

TETRAGON

TETRAGON FINANCIAL GROUP LIMITED (TFG)

PERFORMANCE REPORT FOR PERIOD ENDED 30 JUNE 2012

July 31, 2012

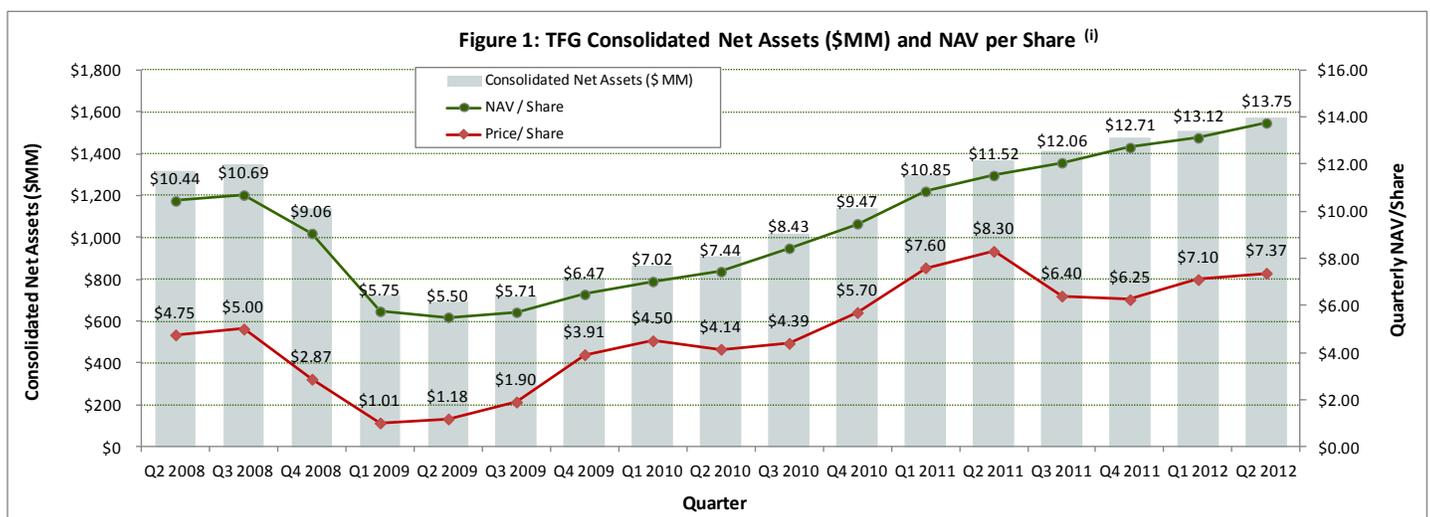
Tetragon Financial Group Limited (TFG) is a Guernsey closed-ended investment company traded on NYSE Euronext in Amsterdam under the ticker symbol “TFG.”⁽¹⁾ In this report we provide an update on TFG’s results of operations for the period ending June 30, 2012.

❖ Executive Summary:

Q2 2012 saw another strong set of quarterly results, with U.S. CLO performance leading the way.

- ❖ **Earnings per Share:** TFG generated EPS of \$0.69 during Q2 2012 (Q1 2012: \$0.46).
- ❖ **Distributions:** TFG declared a Q2 2012 dividend of \$0.115 per share, up from Q1 2012. Inclusive of the Q2 dividend, the rolling 12-month dividend growth rate (year-on-year) was 18.1%. The company also used over \$7.8 million to buy back shares below NAV during the quarter.
- ❖ **Net Asset Value (“NAV”):** Rose to \$1,570.3 million or \$13.75 per share at the end of Q2 2012, the highest level to date, and an increase of 4.8%, on a per share basis, from Q1 2012.

Figure 1 below shows an historical summary of TFG’s Net Assets, NAV per share and share price.



(i) Source: NAV per share based on TFG’s financial statements as of the relevant quarter-end date; TFG’s closing share price data as per Bloomberg as of the last trading day of each quarter. Please note that the NAV per share reported as of each quarter-end date excludes any shares held in treasury as of that date.

- **Net Income:** Consolidated net income of \$79.2 million for Q2 2012 (Q1 2012: consolidated net income of \$53.4 million).

This Performance Report constitutes TFG’s half-yearly financial report as required pursuant to Section 5:25d of the FMSA. Pursuant to Section 5:25d and 5:25m of the FMSA, this report is made public by means of a press release and has been filed with the Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten) and also made available to the public by way of publication on the TFG website (www.tetragoninv.com).

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❖ Executive Summary (continued):

- ❖ **Asset Breakdown:** The figures below illustrate the split of net assets by asset class at the end of Q2 2012 (\$1,570,273,629) and Q1 2012 (\$1,510,100,263), respectively.

Figure 2a: Q2 2012 TFG's Net Asset Breakdown

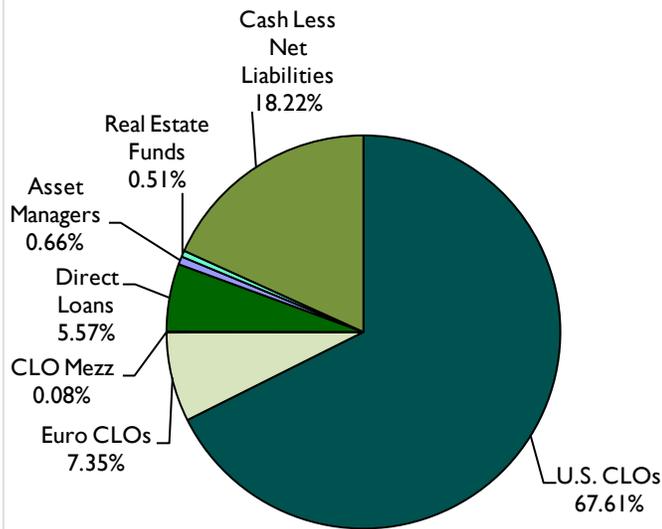
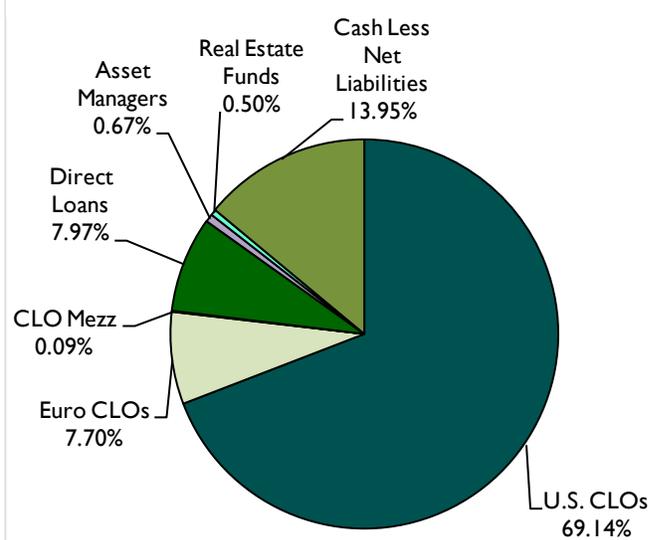


Figure 2b: Q1 2012 TFG's Net Asset Breakdown



Investment Portfolio Performance Highlights

TFG's U.S. CLOs continue to outperform in terms of collateral performance, providing the catalyst for strong Q2 2012 results.

- ❖ **Cash Flows:** TFG generated \$110.0 million of cash flows from its CLO equity investment portfolio in Q2 2012 (Q1 2012: \$102.6 million).
- ❖ **Collateral Performance:** TFG's average CLO portfolio statistics performed well during Q2 2012 with low default and CCC-asset holding levels. This was driven by continued improvements in the credit quality of TFG's U.S. CLOs, which offset the credit deterioration experienced by TFG's European CLOs.
- ❖ **CLO Returns:** Weighted-average IRRs on CLO equity investments remained broadly unchanged at 17.6% (Q1 2012: 17.5%) with U.S. CLO average IRRs remaining at 19.7% while the average IRR of TFG's European CLOs increased to 8.0% (Q1 2012: 7.9%).

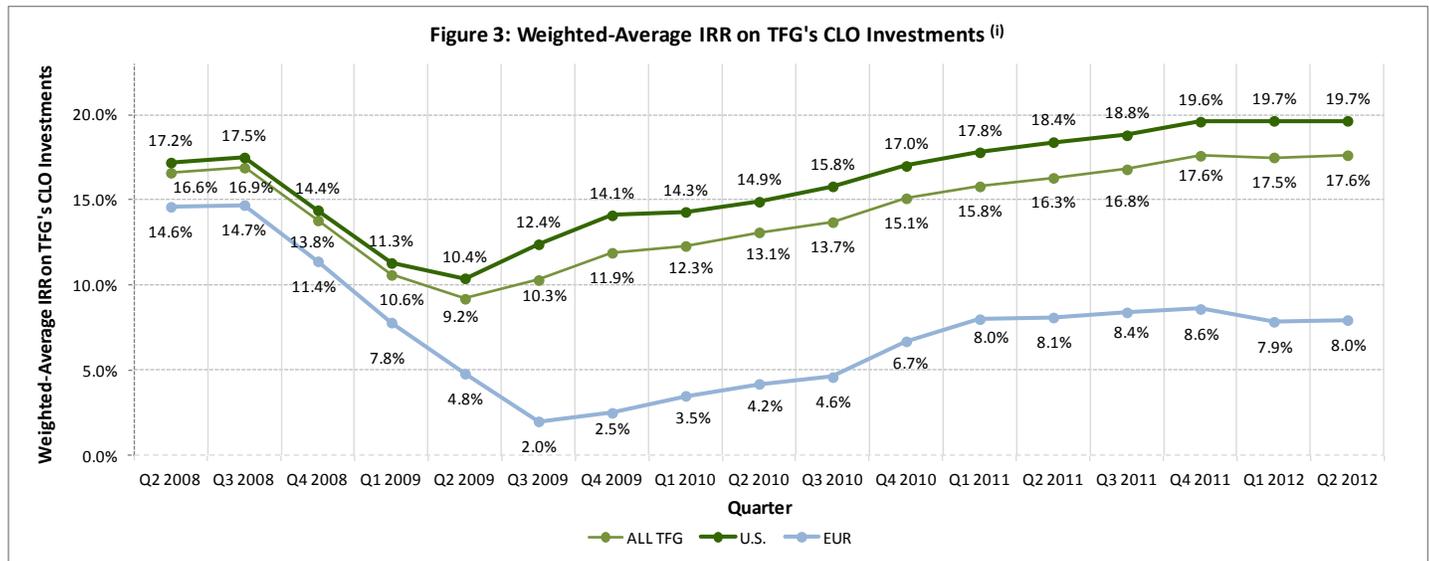
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❖ Executive Summary (continued):

Investment Portfolio Performance Highlights (continued):

Figure 3 below shows an historical summary of the weighted-average IRR on TFG's CLO equity investments.



(i) Source: TFG as of the outlined quarter-end date.

- **New CLO Equity Investments:** During Q2 2012, LCM XI, a new issue CLO managed by LCM, was successfully closed. TFG invested \$22.7 million in the equity tranche of this transaction, representing a majority position of the tranche.
- **Direct Loans:** TFG held direct loans with a fair value of \$87.4 million at the end of Q2 2012, down from \$120.3 million as of the end of Q1 2012. Overall, the direct loan portfolio performed in-line with expectations during this period experiencing no defaults.
- **Real Estate Investments:** During Q2 2012, TFG invested a further \$0.7 million into GreenOak-managed real estate. The total amount of capital invested in GreenOak-managed real estate since inception is approximately \$8.2 million as of the end of the second quarter.

We continue to seek to diversify the investment portfolio across asset classes and types, industries, geographies and investment duration.

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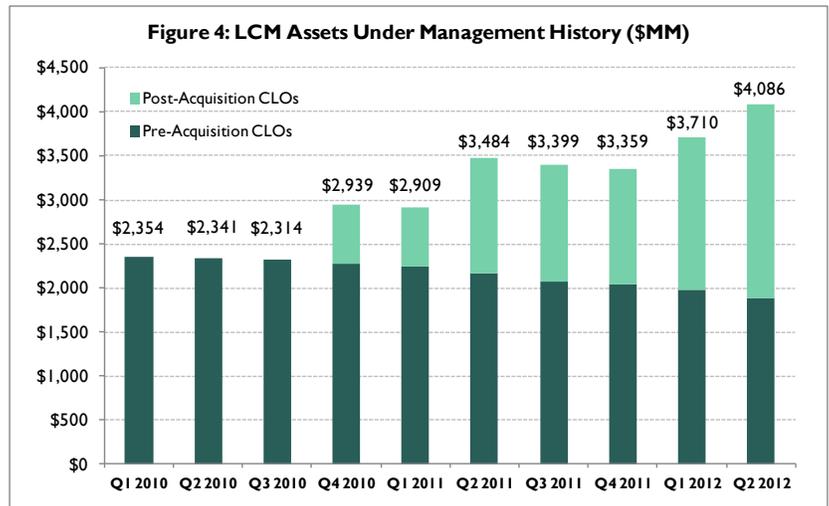
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❖ Executive Summary (continued):

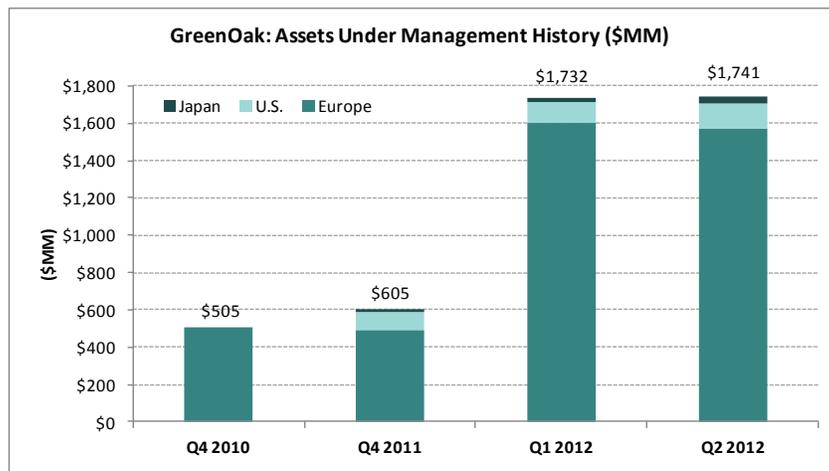
Asset Management Segment: Third-party AUM continues to grow.

We believe that TFG owning or having stakes in asset management businesses may provide repeatable income streams and reduce fees paid to third-party managers.

LCM: LCM continued to perform well during Q2 2012, with all LCM Cash Flow CLOs ⁽²⁾ that were still within their reinvestment periods ⁽³⁾ continuing to pay senior and subordinated management fees. With the addition of LCM XI, LCM's total loan assets under management rose to approximately \$4.1 billion (Q1 2012: \$3.7 billion).



GreenOak: GreenOak continued to execute on its business growth strategy, including increasing investor commitments to its funds.



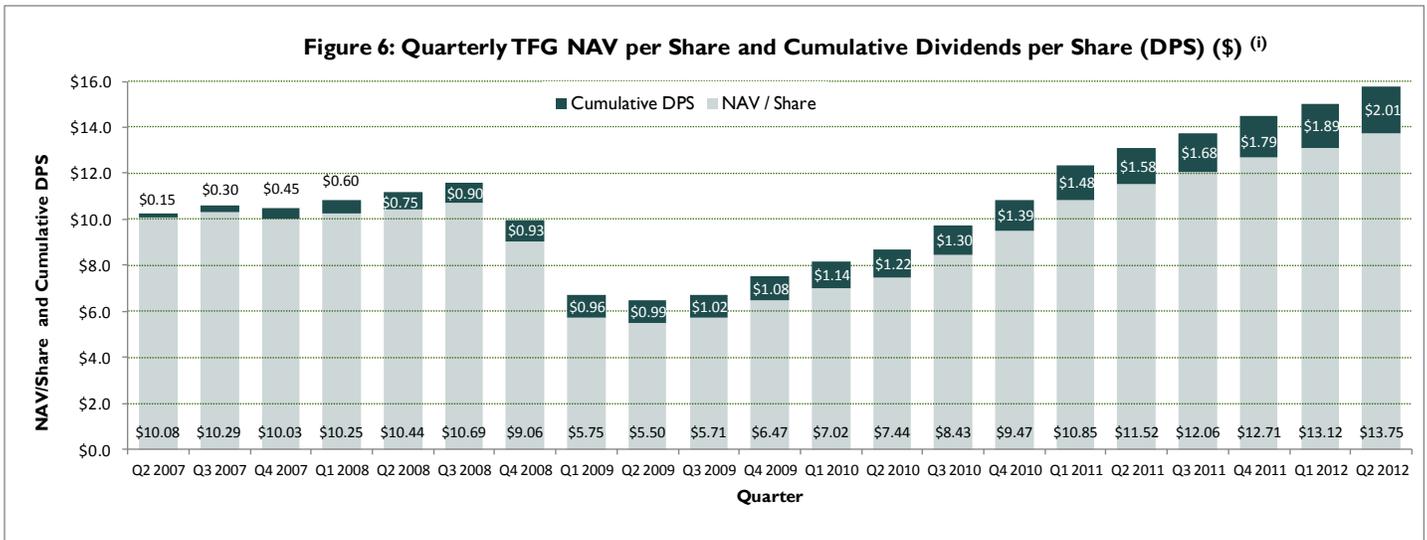
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❖ Corporate-Level Performance Details:

- **Capital Distributions:** TFG's Board approved a dividend of \$0.115 per share with respect to Q2 2012, an increase from the prior quarter. As of June 30, 2012, inclusive of the dividend declared with respect to Q2 2012, the rolling 12-month dividend growth rate (year-on-year) was 18.1%.⁽⁴⁾

Since its public listing TFG has distributed or declared a cumulative amount of approximately \$2.01 per share via quarterly dividends. In addition, TFG's NAV per share, as reported each quarter, among other things, reflects value created for shareholders via the repurchase of shares below NAV. During Q2 2012, TFG repurchased a total of 1,063,825 shares at an aggregate cost of approximately \$7.8 million, at an average price of \$7.34 per share. Since the inception of the buy-back program, TFG has repurchased a total of 18,521,994 shares, at an aggregate cost of approximately \$98.9 million, at an average price of \$5.34 per share. Please refer to *Figure 6* and *Figure 7* for a summary of TFG's historical NAV per share, dividend distributions, and share buy-back program.



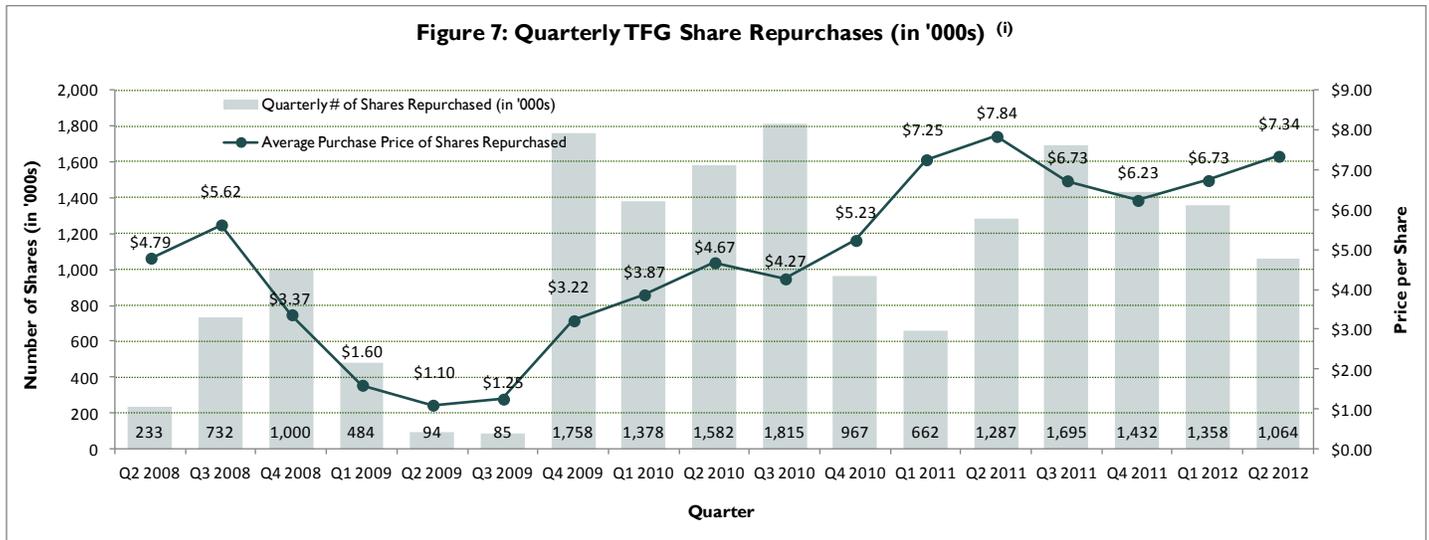
(i) Source: NAV per share and Cumulative DPS as per TFG's financial disclosures for each relevant quarter-end date. The cumulative DPS reflect dividends announced with respect to each relevant quarter. Please note that dividends announced with respect to each quarter are typically not distributed to shareholders until the beginning of the following quarter. Please note further that the NAV per share reported as of each quarter-end date excludes any shares held in treasury as of that date.

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❖ Corporate-Level Performance Details (continued):

▪ Capital Distributions (continued):



(i) The Average Purchase Price of Shares Repurchased is a weighted-average using the number of shares repurchased each quarter and including commissions.

❖ Performance Fee

A performance fee of \$22.5 million was accrued in Q2 2012 in accordance with TFG's investment management agreement and based on a "Reference NAV" of Q1 2012. The hurdle rate for the Q3 2012 incentive fee has been reset at 3.1085% (Q2 2012: 3.1160%) as per the process outlined in TFG's 2011 Audited Financial Statements and in accordance with TFG's investment management agreement.⁽⁵⁾

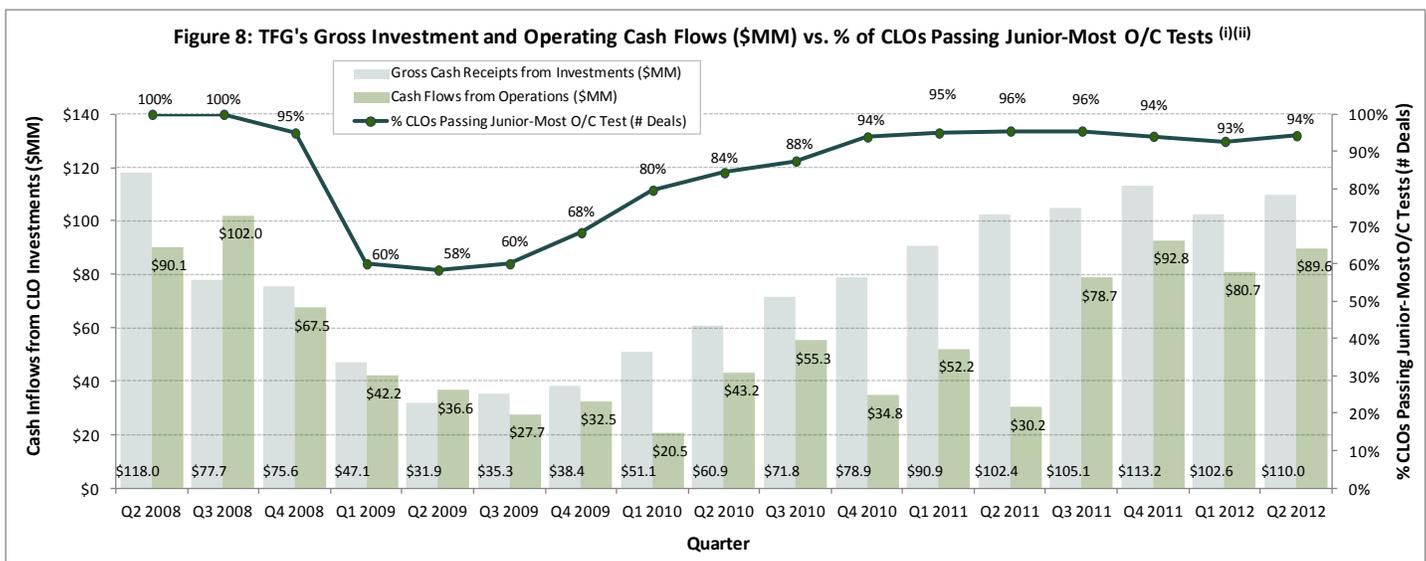
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❖ Investment Portfolio Performance Details:

- CLO Portfolio Size:** At the end of Q2 2012, the estimated total fair value of TFG's CLO equity investment portfolio was approximately \$1,177.0 million (\$1,061.6 million of U.S. and \$115.4 million of European investments), up from \$1,160.3 million as of the end of the prior quarter (\$1,044.1 million of U.S. and \$116.2 million of European investments). TFG's total indirect exposure to leveraged loans through its CLO equity investments was approximately \$18.9 billion as of the end of Q2 2012.⁽⁶⁾
- CLO Portfolio Composition:** 79 transactions as of the end of Q2 2012, up from 78 as of the end of the prior quarter, reflecting the closing of one new issue CLO equity investment. The number of deals in the portfolio increased to 70 from 69 as of the end of the prior quarter. The number of external CLO managers remained unchanged from Q1 2012, at 27.⁽⁷⁾
- CLO Collateral Performance:** At the end of Q2 2012, approximately 98% of TFG's CLO investments were passing their junior-most O/C tests, weighted by fair value.⁽⁸⁾ Similarly, 66 or approximately 94% were passing when weighted by the number of deals. At the end of the previous quarter, 97% of TFG's CLO investments were passing their junior-most O/C tests, weighted by fair value, or 64 and 93% when weighted by the number of deals.

100% of TFG's U.S. CLOs were passing their junior-most O/C tests as of June 30, 2012 (note that U.S. CLOs represented approximately 90% of the total fair value of TFG's CLO equity investment portfolio).⁽⁹⁾⁽¹⁰⁾ In comparison, the market-wide average of U.S. CLOs estimated to be passing their junior O/C tests as of the end of Q2 2012 was approximately 95.8% (when measured on a percentage of deals basis).⁽¹¹⁾ Please refer to Figure 8 below for a summary of TFG's investments' historical junior O/C test performance.



- (i) The percentage of TFG's CLOs passing their junior-most O/C tests has been calculated as the ratio of the number of deals passing their junior O/C tests to the total number of CLO deals held by TFG as of the applicable quarter-end date.
- (ii) Gross Cash Receipts from Investments refer to the actual cash receipts collected during each quarter from TFG's CLO investments. Cash Flows from Operations refer to cash inflows from investments less expenses and net cash settlements on FX and credit hedges.

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❖ Investment Portfolio Performance Details (continued):

- **CLO Portfolio Credit Quality:** The weighted-average WARF across all of TFG's CLO equity investments stood at approximately 2,578 as of the end of Q2 2012. Each of these foregoing statistics represents a weighted-average summary of all of our 70 deals.⁽¹²⁾ Each individual deal's metrics will differ from these averages and vary across the portfolio.

ALL CLOs	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009
Caa1/CCC+ or Below Obligors:	5.7%	6.2%	7.0%	7.0%	7.2%	7.6%	8.3%	9.6%	10.5%	11.1%	12.0%	12.6%	11.6%
WARF:	2,578	2,588	2,624	2,614	2,642	2,664	2,671	2,658	2,706	2,762	2,809	2,813	2,800

US CLOs	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009
Caa1/CCC+ or Below Obligors:	4.2%	4.8%	5.5%	5.5%	5.8%	6.5%	6.9%	7.9%	8.4%	9.4%	12.0%	12.8%	11.9%
WARF:	2,491	2,504	2,533	2,522	2,542	2,591	2,622	2,610	2,648	2,719	2,799	2,824	2,831

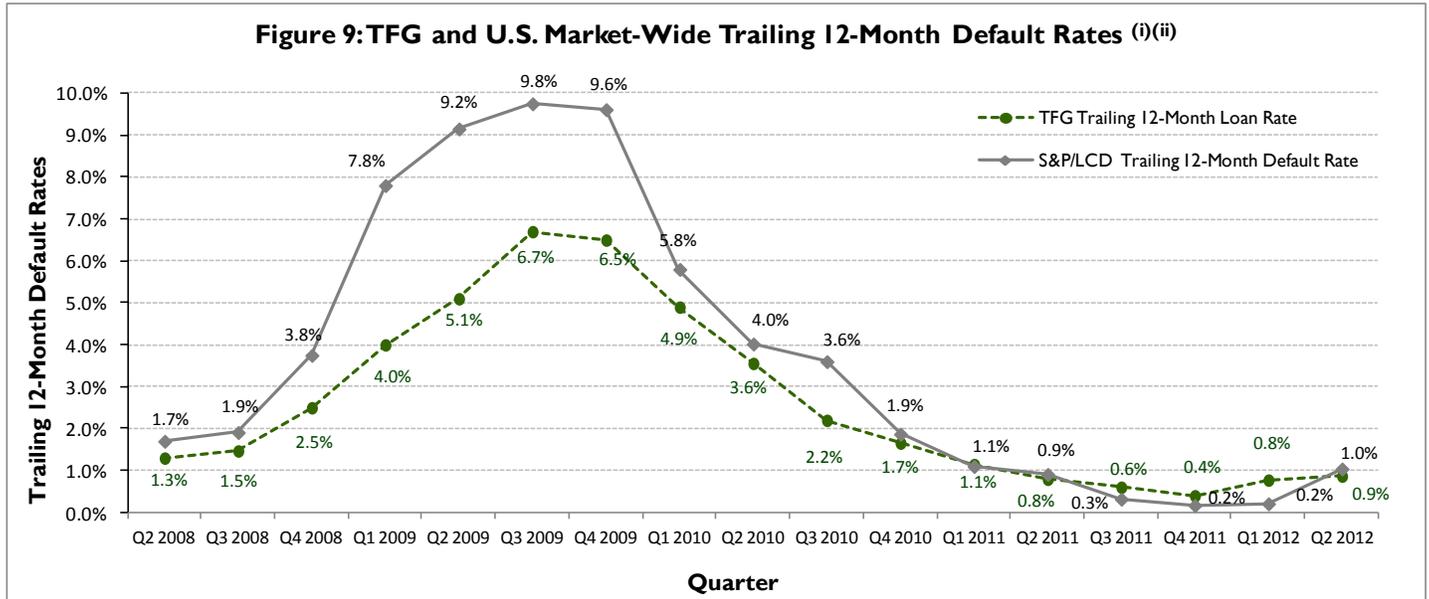
EUR CLOs	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009
Caa1/CCC+ or Below Obligors:	11.6%	11.1%	12.3%	12.0%	12.3%	11.4%	13.1%	15.3%	17.4%	16.8%	15.6%	12.0%	10.8%
WARF:	2,910	2,900	2,948	2,941	2,997	2,914	2,837	2,817	2,898	2,907	2,845	2,779	2,696

- **TFG and Market Default Rates:** TFG's lagging 12-month corporate loan default rate rose marginally to 0.9% during Q2 2012, from 0.8% the prior quarter.⁽¹³⁾ By geography, TFG's U.S. CLO equity and direct loan investments registered a lagging 12-month default rate of 0.6%, with European CLO equity investments at 2.8%. By comparison, the lagging 12-month U.S. institutional loan default rate rose to 1.04% by principal amount as of June 30, 2012, according to S&P/LCD, up from approximately 0.21% during the prior quarter.⁽¹⁴⁾ The lagging 12-month default rate for the S&P European Leveraged Loan Index ("ELLI") stood 5.5% as of the end of June 30, 2012.⁽¹⁵⁾ Please refer to *Figure 9* on the following page for a historical summary of TFG's CLO equity and direct loan investments' default performance.

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❖ Investment Portfolio Performance Details (continued):



(i) Source: TFG as of the outlined quarter-end date. The calculation of TFG's lagging 12-month corporate loan default rate does not include certain underlying investment collateral that was assigned a "Selective Default" rating by one or more of the applicable rating agencies. Such Selected Defaults are included the S&P/LCD lagging 12-month U.S. institutional loan default rate discussed above. Furthermore, TFG's CLO equity and direct loan investment portfolio includes approximately 9.1% CLOs with primary exposure to European senior secured loans and such loans are included in the calculation of TFG's corporate default rate.

(ii) Source: S&P/LCD Quarterly Review as of the outlined quarter-end date.

- Direct Loan Investments:** As of June 30, 2012, TFG owned liquid U.S. bank loans with an aggregate par amount of approximately \$88.8 million and total fair value of \$87.4 million. The size of the portfolio was reduced during the second quarter in order to, among other factors, de-risk the portfolio ahead of a potential further deterioration of European macroeconomic conditions on the heels of the Greek sovereign debt crisis. All positions were sold above their original purchase prices. The underlying businesses performed well during the quarter, with the loan portfolio trading at approximately 98% of par compared with an average purchase price of 98% of par, and with no defaults registered in the portfolio. For the quarter, there were net realized losses of approximately \$0.1 million. In addition, the portfolio earned \$1.5 million of interest income and discount premium during the second quarter.
- Real Estate Investments:** TFG has funded a small portion of its investment capital commitments to GreenOak's investment projects, totaling approximately \$8.2 million from inception through the end of Q2 2012 to finance investments in Japan, the United States and Europe.

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❖ Asset Management Platform Details:

- **LCM Developments:** LCM's operating results and financial performance remained strong throughout Q2 2012, with all LCM Cash Flow CLOs that were within their reinvestment periods ⁽¹⁶⁾ remaining current on their senior and subordinated management fees as of June 30, 2012. Taking into account all LCM-managed vehicles, the gross income for Q2 2012 for LCM totaled \$4.4 million. Pre-tax profit for the entire LCM business, of which TFG owns 75%, was approximately \$2.1 million as of the same period (2011 quarterly average of \$2.1 million). TFG continues to leverage and benefit from the LCM team's expertise in the ongoing management of the company's direct loan investment portfolio.

LCM Asset Management Performance Snapshot

	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Gross Fee Income (\$MM)	\$4.4	\$4.4	\$4.3	\$4.4	\$3.9	\$3.8	\$3.4	\$3.0	\$2.9	\$3.3
Pre-tax Income (\$MM)	\$2.1	\$2.0	\$2.2	\$2.2	\$1.9	\$1.9	\$1.1	\$1.4	\$1.4	\$1.9

- **GreenOak Real Estate Developments:** GreenOak continued to execute on its business growth strategy, including increasing investor commitments to its funds. The company had a second closing of its Japan fund in June 2012 and also acquired its first investment for the Japan fund during the quarter. GreenOak's investment team is actively building a pipeline of interesting opportunities in the United States, Japan, and Europe, which we expect to continue to materialize over the next several quarters.

We continue to seek to grow and expand our asset management businesses and capabilities as we further our efforts to transition the company to a broadly diversified financial services firm that benefits from diverse income streams. We continue to review potential market opportunities in this regard.

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❖ Loan and CLO Market Developments:

- **U.S. leveraged loan defaults up during Q2 2012, but below the historical average:** The U.S. lagged 12-month loan default rate rose to 1.04% by principal amount as of June 30, 2012, up from 0.21% as of the end of Q1 2012.⁽¹⁷⁾ Despite reaching a near-term high, the U.S. leveraged loan default rate remained below the historical average of approximately 3.4% by principal amount.⁽¹⁸⁾
- **U.S. and European repayments rise:** The U.S. S&P/LSTA Leveraged Loan Index repayment rate rose to 8.2% during Q2 2012, up from 7.6% in Q1 2012.⁽¹⁹⁾ Repayments within the S&P European Leveraged Loan Index (“ELLI”) rose to €6.0 billion during Q2 2012, up from €2.9 billion in Q1 2012.⁽²⁰⁾
- **“Maturity wall” reduction continues:** During Q2 2012, U.S. S&P/LSTA Index issuers repaid or extended approximately 23.2% of loan maturities due by the end of 2014, up from 21.2% in Q1 2012.⁽²¹⁾ The majority of these reductions was achieved via repayments, with amend-to-extends and high yield bond take-outs constituting a smaller share of maturity reduction sources during the quarter.⁽²²⁾
- **U.S. and Euro loan returns positive despite macro uncertainty:** U.S. secondary loan prices struggled to hold-on to early gains, as the U.S. S&P/LSTA Leveraged Loan Index returned a modest 0.69% in Q2 2012.⁽²³⁾ Similarly, the S&P European Leveraged Loan Index returned 0.55%, as worries about the Euro sovereign debt crisis and viability of the U.S. recovery weighed on the markets.⁽²⁴⁾
- **U.S. loan issuance down, European volumes up but still subdued:** Institutional U.S. loan issuance declined to \$56.6 billion in Q2 2012, down from \$68.0 billion in Q1 2012.⁽²⁵⁾ European primary institutional loan issuance rose modestly with €4.3 billion of institutional loans issued in Q2 2012 compared with €3.6 billion in Q1 2012, but remained low by historical standards.⁽²⁶⁾
- **U.S. CLO O/C ratios improve while European deals remain under pressure:** During Q2 2012, O/C ratios of U.S. CLOs strengthened on average. According to Morgan Stanley, the median junior O/C test cushion for U.S. CLOs rose to 4.37% as of June 30, 2012⁽²⁷⁾ up from 4.09% as of the end of the prior quarter.⁽²⁸⁾ The median junior O/C test cushion for European CLOs, however, declined to 0.77% as of the end of Q2 2012,⁽²⁹⁾ down from 0.95% as of the end of Q1 2012.⁽³⁰⁾
- **U.S. CLO debt spreads widen:** Average secondary U.S. CLO debt spreads widened marginally at the end of Q2 2012 vs. the prior quarter reflecting a broader risk-off move in the capital markets.⁽³¹⁾
- **Primary arbitrage CLO volumes up in Q2 2012 despite challenging markets:** U.S. arbitrage CLO issuance rose during Q2 2012 as 27 deals totaling \$12.1 billion were priced, up from \$5.8 billion and 15 deals priced in Q1 2012, bringing the YTD volume to \$17.9 billion via 42 deals.⁽³²⁾ The CLO market showed resilience during the quarter in the face of weakening macro conditions, rising volatility and widening CLO liability spreads. Although the forward CLO pipeline is robust, the pace of issuance may decelerate during the second half as deal execution becomes more opportunistic, reflecting the unpredictability of the capital markets, volatility of CLO and loan spreads, and fickle equity arbitrage.
- **U.S. CLO equity distributions remain robust:** U.S. CLO equity payments remained strong during Q2 2012 thanks to low credit losses, the growing prevalence of LIBOR floors, and healthy repayments which allowed managers to reinvest into wider spread and/or below par assets, among other factors.

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❖ Fair Value Determination for TFG's CLO Equity Investments:

- In accordance with the valuation policies as set forth on the company's website, the values of TFG's CLO equity investments are determined using a third-party cash flow modeling tool. The model contains certain assumption inputs that are reviewed and adjusted as appropriate to factor in how historic, current and potential market developments (examined through, for example, forward-looking observable data) might potentially impact the performance of TFG's CLO equity investments. Since this involves modeling, among other things, forward projections over multiple years, this is not an exercise in recalibrating future assumptions to the latest quarter's historical data.
- Subject to the foregoing, when determining the U.S. GAAP-compliant fair value of TFG's portfolio, the company seeks to derive a value at which market participants could transact in an orderly market and also seeks to benchmark the model inputs and resulting outputs to observable market data when available and appropriate. Please refer to the 2011 Annual Report for a more detailed description of the cash flow projection and discounting process.

❖ Forward-looking CLO Equity Cash Flow Modeling Assumptions:

- The Investment Manager reviews, and adjusts in consultation with TFG's audit committee, as appropriate, the CLO equity investment portfolio's modeling assumptions as described above. At the end of Q2 2012, key assumptions relating to defaults, recoveries, prepayments and reinvestment prices were unchanged from the previous quarter.
- These key average assumption variables have been summarized in the table below. The modeling assumptions disclosed below are a weighted average (by U.S. dollar amount) of the individual deal assumptions, aggregated by geography (i.e. U.S. and European). Such weighted averages may change from month to month due to movements in the amortized costs of the deals, even without changes to the underlying assumptions. Each individual deal's assumptions may differ from this geographical average and vary across the portfolio.
- In addition to the reinvestment price, reinvestment spread and reinvestment life assumptions are also input into the model to generate an effective spread over LIBOR. Newer vintage CLOs may have a higher weighted average reinvestment spread over LIBOR (as of the end of Q2 2012 385 bps for newer vintage CLOs and 274 bps for older vintage CLOs) or shorter reinvestment life assumptions than older deals. Across the entire CLO portfolio, the reinvestment price assumption of 98% for the remainder of 2012 for U.S. deals and 100% for European deals with their respective assumed weighted-average reinvestment spreads, generates an effective spread over LIBOR of approximately 365 bps on broadly syndicated U.S. loans, 288 bps on European loans, and 422 bps on middle market loans.⁽³³⁾

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❖ **Forward-looking CLO Equity Cash Flow Modeling Assumptions (continued):**

U.S. CLOs – Unchanged

Variable	Year	Current Assumptions
CADR		
	2012-2013	1.0x WARF-implied default rate (2.2%)
	2014-2016	1.5x WARF-implied default rate (3.3%)
	Thereafter	1.0x WARF-implied default rate (2.2%)
Recovery Rate		
	Until deal maturity	73%
Prepayment Rate		
	Until deal maturity	20.0% p.a. on loans; 0.0% on bonds
Reinvestment Price		
	2012	98%
	Thereafter	100%

European CLOs - Unchanged

Variable	Year	Current Assumptions
CADR		
	2012-2014	1.5x WARF-implied default rate (3.1%)
	Thereafter	1.0x WARF-implied default rate (2.1%)
Recovery Rate		
	Until deal maturity	68%
Prepayment Rate		
	Until deal maturity	20.0% p.a. on loans; 0.0% on bonds
Reinvestment Price		
	Until deal maturity	100%

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❖ Application of Discount Rate to Projected CLO Equity Cash Flows and ALR:

- In determining the applicable rates to use to discount projected cash flows, an analysis of observable risk premium data is undertaken. During Q2 2012 certain observable data and research, covering both CLO equity and debt tranches (including originally BB and BBB-rated debt tranches), suggested that risk premia on U.S. CLO equity marginally increased. For example, according to Citibank research, the spread on originally BB-rated tranches increased from approximately 10% at the end of Q1 2012 to 11% as of June 2012.⁽³⁴⁾
- Although the aforementioned spreads increased marginally over the quarter, they continue to fluctuate within a relatively narrow range and we believe that TFG's discount rates for U.S. CLOs of 20% for strong deals, and 25% for the others, continue to represent an appropriate spread over mezzanine tranches.
- Per Citibank research, European originally BB-rated tranche yields rose to 22% from 21% as of June 2012, which is lower than the yield of 24% at the end of 2011.⁽³⁵⁾ These spreads are still significantly above the equivalent U.S. CLO debt tranches and given the ongoing uncertainty surrounding Europe, we believe that there is sufficient support to maintain TFG's differentiated discount rate for all European deals at 30%.
- As a general rule, where the discount rate being applied to the future cash flows is greater than the IRR on a particular deal, the fair value for that deal will be lower than its amortized cost. The difference between these two figures, on an aggregate basis across the CLO equity portfolio, has been characterized as the "ALR Fair Value Adjustment" or "ALR". Through the process described above, as of the end of Q2 2012, the total ALR stands at \$109.3 million, consisting of \$11.7 million for U.S. deals and \$97.6 million for European deals, as compared to \$120.7 million at the end of Q1 2012 (\$16.5 million for U.S. deals and \$104.2 million for European deals).
- The average carrying value of TFG's U.S. CLO equity investments, which accounted for approximately 90.0% of the CLO equity investment portfolio by fair value, was approximately \$0.77 on the dollar at the end of Q2 2012, the same level as at the end of Q1 2012.
- The average carrying value of the European deals rose from €0.40 per Euro as of the end of Q1 2012 to €0.42 per Euro as of the end of Q2 2012. This reflected, among other things, a recovery in the O/C cushions of some European deals, which all else being equal increase the value of future projected cash flows. It is important to note, however, that significant dispersion of carrying values exists across transactions within each geographic grouping, particularly in the case of Europe, with a range of carrying values of €0.06 to €0.62 per Euro.
- As discussed in the 2011 Annual Report, the applicable discount rate for the new vintage deals is determined with reference to each deal's specific IRR, which, in the absence of other observable data points, is deemed to be the most appropriate indication of the current risk premium on these structures. At the end of Q2 2012, the weighted average discount rate (and IRR) on these deals was 10.4%. Such deals represented approximately 11.3% of the CLO equity portfolio by fair value (up from 9.4% at the end of Q1 2012). We will continue to monitor observable data on these newer vintage transactions to determine whether the IRR remains the appropriate discount rate.

TETRAGON

TETRAGON FINANCIAL GROUP LIMITED (TFG)

PERFORMANCE REPORT FOR PERIOD ENDED 30 JUNE 2012

❖ **Hedging Activity:**

As of June 30, 2012, TFG had no direct credit hedges in place, but employed certain foreign exchange rate and “tail risk” interest rate hedges to seek to mitigate its exposure to Euro-USD foreign exchange risk and a potential significant increase in U.S. inflation and/or nominal interest rates, respectively. 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.

❖ **Directors’ Statements:**

The Directors of TFG confirm that (i) this Performance Report constitutes the TFG management review for the six month period ended 30 June 2012 and contains a fair review of that period and (ii) the financial statements in the accompanying unaudited interim report for the six month period ended 30 June 2012 for TFG have been prepared in accordance with applicable laws and in conformity with accounting principles generally accepted in the United States of America.

TETRAGON

TETRAGON FINANCIAL GROUP LIMITED (TFG)

PERFORMANCE REPORT FOR PERIOD ENDED 30 JUNE 2012

❖ Summary and Outlook:

TFG posted strong results during Q2 2012 and cash generation from the CLO portfolio remained robust. The U.S. CLO portfolio, which continues to benefit from, among other things, high spread reinvestment opportunities and low default rates (each of which have yet to revert to more normalized levels), drove NAV appreciation. In particular, pre-2010 vintage U.S. CLOs have also benefitted from their historically low cost of funding compared to newer vintage deals. Cash flow from our CLO equity investments has allowed for capital distributions through the dividend and the ongoing share buyback program.

TFG's asset management businesses also performed well and added AUM during the quarter. We successfully closed LCM XI, a \$486.0 million CLO. TFG invested approximately \$22.7 million in the deal, with the remainder of the capital coming from third-party investors. GreenOak, TFG's real estate management business, also added assets, with total assets under management ending the quarter at over \$1.7 billion.

The regulatory and tax landscape continues to evolve and we are monitoring developments to assess their impact on TFG, including the impact of the Foreign Account Tax Compliance Act ("FACTA"), a U.S. tax regulation. Unfortunately, FATCA was not drafted with the CLO product in mind and accordingly, its application to CLOs remains unclear. We believe, however, that TFG and LCM will be able to avail themselves of certain FATCA provisions to alleviate its impact. We will continue to closely monitor the regulatory and tax environment as it relates to CLOs and securitizations.

Although Europe's macroeconomic woes continue to provide headwinds, we are optimistic on the performance outlook for TFG. We believe the new issue CLO market may be conducive throughout the remainder of the year to new deals managed by well-established managers, such as LCM. This may serve to benefit both our investment portfolio, by allowing us to replace amortizing assets, and our CLO management business, by growing fee-paying third-party assets under management. As we have stated in the past, we remain focused on growing the company's asset management business as we believe this may create value for the company's shareholders by strengthening and diversifying TFG's income streams.

TETRAGON

TETRAGON FINANCIAL GROUP LIMITED (TFG) PERFORMANCE REPORT FOR PERIOD ENDED 30 JUNE 2012

❖ Quarterly Investor Call:

We will host a conference call for investors on August 8, 2012 at 15:00 GMT/16:00 CET/10:00 EST to discuss Q2 2012 results and to provide a company update.

The conference call may be accessed by dialing +44 (0)20 7162 0025 and +1 334 323 6201 (a passcode is not required). Participants may also register for the conference call in advance via the following link <https://eventreg1.conferencing.com/webportal3/reg.html?Acc=247751&Conf=184557>

Additional call details are as follows:

Event title: Tetragon Investor Call
Conference ID: 920147
Moderator: David Wishnow

A replay of the call will be available for 30 days by dialing +44 (0) 20 7031 4064 and +1 954 334 0342, conference ID 920147 and as an MP3 recording on the TFG website.

For further information, please contact:

TFG:

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Press Inquiries:

Brunswick Group
Andrew Garfield/Gill Ackers/ Pip Green
tetragon@brunswickgroup.com

Expected Upcoming Events	Date
Q2 2012 Ex-Dividend Date	August 01, 2012
Q2 2012 Dividend Record Date	August 03, 2012
Quarterly Investor Call	August 08, 2012
July 2012 Monthly Report	August 20, 2012 (approx)
Q2 2012 Dividend Payment Date	August 27, 2012

TETRAGON

TETRAGON FINANCIAL GROUP LIMITED (TFG) PERFORMANCE REPORT FOR PERIOD ENDED 30 JUNE 2012

TETRAGON FINANCIAL GROUP							
Financial Highlights							
	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Quarterly Average
Net income (\$MM)	\$79.2	\$53.4	\$80.3	\$67.3	\$88.1	\$174.7	\$90.5
EPS (\$)	\$0.69	\$0.46	\$0.69	\$0.57	\$0.74	\$1.46	\$0.77
CLO Cash receipts (\$MM) ⁽¹⁾	\$110.0	\$102.6	\$113.2	\$105.1	\$102.4	\$90.9	\$104.0
CLO Cash receipts per share (\$)	\$0.96	\$0.89	\$0.97	\$0.89	\$0.86	\$0.76	\$0.89
Net cash balance (\$MM)	\$299.1	\$224.8	\$211.5	\$155.6	\$67.7	\$147.0	\$184.3
Net assets (\$MM)	\$1,570.3	\$1,510.1	\$1,474.4	\$1,413.6	\$1,368.3	\$1,298.0	\$1,439.1
Number of shares outstanding (million) ⁽²⁾	114.2	115.1	116.0	117.2	118.8	119.6	116.8
NAV per share (\$)	\$13.75	\$13.12	\$12.71	\$12.06	\$11.52	\$10.85	\$12.34
DPS (\$)	\$0.115	\$0.105	\$0.105	\$0.10	\$0.10	\$0.09	\$0.10
Weighted average IRR on completed transactions (%)	17.6%	17.5%	17.6%	16.8%	16.3%	15.8%	16.9%
Number of CLO investments ⁽³⁾	79	78	77	75	75	74	76
ALR Fair Value Adjustment (\$MM)	(\$109.3)	(\$120.7)	(\$128.7)	(\$118.0)	(\$133.8)	(\$155.7)	(\$127.7)

⁽¹⁾ Gross cash receipts from CLO portfolio.

⁽²⁾ Excludes shares held in treasury.

⁽³⁾ Excludes CDO-squared and ABS CDO transactions written off in October 2007. TFG continues to hold the economic rights to 3 of these written-off transactions.

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TETRAGON FINANCIAL GROUP LIMITED (TFG) PERFORMANCE REPORT FOR PERIOD ENDED 30 JUNE 2012

TETRAGON FINANCIAL GROUP				
Quarterly Statement of Operations as at 30 Jun 2012				
Statement of Operations	Q2 2012 (\$MM)	Q1 2012 (\$MM)	Q4 2011 (\$MM)	Q3 2011 (\$MM)
Interest income	58.3	57.5	55.1	53.6
CLO management fee income	4.4	4.4	4.3	4.4
Other income	1.8	1.3	2.9	0.8
Investment income	64.5	63.2	62.3	58.8
Management and performance fees	(28.3)	(19.5)	(28.6)	(24.3)
Admin / custody and other fees	(4.6)	(4.8)	(7.6)	(9.0)
Total operating expenses	(32.9)	(24.3)	(36.2)	(33.3)
Net investment income	31.6	38.9	26.1	25.5
Net change in unrealised appreciation in investments	52.1	16.2	58.5	50.5
Realised (loss) / gain on investments	(0.1)	0.1	0.3	-
Realised and unrealised losses from hedging and fx	(2.9)	(0.7)	(3.3)	(7.1)
Net realised and unrealised gains from investments and fx	49.1	15.6	55.5	43.4
Income taxes	(1.0)	(0.6)	(0.7)	(1.1)
Noncontrolling interest	(0.5)	(0.5)	(0.6)	(0.5)
Net increase in net assets from operations	79.2	53.4	80.3	67.3

TETRAGON

TETRAGON FINANCIAL GROUP LIMITED (TFG) PERFORMANCE REPORT FOR PERIOD ENDED 30 JUNE 2012

TETRAGON FINANCIAL GROUP	
Balance Sheet as at 30 Jun 2012	
	Jun-12 \$MM
Assets	
Investments in securities, at fair value	1,284.1
Intangible assets - CLO management contracts	0.1
Cash and cash equivalents	299.1
Amounts due from brokers	6.6
Derivative financial assets - interest rate swaptions	4.1
Amounts receivable on sale of investments	2.0
Derivative financial assets - forward contracts	4.5
Other receivables	2.9
Total Assets	1,603.4
Liabilities	
Other payables and accruals	26.9
Amounts payable on Treasury Shares	0.7
Amounts payable on Share Options	2.7
Income and deferred tax payable	2.4
Total Liabilities	32.7
Net Assets Before Noncontrolling Interest	1,570.7
Noncontrolling interest	0.4
Total Equity Attributable to TFG	1,570.3

TETRAGON

TETRAGON FINANCIAL GROUP LIMITED (TFG) PERFORMANCE REPORT FOR PERIOD ENDED 30 JUNE 2012

TETRAGON FINANCIAL GROUP	
Statement of Cash Flows for the period ended 30 Jun 2012	
	Jun-12 \$MM (YTD)
Operating Activities	
Operating cash flows before movements in working capital after dividends paid to Guernsey feeder	172.6
Change in payables/receivables	(2.3)
Cash flows from operating activities	170.3
Investment Activities	
<u>Proceeds on sales of investments</u>	
- Proceeds sale of CLOs	0.2
- Proceeds from the sale of Bank Loans	32.3
<u>Purchase of investments</u>	
- Purchase of CLO Equity	(65.0)
- Purchase of CLO Mezz	(1.1)
- Purchase of Bank Loans	(34.3)
- Investments in Real Estate	(5.8)
- Investments in Asset Managers	(2.7)
Maturity and prepayment of investments	21.7
Cash flows from operating and investing activities	115.6
Amounts due from broker	9.3
Net Purchase of shares	(12.3)
Dividends paid to shareholders	(24.2)
Distributions paid to noncontrolling interest	(0.7)
Cash flows from financing activities	(27.9)
Net increase in cash and cash equivalents	87.8
Cash and cash equivalents at beginning of period	211.5
Effect of exchange rate fluctuations on cash and cash equivalents	(0.2)
Cash and cash equivalents at end of period	299.1

TETRAGON

TETRAGON FINANCIAL GROUP LIMITED (TFG)

PERFORMANCE REPORT FOR PERIOD ENDED 30 JUNE 2012

CLO EQUITY PORTFOLIO DETAILS AS OF JUNE 30, 2012

Transaction	Deal Type	Original Invest. Cost (\$MM USD) ⁽¹⁾	Deal Closing Date	Year of Maturity	End of Reinv Period	Wtd Avg Spread (bps) ⁽²⁾	Original Cost of Funds (bps) ⁽³⁾	Current Cost of Funds (bps) ⁽⁴⁾	Current Most O/C Cushion ⁽⁵⁾	Jr- Most O/C Cushion at Close ⁽⁶⁾	Annualized (Loss) Gain of Cushion ⁽⁷⁾	IRR ⁽⁸⁾	ITD Cash Received as % of Cost ⁽⁹⁾
Transaction 1	EUR CLO	37.5	2007	2024	2014	320	55	58	(2.78%)	3.86%	(1.33%)	-	29.6%
Transaction 2	EUR CLO	29.7	2006	2023	2013	368	52	53	0.93%	3.60%	(0.48%)	9.9%	52.2%
Transaction 3	EUR CLO	22.2	2006	2022	2012	374	58	63	2.59%	5.14%	(0.39%)	12.8%	94.1%
Transaction 4	EUR CLO	33.0	2007	2023	2013	381	48	47	3.63%	5.76%	(0.40%)	13.9%	74.1%
Transaction 5	EUR CLO	36.9	2007	2022	2014	371	60	60	2.70%	5.74%	(0.62%)	8.4%	50.8%
Transaction 6	EUR CLO	33.3	2006	2022	2012	360	51	58	0.25%	4.70%	(0.73%)	6.5%	49.7%
Transaction 7	EUR CLO	38.5	2007	2023	2013	373	46	46	(1.65%)	3.64%	(1.01%)	4.7%	31.9%
Transaction 8	EUR CLO	26.9	2005	2021	2011	345	53	56	(1.74%)	4.98%	(0.98%)	10.3%	87.1%
Transaction 9	EUR CLO	41.3	2007	2023	2013	364	50	46	1.34%	6.27%	(0.94%)	7.7%	32.8%
Transaction 10	EUR CLO	27.0	2006	2022	2012	348	50	52	(2.06%)	4.54%	(1.12%)	7.1%	32.7%
EUR CLO Subtotal:		326.3				360	52	53	0.30%	4.84%	(0.82%)		50.7%
Transaction 11	US CLO	20.5	2006	2018	2012	359	45	45	5.40%	4.55%	0.15%	20.7%	140.7%
Transaction 12	US CLO	22.8	2006	2019	2013	367	46	46	5.59%	4.45%	0.20%	20.8%	135.4%
Transaction 13	US CLO	15.2	2006	2018	2012	389	47	47	6.32%	4.82%	0.25%	21.2%	147.0%
Transaction 14	US CLO	26.0	2007	2021	2014	392	49	50	4.36%	5.63%	(0.24%)	18.5%	111.6%
Transaction 15	US CLO	28.1	2007	2021	2014	433	52	48	3.48%	4.21%	(0.15%)	28.6%	159.5%
Transaction 16	US CLO	23.5	2006	2020	2013	418	46	45	3.32%	4.44%	(0.19%)	20.9%	142.0%
Transaction 17	US CLO	26.0	2007	2021	2014	357	40	40	4.63%	4.24%	0.07%	22.9%	136.5%
Transaction 18	US CLO	16.7	2005	2017	2011	347	45	46	5.98%	4.77%	0.18%	19.4%	158.3%
Transaction 19	US CLO	1.2	2005	2017	2011	347	45	46	5.98%	4.77%	0.18%	23.2%	152.5%
Transaction 20	US CLO	26.6	2006	2020	2012	443	52	52	3.98%	5.28%	(0.23%)	22.0%	155.8%
Transaction 21	US CLO	20.7	2006	2020	2012	421	53	52	3.26%	4.76%	(0.25%)	18.6%	129.7%
Transaction 22	US CLO	37.4	2007	2021	2014	446	53	53	3.24%	5.00%	(0.33%)	21.1%	121.8%
Transaction 23	US CLO	19.9	2007	2021	2013	374	66	66	3.66%	4.98%	(0.26%)	20.4%	130.3%
Transaction 24	US CLO	16.9	2006	2018	2012	368	46	47	5.18%	4.17%	0.17%	17.1%	111.9%
Transaction 25	US CLO	20.9	2006	2018	2013	388	46	46	6.05%	4.13%	0.35%	22.1%	137.9%
Transaction 26	US CLO	27.9	2007	2019	2013	393	43	44	4.04%	4.05%	(0.00%)	18.9%	110.6%
Transaction 27	US CLO	23.9	2007	2021	2014	534	51	51	12.14%	6.11%	1.10%	32.1%	178.9%
Transaction 28	US CLO	7.6	2007	2021	2014	534	51	51	12.14%	6.11%	1.10%	42.0%	97.1%
Transaction 29	US CLO	19.1	2005	2018	2011	437	66	84	4.05%	4.82%	(0.12%)	18.9%	146.5%
Transaction 30	US CLO	12.4	2006	2018	2012	475	67	68	1.92%	5.16%	(0.54%)	18.3%	118.7%
Transaction 31	US CLO	9.3	2005	2017	2012	339	52	50	3.38%	5.02%	(0.23%)	16.3%	151.9%
Transaction 32	US CLO	24.0	2007	2021	2014	338	59	59	4.35%	5.57%	(0.25%)	20.0%	115.0%
Transaction 33	US CLO	16.2	2006	2020	2012	360	56	72	4.42%	6.99%	(0.41%)	14.6%	123.0%
Transaction 34	US CLO	22.2	2006	2020	2012	381	50	50	4.85%	6.66%	(0.33%)	18.6%	123.8%
Transaction 35	US CLO	23.6	2006	2018	2012	447	52	52	2.07%	5.00%	(0.49%)	21.1%	147.4%
Transaction 36	US CLO	28.4	2007	2021	2013	447	46	56	2.19%	5.18%	(0.57%)	20.1%	118.4%
Transaction 37	US CLO	9.3	2005	2017	2011	331	50	59	5.17%	4.34%	0.12%	15.8%	137.1%
Transaction 38	US CLO	23.7	2007	2021	2013	338	42	42	3.92%	5.07%	(0.22%)	26.8%	158.6%
Transaction 39	US CLO	7.8	2005	2017	2011	364	70	86	3.62%	3.15%	0.07%	9.8%	80.7%
Transaction 40	US CLO	13.0	2006	2020	2011	412	39	40	N/A	N/A	N/A	22.3%	152.8%
Transaction 41	US CLO	22.5	2006	2020	2013	367	48	49	4.66%	4.71%	(0.01%)	21.4%	141.6%

TETRAGON

TETRAGON FINANCIAL GROUP LIMITED (TFG) PERFORMANCE REPORT FOR PERIOD ENDED 30 JUNE 2012

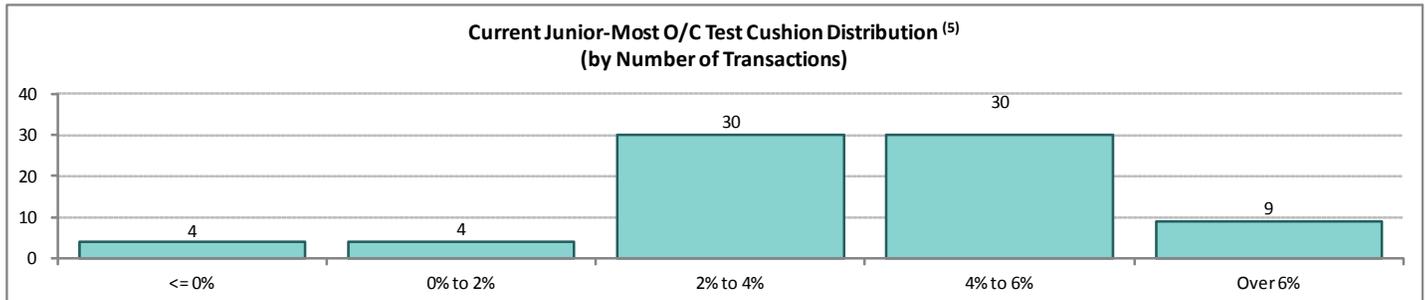
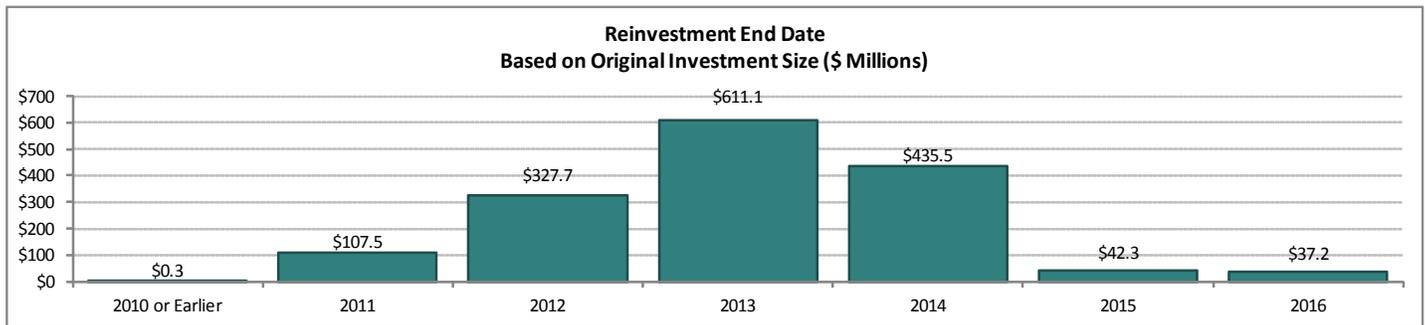
CLO EQUITY PORTFOLIO DETAILS (CONTINUED) AS OF JUNE 30, 2012

Transaction	Deal Type	Original Invest. Cost (\$MM USD) ⁽¹⁾	Deal Closing Date	Year of Maturity	End of Reinv Period	Wtd Avg Spread (bps) ⁽²⁾	Original Cost of Funds (bps) ⁽³⁾	Current Cost of Funds (bps) ⁽⁴⁾	Current Jr-Most O/C Cushion ⁽⁵⁾	Jr-Most O/C Cushion at Close ⁽⁶⁾	Annualized (Loss) Gain of Cushion ⁽⁷⁾	IRR ⁽⁸⁾	ITD Cash Received as % of Cost ⁽⁹⁾
Transaction 42	US CLO	22.4	2007	2021	2014	402	47	48	4.95%	3.92%	0.20%	21.1%	117.9%
Transaction 44	US CLO	22.3	2006	2018	2012	320	54	59	2.22%	4.16%	(0.32%)	12.5%	103.4%
Transaction 45	US CLO	23.0	2006	2018	2012	313	46	46	2.61%	4.46%	(0.33%)	10.5%	82.0%
Transaction 46	US CLO	21.3	2007	2019	2013	363	51	51	2.86%	4.33%	(0.29%)	10.0%	66.9%
Transaction 47	US CLO	28.3	2006	2021	2013	348	47	43	3.62%	4.34%	(0.13%)	21.0%	140.4%
Transaction 48	US CLO	23.0	2006	2019	2013	358	46	46	2.79%	5.71%	(0.52%)	16.6%	100.9%
Transaction 49	US CLO	12.6	2005	2017	2011	336	40	40	2.55%	3.94%	(0.21%)	12.4%	99.3%
Transaction 50	US CLO	12.3	2006	2018	2012	343	40	39	2.81%	4.25%	(0.24%)	13.1%	95.5%
Transaction 51	US CLO	18.0	2007	2020	2013	388	53	53	4.29%	4.47%	(0.04%)	20.9%	125.5%
Transaction 52	US CLO	0.3	2003	2015	2008	294	93	470	14.11%	3.20%	1.20%	278.6%	681.4%
Transaction 53	US CLO	0.6	2004	2016	2011	312	61	78	12.57%	4.00%	1.12%	37.2%	272.1%
Transaction 54	US CLO	0.5	2005	2017	2012	337	56	57	5.21%	3.69%	0.21%	59.6%	675.9%
Transaction 55	US CLO	0.3	2005	2017	2011	352	39	41	5.21%	3.59%	0.23%	63.3%	629.3%
Transaction 56	US CLO	23.0	2007	2019	2014	378	42	42	4.78%	4.53%	0.05%	22.8%	137.2%
Transaction 57	US CLO	0.6	2007	2019	2014	378	42	42	4.78%	4.53%	0.05%	48.9%	643.9%
Transaction 58	US CLO	21.8	2007	2019	2014	381	49	49	3.72%	4.04%	(0.06%)	25.0%	140.6%
Transaction 59	US CLO	0.4	2007	2019	2014	381	49	49	3.72%	4.04%	(0.06%)	52.6%	882.5%
Transaction 60	US CLO	18.8	2010	2021	2014	417	198	198	4.61%	4.50%	0.06%	11.0%	19.4%
Transaction 61	US CLO	29.1	2007	2021	2014	337	45	45	2.92%	4.04%	(0.22%)	16.8%	95.1%
Transaction 62	US CLO	25.3	2007	2020	2013	374	42	42	4.22%	5.20%	(0.19%)	21.3%	134.6%
Transaction 63	US CLO	27.3	2007	2021	2013	383	53	53	2.94%	4.78%	(0.37%)	18.0%	111.5%
Transaction 64	US CLO	15.4	2007	2021	2013	446	38	38	N/A	N/A	N/A	21.8%	102.4%
Transaction 65	US CLO	26.9	2006	2021	2013	374	47	48	2.73%	4.96%	(0.40%)	13.8%	84.2%
Transaction 66	US CLO	21.3	2006	2020	2013	342	49	49	3.71%	4.05%	(0.06%)	21.4%	142.3%
Transaction 67	US CLO	27.3	2007	2022	2014	347	46	45	4.54%	4.38%	0.03%	20.0%	116.2%
Transaction 68	US CLO	19.3	2006	2020	2013	439	48	48	6.37%	4.41%	0.35%	27.1%	170.1%
Transaction 69	US CLO	28.2	2007	2019	2013	411	44	44	7.35%	5.61%	0.33%	25.8%	154.9%
Transaction 70	US CLO	24.6	2006	2020	2013	320	52	52	6.27%	6.21%	0.01%	18.7%	116.8%
Transaction 71	US CLO	1.7	2006	2018	2012	343	40	39	2.81%	4.25%	(0.24%)	26.2%	49.3%
Transaction 72	US CLO	4.8	2007	2019	2014	378	42	42	4.78%	4.53%	0.05%	20.3%	40.8%
Transaction 73	US CLO	1.9	2007	2019	2014	378	42	42	4.78%	4.53%	0.05%	20.3%	40.8%
Transaction 74	US CLO	5.5	2007	2019	2014	381	49	49	3.72%	4.04%	(0.06%)	22.1%	42.4%
Transaction 75	US CLO	32.7	2011	2022	2014	415	168	168	4.42%	4.05%	0.37%	12.6%	18.9%
Transaction 76	US CLO	1.9	2006	2018	2012	313	46	46	2.61%	2.43%	0.03%	44.1%	31.6%
Transaction 77	US CLO	14.5	2011	2023	2016	391	212	212	5.26%	5.04%	0.41%	10.3%	0.0%
Transaction 78	US CLO	22.9	2012	2023	2015	474	217	217	4.35%	4.00%	0.79%	9.9%	0.0%
Transaction 79	US CLO	19.4	2012	2022	2015	449	215	215	4.18%	4.00%	0.49%	7.2%	0.0%
Transaction 80	US CLO	22.7	2012	2022	2016	404	185	185	4.17%	4.17%	(0.00%)	10.2%	0.0%
US CLO Subtotal:		1,235.3				390	64	65	4.22%	4.63%	(0.04%)		114.6%
Total CLO Portfolio:		1,561.5				384	62	63	3.40%	4.68%	(0.20%)		101.2%

TETRAGON

TETRAGON FINANCIAL GROUP LIMITED (TFG) PERFORMANCE REPORT FOR PERIOD ENDED 30 JUNE 2012

CLO EQUITY PORTFOLIO DETAILS (CONTINUED) AS OF JUNE 30, 2012



Notes

- (1) The USD investment cost fixes the USD-EUR exchange rate of European CLOs at the same rate to avoid the impact of skewed weightings and FX volatility.
- (2) Par weighted average spread over LIBOR or EURIBOR (as appropriate) of the underlying loan assets in each CLO's portfolio.
- (3) Notional weighted average spread over LIBOR or EURIBOR (as appropriate) of the debt tranches issued by each CLO, as of the closing date of each transaction.
- (4) Notional weighted average spread over LIBOR or EURIBOR (as appropriate) of the debt tranches issued by each CLO, as of the most recent trustee report date.
- (5) The current junior-most O/C cushion is the excess (or deficit) of the junior-most O/C test ratio over the test requirement, as of the latest trustee report available as of the report date.
- (6) The junior-most O/C cushion at close is the excess (or deficit) of the junior-most O/C test ratio over the test requirement that was expected on each deal's closing date. Please note that two of TFG's investments are so called "par structures" which don't include a junior O/C test. They have been marked by an "N/A" in the relevant junior-most O/C test columns.
- (7) Calculated by annualizing the change from the expected closing date junior-most O/C cushion to the current junior-most O/C cushion.
- (8) Calculated from TFG's investment date. Includes both historical cash flows received to-date and prospective cash flows expected to be received, based on TFG's base case modeling assumptions.
- (9) Inception to report date cash flow received on each transaction as a percentage of its original cost.

TETRAGON

TETRAGON FINANCIAL GROUP LIMITED (TFG)

PORTFOLIO COMPOSITION

PORTFOLIO HELD BY TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

(UNLESS OTHERWISE STATED)

AS OF JUNE 30, 2012

Report Date	TFG Share Price (\$)	TFG group Net Market Cap (\$MM) ⁽¹⁾	TFG group Net Assets (\$MM)	No. of Closed CLO Equity Transactions		
30 June 2012	\$7.37	\$841.5	\$1,570.3	79 ⁽²⁾		
Capital Allocation by Asset Class		Risk Capital Allocation	Investment Fair Value (\$MM) ^(2,3,4)	Asset Class Allocation		
Broadly Syndicated Senior Secured Loans: US		76.4%	\$966.1			
Broadly Syndicated Senior Secured Loans: Europe		9.1%	\$115.4			
Middle Market Senior Secured Loans: US		14.5%	\$182.9			
Total		100.0%	\$1,264.4			
Geographic Allocation by Asset Class		USA	Europe	Asia Pacific	Total	Geographic Allocation
Broadly Syndicated Senior Secured Loans		89.3%	10.7%	0.0%	100.0%	
Middle Market Senior Secured Loans		100.0%	0.0%	0.0%	100.0%	
Total		90.9%	9.1%	0.0%	100.0%	
Top 15 Underlying Bank Loan Credits		Bank Loan Exposure ⁽⁵⁾	Top 10 Bank Loan Industry Exposures ⁽⁵⁾			
Univision Communications	0.95%					
First Data Corp	0.89%					
HCA Inc	0.89%					
Community Health	0.78%					
Las Vegas Sands	0.73%					
UPC Broadband	0.73%					
Federal-Mogul	0.72%					
Charter Communications	0.69%					
Aramark Corp	0.69%					
Sabre Holdings Corp	0.68%					
Cablevision Systems Corp	0.68%					
Huntsman ICI	0.60%					
Reynolds Group	0.60%					
Royalty Pharma	0.58%					
Asurion Corp	0.57%					

EUR-USD FX: 1.27

⁽¹⁾ Calculated using TFG shares outstanding (net of 10.0 million shares held in treasury and 8.5 million shares held by a subsidiary) and month end exchange price.

⁽²⁾ Excludes CDO-squared and ABS CDO transactions which were written off in October 2007. TFG continues to hold the economic rights to 3 of these written-off transactions. Excludes TFG's investments in CLO mezzanine tranches.

⁽³⁾ Excludes TFG's investments in LCM Asset Management LLC, GreenOak Real Estate LP and GreenOak related funds or investments, and CLO mezzanine tranches.

⁽⁴⁾ Equivalent to Investment in Securities at Fair Value in the US GAAP Financial Statements.

⁽⁵⁾ Includes par amount of loans held directly by TFG and also loan exposures via TFG's CLO equity tranche investments. With respect to CLO equity tranche investments, calculated as a percentage of total corporate loan assets that TFG has exposure to based on its equity-based pro-rata share of each CLO's total portfolio. All calculations are net of any single name CDS hedges held against that credit.

An investment in TFG involves substantial risks. Please refer to the Company's website at www.tetragoninv.com for a description of the risks and uncertainties pertaining to an investment in TFG.

This release does not contain or constitute an offer to sell or a solicitation of an offer to purchase securities in the United States or any other jurisdiction. The securities of TFG have not been and will not be registered under the US Securities Act of 1933 (the "Securities Act"), as amended, and may not be offered or sold in the United States or to US persons unless they are registered under applicable law or exempt from registration. TFG does not intend to register any portion of its securities in the United States or to conduct a public offer of securities in the United States. In addition, TFG has not been and will not be registered under the US Investment Company Act of 1940, and investors will not be entitled to the benefits of such Act. TFG is registered in the public register of the Netherlands Authority for the Financial Markets under Section 1:107 of the Financial Markets Supervision Act ("FMSA") as a collective investment scheme from a designated country. This release constitutes regulated information ("gereguleerde informatie") within the meaning of Section 1:1 of the FMSA.

TETRAGON

BOARD OF DIRECTORS

Paddy Dear
Rupert Dorey*

Reade Griffith
David Jeffreys*

Byron Knief*
Greville Ward*

**Independent Director*

SHAREHOLDER INFORMATION

Registered Office of TFG and the Master Fund

Tetragon Financial Group Limited
Tetragon Financial Group Master Fund Limited
1st Floor Dorey Court
Admiral Park
St. Peter Port, Guernsey
Channel Islands GYI 6HJ

Investment Manager

Tetragon Financial Management LP
399 Park Avenue, 22nd Floor
New York, NY 10022
United States of America

General Partner of Investment Manager

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

Investor Relations

David Wishnow / Yuko Thomas
ir@tetragoninv.com

Press Inquiries

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tetragon@brunswickgroup.com

Auditors

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20 New Street
St. Peter Port, Guernsey
Channel Islands GYI 4AN

Sub-Registrar and Transfer Agent

Computershare
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 GYI IWA

Legal Advisor (as to Dutch law)

De Brauw Blackstone Westbroek N.V.
Claude Debussylaan 80
1082 MD Amsterdam, The Netherlands

Stock Listing

NYSE Euronext in Amsterdam

Administrator and Registrar

State Street Guernsey Limited
1st Floor Dorey Court
Admiral Park
St. Peter Port, Guernsey
Channel Islands GYI 6HJ

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ENDNOTES

- (1) TFG invests substantially all its capital through a master fund, Tetragon Financial Group Master Fund Limited (“TFGMF”), in which it holds 100% of the issued shares. In this report, unless otherwise stated, we report on the consolidated business incorporating TFG and TFGMF. References to “we” are to Tetragon Financial Management LP, TFG’s investment manager.
- (2) The LCM I, LCM II, LCM III, LCM IV, LCM V, LCM VI, LCM VIII, LCM IX, LCM X, and LCM XI CLOs are referred to as the “LCM Cash Flow CLOs.” The LCM VII CLO was a market value CLO previously managed by LCM, which was liquidated commencing in 2008, and is not included in the mentioned statistics. In addition, these statistics do not include the performance of certain transactions that were developed and previously managed by a third-party prior to being assigned to LCM, some of which continue to be managed by LCM.
- (3) All of the LCM Cash Flow CLOs were current on their senior and subordinated management fees except for LCM I, which is significantly beyond its reinvestment period and has experienced material de-leveraging.
- (4) The rolling 12-month dividend growth rate is calculated by dividing the sum of the dividends per share distributed or declared over the last 12 months by the dividends per share distributed or declared over the prior 12 months, less one.
- (5) 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.
- (6) Includes only look-through loan exposures through TFG’s CLO equity investments.
- (7) Excludes CDO-squared and ABS CDO transactions which were written off in October 2007. TFG continues to hold the economic rights to three of these written-off transactions.
- (8) Based on the most recent trustee reports available for both our U.S. and European CLO investments as of June 30, 2012.
- (9) As of June 30, 2012, European CLOs represented approximately 10% of TFG’s CLO equity investment portfolio; approximately 76% of the fair value of TFG’s European CLOs and 60%, when measured as a percentage of the total number of European deals, were passing their junior-most O/C tests.
- (10) As O/C tests are breached, CLO structures may divert excess interest cash flows away from the equity tranche holders, such as TFG, to pay down the CLO’s debt thereby curing the O/C breach via deleveraging. Accordingly, the affected investments ceased to generate cash flows to TFG or are expected to cease generating cash flows on the next applicable payment date. Once enough debt has been repaid to cure the O/C test breach, distributions of excess interest cash to equity holders may resume to the extent not precluded by the investments’ realized or unrealized losses.
- (11) Morgan Stanley CLO Market Tracker, July 10, 2012; based on a sample of 481 U.S. CLO transactions.
- (12) Weighted by the original USD cost of each investment.
- (13) The calculation of TFG’s lagging 12-month corporate loan default rate does not include certain underlying investment collateral that was assigned a “Selective Default” rating by one or more of the applicable rating agencies. Such Selected Defaults are included the S&P/LCD lagging 12-month U.S. institutional loan default rate discussed above. Furthermore, TFG’s CLO equity and direct loan investment portfolio includes approximately 9.1% CLOs with primary exposure to European senior secured loans and such loans are included in the calculation of TFG’s corporate default rate.
- (14) S&P/LCD News, “Leveraged loan default rate by number hits 11-month high in June,” July 2, 2012.
- (15) S&P/LCD News, “(EUR) S&P ELLI: Default rate climbs to 5.5% in June,” July 9, 2012. The ELLI default rate is calculated by defining “default” as (a) an event of default, such as a D public rating, a D credit estimate, a missed interest or principal payment, or a bankruptcy filing; or (b) the beginning stages of formal restructuring, such as the start of negotiations between the company and lenders, or hiring of financial advisors.
- (16) All of the LCM Cash Flow CLOs were current on their senior and subordinated management fees except for LCM I, which is significantly beyond its reinvestment period and has experienced material de-leveraging.
- (17) S&P/LCD News, “Leveraged loan default rate by number hits 11-month high in June,” July 2, 2012.
- (18) S&P/LCD News, “Leveraged loan default rate by number hits 11-month high in June,” July 2, 2012.
- (19) S&P/LSTA Leveraged Lending Review 2Q 2012.
- (20) S&P/LCD News, “(EUR) Topical: European loans generate €9.3B in 2Q12,” July 4, 2012.
- (21) S&P/LCD Quarterly Review, Second Quarter 2012.
- (22) S&P/LCD Quarterly Review, Second Quarter 2012.
- (23) S&P/LCD Quarterly Review, Second Quarter 2012.
- (24) S&P/LCD News, “(EUR) Topical: European loans generate €9.3B in 2Q12,” July 4, 2012.
- (25) S&P/LCD News, “Leveraged loan volume contracts in 2Q as clearing yields push higher,” June 29, 2012.
- (26) S&P/LCD Quarterly Review, Second Quarter 2012.
- (27) Morgan Stanley CLO Market Tracker, July 10, 2012; based on a sample of 481 U.S. CLO transactions.
- (28) Morgan Stanley CLO Market Tracker, April 4, 2012; based on a sample of 473 U.S. CLO transactions.
- (29) Morgan Stanley CLO Market Tracker, July 10, 2012; based on a sample of 195 European CLO transactions.
- (30) Morgan Stanley CLO Market Tracker, April 4, 2012; based on a sample of 195 European CLO transactions.
- (31) Wells Fargo Structured Products Research – CLOs. “The CLO Salmagundi: New Capital Rules May Benefit CLO Issuers,” June 28, 2012.
- (32) Wells Fargo Structured Products Research – CLOs. “The CLO Salmagundi: New Capital Rules May Benefit CLO Issuers,” June 28, 2012. Issuance volumes based on transactions priced, but not necessarily closed with the applicable time frame.
- (33) For U.S. broadly syndicated CLOs, and in particular deals issued post-2010, the assumed reinvestment effective spread may receive an additional benefit from LIBOR floors, with such benefit dependant on future LIBOR rates.
- (34) Citigroup, “Historical CLO Spreads”, June 1, 2012.
- (35) Citigroup, “Historical CLO Spreads”, June 1, 2012.

UNAUDITED CONSOLIDATED INTERIM REPORT

TETRAGON FINANCIAL GROUP LIMITED

FOR THE PERIOD ENDED 30 JUNE 2012

TETRAGON FINANCIAL GROUP LIMITED
UNAUDITED CONSOLIDATED INTERIM REPORT
For the period ended 30 June 2012

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TETRAGON FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

As at 30 June 2012 (unaudited)

	Note	30 Jun 2012 US\$	31 Dec 2011 US\$
Assets			
Investment in Master Fund	3	1,595,487,881	1,499,159,218
Amounts receivable from Master Fund		708,134	460,009
Total assets		1,596,196,015	1,499,619,227
Liabilities			
Accrued incentive fee	5	22,548,745	23,224,939
Amounts payable on Share options	4	2,665,507	1,579,030
Amounts payable on Treasury Shares	6	708,134	460,009
Total liabilities		25,922,386	25,263,978
Net assets		1,570,273,629	1,474,355,249
Equity			
Share capital	6	114,181	115,968
Share premium	7	1,116,058,508	1,128,567,096
Capital reserve in respect of Share options	8	11,789,336	11,789,336
Earnings	11	442,311,604	333,882,849
		1,570,273,629	1,474,355,249
Shares outstanding			
Shares	6	114,181,165	115,967,737
Net Asset Value per Share		US\$13.75	US\$12.71

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

Signed on behalf of the Board of Directors by:

Rupert Dorey, Director
David Jeffreys, Director

30 July 2012

TETRAGON FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS

For the period ended 30 June 2012 (unaudited)

	Note	Period ended 30 Jun 2012 US\$	Period ended 30 Jun 2011 US\$
Investment income allocated from the Master Fund			
Interest income		115,773,222	100,405,305
CLO management fee income		8,829,629	7,655,392
Other income		3,120,572	3,021,262
Investment income allocated from the Master Fund		<u>127,723,423</u>	<u>111,081,959</u>
Direct expenses			
Incentive fee	5	(36,442,961)	(81,727,611)
Total direct expenses		<u>(36,442,961)</u>	<u>(81,727,611)</u>
Operating expenses allocated from the Master Fund			
Management fees	8	(11,314,017)	(9,394,477)
Employee costs		(3,828,232)	(3,059,041)
Legal and professional fees		(3,723,478)	(4,708,859)
Administration and custodian fees		(537,498)	(501,283)
Market data fees		(152,802)	(79,881)
Directors' fees	8	(150,000)	(150,000)
Audit fees		(110,011)	(120,700)
Other operating and administrative expenses		(939,805)	(1,174,647)
Total operating expenses allocated from the Master Fund		<u>(20,755,843)</u>	<u>(19,188,888)</u>
Total operating expenses		(57,198,804)	(100,916,499)
Net investment income		<u>70,524,619</u>	<u>10,165,460</u>
Net increase in unrealized depreciation on:			
Share options		(1,086,477)	(2,201,538)
Net increase in unrealized depreciation arising from direct operations		<u>(1,086,477)</u>	<u>(2,201,538)</u>

TETRAGON FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS (continued)
For the period ended 30 June 2012 (unaudited)

	Note	Period ended 30 Jun 2012 US\$	Period ended 30 Jun 2011 US\$
Net realized and unrealized gain from investments and foreign currency allocated from the Master Fund			
Net realized gain / (loss) from:			
Investments		68,897	552,601
Foreign currency transactions		4,801,374	(5,083,333)
		4,870,271	(4,530,732)
 Net increase / (decrease) in unrealized appreciation / (depreciation) on:			
Investments		69,246,027	251,729,289
Forward foreign exchange contracts		(2,234,081)	(4,175,357)
Interest rate swaptions		(3,103,778)	1,072,608
Translation of assets and liabilities in foreign currencies		(3,020,598)	13,552,614
		60,887,570	262,179,154
 Net realized and unrealized gain from investments and foreign currencies allocated from the Master Fund		65,757,841	257,648,422
 Net increase in net assets resulting from operations before tax		135,195,983	265,612,344
Income and deferred tax expense		(1,621,825)	(1,942,642)
Net income		133,574,158	263,669,702
Less net income attributable to noncontrolling interest		(993,234)	(901,732)
Net increase in net assets resulting from operations		132,580,924	262,767,970
 Earnings per Share			
Basic	10	US\$ 1.15	US\$ 2.20
Diluted	10	US\$ 1.15	US\$ 2.20
 Weighted average Shares outstanding		Number	Number
Basic	10	115,023,732	119,577,405
Diluted	10	115,023,732	119,577,405

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

TETRAGON FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For the period ended 30 June 2012 (unaudited)

	Period ended 30 Jun 2012 US\$	Period ended 30 Jun 2011 US\$
Total investment income	127,723,423	111,081,959
Total operating expenses	(57,198,804)	(100,916,499)
Net unrealized depreciation on share options	(1,086,477)	(2,201,538)
Net realized gain / (loss) from investments and foreign currency allocated from the Master Fund	4,870,271	(4,530,732)
Net unrealized gain from investments and foreign currency allocated from the Master Fund	60,887,570	262,179,154
Income and deferred tax expense	(1,621,825)	(1,942,642)
Income attributable to noncontrolling interest	(993,234)	(901,732)
Net increase in net assets resulting from operations	<u>132,580,924</u>	<u>262,767,970</u>
Dividends paid to shareholders	(24,152,169)	(21,544,921)
Issue of Shares	4,441,068	4,453,883
Purchase of Treasury Shares	(16,951,443)	(14,890,114)
Decrease in net assets resulting from net Share transactions	<u>(12,510,375)</u>	<u>(10,436,231)</u>
Total increase in net assets	95,918,380	230,786,818
Net assets at start of period	1,474,355,249	1,137,546,494
Net assets at end of period	<u>1,570,273,629</u>	<u>1,368,333,312</u>

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

TETRAGON FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the period ended 30 June 2012 (unaudited)

	Period ended 30 Jun 2012 US\$	Period ended 30 Jun 2011 US\$
Operating activities		
Net income	132,580,924	262,767,970
Adjustments for:		
Net unrealized depreciation on Share options	1,086,477	2,201,538
Net unrealized appreciation on investments in Master Fund	(96,328,663)	(217,679,160)
Operating cash flows before movements in working capital	37,338,738	47,290,348
Increase in receivables	(248,125)	(546,412)
Decrease in payables	(676,194)	(14,762,784)
Net cash provided by operating activities	36,414,419	31,981,152
Financing activities		
Issue of Shares	4,441,068	4,453,883
Purchase of Treasury Shares	(16,703,318)	(14,890,114)
Dividends paid to shareholders	(24,152,169)	(21,544,921)
Net cash used in financing activities	(36,414,419)	(31,981,152)
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of period	-	-
Cash and cash equivalents at end of period	-	-

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

TETRAGON FINANCIAL GROUP LIMITED

FINANCIAL HIGHLIGHTS

For the period ended 30 June 2012 (unaudited) and the year ended 31 December 2011

The following represents selected per Share operating performance of the Company, ratios to average net assets and total return information for the period ended 30 June 2012 and year ended 31 December 2011.

	I Jan 2012 to 30 Jun 2012*	I Jan 2011 to 31 Dec 2011
	US\$	US\$
Per Share operating performance		
Net Asset Value at the start of the period/year	12.71	9.47
Net investment income (excluding performance fee)	1.16	1.79
Performance fee	(0.40)	(1.19)
Net realized and unrealized gain from investments, foreign currencies and Share options	0.70	3.41
Dividends paid to shareholders	(0.26)	(0.43)
Income and deferred tax expense and noncontrolling interest	(0.03)	(0.06)
Other capital transactions	(0.13)	(0.28)
Net Asset Value at the end of the period/year	<u>13.75</u>	<u>12.71</u>
Total return (NAV change excluding dividends and other capital transactions) before performance fee	14.40%	54.28%
Performance fee	(3.15%)	(12.57%)
Total return (NAV change excluding dividends and other capital transactions) after performance fee	<u>11.25%</u>	<u>41.71%</u>
Ratios and supplemental data		
Ratio to average net assets:		
Operating expenses allocated from the Master Fund	<u>(1.37%)</u>	<u>(3.43%)</u>
Total operating expenses	(1.37%)	(3.43%)
Performance fee	2.40%	9.19%
Net investment income	4.64%	4.57%

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

*The ratios and returns have not been annualized.

TETRAGON FINANCIAL GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the period ended 30 June 2012 (unaudited)

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 1st Floor Dorey Court, Admiral Park, St. Peter Port, Guernsey, Channel Islands, GY1 6HJ.

The Company's shares are listed on the NYSE Euronext in 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 ("U.S. GAAP") and comply with The Companies (Guernsey) Law, 2008.

The Company's investment in the Tetragon Financial Group Master Fund Limited (the "Master Fund") is valued based on the Net Asset Value per share obtained from the Master Fund's Administrator, which is the Company's 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 allocated share of each type of gain, loss, income and expense of the Master Fund's Statements of Operations. Attached are the unaudited consolidated financial statements of the Master Fund, which are an integral part of these consolidated financial statements. As at 30 June 2012, the Company had 100% (31 December 2011: 100%) ownership interest in the Master Fund. As the Company owns 100% of the Master Fund and the unaudited consolidated financial statements of the Master Fund are attached, a separate Consolidated Schedule of Investments for the Company has not been included.

For financial statement reporting purposes, the Company is an investment company and follows the measurement guidance set out in ASC 946, Financial Services – Investment Companies.

The accounting policies have been consistently applied by the Company during the period ended 30 June 2012 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 U.S. 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.

TETRAGON FINANCIAL GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) For the period ended 30 June 2012 (unaudited)

Note 2 Significant Accounting Policies (continued)

Valuation of Investments

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

Expenses

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

Taxation

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

Share Options

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

The fair value of options issued to GreenOak Real Estate, LP ("GreenOak") (see note 4) were recognized as a liability in the Statements of Assets and Liabilities, as the options contain certain other performance conditions. Any subsequent change in the fair value is recognized through the Statements of Operations.

Dividend expense

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

Treasury Shares

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

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

TETRAGON FINANCIAL GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) For the period ended 30 June 2012 (unaudited)

Note 3 Investment in Master Fund

At the period end, the Master Fund held investments at fair value, cash and cash equivalents, derivatives and other receivables and payables.

As at 30 June 2012, the Company had an investment of US\$ 1,595,487,881 in the Master Fund (31 December 2011: US\$ 1,499,159,218).

Note 4 Share options issued to GreenOak

On 16 September 2010, the Master Fund entered into a transaction with GreenOak whereby it received a 10% equity interest in GreenOak and agreed to provide, among other things, a working capital loan of up to US\$ 10.0 million and a US\$ 100.0 million co-investment commitment that is expected to fund up to a limited fixed percentage of any GreenOak sponsored investment program with the Master Fund retaining the option to invest further amounts.

Under the terms of the transaction, the Company granted to the GreenOak founders options to purchase 3,908,241 Shares (exercisable after 5 years and subject to further conditions) at a strike price of US\$ 5.50. The aggregate fair value of the options granted at the transaction date was US\$ 482,285. In order to reflect some key vesting requirements of the options which are not captured by the Black-Scholes model a 50% haircut was applied to the initial calculated valuation. This was derived as follows: restriction on transferability – 25%; requirement to repay working capital loan – 10%; exclusivity of founders – 15%. These have been reviewed on a regular basis and as at 30 June 2012, the restriction on transferability is 20%, reflecting the fact that the options are closer to their exercise dates. After this adjustment the haircut stands at 45%.

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

At 30 June 2012, the fair value of the options was US\$ 2,665,507 (31 December 2011: US\$ 1,579,030).

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

Note 5 Incentive Fee

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

TETRAGON FINANCIAL GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) For the period ended 30 June 2012 (unaudited)

Note 5 Incentive fee (continued)

The “Hurdle” for any Calculation Period will equal the Reference NAV multiplied by the Hurdle Rate (as defined below). The Hurdle Rate for any Calculation Period equals 3-month USD LIBOR determined as of 11:00 a.m. London time on the first London business day of the then current Calculation Period, plus the Hurdle Spread of 2.647858% in each case multiplied by 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 period ended 30 June 2012 was US\$ 36,442,961 (30 June 2011: US\$ 81,727,611). As at 30 June 2012, US\$ 22,548,745 was outstanding (31 December 2010: US\$ 23,224,939).

Note 6 Share Capital

Authorized

The Company has an authorized share capital of US\$ 1,000,000 divided into 10 Voting Shares, having a par value of US\$ 0.001 each and 999,999,990 Non-Voting Shares (which are the “Shares” referred to herein), having a par value of US\$ 0.001 each. Shares are issuable either as certificated shares or uncertificated shares, and in both cases as registered shares in accordance with applicable law.

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 Shares are subject to certain transfer restrictions as set out in the Company’s Memorandum and Articles of Incorporation.

TETRAGON FINANCIAL GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2012 (unaudited)

Note 6 Share Capital (continued)

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 such repurchased Shares as Treasury Shares.

Share transactions

	Voting Shares No.	Shares No.	Shares US\$
Shares in issue at 31 December 2010	10	120,133,690	120,134
Issued	-	909,427	909
Treasury Shares	-	(5,075,380)	(5,075)
Shares in issue at 31 December 2011	10	115,967,737	115,968
Issued	-	634,880	635
Treasury Shares	-	(2,421,452)	(2,422)
Shares in issue at 30 June 2012	10	114,181,165	114,181

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 period a total dividend of US\$ 24,152,169 (30 June 2011: US\$ 21,544,921) was declared, of which US\$ 19,711,101 (30 June 2011: US\$ 17,091,038) was paid out as a cash dividend, and the remaining US\$ 4,441,068 (30 June 2011: US\$ 4,453,883) was 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 1 November 2011 until 31 October 2012 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 or in a subsidiary (as described below) allowing them to potentially be resold at a later date. Whilst they are held by the Company (whether directly or via subsidiary), the Shares are neither eligible to receive dividends nor are they included in the Shares outstanding on the Statements of Assets and Liabilities.

TETRAGON FINANCIAL GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) For the period ended 30 June 2012 (unaudited)

Note 6 Share Capital (continued)

Treasury Shares (continued)

On 15 November 2010, the Company transferred 3,908,241 Shares from the Treasury Account to a wholly owned subsidiary, TFG Holdings I. Additionally, on 11 November 2011, a further 4,615,000 Shares were transferred from the Treasury Account to TFG Holdings I. As at 30 June 2012, the Company held 9,998,753 shares in the Treasury Account (31 December 2011: 7,577,301)

Note 7 Share Premium

	30 Jun 2012	31 Dec 2011
	US\$	US\$
Balance at start of period/year	1,128,567,096	1,157,051,372
Discount arising from net transaction of Shares	(12,508,588)	(28,484,276)
Balance at end of period/year	<u>1,116,058,508</u>	<u>1,128,567,096</u>

Note 8 Related Party Transactions

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

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

The remuneration for Directors shall be determined by resolution of the Voting Shareholder. The Directors' annual fee is US\$ 75,000 in compensation for service on the Boards of Directors of both the Company and the Master Fund. The Master Fund will pay the Directors' fees. Patrick Dear and Reade Griffith 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 Global Partners LLP and Polygon Global 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.

TETRAGON FINANCIAL GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) For the period ended 30 June 2012 (unaudited)

Note 8 Related party transactions (continued)

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

Byron Knief, Patrick Dear, Reade Griffith and Rupert Dorey, all Directors of the Company and Master Fund, were shareholders in the Company as at 30 June 2012, with holdings of 110,000, 305,534, 1,036,209 and 86,484 shares, respectively (31 December 2011: 110,000, 285,195, 1,036,209 and 79,778 shares respectively).

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

Note 9 Dividends

	30 Jun 2012	30 Jun 2011
	US\$	US\$
Quarter ended 31 December 2010 of US\$ 0.09 per share	-	10,792,152
Quarter ended 31 March 2011 of US\$ 0.09 per share	-	10,752,769
Quarter ended 31 December 2011 of US\$ 0.105 per share	12,079,488	-
Quarter ended 31 March 2012 of US\$ 0.105 share	12,072,681	-
	<u>24,152,169</u>	<u>21,544,921</u>

The second quarter dividend of US\$ 0.115 cents per Share was approved by Directors on 30 July 2012 and has not been included as a liability in these consolidated financial statements.

TETRAGON FINANCIAL GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period ended 30 June 2012 (unaudited)

Note 10 Earnings per Share

	Period ended 30 Jun 2012 US\$	Period ended 30 Jun 2011 US\$
The calculation of the basic and diluted earnings per share is based on the following data:		
Earnings for the purposes of basic earnings per share being net profit attributable to shareholders for the period	132,580,924	262,767,970
Weighted average number of Shares for the purposes of basic earnings per share	115,023,732	119,577,405
Effect of dilutive potential Shares:		
Share options		-
Weighted average number of Shares for the purposes of diluted earnings per share	115,023,732	119,577,405

There is no dilution as at 30 June 2012 or 30 June 2011, as the conditions on the options at the date of these financial statements have not been met.

Note 11 Earnings

	30 Jun 2012 US\$	31 Dec 2011 US\$
Balance at start of period/year	333,882,849	(31,414,348)
Net increase in net assets resulting from operations for the period/year	132,580,924	410,379,754
Dividends paid	(24,152,169)	(45,082,557)
Balance at end of period/year	442,311,604	333,882,849

Note 12 Other Matters

On 22 February 2011, the Company and the Master Fund and their six Directors were served with proceedings in the Royal Court of Guernsey (the “Guernsey Proceedings”) instigated by one of the Company’s former Directors, Alexander Jackson. Mr. Jackson was given notice to vacate office as a Director on 24 January 2011. By the Guernsey Proceedings, Mr. Jackson seeks to impugn the Company’s decision of 29 July 2010, announced on 2 August 2010, to enter into a joint venture with GreenOak Real Estate (the “GreenOak Transaction”). The Guernsey Proceedings are confined to claims for damages and other relief against the Company and the Master Fund’s Directors, and do not seek to reverse or interfere with the GreenOak Transaction, which was implemented in the third quarter of 2010.

TETRAGON FINANCIAL GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) For the period ended 30 June 2012 (unaudited)

Note 12 Other Matters (continued)

The Company and the Master Fund have issued a public statement stating that they and their Directors believe that there is no merit whatsoever in the Guernsey Proceedings and will take all necessary steps to ensure the Guernsey Proceedings are dismissed as quickly as possible. The Investment Manager has concluded that it is untenable for Mr. Jackson to continue in his current role as a consultant with respect to investment and risk matters relating to the Company and the Master Fund and, therefore, is taking steps to ensure that he will no longer continue in that capacity, although he remains a shareholder of the Investment Manager.

On 12 July 2011, a shareholder derivative action was filed in United States District Court – Southern District of New York – against the current and former Directors of the Company and the Master Fund, the Investment Manager, the principals of the Investment Manager (each being an indirect equity holder of the Investment Manager) and an affiliated entity (the “Action”). The Action made a series of allegations specifically with respect to performance fees charged by the Investment Manager. The Company and its Board of Directors believed, and continue to believe, that the Action was factually and legally without merit. Accordingly, the defendants sought dismissal of the Action. On 14 February 2012, Judge Jed S. Rakoff of the United States District Court for the Southern District of New York rendered his decision, agreeing with defendants that the purported shareholder who brought the lawsuit failed to satisfy basic pleading requirements of derivative actions. The Court ordered the case dismissed in its entirety with prejudice. There has been no appeal of that ruling and the time for appeal has expired.

On 19 December 2011, Mr. Jackson filed a claim against Patrick Dear and Reade Griffith in the High Court in London regarding Mr. Jackson’s removal in January 2011 from the Board of Directors of the Company and the Master Fund (the “English Proceedings”). Each of the Company and the Master Fund take an interest in the English Proceedings given that they purport to impact the Feeder’s constitution and matters that are already the subject of the Guernsey Proceedings. The defendants are of the view that Mr. Jackson’s claim is without merit and will resist the new proceedings.

Note 13 Subsequent Events

The Directors have evaluated subsequent events up to 30 July 2012, which is the date that the financial statements were approved, and have concluded that there are not any material events, that require disclosure or adjustment to the financial statements.

Note 14 Recent Changes to U.S. GAAP

Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASC 820). In May 2011, the FASB issued ASU No. 2011-04, “Fair Value Measurements and Disclosures (Topic 820) — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.” ASU No. 2011-04 clarifies the application of existing fair value measurement and disclosure requirements, changes certain principles related to measuring fair value, and requires additional disclosures about fair value measurements. ASU No. 2011-04 is effective for periods beginning after 15 December 2011. The Company adopted the standard on 1 January 2012. Adoption of ASU No. 2011-04 did not materially affect the Company’s financial condition, results of operations or cash flows.

TETRAGON FINANCIAL GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 30 June 2012 (unaudited)

Note 14 Recent Changes to U.S. GAAP (continued)

Disclosures about Offsetting Assets and Liabilities (ASC 210). In December 2011, the FASB issued ASU No. 2011-11, "Balance Sheet (Topic 210) — Disclosures about Offsetting Assets and Liabilities." ASU No. 2011-11 will require disclosure of the effect or potential effect of offsetting arrangements on the Company's financial position as well as enhanced disclosure of the rights of setoff associated with the Company's recognized assets and recognized liabilities. ASU No. 2011-11 is effective for periods beginning on or after 1 January 2013. Since these amended principles require only additional disclosures concerning offsetting and related arrangements, adoption will not affect the Company's financial condition, results of operations or cash flows.

Note 15 Approval of Financial Statements

The Directors approved the financial statements on 30 July 2012.

UNAUDITED CONSOLIDATED INTERIM REPORT

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

FOR THE PERIOD ENDED 30 JUNE 2012

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

UNAUDITED CONSOLIDATED INTERIM REPORT

For the period ended 30 June 2012

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TETRAGON FINANCIAL GROUP MASTER FUND LIMITED
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
As at 30 June 2012 (unaudited)

	Note	30 Jun 2012 US\$	31 Dec 2011 US\$
Assets			
Investments, at fair value (cost US\$ 1,645,729,001 (31 Dec 2011: US\$ 1,590,685,823))	2	1,284,135,581	1,264,444,768
Intangible assets – CLO management contracts	4	58,884	109,357
Cash and cash equivalents	5	299,143,874	211,513,043
Amounts due from brokers	7	6,553,969	15,847,630
Amounts receivable on sale of investments		1,950,000	-
Derivative financial assets – forward contracts	6	4,459,413	6,693,494
Derivative financial assets – interest rate swaptions	6	4,104,108	7,207,886
Other receivables	8	2,975,783	2,753,856
Total assets		<u>1,603,381,612</u>	<u>1,508,570,034</u>
Liabilities			
Amounts payable to Feeder		708,134	460,009
Other payables and accrued expenses	9	4,305,431	6,999,100
Income tax payable	14	1,739,899	1,112,347
Deferred tax liability	14	728,209	686,036
Total liabilities		<u>7,481,673</u>	<u>9,257,492</u>
Net assets		<u>1,595,899,939</u>	<u>1,499,312,542</u>
Equity			
Share capital	10	114,181	115,968
Share premium	11	1,075,281,592	1,087,790,180
Earnings	13	520,092,108	411,253,070
Total equity attributable to Master Fund		<u>1,595,487,881</u>	<u>1,499,159,218</u>
Noncontrolling interest	10	412,058	153,324
Total shareholders equity		<u>1,595,899,939</u>	<u>1,499,312,542</u>
Shares outstanding			
Shares	10	114,181,165	115,967,737
Net Asset Value per Share*		US\$13.97	US\$12.93

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

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

Signed on behalf of the Board of Directors by:

Rupert Dorey, Director
David Jeffreys, Director

30 July 2012

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS

For the period ended 30 June 2012 (unaudited)

	Note	Period ended 30 Jun 2012 US\$	Period ended 30 Jun 2011 US\$
Interest income	15	115,773,222	100,405,305
CLO management fee income	16	8,829,629	7,655,392
Other income	17	3,120,572	3,021,262
Investment income		127,723,423	111,081,959
Management fees	18	(11,314,017)	(9,394,477)
Employee costs	18	(3,828,232)	(3,059,041)
Legal and professional fees		(3,723,478)	(4,708,859)
Administration and custodian fees		(537,498)	(501,283)
Market data fees		(152,802)	(79,881)
Directors' fees	18	(150,000)	(150,000)
Audit fees		(110,011)	(120,700)
Other operating and administrative expenses		(939,805)	(1,174,647)
Operating expenses		(20,755,843)	(19,188,888)
Net investment income		106,967,580	91,893,071
Net realized and unrealized gain from investments and foreign currency			
Net realized gain / (loss) from:			
Investments		68,897	552,601
Foreign currency transactions		4,801,374	(5,083,333)
		4,870,271	(4,530,732)
Net increase / (decrease) in unrealized appreciation / (depreciation) on:			
Investments		69,246,027	251,729,289
Forward foreign exchange contracts		(2,234,081)	(4,175,357)
Interest rate swaptions		(3,103,778)	1,072,608
Translation of assets and liabilities in foreign currencies		(3,020,598)	13,552,614
		60,887,570	262,179,154
Net realized and unrealized gain from investments and foreign currency		65,757,841	257,648,422

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS (continued)
For the period ended 30 June 2012 (unaudited)

	Note	Period ended 30 Jun 2012 US\$	Period ended 30 Jun 2011 US\$
Net increase in net assets resulting from operations before tax		172,725,421	349,541,493
Income and deferred tax expense	14	(1,621,825)	(1,942,642)
Net income		171,103,596	347,598,851
Less net income attributable to noncontrolling interest	10	(993,234)	(901,732)
Net increase in net assets resulting from operations		170,110,362	346,697,119

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

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For the period ended 30 June 2012 (unaudited)

	Note	Period ended 30 Jun 2012 US\$	Period ended 30 Jun 2011 US\$
Net investment income		106,967,580	91,893,071
Net realized gain / (loss) from investments and foreign currency		4,870,271	(4,530,732)
Net unrealized appreciation on investments and translation of assets and liabilities in foreign currencies		60,887,570	262,179,154
Income and deferred tax expense		(1,621,825)	(1,942,642)
Income attributable to noncontrolling interest		(993,234)	(901,732)
Net increase in net assets resulting from operations		<u>170,110,362</u>	<u>346,697,119</u>
Dividends paid to Feeder	12	(37,119,155)	(97,036,807)
Dividends paid to other shareholders	12	(24,152,169)	(21,544,921)
Total distributions		<u>(61,271,324)</u>	<u>(118,581,728)</u>
Issue of Shares		4,441,068	4,453,883
Purchase of Treasury Shares		(16,951,443)	(14,890,114)
Decrease in net assets resulting from Capital transactions		<u>(12,510,375)</u>	<u>(10,436,231)</u>
Total increase in net assets		96,328,663	217,679,160
Net assets at start of period		1,499,312,542	1,181,906,023
Net assets before noncontrolling interest		<u>1,595,641,205</u>	<u>1,399,585,183</u>
Increase of noncontrolling interest		258,734	901,732
Net assets at end of period		<u>1,595,899,939</u>	<u>1,400,486,915</u>

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

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the period ended 30 June 2012 (unaudited)

	Period ended 30 Jun 2012 US\$	Period ended 30 Jun 2011 US\$
Operating activities		
Net income	171,103,596	347,598,851
Adjustments for:		
Realized gains on investments	(68,897)	(552,601)
Cash received on investments in excess of interest income	99,515,218	95,218,812
Amortization on intangible assets	50,473	50,472
Unrealized gains	(60,887,570)	(262,179,154)
Deferred tax	42,173	402,642
Operating cash flows before movements in working capital	<u>209,754,993</u>	<u>180,539,022</u>
Increase in receivables	(221,927)	(2,292,048)
(Decrease) / Increase in payables	(2,066,117)	1,230,381
Cash flows from operations	<u>207,466,949</u>	<u>179,477,355</u>
Proceeds from sale/prepayment/maturity of investments	54,224,464	56,512,782
Purchase of investments	(108,891,854)	(173,023,280)
Net cash provided by operating activities	<u>152,799,559</u>	<u>62,966,857</u>
Financing activities		
Amounts due from brokers	9,293,661	(6,907,100)
Proceeds from issue of Shares	4,441,068	4,453,883
Treasury Shares	(16,703,318)	(14,890,114)
Dividends paid to shareholders	(24,152,169)	(21,544,921)
Dividends paid to Feeder	(37,119,155)	(97,036,807)
Distributions paid to noncontrolling interest	(734,500)	-
Net cash used in financing activities	<u>(64,974,413)</u>	<u>(135,925,059)</u>
Net increase / (decrease) in cash and cash equivalents	87,825,146	(72,958,202)
Cash and cash equivalents at beginning of period	211,513,043	140,625,333
Effect of exchange rate fluctuations on cash and cash equivalents	(194,315)	13,987
Cash and cash equivalents at end of period	<u>299,143,874</u>	<u>67,681,118</u>

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

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED SCHEDULE OF INVESTMENTS

As at 30 June 2012 (unaudited)

Security Description	Nominal	Cost US\$	Fair Value US\$	% of Net Assets
<i>US Dollar</i>				
<i>Cayman Islands – CLO equity</i>				
ABS and Structured Finance	18,400,000	17,572,000	-	-
Broadly Syndicated Senior Secured Loans	1,140,920,746	1,009,918,146	878,663,103	55.07%
CDOs Squared	17,250,000	16,640,250	-	-
Middle Market Senior Secured Loans	245,249,000	227,357,145	182,936,221	11.46%
	<u>1,421,819,746</u>	<u>1,271,487,541</u>	<u>1,061,599,324</u>	<u>66.53%</u>
<i>Euro</i>				
<i>Ireland – CLO equity</i>				
Broadly Syndicated Senior Secured Loans	127,400,000	155,916,581	72,200,815	4.52%
	<u>127,400,000</u>	<u>155,916,581</u>	<u>72,200,815</u>	<u>4.52%</u>
<i>Luxembourg – CLO equity</i>				
Broadly Syndicated Senior Secured Loans	65,100,000	80,651,697	27,406,344	1.72%
	<u>65,100,000</u>	<u>80,651,697</u>	<u>27,406,344</u>	<u>1.72%</u>
<i>Netherlands – CLO equity</i>				
Broadly Syndicated Senior Secured Loans	24,000,000	31,758,532	15,805,578	0.99%
	<u>24,000,000</u>	<u>31,758,532</u>	<u>15,805,578</u>	<u>0.99%</u>
<i>US Dollar</i>				
<i>Cayman Islands – CLO Mezzanine</i>				
	1,750,000	1,102,500	1,292,506	0.08%
	<u>1,750,000</u>	<u>1,102,500</u>	<u>1,292,506</u>	<u>0.08%</u>
<i>US Dollar – Loans</i>				
Broadly Syndicated Senior Secured Loans	88,826,395	86,628,840	87,423,004	5.48%
Unsecured Loan	9,500,000	9,500,000	9,870,879	0.62%
	<u>98,326,395</u>	<u>96,128,840</u>	<u>97,293,883</u>	<u>6.10%</u>
<i>US Dollar – Unlisted Stock</i>				
Financial Real Estate Manager		482,285	482,285	0.03%
		<u>482,285</u>	<u>482,285</u>	<u>0.03%</u>
<i>US Dollar – Investment Funds</i>				
Real Estate – United States		4,884,540	4,730,448	0.33%
Real Estate – Japan		1,156,485	1,164,398	0.03%
Real Estate – United Kingdom		2,160,000	2,160,000	0.14%
		<u>8,201,025</u>	<u>8,054,846</u>	<u>0.50%</u>
Total Investments		<u>1,645,729,001</u>	<u>1,284,135,581</u>	<u>80.47%</u>
Financial Derivative Instruments			Fair Value US\$	% of Net Assets
Interest rate swaptions			4,104,108	0.26%
Forward foreign currency exchange contracts			4,459,413	0.28%
Total Financial Derivative Instruments			<u>8,563,521</u>	<u>0.54%</u>
Cash and Cash Equivalents			299,143,874	18.74%
Other Assets and Liabilities			4,056,963	0.25%
Net Assets			<u>1,595,899,939</u>	<u>100.00%</u>

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)

As at 31 December 2011 (audited)

Security Description	Nominal	Cost US\$	Fair Value US\$	% of Net Assets
<i>US Dollar</i>				
<i>Cayman Islands – CLO equity</i>				
ABS and Structured Finance	18,400,000	17,572,000	-	-
Broadly Syndicated Senior Secured Loans	1,069,820,746	943,269,596	832,598,570	55.52%
CDOs Squared	17,250,000	16,640,250	-	-
Middle Market Senior Secured Loans	245,249,000	227,357,145	191,418,117	12.77%
	<u>1,350,719,746</u>	<u>1,204,838,991</u>	<u>1,024,016,687</u>	<u>68.29%</u>
<i>Euro</i>				
<i>Ireland – CLO equity</i>				
Broadly Syndicated Senior Secured Loans	127,400,000	155,916,581	78,118,458	5.21%
	<u>127,400,000</u>	<u>155,916,581</u>	<u>78,118,458</u>	<u>5.21%</u>
<i>Luxembourg – CLO equity</i>				
Broadly Syndicated Senior Secured Loans	65,100,000	80,651,697	28,195,453	1.88%
	<u>65,100,000</u>	<u>80,651,697</u>	<u>28,195,453</u>	<u>1.88%</u>
<i>Netherlands – CLO equity</i>				
Broadly Syndicated Senior Secured Loans	24,000,000	31,758,532	17,049,930	1.14%
	<u>24,000,000</u>	<u>31,758,532</u>	<u>17,049,930</u>	<u>1.14%</u>
<i>US Dollar – Loans</i>				
Broadly Syndicated Senior Secured Loans	111,089,027	107,743,582	107,122,589	7.15%
Unsecured Loan	6,875,000	6,875,000	7,050,974	0.47%
	<u>117,964,027</u>	<u>114,618,582</u>	<u>114,173,563</u>	<u>7.62%</u>
<i>US Dollar – Unlisted Stock</i>				
Financial Real Estate Manager		482,285	482,285	0.03%
		<u>482,285</u>	<u>482,285</u>	<u>0.03%</u>
<i>US Dollar – Investment Funds</i>				
Real Estate – United States		1,940,764	1,920,530	0.13%
Real Estate – Japan		478,391	487,862	0.03%
		<u>2,419,155</u>	<u>2,408,392</u>	<u>0.16%</u>
Total Investments		<u>1,590,685,823</u>	<u>1,264,444,768</u>	<u>84.33%</u>
Financial Derivative Instruments				
			Fair Value US\$	% of Net Assets
Interest rate swaptions			7,207,886	0.48%
Forward foreign currency exchange contracts			6,693,494	0.45%
Total Financial Derivative Instruments			<u>13,901,380</u>	<u>0.93%</u>
Cash and Cash Equivalents			211,513,043	14.11%
Other Assets and Liabilities			9,453,351	0.63%
Net Assets			<u>1,499,312,542</u>	<u>100.00%</u>

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

FINANCIAL HIGHLIGHTS

For the period ended 30 June 2012 (unaudited) and 31 December 2011 (audited)

The following represents selected per Share operating performance of the Fund, ratios to average net assets and total return information for the period ended 30 June 2012 and the year ended 31 December 2011.

	I Jan 2012 to 30 Jun 2012*	I Jan 2011 to 31 Dec 2011
	US\$	US\$
Per Share operating performance		
Net Asset Value at start of period/year	12.93	9.83
Net investment income	1.16	1.81
Net realized and unrealized gain from investments, derivatives and foreign currencies	0.71	3.45
Dividends paid to shareholders	(0.66)	(1.82)
Income and deferred tax expense and noncontrolling interest	(0.03)	(0.06)
Other capital transactions	(0.14)	(0.28)
Net Asset Value at the end of the period/year	13.97	12.93
Return (NAV change excluding dividends and other capital transactions)	14.23%	52.90%

Ratios and supplemental data

Ratio to average net assets:		
Total operating expenses	(1.35%)	(3.37%)
Net investment income	6.96%	13.53%

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

*The ratios and returns have not been annualized.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the period ended 30 June 2012 (unaudited)

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 Fund currently owns 75% of LCM Asset Management LLC ("LCM") through a 100% owned U.S. subsidiary, Tetragon Capital Management LLC ("TCM") and consolidates the income and expenses and assets and liabilities of that entity in these accounts.

The registered office of the Fund is 1st Floor Dorey Court, Admiral Park, St. Peter Port, Guernsey, Channel Islands GY1 6HJ.

Note 2 Significant Accounting Policies

Basis of Presentation

The consolidated financial statements give a true and fair view, are prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. 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 period ended 30 June 2012 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 U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes, including the valuation of investments. The Fund's management believes that the estimates utilized in preparing the financial statements are reasonable and prudent, however actual results could differ materially from these estimates.

Foreign Currency Translation

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

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

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) For the period ended 30 June 2012 (unaudited)

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 CLO equity securities, leveraged loans, mezzanine, forwards, swaptions, investment funds and unlisted stock are calculated on the identified cost basis. Interest income is recognized on an effective interest rate basis.

Financial Instruments

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

The fair value calculations for the equity tranches are sensitive to the key model inputs, including amongst other things, defaults and recovery rates. The default rate, recovery rate and other assumptions are determined by reference to a variety of observable 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. A different set of forward looking assumptions is applied according to whether the security is characterized as being U.S. or European.

As at 30 June 2012, some of the modeling assumptions used are disclosed below. The modeling assumptions disclosed below are a weighted average (by U.S. dollar amount) of the individual deal assumptions, aggregated by geography (i.e., U.S. and European). Each individual deal's assumptions may differ from this geographical average and vary across the portfolio.

U.S. CLO equity tranche investments –

- Constant Annual Default Rate ("CADR"): This is approximately 2.2%, which is 1.0x the original Weighted Average Rating Factor ("WARF") derived base-case default rate for 2012-13 before changing to 3.3% or 1.5x the original base-case for 2014-16 and returning to 1.0x the base-case thereafter.
- Recovery Rate: The assumed recovery rate is 73%, or 1.0x of the original base-case assumed weighted-average recovery rate, for the life of the transaction.
- Prepayment Rate: Loan prepayments are assumed to be 20% p.a., the original base-case prepayment rate with a 0% prepayment rate on bonds throughout the life of the transaction.
- Reinvestment Price and Spread: The assumed reinvestment price is 98 cents on the Dollar for the remainder of 2012, returning to par thereafter, which results in an effective spread over LIBOR of approximately 365 bps on broadly syndicated U.S. loans and 422 bps on middle market loans for the life of the transaction.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) For the period ended 30 June 2012 (unaudited)

Note 2 Significant Accounting Policies (continued)

Financial Instruments (continued)

Investments in CLO equity tranche investments ("CLO equity"), at fair value (continued)

European CLO equity tranche investments –

- Constant Annual Default Rate ("CADR"): This is approximately 3.1%, which is 1.5x the original WARF derived base-case default rate for 2012-14, changing to 2.1% or 1.0x the original base-case thereafter.
- Recovery Rate: The assumed recovery rate is 68%, or 1.0x of the original base-case assumed weighted-average recovery rate, for the life of the transaction.
- Prepayment Rate: Loan prepayments are assumed to be 20% p.a., the original base-case prepayment rate with a 0% prepayment rate on bonds throughout the life of the transaction.
- Reinvestment Price and Spread: The assumed reinvestment price is par for the life of the transactions with an effective spread over LIBOR of approximately 288 bps.

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

As at 30 June 2012, for the pre-2010 vintage U.S. equity tranches, the Fund applies a 20% discount rate to those equity tranches determined to be relatively stronger in terms of structure and credit quality and 25% to the remainder. The European equity tranches are all discounted at 30%. For both U.S. and Europe the aforementioned discount rates represent a significant spread over observed yields on the applicable BB-rated CLO tranches for each geographical region at that date.

Due to, among other factors, the elevated market risk premiums since the financial crisis, this effective discount rate has typically been higher than the deal's IRR and therefore in such instances, has resulted in a fair value which is lower than the deal's amortized cost. The difference between these two figures, on an aggregate basis across the CLO portfolio, has been characterized as the "ALR Fair Value Adjustment" or "ALR". At 30 June 2012, the ALR totaled approximately US\$ 109.3 million (31 December 2011: US\$ 128.7 million).

For the post-2010 vintage U.S. equity tranches the applicable discount rate is determined with reference to each deal's specific IRR, which, in the absence of other observable data points, is deemed to be the most appropriate indication of the current risk premium on these structures. At the end of Q2 2012, the weighted average discount rate (and IRR) on these deals was 10.4%. Such deals represented approximately 11.3% of the CLO equity portfolio by fair value.

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). ASC 325 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.

In accordance with 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.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) For the period ended 30 June 2012 (unaudited)

Note 2 Significant Accounting Policies (continued)

Financial Instruments (continued)

Investments in CLO equity tranche investments ("CLO equity"), at fair value (continued)

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.

Investments in leveraged loans, at fair value

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

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

Investments in CLO mezzanine tranche investments, at fair value

Investments in CLO mezzanine tranches are carried at fair value using the latest broker indicative bid prices. As the mezzanine tranches are marked-to-market, changes in the fair value are recognized immediately in the Consolidated Statements of Operations. Interest income, including amortization of premium and accretion of discount, is recorded on an effective interest rate basis.

Investments in securities, unlisted common stock, at fair value

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

Investments in unlisted investment funds, at fair value

Investments in unlisted investment funds are valued utilizing the net asset valuations provided by the managers of the underlying funds and/or their administrators. This approach is known as the "practical expedient" and has been applied in accordance with the Accounting Standards Update No. 2009-12.

Forward currency contracts, at fair value

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

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

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) For the period ended 30 June 2012 (unaudited)

Note 2 Significant Accounting Policies (continued)

Financial Instruments (continued)

Interest rate swaptions, at fair value

This instrument combines the features of two other financial instruments, namely an option and an interest rate swap. A swaption involves writing/purchasing options to enter into a swap.

When the Fund purchases a swaption, a premium is paid by the Fund and the swaption is initially recognized at the amount of the premium. The swaption is subsequently marked-to-market to reflect the fair value of the swaption purchased, which is reported as an asset on the Consolidated Statements of Assets and Liabilities, and changes in the fair value are recognized immediately in the Consolidated Statements of Operations.

ASC 820, Fair Value Measurements

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

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

The 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 30 June 2012 in valuing the Fund's assets carried at fair value:

	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
CLO Equity Tranches	-	-	1,177,012,061	1,177,012,061
CLO Mezzanine Tranches	-	1,292,506	-	1,292,506
Broadly Syndicated Senior Secured Loans	-	87,423,004	-	87,423,004
Unsecured Loan	-	-	9,870,879	9,870,879
Interest rate swaptions	-	4,459,413	-	4,459,413
Forward foreign exchange contracts	-	4,104,108	-	4,104,108
Common Stock	-	-	482,285	482,285
Collective Investment Schemes	-	-	8,054,846	8,054,846
	-	97,279,031	1,195,420,071	1,292,699,102

There were no transfers of the Fund's assets between Level 1 and 2 during the period ended 30 June 2012 or during the year ended 31 December 2011.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) For the period ended 30 June 2012 (unaudited)

Note 2 Significant Accounting Policies (continued)

Financial Instruments (continued)

ASC 820, Fair Value Measurements (continued)

The following is a summary of the inputs used as of 31 December 2011 in valuing the Fund's assets carried at fair value:

	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
CLO Equity Tranches	-	-	1,147,380,528	1,147,380,528
Broadly Syndicated Senior Secured Loans	-	107,122,589	-	107,122,589
Unsecured Loan	-	-	7,050,974	7,050,974
Interest rate swaptions	-	7,207,886	-	7,207,886
Forward foreign exchange contracts	-	6,693,494	-	6,693,494
Common Stock	-	-	482,285	482,285
Collective Investment Schemes	-	-	2,408,392	2,408,392
	-	121,023,969	1,157,322,179	1,278,346,148

The following is a reconciliation of the Fund's assets in which significant unobservable inputs (Level 3) were used in determining fair value at 30 June 2012.

	30 Jun 2012 US\$	31 Dec 2011 US\$
Balance at start of period/year	1,157,322,179	937,679,781
Purchases of investments	71,871,420	67,706,316
Change in unrealized appreciation	65,741,691	358,120,883
Amortisation	(99,515,219)	(206,184,801)
Balance at end of period/year	1,195,420,071	1,157,322,179

Cash and cash equivalents

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

Intangible assets, CLO management agreements

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

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

Income from CLO Management

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

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) For the period ended 30 June 2012 (unaudited)

Note 2 Significant Accounting Policies (continued)

Other income

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

Expenses

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

Taxation

Income taxes, Fund

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

Income taxes, LCM and TCM

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

Following the adoption of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (included in FASB ASC Subtopic 740-10 – Income Taxes – Overall), the Fund recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. There are no uncertain tax positions recognized at 30 June 2012.

Dividend Expense

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

Principles of Consolidation

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

The Fund owns some subsidiaries through which it holds certain real estate related investments. It owns 100% of a U.S. subsidiary, TFG RE I LLC, through which it holds investments in alternative investment vehicles focusing on U.S. Real Estate and owns 100% of a Cayman subsidiary, Tetragon Japan Holdings I Limited, through which it holds in alternative investment vehicles focusing on Japanese Real Estate. The Fund also owns 100% of a UK subsidiary, TFG UK RE Limited, through which it holds certain partnership interests in GreenOak Real Estate, LP (“GreenOak”). All of the above subsidiaries are consolidated by the Fund.

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

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) For the period ended 30 June 2012 (unaudited)

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

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

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 the CLO equity tranche investments is determined using a third-party cash flow modeling tool. The model contains certain assumption inputs that are reviewed and adjusted as appropriate to factor in how historic, current and potential market developments (examined through, for example, forward-looking observable data) might potentially impact the performance of these CLO equity investments. Since this involves modeling, among other things, forward projections over multiple years, this is not an exercise in recalibrating future assumptions to the latest quarter's historical data.

Subject to the foregoing, when determining the U.S. GAAP-compliant fair value of the CLO equity investments, the Fund seeks to derive a value at which market participants could transact in an orderly market and also seeks to benchmark the model inputs and resulting outputs to observable market data when available and appropriate. Although seeking to utilize, where possible, observable market data, for certain assumptions the Investment Manager may be required to make subjective judgements and forward-looking determinations, and its experience and knowledge is instrumental in the valuation process. Further, because of overall size or concentration in particular markets of positions held by the Fund, the value at which its investments can be liquidated may differ, sometimes significantly, from the interim valuations arrived at.

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

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

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

As part of the Fund's current investment strategy it may employ hedging strategies and leverage in seeking to provide attractive returns from the portfolio while managing risk. The hedging strategy may include the use of single name or index credit hedges when and where appropriate as well as foreign exchange rate hedges and interest rate swaptions. 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 30 June 2012 and 31 December 2011 there were no credit hedges in place.

The Fund's investments in leveraged loans through equity tranche investments in securitization vehicles generate LIBOR plus returns and are sensitive to interest rate levels and volatility. Although these vehicles are structured to hedge interest rate risk through the use of matched funding, there may be some difference between the timing of LIBOR resets on the liabilities and assets, which could have a negative effect on the amount of funds distributed to equity tranche holders.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 30 June 2012 (unaudited)

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

Furthermore, in the event of a significant rising interest rate environment and/or economic downturn, loan defaults may increase and result in credit losses that may be expected to affect the Fund's cash flow, fair value of its assets and operating results adversely. The Fund may utilize hedging instruments, such as interest rate swaptions, to try and mitigate interest rate tail risks.

The Fund's investments that are denominated in currencies other than US Dollars are subject to the risk that the value of such currency will decrease in relation to the US Dollar. The Fund currently uses foreign exchange rate forwards to seek to hedge this currency risk, in whole or in part, to the extent practicable and in a cost effective manner. As described above, the hedging strategy (including, these currency hedges) is 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 7 and 8.

Note 7 Amounts Due From Brokers

The amounts due from brokers is cash pledged as collateral on the forward contracts. At 30 June 2012 the collateral cash balance with UBS AG was US\$ 6,553,969 (31 December 2011: US\$ 15,847,630).

Note 8 Other Receivables

	30 Jun 2012	31 Dec 2011
	US\$	US\$
Accrued CLO management fee income	2,845,160	2,477,180
CLO coupon receivable	-	175,373
Bank interest receivable	3,703	497
Prepaid insurance	83,626	-
Other receivables	43,294	100,806
	2,975,783	2,735,856

Note 9 Other Payables and Accrued Expenses

	30 Jun 2012	31 Dec 2011
	US\$	US\$
Employee costs	1,934,584	3,576,130
Legal and professional fees accrual	1,522,086	1,613,554
Audit fee accrual	94,547	231,081
Directors' fee accrual	75,000	75,000
Custodian fee accrual	11,048	-
Other operating and administrative expenses	668,166	1,503,335
	4,305,431	6,999,100

Note 10 Share Capital

Authorized

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

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) For the period ended 30 June 2012 (unaudited)

Note 10 Share Capital (continued)

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 2010	10	120,133,690	120,134
Issued	-	909,427	909
Treasury shares	-	(5,075,380)	(5,075)
Shares in issue at 31 December 2011	10	115,967,737	115,968
Issued	-	634,880	635
Treasury shares	-	(2,421,452)	(2,422)
Shares in issue at 30 June 2012	10	114,181,165	114,181

Treasury Shares

On 30 November 2007, Tetragon Financial Group Limited (the "Feeder") announced the implementation of a share repurchase program of their outstanding Shares. This program was subsequently updated and will now continue from 1 November 2011 until 31 October 2012 or until 5% of the Feeder's outstanding shares have been repurchased under the updated program or until terminated by the Board. In conjunction with this, the Fund has undertaken to repurchase an identical number of its own Shares from the Feeder as and when it makes these repurchases in the open market. The Fund will match the price per share paid by the Feeder. The Shares are held in a Treasury Account or in a subsidiary (as described below) allowing them to potentially be resold back to the Feeder if it resells its own shares back into the market at a later date. Whilst they are held by the Fund (whether directly or via subsidiary), the Shares are neither eligible to receive dividends nor are they included in the Shares outstanding on the Consolidated Statements of Assets and Liabilities.

On 15 November 2010, the Fund transferred 3,908,241 shares from the Treasury Account to a wholly owned subsidiary, TFG Holdings I. Additionally, on 11 November 2011, a further 4,615,000 Shares were transferred from the Treasury Account to TFG Holdings I. As at 30 June 2012, the Fund held 9,998,753 shares in the Treasury Account (31 December 2011: 7,577,301).

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 30 June 2012 (unaudited)

Note 10 Share Capital (continued)

Noncontrolling Interest relating to LCM

The Fund adopted “Noncontrolling Interests in Consolidated Financial Statements” which requires noncontrolling interests to be classified in the Consolidated Statements of Operations as part of consolidated net earnings (US\$ 993,234 for the period ended 30 June 2012, US\$ 901,732 for the period ended 30 June 2011) and to include the accumulated amount of noncontrolling interests in the Consolidated Statements of Assets and Liabilities as part of shareowners’ equity (US\$ 412,058 at 30 June 2012, US\$ 153,324 at 31 December 2011). Any distributions to the noncontrolling interest will be recorded in the Consolidated Statements of Cash Flows (US\$ 734,500 for the period ended 30 June 2012, US\$ Nil for period ended 30 June 2011). If a change in ownership of a consolidated subsidiary results in loss of control and deconsolidation, any retained ownership interests are remeasured with the gain or loss reported in net earnings.

Note 11 Share Premium

	30 Jun 2012	31 Dec 2011
	US\$	US\$
Balance at start of period/year	1,087,790,180	1,116,274,456
Discount arising from net transactions of Shares	(12,508,588)	(28,484,276)
Balance at end of period/year	1,075,281,592	1,087,790,180

Note 12 Dividends

	30 Jun 2012	30 Jun 2011
	US\$	US\$
Quarter ended 31 December 2010 of US\$ 0.09 per share	-	10,792,152
Quarter ended 31 March 2011 of US\$ 0.09 per share	-	10,752,769
Quarter ended 31 December 2011 of US\$ 0.105 per share	12,079,488	-
Quarter ended 31 March 2012 of US\$ 0.105 per share	12,072,681	-
	24,152,169	21,544,921

The second quarter dividend of US\$ 0.115 cents per share was approved by the Directors on 30 July 2012 and has not been included as a liability in these consolidated financial statements.

The Fund also pays a dividend to the Feeder that is sufficient to pay their incentive fee liability which in the period to 30 June 2012 was US\$ 37,119,155 (period to 30 June 2011: US\$ 97,036,807).

Note 13 Earnings

	30 Jun 2012	31 Dec 2011
	US\$	US\$
Balance at start of period/year	411,253,070	64,142,791
Net increase in net assets resulting from operations for the period /year	170,110,362	534,615,308
Dividends paid to shareholders	(24,152,169)	(45,082,557)
Dividends paid to Feeder	(37,119,155)	(142,422,472)
Balance at end of period/year	520,092,108	411,253,070

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 30 June 2012 (unaudited)

Note 14 Income and Deferred Tax Expense

Income tax for the periods ended 30 June 2012 and 30 June 2011 consists of:

	Current	Deferred	Total
	US\$	US\$	US\$
Period ended 30 June 2012:			
U.S. federal (TCM)	1,045,395	42,173	1,087,568
State and local (TCM)	368,718	-	368,718
State (LCM)	165,539	-	165,539
	<u>1,579,652</u>	<u>42,173</u>	<u>1,621,825</u>
Period ended 30 June 2011:			
U.S. federal (TCM)	928,816	402,642	1,331,458
State and local (TCM)	460,857	-	460,857
State (LCM)	150,327	-	150,327
	<u>1,540,000</u>	<u>402,642</u>	<u>1,942,642</u>

LCM is a partnership for U.S. tax purposes and it only incurs certain state taxes. TCM is a corporation for U.S. tax purposes and has federal, state and city taxes levied upon its taxable income.

US\$ 1,739,899 of current tax was outstanding at the end of the period (31 December 2011: US\$ 1,112,347).

Tax Rate Reconciliation

Income tax expense was US\$ 1,621,825 for the period ended 30 June 2012, and differed from the amounts computed by applying the U.S. federal income tax of 34% to pretax increase in the net assets as a result of the following:

	30 Jun 2012	30 Jun 2011
	US\$	US\$
Net increase in net assets resulting from operations before tax	172,725,421	349,541,493
Computed "expected" tax expense at 34%	58,726,643	118,844,108
<i>Increase / (reduction) in income taxes resulting from:</i>		
Income not subject to U.S. tax	(57,638,075)	(117,511,651)
State and local income taxes	534,257	611,185
Other exemptions net	(1,000)	(1,000)
Total income and deferred tax expense	<u>1,621,825</u>	<u>1,942,642</u>

Deferred Tax

	30 Jun 2012	31 Dec 2011
	US\$	US\$
Deferred tax liability brought forward at start of period / year	686,036	92,995
Change in deferred tax liability	42,173	593,041
Deferred tax liability brought forward at start of period / year	<u>728,209</u>	<u>686,036</u>

The deferred tax liability has been recognized with respect to undistributed earnings of TCM at withholding rate of 30%.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the period ended 30 June 2012 (unaudited)

Note 15 Interest Income

	30 Jun 2012	30 Jun 2011
	US\$	US\$
Debt securities – CLO equity and mezzanine tranches	112,522,416	97,245,451
Debt securities – Leveraged loans	2,943,957	3,053,500
Cash and short-term funds	111,944	80,449
Debt securities – Unsecured loans	194,905	25,905
	115,773,222	100,405,305

Note 16 CLO management fee income

	30 Jun 2012	30 Jun 2011
	US\$	US\$
Senior fees	2,855,289	2,379,125
Subordinated fees	5,974,180	5,276,267
	8,829,629	7,655,392

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

Note 17 Other income

	30 Jun 2012	30 Jun 2011
	US\$	US\$
Fee and fee sharing from consent on CLO corporate actions	3,120,572	3,021,262
	3,120,572	3,021,262

Note 18 Related Party Transactions

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

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

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

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

The Service Providers have an agreement to provide certain operating, infrastructure and administrative services to LCM. For the period ended 30 June 2012, the Service Providers recharged LCM US\$ 4,642,006 (period to 30 June 2011, US\$ 4,126,727). This includes invoices from third parties with respect to services such as market data. At 30 June 2012 US\$ 2,384,904 was payable (31 December 2011 US\$ 4,887,393).

On 15 February 2012 and 24 May 2012 respectively, U.S. CLOs LCM X (US\$ 410.0 million) and LCM XI (US\$ 485.5 million) were issued, both of which are managed by LCM. The Fund purchased US\$ 20.5 million of the equity tranche in LCM X at a cost of \$19.4 million and US\$ 23.5 million of the equity tranche of LCM XI at a cost of US\$ 22.7 million.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) For the period ended 30 June 2012 (unaudited)

Note 18 Related Party Transactions (continued)

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

The Fund has made investments across three real estate investment vehicles managed by GreenOak. As at 30 June 2012, these investments referenced real estate in the United States, Japan and United Kingdom with a net asset value of US\$ 8.1 million (31 December 2011 US\$ 2.4 million). These investments are typically illiquid where the Fund will only receive distributions on liquidation of the investment vehicle’s underlying assets and in some cases this may not be for several years. In addition, based on projected capital raised (subject to change), the Fund had estimated unfunded commitments of up to US\$ 44.7 million with respect to one of the investment vehicles.

Note 19 Other Matters

On 22 February 2011, the Fund and the Feeder and their six Directors were served with proceedings in the Royal Court of Guernsey (the “Guernsey Proceedings”) instigated by one of the Fund’s former Directors, Alexander Jackson. Mr. Jackson was given notice to vacate office as a Director on 24 January 2011. By the Guernsey Proceedings, Mr. Jackson seeks to impugn the Fund’s decision of 29 July 2010, announced on 2 August 2010, to enter into a joint venture with GreenOak Real Estate (the “GreenOak Transaction”). The Guernsey Proceedings are confined to claims for damages and other relief against the Fund and the Feeder’s Directors, and do not seek to reverse or interfere with the GreenOak Transaction, which was implemented in the third quarter of 2010.

The Fund and the Feeder have issued a public statement stating that they and their Directors believe that there is no merit whatsoever in the Guernsey Proceedings and will take all necessary steps to ensure the Guernsey Proceedings are dismissed as quickly as possible. The Investment Manager has concluded that it is untenable for Mr. Jackson to continue in his current role as a consultant with respect to investment and risk matters relating to the Fund and the Feeder and, therefore, is taking steps to ensure that he will no longer continue in that capacity, although he remains a shareholder of the Investment Manager.

On 12 July 2011, a shareholder derivative action was filed in United States District Court – Southern District of New York – against the current and former Directors of the Fund and the Feeder, the Investment Manager, the principals of the Investment Manager (each being an indirect equity holder of the Investment Manager) and an affiliated entity (the “Action”). The Action made a series of allegations specifically with respect to performance fees charged by the Investment Manager. The Fund and its Board of Directors believed, and continue to believe, that the Action was factually and legally without merit. Accordingly, the defendants sought dismissal of the Action. On 14 February 2012, Judge Jed S. Rakoff of the United States District Court for the Southern District of New York rendered his decision, agreeing with defendants that the purported shareholder who brought the lawsuit failed to satisfy basic pleading requirements of derivative actions. The Court ordered the case dismissed in its entirety with prejudice. There has been no appeal of that ruling and the time for appeal has expired.

On 19 December 2011, Mr. Jackson filed a claim against Patrick Dear and Reade Griffith in the High Court in London regarding Mr. Jackson’s removal in January 2011 from the Board of Directors of the Fund and the Feeder (the “English Proceedings”). Each of the Fund and the Feeder take an interest in the English Proceedings given that they purport to impact the Feeder’s constitution and matters that are already the subject of the Guernsey Proceedings. The defendants are of the view that Mr. Jackson’s claim is without merit and will resist the new proceedings.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) For the period ended 30 June 2012 (unaudited)

Note 19 Other Matters (continued)

During Q1 and Q2 2012 an amount of US\$ 960,222 was charged to the Fund relating to legal expenses in connection with the aforementioned Guernsey Proceedings, Action and English Proceedings, which includes amounts paid under applicable indemnification provisions with respect to the Directors, the Investment Manager and principals of the Investment Manager. No adjustment has been made for amounts that may be recoverable under relevant insurance policies held by the Fund and the Feeder. At 30 June 2012, US\$ 506,378 (31 December 2011: US\$ 1,613,554) was accrued in the Consolidated Statements of Assets and Liabilities.

Note 20 Subsequent Events

The Directors have evaluated subsequent events up to 30 July 2012, which is the date that the financial statements were approved, and have concluded that there are not any material events, that require disclosure or adjustment to the financial statements.

Note 21 Recent changes to U.S. GAAP

Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASC 820). In May 2011, the FASB issued ASU No. 2011-04, "Fair Value Measurements and Disclosures (Topic 820) — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." ASU No. 2011-04 clarifies the application of existing fair value measurement and disclosure requirements, changes certain principles related to measuring fair value, and requires additional disclosures about fair value measurements. ASU No. 2011-04 is effective for periods beginning after 15 December 2011. The Fund adopted the standard on 1 January 2012. Adoption of ASU No. 2011-04 did not materially affect the Fund's financial condition, results of operations or cash flows.

Disclosures about Offsetting Assets and Liabilities (ASC 210). In December 2011, the FASB issued ASU No. 2011-11, "Balance Sheet (Topic 210) — Disclosures about Offsetting Assets and Liabilities." ASU No. 2011-11 will require disclosure of the effect or potential effect of offsetting arrangements on the Fund's financial position as well as enhanced disclosure of the rights of setoff associated with the Fund's recognized assets and recognized liabilities. ASU No. 2011-11 is effective for periods beginning on or after 1 January 2013. Since these amended principles require only additional disclosures concerning offsetting and related arrangements, adoption will not affect the Fund's financial condition, results of operations or cash flows.

Note 22 Approval of Financial Statements

The Directors approved the financial statements on 30 July 2012.