLO investments that were primarily negatively affected by unrealized O/C losses as improving market values of Caa1/CCC+ assets, and other stressed assets required to be discounted for O/C test purposes and declining defaults led to increased O/C levels and the return of cash generation to equity tranche and other note holders.[20] Similarly, declining defaulted asset holdings led to improved O/C levels and the return of cash generation to equity tranche and other holders, such as TFG.[21] Furthermore, a number of CLO managers were able to sell certain stressed holdings as their prices recovered, further improving investment performance. Finally, the triggering of CLO reinvestment and/or de-leveraging O/C tests earlier in the year, in and of themselves, also worked to correct O/C test breaches as, for example, diverted cash flows paid down a CLO's debt thereby curing the O/C breach through deleveraging.

It is important to note, however, that the European CLO market lagged the U.S. CLO market's recovery in 2009, as continuing downgrades, defaults, and lengthier restructurings, among other factors, contributed to a greater level of persistence of O/C test breaches as compared with U.S. CLOs. Furthermore, European CLOs' transaction-specific haircut requirements generally limited the deals' ability to immediately benefit from loan price increases, leaving them more dependent on actual upgrades, default recoveries, and/or asset sales. As a result, notwithstanding modest par value gains, the vast majority of European CLOs (including the vast majority of European CLOs owned by the Company) remain in breach of certain O/C tests as of the end of 2009 and continue to face an arduous path to recovery and a return to cash generation for equity tranche holders, such as TFG.

KEY BASE CASE MODELING ASSUMPTIONS

As has historically been the case, the IRR of each TFG CLO investment, which determines the rate at which income is recognized on such investment, is determined by applying certain modeling assumptions to derive its expected future cash flows. The weighted-average IRR of TFG's CLO investments ended the year at approximately 11.9%, a recovery of approximately 2.7% from the end of Q2 2009 but down approximately 1.9% from 13.8% at the end of 2008. This IRR level incorporates, among other things, the life-to-date performance of our investments as well as certain IRR modeling assumptions impacting future expected cash flows. These assumptions are intended to factor in historic, current, and potential market developments on the performance of TFG's CLO investments. These December 2009 assumptions are unchanged from December 2008 and are summarized below (listed in no particular order):[(1)]

– **Constant Annual Default Rate:** The assumed constant annual default rate is approximately 6.4%, which is 3.0x the original base-case WARF-implied default rate, for the period to year-end 2011, followed by a return to 1.0x (the original base-case WARF-implied default rate) thereafter until maturity.

– **Recovery Rate:** We have modeled recovery rates to be approximately 55%, or approximately 0.8% of the original base-case assumed weighted-average recovery rate, until year-end 2011, followed by a return to 71% (the original base-case recovery rate) thereafter until maturity.[(2)]

– **Prepayment Rate:** Loan prepayments are assumed to be 7.5% p.a. until year-end 2011, followed by a return to 20% p.a. (the original base-case prepayment rate) thereafter until maturity; we have also assumed a 0% prepayment rate on bonds throughout the life of each transaction as in the original base-case assumptions.

– **Reinvestment Price and Spread:** The assumed reinvestment price is 87%, a level that generates an effective spread over LIBOR of approximately 724 bps on broadly syndicated U.S. loans, 739 bps on European loans, and 806 bps on U.S. middle market loans, until year-end 2011, followed by a return to a par reinvestment price (the original base case reinvestment price) thereafter until maturity.

Despite some improvements in the outlook for certain of the above modeling inputs going into 2010, including anticipated reductions in the levels of 2010 loan defaults reported by applicable ratings agencies, TFG has not modified or recalibrated its IRR modeling assumptions to reflect these expected improvements, pending further evidence of the sustainability of such improvements during the course of early 2010. The Investment Manager reviews, and adjusts in consultation with the Company's audit committee, the CLO investment portfolio's IRR modeling assumptions on a regular basis.

Based upon the IRR's of TFG's CLO investments, TFG recognized $165.5 million of interest income from investments during 2009. TFG received $153.0 million of cash from investments during the year.

ACCELERATED LOSS RESERVE

In December 2008, in order to better reflect the deteriorating environment in the fair value of its CLO investment portfolio, TFG established a balance sheet reserve (the “Accelerated Loss Reserve” or “ALR”) calculated on a deal-by-deal basis.

The ALR was determined by applying a more pessimistic set of short-term assumptions to the CLO investment portfolio and sought to reflect, among other things, a near-term rating agency driven phenomenon of an increase in negative loan ratings migration that may persist for a period materially less than the expected life of a CLO investment as well as other potential losses, which in each case may not be appropriate for inclusion in TFG’s long-term base case IRR modeling assumptions, but which may have a significant impact on the fair value of TFG’s CLO investments. As at 31 December 2008, the ALR totaled approximately $141.0 million. In Q1, 2009 the anticipated deterioration in performance of TFG’s deals was evident and the majority of the ALR was utilized.

In addition, as the outlook for its CLO investments’ underlying collateral performance and loan ratings migration deteriorated further in Q1 2009, following consultation with TFG’s audit committee, TFG deemed it appropriate to apply an even more pessimistic view in order to reflect further market deterioration in its fair value through an increased ALR, again calculated on a deal-by-deal basis, by $290.0 million giving a gross amount of $431.0 million.

The following table sets out the evolution of the ALR between December 2008 and December 2009.

(All Amounts in $MM)	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009
ALR Brought Forward	n/a	(141.0)	(315.0)	(254.1)	(333.8)
Addition of New ALR in Anticipation of Potential Investment Deterioration	(141.0)	(290.0)	n/a	n/a	n/a
Utilization of ALR as Investment Performance Deteriorated	n/a	116.0	60.9	n/a	n/a
Reinstatement of ALR as Investment Performance Improved	n/a	n/a	n/a	(79.7)	(15.2)
Cumulative Fair Value/ NAV Impact of ALR	(141.0)	(315.0)	(254.1)	(333.8)	(349.0)
Release of ALR in TFG’s NAV	n/a	n/a	n/a	n/a	n/a

The second half of 2009 saw a general recovery in many of TFG’s CLO investments, which resulted in an increase in fair values and a reinstatement of $94.9 million of ALR to $349.0 million at year end. Neither the improvement in CLO investment performance, nor the positive earnings per share generated by TFG, in the second half of 2009 was caused by a restoration, or release, of the ALR or a change in the TFG modeling assumptions described above.

When assessing the reasonableness of the fair value of TFG’s CLO investment portfolio after taking into account the ALR, the Investment Manager may utilize several benchmarks, including:

1 **The effective discount rate implied by the ALR:** Instead of re-modeling TFG’s CLO investments using more pessimistic assumptions to derive the ALR, an alternative but more generic method to reflect the increased risk or uncertainty around future cash flows would have been to apply a more pessimistic discount rate to the future cash flows used in TFG’s base case model. As at December 2009, TFG’s CLO investment portfolio fair value, which is the sum of the modeled fair value plus the ALR, was the equivalent of applying a discount rate to the base case cash flows based on current assumptions that was a significant spread above the then-current spread on the BB tranches of similar CLOs (which are typically the junior-most class of rated debt in a CLO directly senior to the equity tranche); and

ACCELERATED LOSS RESERVE (continued)

2 **The change in TFG's CLO investments' (equity tranches) fair value relative to more senior CLO tranches:** With very little observable secondary market activity in equity tranches of CLOs during 2009 and widely dispersed performance across deals, it would be inappropriate to use sparsely available market prices to value TFG's portfolio. However, there are more observable data points in the more senior debt tranches as reported by various financial institutions and these can help assess the reasonableness of the movement in TFG's CLO investments' fair value. TFG believes that the relatively sharp decline in value of more senior tranches in Q1 and Q2, 2009 and the corresponding more dramatic write up of more senior tranches in the second half of 2009 reflects, among other things, the influence of forced sellers on the value of such tranches.

As part of the ongoing review of reserves, at year end 2009 it was determined that, while the total amount of the ALR should remain unchanged, it was appropriate to re-allocate a larger proportion of the ALR to the euro-denominated deals, which have tended to lag behind the U.S. deals in terms of improved performance during the second half of 2009.

The outlook for CLO equity tranches (TFG's primary investment) remains uncertain and potentially volatile, as evidenced by, among other things, the broad range of default assumptions for the period 2010 to 2012 from applicable rating agencies and financial institutions. We are, therefore, likely to maintain an ALR for the remainder of 2010 and potentially beyond, although we will review the reasonableness of the overall ALR on an ongoing basis, including in consultation with TFG's audit committee. It is important to note, however, that if the underlying cash flows within the majority of TFG's CLO investments continue to improve it would be reasonable to assume that the fair value of those investments will increase, even in the absence of any release of the ALR or change in TFG's modeling assumptions. If at some stage it is determined, when looking at the CLO investment portfolio valuation against appropriate benchmarks, including those described above, that TFG's CLO investment positions are in total overly conservatively valued, the Investment Manager may consider recommending the release of some of the ALR. Such release of the ALR would be done in consultation with TFG's audit committee.

PORTFOLIO MANAGEMENT

We continue to utilize our strategy of majority (or significant) positions which allows us to engage in active dialogue and collaboration with TFG's 32 CLO collateral managers to evaluate the performance of TFG's CLO investments, monitor credit quality, analyze underlying obligor exposures, review credit "watch lists," and share insights on best practices. We have sought to assist our managers in addressing the year's challenges and taking advantage of the market dislocation evident during the first half of 2009.

We believe that this management strategy has served us well through the financial crisis, as it has allowed us to help TFG's managers respond more effectively to rapidly changing market conditions. In 2009, we consulted with a number of TFG's managers on a variety of matters, including various deal amendments. The amendments ranged from deal structure issues to collateral management agreement changes to allow more investment flexibility for CLO managers. We have also aimed to assist TFG's managers in efforts to improve O/C levels and cash generation of its CLO investments. Finally, we believe that TFG's acquisition of LCM may provide the Company with additional insight into the leveraged loan market and may allow us to more effectively manage TFG's CLO investments. Notwithstanding the acquisition of LCM, the Company expects to continue to seek and enjoy diversification asset managers.

We have found that TFG's majority (or significant) positions within the equity tranche of its CLO investments have also generated meaningful value for the Company, including in the context of asset manager consolidation. Most noteworthy, TFG's majority CLO equity tranche investments with LCM were a significant factor in influencing discussions leading to the successful acquisition of LCM. On several other occasions the Company was a key voting constituency for the approval of a collateral manager change-of-control or collateral management agreement assignment. In such instances, TFG was able to obtain significant and long running fee concessions, immediate cash payments or other consideration, including deal amendments. We will continue to seek opportunities to benefit from these majority positions.

FINANCING SOURCES AND INITIATIVES

Our response to the challenging financing conditions of 2009 has been to preserve TFG's operating flexibility given a heightened level of uncertainty and the limited availability and impracticable nature of existing financing alternatives. To that end, we were focused on completely repaying outstanding corporate-level leverage of the Company, which was achieved during Q1 2009. As of 31 December 2009, TFG had no outstanding debt and the net cash on balance sheet increased to $151.6 million, from $60.0 million at the end of 2008. A significant balance sheet cash position can be found in many of the world's best run companies and we believe should serve the Company well going forward. We were also focused on ensuring that the Company maintained adequate liquidity to take advantage of certain deal protection terms which we built into our CLO investments. We continue to evaluate and improve our financing and custodial arrangements with prime brokers and counterparties building on our success in 2008 of avoiding the Lehman Brothers bankruptcy. As of year-end all of TFG's CLO investments were held in a segregated custodial account with a U.S. financial institution.

As of 31 December 2009, the Company had no credit hedges in place having unwound then-existing single name and index credit hedges based on the assessed cost-effectiveness of the hedges, potential counterparty risk and the desire to continue to improve the Company's liquidity position by monetizing such gains. Going forward, our hedging strategy may continue to include the use of single name or index credit hedges when and where appropriate as well as foreign exchange rate hedges. 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.

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 2009, the average daily trading volume for TFG shares (of approximately 150,000) on Euronext Amsterdam by NYSE Euronext increased over five times from 2008. 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 2009: DIVIDENDS AND SHARE REPURCHASES

The Company has sought to continue to return value to its shareholders. Despite the challenging circumstances of 2009, TFG maintained a quarterly dividend throughout the year, doubled its dividend in Q4 2009 and updated its share repurchase program to significantly increase the amount of shares the Company may purchase on each trading day.

In each of the first three quarters of 2009, the Board of Directors of TFG declared a dividend of $0.03 per share. The dividend for Q4 2009 of $0.06 per share was approved on 25 February 2010 and will be paid on 25 March 2010. This will result in a total dividend of $0.15 for the year.[1] During 2009, the Company purchased 2,420,641 shares at an average price of $2.74 per share, which brought the total number of shares purchased under the share repurchase program to 5,283,043 at an average price of $4.00 per share. On 23 October 2009, TFG extended its share repurchase through 31 October 2010 to allow for purchases of up to an additional 5% of the Company's outstanding shares.

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 Net Asset Value (NAV), represent an attractive use of TFG's free cash. TFG remains focused on exploring methods of returning capital to its shareholders in a manner consistent with preserving its CLO investments, protecting the prospects of the Company and pursuing other investment opportunities.

LCM ACQUISITION

In November 2009, TFG entered into an agreement to acquire LCM and certain CLO securities with an aggregate face amount of $39 million for a combined purchase price of $10.0 million in an accretive transaction for the Company. The purchase agreement provided that management fees earned by LCM and cash flows received from the CLO securities from (and including) 16 August 2009, which in aggregate were approximately $9.4 million, less certain expenses of LCM, totaling approximately $2.4 million, accrued for the benefit of TFG. Accordingly, the cash payment made by TFG for the LCM business and the CLO securities to consummate the transaction totaled approximately $3.0 million.

LCM ACQUISITION (continued)

LCM was established by Calyon, the Corporate and Investment Bank of Credit Agricole Group, as an asset manager in 2001 and as of 31 December 2009 had approximately $2.5 billion of loan assets under management across six active CLOs – all of which were in compliance with applicable collateral coverage (O/C) tests and generating fee income as of the end of the year. The entire existing LCM management team is continuing in their roles.

Besides adding an attractive asset management fee income stream and CLO investments to the Company's investment portfolio, we believe that the purchase of LCM positions TFG well for continued consolidation in the CLO asset management market and potential recovery in CLO new issuance volumes.

We, therefore, will seek to grow LCM's business in a way that capitalizes on the available opportunities (including, manager consolidation, primary CLO issuance, strategic opportunities, and managed accounts) and leverages LCM's expertise, investment style, and exceptional performance track record.

After closing the transaction in January 2010, Lyon Capital Management LLC was renamed LCM Asset Management LLC and Polygon Management L.P. was sold a 25% equity position in the company at a price proportionate to TFG's overall cost for the purchase of the business. Certain Polygon Management L.P. affiliates also entered into an agreement with LCM to provide operating, infrastructure and administrative services to LCM, including services that have historically been provided to LCM by Calyon.

SUMMARY, OUTLOOK AND STRATEGY

The Investment Manager has sought to design and manage TFG as a long-term enterprise that would be able to withstand an array of economic and financial market challenges. 2008 and 2009 were years marked by the failure of many financial institutions. TFG, in contrast, has withstood the challenges of the past two years due to, among other things, the performance of the Investment Manager and the corporate structure and governance of TFG.

Beginning in late 2008 and continuing through the first half of 2009, the Company faced an extremely challenging and uncertain operating environment with significant risks posed to its CLO investments which represented the vast majority of the Company's revenue producing assets. Accordingly, it was appropriate to expect the Company's CLO investment portfolio to produce less cash flow than it had in prior periods. A combination of this prospect and the impracticality, if not impossibility, of reasonable external financing alternatives, we believe augured for a prudent approach focusing on the preservation of the Company's CLO investments, financial position and long-term prospects.

Completely deleveraging the Company through the financial crisis was a significant achievement and put the Company in a position to continue to (i) finance its corporate operations without seeking external financing sources, (ii) if required, take protective measures with respect to its CLO investments, such as injecting new equity or other strategies, and (iii) return value to its shareholders through capital distributions, including dividends and share repurchases.

With that success and, we believe, prudent perspective as background, by mid-2009 we began to look for opportunities to cautiously further utilize TFG's resources for the benefit of its shareholders. To that end, early in the second half of the year, the Company began negotiating the purchase of LCM and several CLO investments with an aggregate face amount of $39 million. The LCM transaction closed in early 2010 as has a further secondary add-on CLO investment with a face amount of approximately $10.0 million. In addition, the Investment Manager sought further transactions with managers with whom the Company had an existing and positive relationship, such as LCM.

Despite this success, the Investment Manager remains mindful of the difficult and uncertain environment. For example, further collateral coverage, or O/C, test breaches could negatively impact the cash flows of the Company's CLO investment portfolio. Many of the Company's CLO investments remain in breach of their applicable O/C test or may otherwise breach such a test in the event of further economic or loan market decline or other significant market disruptions. In addition, external financing may remain difficult and TFG's CLO investments still may require equity contributions or other strategies to ensure continued cash flow generation.

SUMMARY, OUTLOOK AND STRATEGY (continued)

Although much uncertainty remains regarding, among other things, the pace and scale of the global economic recovery, we believe 2010 will continue to see improvement in the leveraged loan and CLO markets with a corresponding restoration of the overall structural strength and cash-flow generation capacity of TFG's CLO investments.

This constructive view, though not without significant downside risks, reflects a number of positive fundamental and technical trends. Firstly, the financial performance of many leveraged loan borrowers has been on the mend as a result of successful cost-cutting measures and/or top-line revenue growth. Secondly, the wave of maturity extensions, covenant amendments, and deleveraging measures executed by leveraged borrowers during 2009, has reduced the pipeline of distressed businesses at risk of near-term default. Equally important, the recovery prospects on defaulted loans are expected to continue to improve as a result of greater availability of exit financing, increased risk appetite and recovery in capital markets activity in terms of both primary loan/high yield bond issuance as well as M&A/IPO activity. In addition, a continued deceleration in the pace of downgrades to Caa1/CCC+ or below and a return of loan repayments closer to average historical levels, would be expected to have a positive effect on the overall performance of TFG's CLO investments, allowing for the restoration of previously incurred O/C losses and the reinstatement of cash flows to equity tranches. We expect however that, in-line with 2009 trends, the performance of our European CLOs will continue to lag that of TFG's U.S. investments due to, among other things, less favorable legal and loan market characteristics of certain national European loan markets as well as certain structural features of European CLOs.

We believe our success in navigating a difficult economic environment and our resulting strong balance sheet, positions TFG well to take advantage of meaningful opportunities where some of its peers may be more constrained especially across what we believe may be a shrunken competitive landscape. The Company, we believe, may have significant potential to become more of a financial services firm that functions not only as an investment holding company but also as an operating company capable of pursuing attractive investment opportunities across multiple asset classes as a part of its investment objective and for the benefit of its shareholders.

In 2010, we expect to continue to evaluate a variety of uses of deploying TFG's resources in a manner consistent with the challenges presented and TFG's investment objective. Firstly, we believe that the LCM acquisition has been a good use of TFG's cash and we expect to continue to explore other potential acquisitions to grow our asset management platform both within and beyond the CLO and loan market. Secondly, during early Q1 2010 and potentially throughout the year, TFG expects to continue to see attractive secondary CLO investment opportunities. Thirdly, the end of 2009 offered evidence of the potential re-opening of the new issue CLO markets and the Company may be able to capitalize on new issue CLO prospects during 2010 in order to grow LCM's business and add to its existing CLO investment portfolio. In addition, we will continue to review opportunities to support TFG's existing CLO investments through capital contributions or other strategies and will explore investment opportunities in assets and asset classes within and beyond the leveraged loan market. Finally and importantly, we intend to continue to serve our aim of returning capital to TFG shareholders (including through dividends, the continuation of our updated and enhanced share repurchase program and 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 2009

OVERVIEW

As was expected, 2009 proved to be a challenging year for TFG, although from a performance perspective, both in terms of the CLO investment portfolio and the earnings of the Company, the year ended significantly more positively than it began. In Q1 2009, a sharp rise in defaults and a significant increase in CCC+ downgrades by ratings agencies allied to a steep decline in loan prices resulted in a deterioration in CLO investment performance and associated utilization of the ALR. Against a backdrop of the global economy in dramatic decline and an increasingly pessimistic view emanating from the ratings agencies and financial institutions, the ALR was increased to $315.0 million at the end of the quarter.

Although the pace of decline slowed in Q2 2009, it was not until the second half of the year that investment performance and earnings turned the corner. A rally of loan prices aided by a declining default rate helped certain of the CLO investments in the portfolio to rebuild O/C cushion leading to increased expected cash flows and associated fair value. As a result, TFG was able to post positive earnings in Q3 and Q4 whilst also rebuilding the ALR, although earnings overall for the year were approximately $(2.50) per share.

CONSOLIDATED INCOME COMPARISON 2009 VS. 2008

	2009	2008
Statement of Operations	**Consolidated ($MM)**	**Consolidated ($MM)**
Interest Income from Investments	165.5	217.1
Interest Income from Cash	0.1	4.3
Other Income	1.3	4.3
Investment Income	**166.9**	**221.4**
Management and Performance Fees	(42.2)	(41.9)
Administrative / Custody and Other Fees	(2.4)	(2.9)
Interest Expense	(0.6)	(13.1)
Total Operating Expenses	**(45.2)**	**(57.9)**
Net Investment Income	**121.7**	**163.5**
Realized / Unrealized (Loss) / Gain From Hedging and FX	(9.1)	13.9
Net change in Unrealized (Depreciation) / Appreciation in Investments	(427.7)	(224.3)
Net Realized Gain on Investments	0.0	0.3
Realized / Unrealized Losses from Investments and FX	**(436.8)**	**(210.1)**
Net Income	**(315.1)**	**(46.6)**

On a consolidated basis net investment income of $121.7 million was approximately 26% lower compared to the $163.5 million recorded in 2008. Primarily this reflected the reduction in the CLO investment portfolio weighted average IRR which drives the recognition of interest income and this figure fell approximately $51.6 million to $165.5 million in 2009. This was partially mitigated by a reduction in total operating expenses, in particular interest expense, which was down $12.5 million. Unrealized depreciation on the CLO investment portfolio of approximately $(427.7) million, of which $(207.9) million was the result of net additions to the ALR, turned positive net investment income into an overall loss for the year. The hedging losses recorded in 2009 were incurred with respect to foreign exchange.

CONSOLIDATED INCOME - 2009 QUARTER ON QUARTER COMPARISON

The quarter-on-quarter comparison of consolidated net income (see table below)(1) illustrates how the earnings picture progressed through the year from a significant loss in Q1 2009 through an improving earnings picture in the latter half of the year.

The key driver of the net loss in 2009 was the unrealized change in depreciation on the portfolio in Q1 2009, with a recovery in the CLO investment portfolio providing the stimulus for subsequent positive earnings later in the year, particularly in Q4 2009. This recovery in earnings was in spite of a $94.9 million reinstatement of the ALR from approximately $254.1 million at the end of Q2 2009 to $349.0 million by the end of December 2009.

TFG Quarterly Statement of Operations

Statement of Operations	Q4 2009 ($MM)	Q3 2009 ($MM)	Q2 2009 ($MM)	Q1 2009 ($MM)	Total 2009 ($MM)
Interest Income from Investments	41.1	33.1	44.9	46.4	165.5
Interest Income from Cash	0.0	0.0	0.0	0.1	0.1
Other Income	0.3	0.3	0.2	0.5	1.3
Investment Income	**41.4**	**33.4**	**45.1**	**47.0**	**169.9**
Management and Performance Fees	(32.7)	(2.6)	(2.7)	(4.2)	(42.2)
Administrative / Custody and Other Fees	(0.8)	(0.5)	(0.5)	(0.6)	(2.4)
Interest Expense	(0.0)	(0.0)	(0.0)	(0.6)	(0.6)
Total Operating Expenses	**(33.5)**	**(3.1)**	**(3.2)**	**(5.4)**	**(45.2)**
Net Investment Income	**7.9**	**30.3**	**41.9**	**41.6**	**121.7**
Realized / Unrealized Gains / (Losses) From Hedging and FX	(5.0)	(2.1)	(2.1)	0.1	(9.1)
Net change in Unrealized (Depreciation) / Appreciation in Investments	91.8	3.0	(66.5)	(456.0)	(427.7)
Net Realized Gain / (Loss) on Investments	0.0	0.0	0.0	0.0	0.0
Realized / Unrealized Gains / (Losses) from Investments and FX	**86.8**	**0.9**	**(68.6)**	**(455.9)**	**(436.8)**
Net Increase / (Decrease) in Net Assets from Operations	**94.7**	**31.2**	**(26.7)**	**(414.3)**	**(315.1)**

FINANCIAL HIGHLIGHTS TABLE

The table below illustrates a number of key metrics, certain of which have been the focus of previous parts of the Financial Review section. Cash generated by the CLO investment portfolio was negatively impacted as certain investments in response to failure of applicable collateral coverage, or O/C tests, either partially diverted cash to buy new collateral or completely cut off cash to equity tranche investors (such as TFG). However, taken in the context of the challenges presented to the CLO investment portfolio, aggregate cash flows were resilient. Cash receipts per share recovered from a low of $0.25 per share in Q2 2009 to $0.31 in Q4 2009, although this is still well down on the usual run rate in 2008 of approximately $0.59-$0.62 per share.

Financial Highlights								
	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Net income ($MM)	$94.7	$31.2	$(26.7)	$(414.3)	$(187.1)	$48.8	$45.8	$45.9
EPS ($)	$0.76	$0.25	$(0.21)	$(3.29)	$(1.48)	$0.39	$0.36	$0.36
Cash receipts ($MM)	$38.4	$35.3	$31.9	$47.1	$75.3	$77.7	$118.0	$74.0
Cash receipts per share ($)	$0.31	$0.28	$0.25	$0.37	$0.60	$0.62	$0.94	$0.59
Net cash balance ($MM)	$174.4	$149.7	$123.8	$94.3	$59.9	$13.4	$(69.4)	$(152.9)
Net assets ($MM)	$807	$721	$693	$723	$1,142	$1,348	$1,319	$1,289
Number of shares outstanding (million)	124.8	126.2	125.9	125.7	126.0	126.2	126.3	125.7
NAV per share ($)	$6.47	$5.71	$5.50	$5.75	$9.06	$10.69	$10.44	$10.25
DPS ($)	$0.06	$0.03	$0.03	$0.03	$0.03	$0.15	$0.15	$0.15
Weighted average IRR on completed transactions (%)	11.9%	10.3%	9.2%	10.6%	13.8%	16.9%	16.6%	16.0%
Number of investments	61	61	61	61	61	61	61	61
Net excess life-to-date loss accruals ($MM)	$(215.0)	$(95.0)	$(39.0)	$(50.0)	$(115.0)	$(158.0)	$(137.0)	$(116.0)
Accelerated loss reserve ($MM)	$(349.0)	$(333.8)	$(254.1)	$(315.0)	$(141.0)	$0.0	$0.0	$0.0

CASH FLOW FROM OPERATIONS

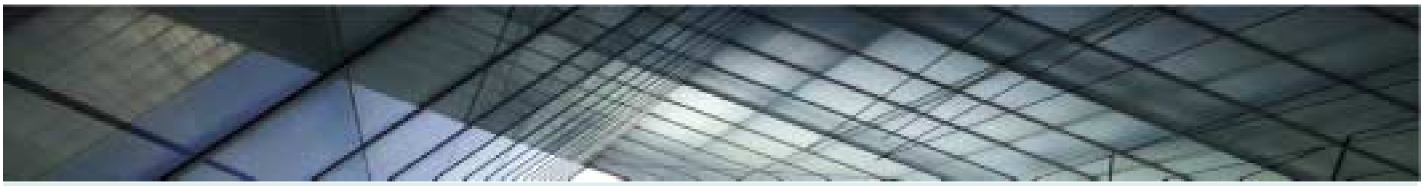
As expected, cash generated by the CLO investment portfolio in 2009 was significantly lower than in 2008 as a result of factors described above. The use of the cash generated also differed in 2009. In 2008, $490.2 million of cash flowed out of the Company in relation to "financing activities" of which $379.0 million went directly to reducing leverage. By 2009, the task of deleveraging was largely completed and only a further $9.1 million of cash flowed out in this respect. Dividends and share repurchases accounted for the balance of financing outflows.

Cash Flow From Operations	2009	2008
	MM	MM
	$	$
Net cash inflow from operating activities	139.0	345.3
Net cash (outflows) from financing activities	(29.0)	(490.2)
Net increase / (decrease) in cash and short term deposits	110.0	(144.9)
Cash and cash equivalents at start of year	63	209.2
Exchange rate gain / (loss)	1.4	(1.3)
Cash and cash equivalents at end of year	174.4	63

NET ASSETS

The fall in Net Assets in 2009 was a result of the reduction in aggregated fair value of the CLO investment portfolio from $1,082.5 million at 31 December 2008 to $655.2 million at the end of 2009. As cash continued to flow from the CLO investment portfolio, albeit at a lower overall level than previously, debt was paid down to zero and the cash balance of the company increased significantly.

Consolidated Balance Sheet Summary	2009	2008
	MM	MM
	$	$
Cash and cash equivalents	174.4	63.0
Investments in CLOs (at fair value)	655.2	1,082.5
Debt	-	(117.6)
Other Assets / Liabilities	(22.8)	114.1
Equity	806.8	1,142



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, Polygon Credit 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 2009, the Tetragon Financial Group Master Fund Limited (company number 43322) has acquired CLO investments with an end-of-year fair value of approximately $655.0 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 32 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).

Since January 2010, the Company also owns a 75% interest in LCM, an asset manager with approximately $2.5 billion of loan assets under management as of year-end 2009that yielded positive results for the Company's investment performance.

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). 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.[1] 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

Polygon Credit 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, Polygon Credit Management GP LLC (the "General Partner"), which is responsible for all actions of the Investment Manager. 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"). 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 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 pursuant to a Services Agreement dated as of 29 January 2010 and to various Polygon managers pursuant to applicable services agreements.

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.

CLO ASSET CLASS SELECTION (continued)

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 may 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 Company's principals in the securitization market. 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) that it believes to be superior and has looked to select asset managers with a demonstrated strength in credit analysis and the management of credits 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 asset managers.

The Company believes that, as a result of (among other things) the reduction in CLO issuance volumes in 2008 and 2009 and expected low levels of issuance in 2010, the CLO asset manager industry may continue to face some consolidation pressures as was evidenced in 2009 as several managers exited the market or otherwise reorganized, including certain of our CLO managers. The Company realized value on several of its CLO investments in connection with such activity in 2009, including, significantly, through its acquisition of LCM.

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.

As described above, other than its ownership interest in LCM all 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 substantial (or majority) 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 continues to explore other methods of returning capital to shareholders as well as improving liquidity for 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 2009 and contains a fair review of that period and (ii) the 2009 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.

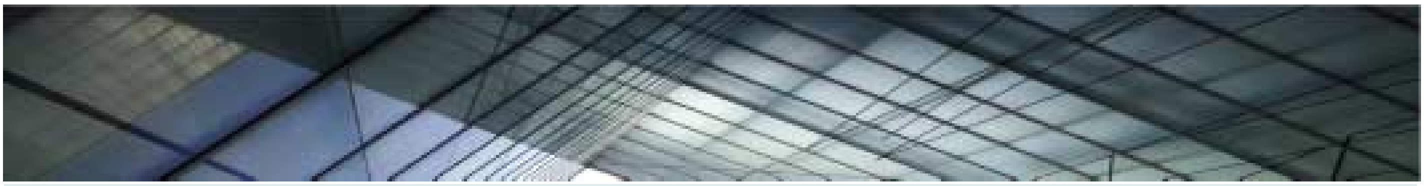
RISK FACTORS (continued)

- 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.
- The performance of many of the Company's investments may depend to a significant extent upon the performance of its asset managers.
- 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.

RISK FACTORS (continued)

- 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

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



END NOTES

CORPORATE PROFILE

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

LETTER TO SHAREHOLDERS

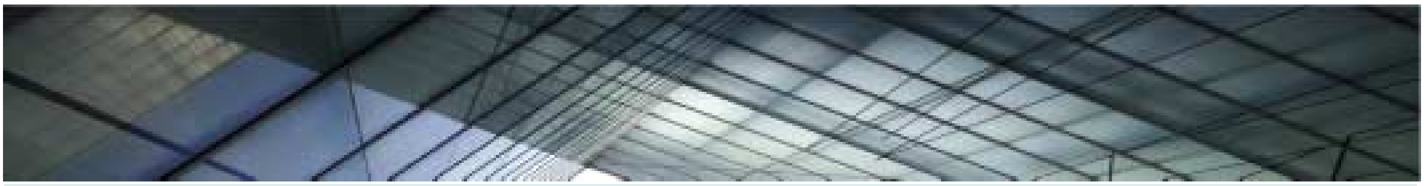
(1) Such return is based on the following assumptions: TFG shares were purchased at a price of $2.87 per share on 31 December 2008, quarterly dividends of $0.12 per share for the year were reinvested into the shares of TFG on each dividend ex-date during the year (27 February 2009 at $1.05 per share, 27 April 2009 at $1.03 per share, 31 July 2009 at $0.98 per share, and 23 October 2009 at $2.39 per share) and all shares were sold at the closing price of $3.91 per share on 31 December 2009.
(2) For additional information please refer to the Company's website at www.tetragoninv.com.

2009 PERFORMANCE AT A GLANCE

(1) S&P/LCD U.S. Leveraged Lending Review 4Q 2009. Please note that TFG's investment portfolio includes approximately 6.7% 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.
(2) Based on the most recent trustee reports available for our investments as of 31 December 2009.
(3) Morgan Stanley CDO Market Tracker, 8 January 2010; based on a sample of 480 U.S. CLO transactions.
(4) Please note that as of 31 December 2009, TFG's investment portfolio included approximately 6.7% 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.
(5) 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.
(6) Morgan Stanley CDO Market Tracker, 8 January 2010.
(7) Based on a weighted average share count, excluding treasury shares, of 125.8 million for 2009 and 126.0 million for 2008.
(8) The life-to-date net loss reserve is investment-specific. It is calculated by subtracting the actual collateral loss for each investment from the expected collateral loss, where the expected loss is a function of expected collateral size, TFG's loss assumptions and the length of time the investment has been held. The net excess loss amount reflects the overall O/C loss performance of TFG's portfolio; it reflects the cumulative effect of loss under-performance and over-performance of our individual investments on an aggregate portfolio basis. Please refer to footnote 15 of this Annual Report for a discussion regarding the distinction between life-to-date net loss reserve and the Accelerated Loss Reserve.
(9) The Accelerated Loss Reserve like the life-to-date net loss reserve is transaction specific. The life-to-date net loss reserve is calculated by subtracting the actual collateral loss for each investment from its expected collateral loss, where the expected collateral loss is a function of the expected collateral size, TFG's loss assumptions and the length of time the investment has been held. Whereas the life-to-date net loss reserve is an adjustment embedded in TFG's modeling assumptions, the Accelerated Loss Reserve is a direct adjustment to the fair value of an investment and the cumulative value of such adjustments will be and is evidenced in the accompanying financial statements.
(10) 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

(1) 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.
(2) As of 31 December 2009 TFG continued to hold three 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.
(3) Based on the most recent trustee reports available for our investments as of 31 December 2009 (for Q4 2009 and 30 September 2009 (for Q3 2009).
(4) Morgan Stanley CDO Market Tracker, 8 January 2010; based on a sample of 480 U.S. CLO transactions.
(5) Please note that as of 31 December 2009, TFG's investment portfolio included approximately 6.7% 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.
(6) 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.
(7) Morgan Stanley CDO Market Tracker, 8 January 2010.



END NOTES (continued)

INVESTMENT MANAGER'S REPORT
PORTFOLIO OVERVIEW (continued)

(8) Weighted by the original USD cost of each investment.
(9) S&P/LCD Quarterly Review, Q4 2009.
(10) As of 31 December 2009, the Accelerated Loss Reserve totaled approximately $349.0 million, compared to an initial reserve amount of $141.0MM as of 31 December 2008. The Accelerated Loss Reserve like the life-to-date net loss reserve is transaction specific. Whereas the life-to-date net loss reserve is an adjustment embedded in TFG's modeling assumptions, the Accelerated Loss Reserve is a direct adjustment to the fair value of an investment to account for the potential impact of certain losses and the cumulative value of such adjustments will be and is evidenced in TFG's financial statements.
(11) S&P/LCD Quarterly Review, Q4 2009.
(12) S&P/LCD News, Leveraged Commentary and Data, "Despite activity, cov-relief amendment trend remains friendly," 7 January 2010.
(13) S&P/LCD News, Leveraged Commentary and Data, "Distressed exchanges roll on; more loan issuers skirt default," 13 October 2010. Many 2009 distressed exchanges resulted in temporary "Selective Default" downgrades from the rating agencies, however, these were typically temporary and were removed once the exchanged were successfully completed.
(14) S&P/LCD Quarterly Review, Q4 2009.
(15) S&P/LCD Quarterly Review, Q4 2009.
(16) S&P/LCD Quarterly Review, Q4 2009; excludes interest.
(17) S&P/LCD European Leveraged Lending Review, Q4 2009; market value gain only.
(18) S&P/LCD Quarterly Review, Q4 2009.
(19) S&P/LCD Quarterly Review, Q4 2009.
(20) U.S. CLOs generally require that Caa1/CCC+ or below rated asset holdings above permitted holding levels are held at market value for O/C purposes, while defaulted assets are held at the lower of market value and assigned rating agency assigned recovery rate. European CLOs are generally required to hold both excess Caa1/CCC+ or below rated assets and defaulted securities at the lower of market value and rating agency assigned recovery rate.
(21) S&P/LCD Quarterly Review, Q4 2009.

KEY BASE CASE MODELING ASSUMPTIONS

(1) Please note that TFG undertakes no obligation to update public disclosure with respect to these or other modeling assumptions, except as required by law.
(2) 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 2009: DIVIDENDS AND SHARE REPURCHASES

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

CONSOLIDATED INCOME - 2009 QUARTER ON QUARTER COMPARISON

(1) The quarterly breakout of interest income from Investments and Net change in Unrealized (Depreciation) / Appreciation in Investments reflects a correcting adjustment relating to the numbers previously reported in Q1, Q2 and Q3. This is a reclassification between these two line items and the Net Increase / (Decrease) in Net Assets from Operations is unchanged.

CERTAIN CORPORATE BACKGROUND

(1) TFG's corporate structure and governance as well as its investment management arrangements were established with the support of the Company's underwriters, were similar to several other vehicles listed around the same time and were disclosed to investors in connection with TFG's initial public offering. In accordance with applicable law, TFG issues public reports from time to time and maintains a website that describes, among other things, the Company's corporate structure and governance as well as its investment management arrangements.

BOARD OF DIRECTORS

Paddy Dear
Rupert Dorey*
Reade Griffith
David Jeffreys*
Byron Knief*
Lee Olesky*
Alex Jackson

*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
Polygon Credit Management LP
399 Park Avenue
New York, NY 10022
United States of America

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

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

Press Inquiries
Finsbury
Simon Moyse/Charles Chichester/Talia Druker
+44 20 7251 3801

Auditors
KPMG Channel Islands Ltd
20 New Street
St. Peter Port
Guernsey, Channel Islands
GY1 4AN

Sub-Registrar and Transfer Agent
The Bank of New York
One Wall Street
New York, NY 10286
United States of America

Issuing Agent, Dutch Paying and Transfer Agent
Kas Bank N.V.
Spuistraat 172
1012 VT Amsterdam
The Netherlands

Legal Advisor (as to U.S. law)
Cravath, Swaine & Moore LLP
One Ropemaker Street
London EC2Y 9HR
United Kingdom

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

Legal Advisor (as to Dutch law)
De Brauw Blackstone Westbroek N.V.
Claude Debussylaan 80
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 FINANCIAL STATEMENTS

TETRAGON FINANCIAL GROUP LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2009

TETRAGON FINANCIAL GROUP LIMITED

AUDITED FINANCIAL STATEMENTS
For the year ended 31 December 2009

CONTENTS

TETRAGON FINANCIAL GROUP LIMITED

DIRECTORS' REPORT
For the year ended 31 December 2009

The Directors present to the shareholders their report together with the audited financial statements for the year ended 31 December 2009.

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.

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, Polygon Credit 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 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*

* Independent non-executive Directors

The remuneration for Directors is determined by resolution of the Voting Shareholder. The Directors' annual fee is US$ 50,000 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.

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.

TETRAGON FINANCIAL GROUP LIMITED

DIRECTORS' REPORT (continued)
For the year ended 31 December 2009

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$ 0.03 per share for the quarter ended 31 December 2008, US$ 0.03 per share for the Quarter Ended 31 March 2009, US$ 0.03 for the Quarter Ended 30 June 2009 and US$ 0.03 for the Quarter Ended 30 September 2009. The Directors have declared a dividend US$ 0.06 for the Quarter Ended 31 December 2009. Dividends paid during the year ended 31 December 2008 amounted to US$ 0.60 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.

Guernsey 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 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.

TETRAGON FINANCIAL GROUP LIMITED

DIRECTORS’ REPORT (continued)
For the year ended 31 December 2009

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: 25 February 2010

TETRAGON FINANCIAL GROUP LIMITED

INDEPENDENT AUDITORS' REPORT
For the year ended 31 December 2009

Independent auditors' report to the members of Tetragon Financial Group Limited

We have audited the financial statements of Tetragon Financial Group Limited (the "Company") for the year ended 31 December 2009 which comprise the Statements of Assets and Liabilities, the Statements of Operations, the Statements of Changes in Net Assets, the Statements of Cash Flows, the Schedule of Investments and the related notes on pages 12 to 22. These financial statements have been prepared under the accounting policies set out therein.

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

The Directors' responsibilities for preparing the financial statements which give a true and fair view and are in conformity with accounting principles generally accepted in the United States of America and are in compliance with applicable Guernsey law are set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, are in conformity with accounting principles generally accepted in the United States of America and comply with The Companies (Guernsey) Law, 2008. We also report to you if, in our opinion, the Company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

INDEPENDENT AUDITORS' REPORT (continued)
For the year ended 31 December 2009

Basis of audit opinion (continued)

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its net decrease 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.

KPMG Channel Islands Limited
Chartered Accountants

Guernsey

Date: 25 February 2010

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF ASSETS AND LIABILITIES
As at 31 December 2009

	Note	31 Dec 2009 US$	31 Dec 2008 US$
Assets			
Investment in Master Fund	3	836,628,677	1,141,950,194
Amounts receivable from Master Fund		212,635	74,366
Total assets		836,841,312	1,142,024,560
Liabilities			
Accrued incentive fee	4	29,781,872	-
Amounts payable on Treasury Shares	5	212,635	74,366
Total liabilities		29,994,507	74,366
Net assets		806,846,805	1,141,950,194
Equity			
Share capital	5	124,769	125,980
Share premium	6	1,177,331,614	1,182,232,455
Capital reserve in respect of share options	7	11,789,336	11,789,336
Earnings	10	(382,398,914)	(52,197,577)
		806,846,805	1,141,950,194
Shares outstanding		**Number**	**Number**
Shares	5	124,768,684	125,979,883
Net Asset Value per Share			
Shares		US$ 6.47	US$ 9.06

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

Date: 25 February 2010

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF OPERATIONS
For the year ended 31 December 2009

	Note	Year ended 31 Dec 2009 US$	Year ended 31 Dec 2008 US$
Investment income allocated from the Master Fund			
Interest income		165,705,095	215,836,216
Other income		1,236,051	-
Investment income allocated from the Master Fund		166,941,146	215,836,216
Total investment income		166,941,146	215,836,216
Direct expenses			
Incentive fee	4	(29,781,872)	(21,930,546)
Total direct expenses		(29,781,872)	(21,930,546)
Operating expenses allocated from the Master Fund			
Management fees	7	(12,350,251)	(19,145,015)
Administration fees		(592,553)	(719,633)
Custodian fees		(61,323)	(52,105)
Legal and professional fees		(431,783)	(628,016)
Audit fees		(297,537)	(307,770)
Directors’ fees	7	(200,004)	(195,175)
Transfer agent fees		(131,195)	(175,128)
Other operating expenses		(760,887)	(713,056)
Interest expense		(592,021)	(12,708,466)
Total operating expenses allocated from the Master Fund		(15,417,554)	(34,644,364)
Total operating expenses		(45,199,426)	(56,574,910)
Net investment income		121,741,720	159,261,306

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF OPERATIONS (continued)
For the year ended 31 December 2009

	Note	Year ended 31 Dec 2009 US$	Year ended 31 Dec 2008 US$
Net realized and unrealized gain / (loss) from investments and foreign currency allocated from the Master Fund			
Net realized gain / (loss) from:			
Investments		-	303,684
Foreign exchange options		(2,547,325)	-
Foreign currency transactions		3,122,017	19,644,084
Credit default swaps		-	19,731,448
		574,692	39,679,216
Net (decrease) / increase in unrealized (depreciation) / appreciation on:			
Investments		(427,694,344)	(223,944,692)
Forward foreign exchange contracts		6,437,177	(2,890,973)
Foreign exchange options		(2,930,275)	2,930,275
Credit default swaps		-	(9,606,673)
Translation of assets and liabilities in foreign currencies		(13,230,641)	(16,228,221)
		(437,418,083)	(249,740,284)
Net realized and unrealized loss from investments and foreign currencies allocated from the Master Fund		(436,843,391)	(210,061,068)
Net decrease in net assets resulting from operations		(315,101,671)	(50,799,762)
Earnings per Share			
Basic	9	US$ (2.50)	US$ (0.41)
Diluted	9	US$ (2.50)	US$ (0.41)
Weighted average Shares outstanding		**Number**	**Number**
Basic	9	125,811,272	122,880,187
Diluted	9	125,811,272	122,880,187

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

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF CHANGES IN NET ASSETS
For the year ended 31 December 2009

	Note	Year ended 31 Dec 2009 US$	Year ended 31 Dec 2008 US$
Total investment income		166,941,146	215,836,216
Total operating expenses		(45,199,426)	(56,574,910)
Net realized gain from investments and foreign currency allocated from the Master Fund		574,692	39,679,216
Net unrealized loss from investments and foreign currency allocated from the Master Fund		(437,418,083)	(249,740,284)
Net decrease in net assets resulting from operations		(315,101,671)	(50,799,762)
Dividends paid to shareholders	8	(15,099,666)	(73,245,621)
Issue of Shares		1,738,061	90,144,138
Treasury Shares		(6,640,113)	(12,369,553)
(Decrease) / increase in net assets resulting from net Share transactions		(4,902,052)	77,774,585
Total decrease in net assets		(335,103,389)	(46,270,798)
Net assets at start of year		1,141,950,194	1,188,220,992
Net assets at end of year		806,846,805	1,141,950,194

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

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF CASH FLOWS
For the year ended 31 December 2009

	Year ended 31 Dec 2009 US$	Year ended 31 Dec 2008 US$
Operating and investing activities		
Net decrease in net assets resulting from operations	(315,101,671)	(50,799,762)
Adjustments for:		
Net unrealized depreciation on investments in Master Fund	305,321,517	46,270,798
Operating cash flows before movements in working capital	(9,780,154)	(4,528,964)
(Increase) / decrease in receivables	(138,269)	342,063
Increase / (decrease) in payables	29,920,141	(342,063)
Cash flows from operations	20,001,718	(4,528,964)
Cash inflows / (outflows) from operating and investing activities	20,001,718	(4,528,964)
Financing activities		
Proceeds from issue of Shares	1,738,061	90,144,138
Treasury Shares	(6,640,113)	(12,369,553)
Dividends paid to shareholders	(15,099,666)	(73,245,621)
Cash (outflows) / inflows from financing activities	(20,001,718)	4,528,964
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.

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 financial statements of the Master Fund, which are an integral part of these financial statements. As at 31 December 2009, the Company had 100% (31 December 2008: 100%) ownership interest in the Master Fund.

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 2009 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, including management fees, incentive fees, administration fees and custodian fees, are recognized in the 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.

Capital expenses

Share options granted to the Investment Manager were treated as a capital expense on the basis that they were granted by the Company as a fee for the Investment Manager's work in successfully arranging the 2007 global offering and the associated issuance of new capital for the Company.

Share Options

The fair value of options granted to the Investment Manager was recognised 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.

Dividends payable

Dividends payable on shares are recognised in the 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.

Note 3 Investment in Master Fund

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

As at 31 December 2009, the Company had an investment of US$ 836,628,677 in the Master Fund (31 December 2008: US$ 1,141,950,194).

Note 4 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). For Calculation Periods ending prior to 25 April, 2008 the Hurdle Rate was equal to 8% per annum multiplied by the actual number of days in the Calculation Period divided by 365. Subsequently, 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.

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 2009 was US$ 29,781,872 (31 December 2008: US$ 21,930,546). As at 31 December 2009 US$ 29,781,872 was outstanding (31 December 2008: US$ Nil).

Note 5 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.

Share Transactions

	Voting Shares No.	Shares No.	Shares US$
Shares in issue at 31 December 2007	10	118,455,430	118,455
Issued	-	10,074,959	10,075
Treasury Shares	-	(2,550,506)	(2,550)
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

Note 5 Share Capital (continued)

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$ 15,099,666 (31 December 2008: US$ 73,245,621) was declared, of which US$ 13,361,605 (31 December 2008: US$ 61,158,437) was paid out as a cash dividend, and the remaining US$ 1,738,061 reinvested under the Optional Stock Dividend Plan.

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 26 October 2009 until 31 October 2010 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.

Note 6 Share Premium

	31 Dec 2009 US$	31 Dec 2008 US$
Balance at start of year	1,182,232,455	1,104,465,395
(Discount) / Premium arising from net transaction of shares	(4,900,841)	77,767,060
Balance at end of year	1,177,331,614	1,182,232,455

Note 7 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 4.

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 shall be US$ 50,000 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%.

Lee Olesky, Byron Knief, Paddy 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 2009, with holdings of 59,540, 110,000, 276,092, 1,036,209, 417,458 and 75,203 shares, respectively (31 December 2008: 55,538, 110,000, 269,325, 1,036,209, 440,518 and 22,294 shares, respectively).

Note 8 Dividends

	31 Dec 2009 US$	31 Dec 2008 US$
Quarter ended 31 December 2007 of US$ 0.15 per share	-	17,768,315
Quarter ended 31 March 2008 of US$ 0.15 per share	-	17,656,982
Quarter ended 30 June 2008 of US$ 0.15 per share	-	18,917,681
Quarter ended 30 September 2008 of US$ 0.15 per share	-	18,902,643
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	-
	15,099,666	73,245,621

The fourth quarter dividend of US$ 0.06 cents was proposed by the Directors on 25 February 2010 and has not been included as a liability in these financial statements.

Note 9 Earnings per Share

	31 Dec 2009 US$	31 Dec 2008 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 loss attributable to shareholders for the year	(315,101,671)	(50,799,762)
Weighted average number of Shares for the purposes of basic earnings per share	125,811,272	122,880,187
Effect of dilutive potential Shares:		
Share options	-	-
Weighted average number of Shares for the purposes of diluted earnings per share	125,811,272	122,880,187

Note 10 Earnings

	31 Dec 2009 US$	31 Dec 2008 US$
Balance at start of year	(52,197,577)	71,847,806
Net decrease in net assets resulting from operations for the year	(315,101,671)	(50,799,762)
Dividends paid	(15,099,666)	(73,245,621)
Balance at end of year	(382,398,914)	(52,197,577)

Note 11 Recent changes to US GAAP

Subsequent Events (ASC 855). In May 2009, the FASB issued amended accounting principles related to subsequent events, which codify the guidance regarding the disclosure of events occurring subsequent to the balance sheet date. These amended principles do not change the definition of a subsequent event (i.e., an event or transaction that occurs after the balance sheet date but before the financial statements are issued) but require disclosure of the date through which subsequent events were evaluated when determining whether adjustment to or disclosure in the financial statements is required. These amended principles were effective for the Company for the second quarter of 2009. For the year end 2009, the Directors evaluated subsequent events through 25 February 2009. Since these amended principles require only additional disclosures concerning subsequent events, adoption of the standard did not affect the Company's financial condition, results of operations or cash flows.

FASB Accounting Standards Codification. In July 2009, the FASB launched the FASB Accounting Standards Codification (the Codification) as the single source of GAAP. While the Codification did not change GAAP, it introduced a new structure to the accounting literature and changed references to accounting standards and other authoritative accounting guidance. The Codification was effective for the Company for the third quarter of 2009 and did not have an effect on the Company's financial condition, results of operations or cash flows.

Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). In September 2009, the FASB issued ASU No. 2009-12, “Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).” ASU No. 2009-12 provides guidance about using net asset value to measure the fair value of interests in certain investment funds and requires additional disclosures about interests in investment funds. ASU No. 2009-12 is effective for financial statements issued for reporting periods ending after December 15 2009, with earlier application permitted. Because the Company's current fair value measurement policies are consistent with ASU No. 2009-12, adoption will not affect the Company's financial condition, results of operations or cash flows.

Note 12 Approval of financial statements

The Directors approved the financial statements on 25 February 2010.

TETRAGON FINANCIAL GROUP LIMITED

FINANCIAL HIGHLIGHTS
For the year ended 31 December 2009 and the year ended 31 December 2008

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 2009 and the year ended 31 December 2008.

	Shares 31 Dec 2009 US$	Shares 31 Dec 2008 US$
Per Share operating performance		
Net Asset Value at start of year	9.06	10.03
Net investment income (excluding performance fee)	1.17	1.41
Performance fee	(0.23)	(0.17)
Net realized and unrealized loss from investments and foreign currencies	(3.38)	(1.64)
Dividends paid to shareholders	(0.12)	(0.57)
Other capital transactions	(0.03)	-
Net Asset Value at the end of the year	6.47	9.06
Total return (NAV change excluding dividends) before performance fee	(24.72)%	(2.19)%
Performance fee	(2.54)%	(1.69)%
Total return (NAV change excluding dividends) after performance fee	(27.26)%	(3.88)%
Ratios and supplemental data		
Ratio to average net assets:		
Operating expenses allocated from the Master Fund	1.95%	2.74%
Total operating expenses	1.95%	2.74%
Performance fee	3.76%	1.74%
Net investment income	15.36%	12.60%

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

SCHEDULE OF INVESTMENTS
as at 31 December 2009

Security Description	Nominal / Shares	Cost US$	Fair Value US$	% of Net Assets
Investment Funds - Guernsey				
Tetragon Financial Group Master Fund Limited - shares	124,768,684	1,113,464,521	836,628,677	103.69%
Total Investments			836,628,677	103.69%
Other Assets and Liabilities			(29,781,872)	(3.69)%
Net Assets			**806,846,805**	**100.00%**

TETRAGON FINANCIAL GROUP LIMITED

SCHEDULE OF INVESTMENTS (continued)
as at 31 December 2008

Security Description	**Nominal / Shares**	**Cost US$**	**Fair Value US$**	**% of Net Assets**
Investment Funds - Guernsey				
Tetragon Financial Group Master Fund Limited - shares	125,979,883	1,113,464,521	1,141,950,194	100.00%
Total Investments			1,141,950,194	100.00%
Other Assets and Liabilities			-	-
Net Assets			**1,141,950,194**	**100.00%**

AUDITED FINANCIAL STATEMENTS

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2009

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

AUDITED FINANCIAL STATEMENTS
For the year ended 31 December 2009

CONTENTS

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

DIRECTORS' REPORT
For the year ended 31 December 2009

The Directors present to the shareholders their report together with the audited financial statements for the year ended 31 December 2009.

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.

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, Polygon Credit 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 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. 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*

* Independent non-executive Directors

The remuneration for Directors is determined by resolution of the Voting Shareholder. The Directors' annual fee is US$ 50,000, in compensation for service on the Boards of Directors of both the Fund and Tetragon Financial Group Limited (the "Guernsey Feeder"), which is paid by the Master 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 Guernsey Feeder providing for benefits upon termination of employment.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

DIRECTORS’ REPORT (continued)
For the year ended 31 December 2009

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 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$ 0.03 per share for the quarter ended 31 December 2008, US$ 0.03 per share for the quarter ended 31 March 2009, US$ 0.03 for the quarter ended 30 June 2009 and US$ 0.03 for the quarter ended 30 September 2009. The Directors have declared a dividend of US$ 0.06 for the quarter ended 31 December 2009. Dividends paid during the year ended 31 December 2008 amounted to US$ 0.78 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.

Guernsey 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 then 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 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.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

DIRECTORS' REPORT (continued)
For the year ended 31 December 2009

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: 25 February 2010

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

INDEPENDENT AUDITORS' REPORT
For the year ended 31 December 2009

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

We have audited the financial statements of Tetragon Financial Group Master Fund Limited (the "Fund") for the year ended 31 December 2009 which comprise the Statements of Assets and Liabilities, the Statements of Operations, the Statements of Changes in Net Assets, the Statements of Cash Flows, the Schedule of Investments and the related notes on pages 11 to 28. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Fund'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 Fund'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 Fund and the Fund'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

The Directors' responsibilities for preparing the financial statements which give a true and fair view and are in conformity with accounting principles generally accepted in the United States of America and are in compliance with applicable Guernsey law are set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, are in conformity with accounting principles generally accepted in the United States of America and comply with The Companies (Guernsey) Law, 2008. We also report to you if, in our opinion, the Fund has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Fund's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

INDEPENDENT AUDITORS' REPORT (continued)
For the year ended 31 December 2009

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Fund's affairs as at 31 December 2009 and of its net decrease 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.

KPMG Channel Islands Limited
Chartered Accountants

Guernsey

Date: 25 February 2010

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

STATEMENTS OF ASSETS AND LIABILITIES
As at 31 December 2009

	Note	31 Dec 2009 US$	31 Dec 2008 US$
Assets			
Investments in securities at fair value*			
(cost US$ 1,389,420,696 (2008: US$ 1,416,516,946))		655,234,320	1,082,495,071
Cash and cash equivalents	3	174,352,827	63,042,822
Amounts due from brokers	5	5,870,597	114,374,113
Derivative financial assets - forward contracts	4	1,595,601	-
Derivative financial assets - foreign exchange options	4	-	5,477,600
Other receivables	6	186,393	176,192
Total assets		837,239,738	1,265,565,798
Liabilities			
Payables under repurchase and swap agreements	7	-	117,557,492
Derivative financial liabilities - forward contracts	4	-	4,841,576
Amounts payable to Guernsey Feeder		212,635	74,366
Interest payable		-	665,976
Other payables and accrued expenses	8	398,426	476,194
Total liabilities		611,061	123,615,604
Net assets		836,628,677	1,141,950,194
Equity			
Share capital	9	124,769	125,980
Share premium	10	1,136,554,698	1,141,455,539
Earnings	12	(300,050,790)	368,675
		836,628,677	1,141,950,194
Shares outstanding		**Number**	**Number**
Shares	9	124,768,684	125,979,883
Net Asset Value per Share			
Shares		US$ 6.71	US$ 9.06

* None of the investments are pledged as collateral under repurchase and swap agreements (31 December 2008: US$ 242,616,706).

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

25 February 2010

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

STATEMENTS OF OPERATIONS
For the year ended 31 December 2009

	Note	Year ended 31 Dec 2009 US$	Year ended 31 Dec 2008 US$
Interest income	13	165,705,095	221,401,820
Other income		1,236,051	-
Investment income		166,941,146	221,401,820
Management fees	14	(12,350,251)	(19,607,211)
Administration fees		(592,553)	(735,738)
Custodian fees		(61,323)	(52,105)
Legal and professional fees		(431,783)	(646,260)
Audit fees		(297,537)	(315,343)
Directors' fees	14	(200,004)	(200,000)
Transfer agent fees		(131,195)	(178,822)
Other operating expenses		(760,887)	(729,307)
Interest expense		(592,021)	(13,155,175)
Operating expenses		(15,417,554)	(35,619,961)
Net investment income		151,523,592	185,781,859
Net realized and unrealized gain / (loss) from investments and foreign currency			
Net realized gain / (loss) from:			
Investments		-	322,349
Foreign exchange options		(2,547,325)	-
Foreign currency transactions		3,122,017	18,363,324
Credit default swaps		-	20,119,864
		574,692	38,805,537
Net (decrease) / increase in unrealized (depreciation) / appreciation on:			
Investments		(427,694,344)	(224,306,182)
Forward foreign exchange contracts		6,437,177	(2,841,337)
Credit default swaps		-	(9,786,587)
Foreign exchange options		(2,930,275)	2,930,275
Translation of assets and liabilities in foreign currencies		(13,230,641)	(14,934,379)
		(437,418,083)	(248,938,210)
Net realized and unrealized loss from investments and foreign currency		(436,843,391)	(210,132,673)
Net decrease in net assets resulting from operations		(285,319,799)	(24,350,814)

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

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

STATEMENTS OF CHANGES IN NET ASSETS
For the year ended 31 December 2009

	Note	Year ended 31 Dec 2009 US$	Year ended 31 Dec 2008 US$
Investment income		166,941,146	221,401,820
Operating expenses		(15,417,554)	(35,619,961)
Net realized gain from investments and foreign currency		574,692	38,805,537
Net unrealized depreciation on investments and translation of assets and liabilities in foreign currencies		(437,418,083)	(248,938,210)
Net decrease in net assets resulting from operations		(285,319,799)	(24,350,814)
Dividends paid to shareholders	11	(15,099,666)	(97,854,579)
Issue of Shares		1,738,061	12,087,183
Treasury Shares		(6,640,113)	(12,369,552)
Decrease in net assets resulting from net Share transactions		(4,902,052)	(282,369)
Total decrease in net assets		(305,321,517)	(122,487,762)
Net assets at start of year		1,141,950,194	1,264,437,956
Net assets at end of year		836,628,677	1,141,950,194

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

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

STATEMENTS OF CASH FLOWS
For the year ended 31 December 2009

	Year ended 31 Dec 2009 US$	Year ended 31 Dec 2008 US$
Operating and investing activities		
Net decrease in net assets resulting from operations	(285,319,799)	(24,350,814)
Adjustments for:		
Realized gain on investments	-	(322,349)
Non cash interest income on investments	(12,511,844)	123,938,243
Unrealized losses	437,418,083	248,938,210
Operating cash flows before movements in working capital	139,586,440	348,203,290
(Increase) / decrease in receivables	(10,201)	759,370
Decrease in payables	(605,475)	(3,612,911)
Cash flows from operations	138,970,764	345,349,749
Cash inflow from operating and investing activities	138,970,764	345,349,749
Financing activities		
Amounts due from brokers	108,503,516	(77,513,345)
Proceeds from issue of Shares	1,738,061	12,087,183
Treasury Shares	(6,640,113)	(12,369,552)
Dividends paid to shareholders	(15,099,666)	(97,854,579)
Repayments on repurchase and swap agreements	(117,557,492)	(301,447,636)
Bank overdraft	-	(13,092,191)
Cash outflows from financing activities	(29,055,694)	(490,190,120)
Net increase / (decrease) in cash and cash equivalents	109,915,070	(144,840,371)
Cash and cash equivalents at beginning of year	63,042,822	209,237,922
Effect of exchange rate fluctuations on cash and cash equivalents	1,394,935	(1,354,729)
Cash and cash equivalents at end of year	174,352,827	63,042,822

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

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.

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 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 2009 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. 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 Statements of Operations.

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 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 Statements of Operations.

Note 2 Significant Accounting Policies (continued)

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, forwards, options, credit default swaps and repurchase agreements are calculated on the identified cost basis. Interest income and expense is recognized in the Statements of Operations as it accrues. Interest income is recognized on an effective interest rate basis.

Financial Instruments

Investments in 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 income 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.

Note 2 Significant Accounting Policies (continued)

Investments in securities, at fair value (continued)

As at 31 December 2009 some of the modeling assumptions used, which are unchanged from 31 December 2008 are as follows:

- Constant Annual Default Rate: This is approximately 6.4%, which is 3.0x the original base-case default rate, until the end of 2011, followed by a return to 1.0x the original base-case default level thereafter. This amount has been determined by reference to the underlying collateral and rating agencies research.

- Recovery Rate: The assumed recovery rate is 55%, or approximately 0.8x of the original base-case assumed weighted-average recovery rate, until the end of 2011, followed by a return to approximately 71% the original base-case recovery rate thereafter.

- Prepayment Rate: Loan prepayments are assumed to be 7.5% p.a. until the end of 2011, followed by 20% p.a. the original base-case prepayment rate thereafter; a 0% prepayment rate on bonds has been assumed throughout the life of the transaction.

- Reinvestment Price and Spread: The assumed reinvestment price is 87%, a level that generates an effective spread over LIBOR of approximately 724 bps on broadly U.S. syndicated loans, 739 bps on European loans, and 806 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.

If over the lifetime of an individual deal, collateral losses diverge from the levels assumed in the model, then the actual returns may differ from the current levels projected by the model, which would impact the Net Asset Value of the Fund.

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.

In determining permanent impairment, the present value of the future estimated remaining cash flows discounted at the last rate used to recognize the accretable yield on the investment is compared with the present value of the previously estimated remaining cash flows discounted at the last rate used to recognize accretable yield on the investment

Note 2 Significant Accounting Policies (continued)

Investments in securities, at fair value (continued)

adjusted for the cash received during the intervening period. If the present value of the newly estimated cash flows has decreased then an adverse change and a temporary impairment has occurred. When an impairment is other than temporary, the investment is written down to fair value as of the reporting date and any previously unrealized loss is realized in the period such a determination is made. The Fund evaluates its impairment for investments on an investment by investment basis, not on an overall portfolio basis.

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.

In October 2008, the FASB issued “Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active” (ASC 820), which was effective immediately. “Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active” clarifies the application of “Fair Value Measurement” in cases where the market for a financial instrument is not active and provides an example to illustrate key considerations in determining fair value in those circumstances. The Fund has considered the guidance provided by “Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active” in its determination of estimated fair values during the year.

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 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.

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 Unrealised Appreciation on other financial instruments* US$**
Level 1 - Quoted prices	-	-
Level 2 - Other significant observable inputs	-	1,595,601
Level 3 - Significant unobservable inputs	655,234,320	-
	655,234,320	1,595,601

* Other financial instruments are derivative instruments not reflected in the Schedule of Investments, such as forward foreign currency contracts, which are valued at the unrealized appreciation / depreciation of the instrument.

Note 2 Significant Accounting Policies (continued)

Investments in securities, at fair value (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 2009.

	31 Dec 2009 US$	**31 Dec 2008 US$**
Balance at start of year	1,082,495,071	1,446,544,122
Total realized gains	-	322,349
Changes in unrealized depreciation	(234,373,996)	(97,672,886)
Changes in Accelerated Loss Fair Value adjustment	(207,945,924)	(141,081,962)
Accretion / (amortization)	15,059,169	(125,616,552)
Balance at end of year	655,234,320	1,082,495,071

In December 2008, in order to better reflect the deteriorating environment for the Fund in the fair value of its portfolio, a Statement of Assets and Liabilities fair value adjustment (the “Accelerated Loss Reserve” or “ALR”) was established, calculated on a deal by deal basis.

The ALR was determined by applying a more pessimistic set of short term assumptions to the portfolio and sought to reflect, among other things, a near-term rating agency driven phenomenon of an increase in negative loan ratings migration that may persist for a period materially less than the expected life of an investment as well as other potential losses, which in each case may not be appropriate for inclusion in the Fund’s base case IRR modelling assumptions, but which may have an impact on the fair value of its investments.

When assessing the reasonableness of the fair value of the Fund’s portfolio after taking into account the ALR, the Investment Manager uses several benchmarks, including the effective discount rate implied by the ALR and the change in the value of the Fund’s investments relative to other CLO tranches. As at 31 December 2009 TFG’s portfolio fair value, which is the sum of the base case fair value plus the ALR, was the equivalent of applying a discount rate that was a significant spread above BB tranches of CLO equity to the base case cash flows. At 31 December 2009 the ALR totalled approximately US$ 349.0 million (2008: US$ 141.0 million).

Credit default swaps

Credit default swaps are contracts in which the Fund pays or receives premium flows in return for the counterparty accepting or selling all or part of the risk of default or failure to pay of a reference entity on which the swap is written. Where the Fund has bought protection the maximum potential loss is the value of the premium flows the Fund is contracted to pay until maturity of the contract. Where the Fund has sold protection the maximum potential loss is the nominal value of the protection sold.

Credit default swaps are stated at 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. The net income or expense on the swap agreements entered into by the Fund is reflected in the Statements of Operations. Unrealized gains are reported as an asset and unrealized losses are reported as a liability in the Statements of Assets and Liabilities. Changes in the fair value are reflected in the Statements of Operations in the period in which they occur.

Note 2 Significant Accounting Policies (continued)

Forward currency contracts

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 Statements of Operations.

Options

When the Fund purchases or writes an option, an amount equal to the premium paid or received by the Fund is reflected as an asset or an equivalent liability. The amount of the asset or liability is subsequently marked-to-market to reflect the current market value of the option. When a security is purchased or sold through the exercise of an option, the related premium paid (or received) is added to (or deducted from) the cost of the security acquired or deducted from (or added to) the proceeds of the security sold.

When an option expires (or the Fund enters into a closing transaction), the Fund realises a gain or loss on the option to the extent of the premiums received or paid (or gain or loss to the extent the cost of the closing transaction exceeds the premium paid or received).

The best evidence of fair value of an option at initial recognition is the transaction price. Subsequent changes in the fair value of an option are recognized immediately in the statement of operations.

Repurchase agreements reverse repurchase agreements and swap agreements

Securities sold subject to a simultaneous agreement to repurchase those securities at a certain later date at a fixed price (repurchase agreements) are retained in the financial statements and are measured in accordance with their original measurement principles. The proceeds of the sale are reported as liabilities and are carried at amortized cost.

Interest earned on reverse repurchase agreements and swap agreements and interest incurred on repurchase agreements and swap agreements is recognized as interest income or interest expense, over the life of each agreement using the effective interest method.

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.

Expenses

Expenses, including management fees, incentive fees, administration fees and custodian fees, are recognized in the Statements of Operations on an accrual basis.

Note 2 Significant Accounting Policies (continued)

Taxation

The Fund is exempt from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and is charged GBP 600 per annum.

Dividends payable

Dividends payable on shares are recognized in the Statements of Changes in Net Assets.

Principles of Consolidation

The Fund has determined that it does not have control over the significant operating, financial and investing decisions of the securities that it invests in, or over the investment managers of those securities.

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 Financial Services - Investment Companies (ASC 946), consolidation of these entities is not required. At 31 December 2009, the Fair value of these VIEs is US$ 655.2 million. 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 Cash and Cash Equivalents

	31 Dec 2009 US$	31 Dec 2008 US$
Cash and current deposits with banks	174,282,168	42,821,107
Foreign currency cash (cost: US$ 55,380 (2008: US$ 18,926,293))	70,659	20,221,715
	174,352,827	63,042,822

Note 4 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.

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.

Note 4 Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk (continued)

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.

The Fund adopted “Disclosures about Derivative Instruments and Hedging Activities” (ASC 815), effective 1 December 2008.

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 2009 and 31 December 2008 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 and foreign exchange rate options 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 pages 27 to 28.

Note 4 Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk (continued)

Forward contracts

The following foreign exchange forward contracts were unsettled at 31 December 2009:

Maturity Date	Amount Bought	Amount Sold	Unrealized Gain US$
11 January 2010	US$ 66,105,000	EUR 45,000,000	1,595,601
			1,595,601

The following foreign exchange forward contracts were unsettled at 31 December 2008:

Maturity Date	Amount Bought	Amount Sold	Unrealized Loss US$
09 January 2009	US$ 260,609,950	EUR 191,000,000	(4,841,576)
			(4,841,576)

Options

There were no unsettled foreign exchange options at 31 December 2009.

The following foreign exchange options were unsettled at 31 December 2008:

Maturity Date	Description	Notional EUR	Fair Value US$
06 October 2009	Call EUR / USD Option	91,000,000	2,602,600
22 October 2009	Call EUR / USD Option	100,000,000	2,875,000
			5,477,600

Note 5 Amounts Due From Brokers

The amounts due from brokers is cash pledged as collateral on the forward contracts and has previously included cash pledged as collateral on repurchase and swap agreements as well as coupons not yet received from repurchase agreement counterparties. At 31 December 2009, the collateral cash balance with UBS AG was US$ 5,677,691 (31 December 2008: US$ 17,362,861) and Deutsche Bank AG was US$ Nil (31 December 2008: US$ 94,230,566). US$ 192,906 is due to coupons not yet received as at 31 December 2009 (31 December 2008: US$ 2,780,686).

Note 6 Other Receivables

	31 Dec 2009 US$	31 Dec 2008 US$
Bank interest receivable	1,097	42,559
Prepaid insurance	185,296	133,633
	186,393	176,192

Note 7 Payables under Repurchase and Swap Agreements

	31 Dec 2009 US$	31 Dec 2008 US$
Payable under repurchase agreement - JP Morgan	-	9,548,264
Payable under swap agreement - Deutsche Bank	-	108,009,228
	-	117,557,492

The average interest rate payable during the year was 2.60% (31 December, 2008: 4.92%). The average amount of borrowings under repurchase and swap agreements during the year was US$ 22,798,999 (31 December 2008: US$ 267,356,029). Securities sold under repurchase agreements were included in investments in securities, at fair value.

The fair value of these securities held under repurchase agreements at 31 December 2009 was US$ Nil (31 December 2008: US$ 108,006,367). The outstanding repurchase agreement terminated on 7 April 2009. The Fund had entered into a Structured Total Return Swap agreement with Deutsche Bank AG. This was terminated on 2 March 2009. During the term of the contract interest was paid to Deutsche Bank AG on the amount borrowed at a floating rate of the 3 month USD-LIBOR-BBA plus a spread of 0.85% on a quarterly basis and the Fund received all cash payments received by Deutsche Bank AG from the underlying securities. The fair value of securities held under the swap agreements at 31 December 2009 was US$ Nil (31 December 2008: US$ 134,610,339).

Note 8 Other Payables and Accrued Expenses

	31 Dec 2009 US$	31 Dec 2008 US$
Audit fee accrual	311,228	276,328
Legal and professional fee accrual	20,398	106,120
Directors’ fee accrual	50,000	49,996
Custodian fee accrual	16,800	43,750
	398,426	476,194

Note 9 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.

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 2007	10	126,053,607	126,054
Issued	-	2,476,782	2,477
Treasury Shares	-	(2,550,506)	(2,551)
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

Note 9 Share Capital (continued)

Treasury Shares

On 30 November 2007, the Guernsey 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 26 October 2009 until 31 October 2010 or until 5% of the Guernsey 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 Guernsey Feeder as and when it makes these repurchases in the open market. The Fund will match the price per share paid by the Guernsey Feeder. The Shares are held in a Treasury Account which allows them to be resold back to the Guernsey 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 Statements of Assets and Liabilities.

Note 10 Share Premium

	31 Dec 2009 US$	31 Dec 2008 US$
Balance at start of year	1,141,455,539	1,141,737,834
Discount arising from net transactions of shares	(4,900,841)	(282,295)
Balance at end of year	1,136,554,698	1,141,455,539

Note 11 Dividends

	31 Dec 2009 US$	31 Dec 2008 US$
Quarter ended 31 December 2007 of US$ 0.15 per share	-	18,833,387
Quarter ended 31 March 2008 of US$ 0.17 per share	-	21,232,802
Quarter ended 30 June 2008 of US$ 0.23 per share	-	28,552,822
Quarter ended 30 September 2008 of US$ 0.23 per share	-	29,235,568
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	-
	15,099,666	97,854,579

The fourth quarter dividend of US$ 0.06 cents was proposed by the Directors on 25 February 2010 and has not been included as a liability in these financial statements.

The Fund pays a dividend to the Guernsey Feeder that is sufficient to pay their incentive fee liability and also to cover their dividend liability.

Note 12 Earnings

	31 Dec 2009 US$	31 Dec 2008 US$
Balance at start of year	368,675	122,574,068
Net decrease in net assets resulting from operations for the year	(285,319,799)	(24,350,814)
Dividends paid	(15,099,666)	(97,854,579)
Balance at end of year	(300,050,790)	368,675

Note 13 Interest Income

	31 Dec 2009 US$	31 Dec 2008 US$
Debt securities	165,498,442	217,096,526
Cash and short-term funds	206,653	4,305,294
	165,705,095	221,401,820

Note 14 Related Party Transactions

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

The remuneration for Directors shall be determined by resolution of the Voting Shareholder. The Directors' annual fee should be US$ 50,000 in compensation for service on the Boards of Directors of both the Guernsey 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 Guernsey 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 Guernsey Feeder's Directors. Affiliates of the Service Providers also control the Investment Manager and, accordingly, control the Fund's business and affairs.

Note 15 Subsequent Events

On 29 January 2010, the Fund closed a transaction with Calyon and certain of its affiliates to acquire Lyon Capital Management LLC ("LCM"), and certain CLO securities for a combined purchase price of $10.0 million. The transaction also provided that all management fees earned by LCM, and cash flows received by Calyon from the CLOs, from 16 August 2009 through the closing of the transaction, less certain expenses of LCM, accrued for the benefit of the Fund. Accordingly, the cash payment made by the Fund for LCM and the CLOs to consummate the transaction was in total approximately $3.0 million. LCM was renamed LCM Asset Management LLC.

Note 16 Recent changes to US GAAP

Disclosures about Derivative Instruments and Hedging Activities (ASC 815). In March 2008, the FASB issued “Disclosures about Derivative Instruments and Hedging Activities”. ASC 815 requires enhanced disclosures about an entity’s derivative and hedging activities, and is effective for financial statements issued for reporting periods beginning after 15 November 2008, with early application encouraged. These disclosures have been made in Note 4.

Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities (ASC 860 and ASC 810). In December 2008, the FASB issued “Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities.” ASC 860 and ASC 810 require enhanced disclosures about transfers of financial assets and interests in variable interest entities and are effective for interim and annual periods ending after 15 December 2008. These disclosures have been made in Note 2.

Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (ASC 820). In April 2009, the FASB issued “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly.” ASC 820 provides guidance for estimating fair value when the volume and level of activity for an asset or liability have decreased significantly. Specifically, it lists factors which should be evaluated to determine whether a transaction is orderly, clarifies that adjustments to transactions or quoted prices may be necessary when the volume and level of activity for an asset or liability have decreased significantly, and provides guidance for determining the concurrent weighting of the transaction price relative to fair value indications from other valuation techniques when estimating fair value. ASC 820 is effective for periods ending after 15 June 2009. These disclosures have been made in Note 2.

Recognition and Presentation of Other-Than-Temporary Impairments (ASC 320). In April 2009, the FASB issued “Recognition and Presentation of Other-Than-Temporary Impairments.” Under ASC 320, only the portion of an other-than-temporary impairment on a debt security related to credit loss is recognized in current period earnings, with the remainder recognized in other comprehensive income, if the holder does not intend to sell the security and it is more likely than not that the holder will not be required to sell the security prior to recovery. Currently, the entire other-than-temporary impairment is recognized in current period earnings. ASC 320 is effective for periods ending after 15 June 2009. This has not had a material impact on the Fund’s financial position and results of operations.

Subsequent Events (ASC 855). In May 2009, the FASB issued amended accounting principles related to subsequent events, which codify the guidance regarding the disclosure of events occurring subsequent to the balance sheet date. These amended principles do not change the definition of a subsequent event (i.e., an event or transaction that occurs after the balance sheet date but before the financial statements are issued) but require disclosure of the date through which subsequent events were evaluated when determining whether adjustment to or disclosure in the financial statements is required. These amended principles were effective for the Fund for the second quarter of 2009. For the year end 2009, the Directors evaluated subsequent events through 25 February 2009. Since these amended principles require only additional disclosures concerning subsequent events, adoption of the standard did not affect the Fund’s financial condition, results of operations or cash flows.

Note 16 Recent changes to US GAAP (continued)

Transfers of Financial Assets and Interests in Variable Interest Entities (ASC 810). In June 2009, the FASB issued "Accounting for Transfers of Financial Assets" and "Amendments to FASB Interpretation No. 46(R)," which change the accounting for securitizations and VIEs.

ASC 810 will eliminate the concept of a QSPE, change the requirements for derecognizing financial assets, and require additional disclosures about transfers of financial assets, including securitization transactions and continuing involvement with transferred financial assets. ASC 810 will change the determination of when a VIE should be consolidated. Under SFAASC 810, 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. ASC 810 is effective for fiscal years beginning after November 15, 2009. The Fund is currently evaluating the impact of adopting ASC 810, which requires the Fund to make complex judgments that are subject to change as interpretations and practices evolve.

FASB Accounting Standards Codification. In July 2009, the FASB launched the FASB Accounting Standards Codification (the Codification) as the single source of GAAP. While the Codification did not change GAAP, it introduced a new structure to the accounting literature and changed references to accounting standards and other authoritative accounting guidance. The Codification was effective for the Fund for the third quarter of 2009 and did not have an effect on the Fund's financial condition, results of operations or cash flows.

Fair Value Measurements and Disclosures - Measuring Liabilities at Fair Value. In August 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-05, "Fair Value Measurements and Disclosures - Measuring Liabilities at Fair Value." ASU No. 2009-05 provides guidance in measuring liabilities when a quoted price in an active market for an identical liability is not available and clarifies that a reporting entity should not make an adjustment to fair value for a restriction that prevents the transfer of the liability. ASU No. 2009-05 is effective for financial statements issued for the first reporting period beginning after issuance of the ASU. This has not had a material impact on the Fund's financial position and results of operations.

Note 17 Approval of Financial Statements

The Directors approved the financial statements on 25 February 2010.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

FINANCIAL HIGHLIGHTS
For the years ended 31 December 2009 and 31 December 2008

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 2009 and the year ended 31 December 2008.

	Shares 31 Dec 2009 US$	Shares 31 Dec 2008 US$
Per Share operating performance		
Net Asset Value at start of year	9.06	10.03
Net investment income	1.17	1.46
Net realized and unrealized loss from investments and foreign currencies	(3.37)	(1.66)
Dividends paid to shareholders	(0.12)	(0.77)
Other capital transactions	(0.03)	-
Net Asset Value at the end of the year	6.71	9.06
Return (NAV change excluding dividends)	(24.28%)	(1.99%)
Ratios and supplemental data		
Ratio to average net assets:		
Total operating expenses	(1.93%)	(2.74%)
Net investment income	18.99%	14.3%

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

SCHEDULE OF INVESTMENTS
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			655,234,320	78.32%
Cash and Cash Equivalents			174,352,827	20.84%
Other Assets and Liabilities			7,041,530	0.84%
Net Assets			**836,628,677**	**100.00%**

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

SCHEDULE OF INVESTMENTS (continued)
As at 31 December 2008

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	643,866,418	56.39%
CDOs Squared	62,250,000	52,156,250	-	-
Middle Market Senior Secured Loans	236,249,000	219,797,145	179,546,952	15.72%
	1,257,274,986	1,148,190,136	823,413,370	72.11%
Euro				
Ireland - CLO debt equity security				
Broadly Syndicated Senior Secured Loans	127,400,000	155,916,581	150,227,269	13.16%
	127,400,000	155,916,581	150,227,269	13.16%
Luxembourg - CLO debt equity security				
Broadly Syndicated Senior Secured Loans	65,100,000	80,651,697	76,880,132	6.73%
	65,100,000	80,651,697	76,880,132	6.73%
Netherlands - CLO debt equity security				
Broadly Syndicated Senior Secured Loans	24,000,000	31,758,532	31,974,300	2.80%
	24,000,000	31,758,532	31,974,300	2.80%
Total Investments			1,082,495,071	94.80%
Cash and Cash Equivalents			63,042,822	5.52%
Other Assets and Liabilities			(3,587,699)	(0.32)%
Net Assets			**1,141,950,194**	**100.00%**