T2 Income Fund Limited

Consolidated and Company Annual Report and Audited Financial Statements

For the year ended 31 December 2007

T2 Income Fund Limited
For the year ended 31 December 2007

CONTENTS

OFFICERS AND PROFESSIONAL ADVISERS

Directors:

William Harley Tozier (Non - Executive Chairman)
Frederick Peter Forni (Non - Executive Director)
Patrick Anthony Seymour Firth (Non - Executive Director)
Saul Barak Rosenthal (Non - Independent Director)
Patrick Francis Conroy (Non-Independent Director)

The address of the Directors is the registered office.

Investment Manager:

T2 Advisers, LLC
8 Sound Shore Drive, Suite 255
Greenwich
Connecticut 06830
United States

Broker:

JPMorgan Cazenove Limited
20 Moorgate
London EC2R 6DA
United Kingdom

Administrator:

Butterfield Fund Services (Guernsey) Limited
P.O. Box 211
Regency Court
Glategny Esplanade
St Peter Port
Guernsey
GY1 3NQ
Channel Islands

Custodian:

Butterfield Bank (Guernsey) Limited
P.O.Box 25
Regency Court
Glategny Esplanade
St Peter Port
Guernsey
GY1 3AP
Channel Islands

Auditors:

Grant Thornton UK LLP
30 Finsbury Square
London EC2P 2YU
United Kingdom

Nominated adviser:

Grant Thornton UK LLP
30 Finsbury Square
London EC2P 2YU
United Kingdom

Legal Advisers:

In the Channel Islands:

Mourant du Feu & Jeune
First Floor, Dorey Court
Admiral Park, St Peter Port
Guernsey GY1 6HJ
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In the UK:

Freshfields Bruckhaus Deringer
65 Fleet Street
London EC4Y 1HS
United Kingdom

Registered office:

Regency Court
Glategny Esplanade
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T2 Income Fund Limited
For the year ended 31 December 2007

CHAIRMAN'S STATEMENT

Attached please find the Accounts of T2 Income Fund Limited (the "Company") for the one year period ended 31 December 2007.

I am pleased to report that, as of 31 December 2007, the Company had invested assets of approximately £140.3 million. The investments in the portfolio, on a weighted average basis, bear an interest rate of 8.4% (on an unlevered basis from the Company's perspective), which is approximately 368 basis points over LIBOR. The Company's Net Asset Value per Share for the year ended 31 December 2007 is £0.92. For the year ended 31 December 2007 the Company recorded a profit for the period of approximately £1.6 million. Basic earnings per share for the year ended 31 December 2007 was approximately £0.04.

The Company is fully invested and has leveraged its assets to make new investments. In 2006 the Company, through its subsidiary T2 Income Fund CLO I Ltd., established a credit facility with Merrill Lynch Capital Corporation. As of 19 July 2007, the credit facility was replaced with long-term notes in the amount of approximately £121.5 million (US$249.2 million). The Notes have a twelve year term and a weighted average interest rate of LIBOR plus 75 basis points. In connection with issuing these Notes, the full amount of the finance costs, £3.1 million, a non-recurring item, was expensed in 2007. On a per share basis, these costs were equal to approximately £0.07 per share. The net proceeds of the Notes (after repayment of the Merrill Lynch credit facility) have been used to make new investments.

Following the very severe declines across global credit markets during the latter half of the year, the Company was able to identify attractive risk-adjusted investment opportunities. T2 Advisers, LLC (the "Adviser") believes that the current credit environment will be reflected in more volatile market values. The Adviser notes that the global credit crisis has not, thus far, resulted in a significant diminishment in credit quality across those markets in which we invest although market prices continue to fluctuate. The Company's portfolio investments and the notes issued by the Company are both subject to a wide range of market price fluctuation.

On 15 June 2007 approval was received from the Royal Court of Guernsey to reduce the issued share premium of the Company by an amount of £0.95 per share, and that the aggregate of such reduction be credited as a distributable reserve. On 25 June 2007, 5,000,000 Ordinary Shares of no par value were issued at £1.0175 per Share resulting in gross proceeds of approximately £5.1 million. Net proceeds of this placing were used to make new investments.

The total dividends paid from inception in August 2005 through March 2008 were 14.5p per share. The Company's dividend history is:

Month paid	Dividend per share	For period ended
July 2006	1.0p	30 June 2006
October 2006	1.5p	30 September 2006
February 2007	2.0p	31 December 2006
May 2007	2.5p	31 March 2007
September 2007	2.5p	30 June 2007
December 2007	2.5p	30 September 2007
March 2008	2.5p	31 December 2007
Total	14.5p	

Although the coming months are expected to be volatile in the global credit markets, the Company believes that it has developed a portfolio that is fundamentally sound and has been leveraged responsibly. We look forward to reporting on our progress in the future.

William Tozier
Chairman
April 2008

T2 Income Fund Limited
For the year ended 31 December 2007

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 December 2007.

Principal activities

T2 Income Fund Limited (the "Company") is a closed-ended investment company which was incorporated with limited liability in Guernsey on 9 June 2005 in accordance with The Companies (Guernsey) Law, 1994. The Company was admitted to the Alternative Investment Market of the London Stock Exchange (AIM) on 5 August 2005.

A new Cayman Islands registered subsidiary company, T2 Income Fund CLO I Ltd, was created on 11 October 2006. Through its ownership of 100% of the preferred shares of T2 Income Fund CLO I Ltd the Directors consider the CLO to be a wholly owned subsidiary and the operating results are consolidated in these financial statements.

The Company and its subsidiary (together "the Group") will primarily invest in the debt and equity securities of small to medium sized companies to maximize its portfolio's return.

The Group will seek to achieve a high level of current income by investing in debt securities, consisting primarily of senior debt across multiple industries.

The Group intends to invest primarily in companies located in the United States, Europe and the United Kingdom. The Group will target companies with attractive fundamental characteristics including experienced management, a significant financial or strategic sponsor or partner, a strong competitive position and positive cash flow.

Results and dividends

The Group results for the year are set out on page 7. Dividends of £3,860,000 were paid during the year (2006: £950,000).

On 14 November 2007 a dividend of £1,075,000 (2.5p per share), relating to the year ended 31 December 2007, was approved. The dividend was paid to shareholders on 28 March 2008.

Statement of directors' responsibilities

The Directors are responsible for preparing the financial statements in accordance with International Financial Reporting Standards for each financial period which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial period and of the profit or loss for that period in accordance with The Companies (Guernsey) Law, 1994. In preparing these financial statements, the Directors are required to:

* select suitable accounting policies and apply them consistently;
* make judgements and estimates that are reasonable and prudent;
* state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
* prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements have been properly prepared in accordance with The Companies (Guernsey) Law, 1994. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

* there is no relevant audit information of which the Company's auditors are unaware; and
* the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

A resolution for the reappointment of Grant Thornton UK LLP will be proposed at the forthcoming Annual General Meeting.

Approved on behalf of the board of directors on 16 April 2008.

Patrick Francis Conroy Director	Saul Barak Rosenthal Director

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF T2 INCOME FUND LIMITED

We have audited the Group and Parent Company financial statements (the "financial statements") of T2 Income Fund Limited for the year ended 31 December 2007 which comprise the Consolidated and Company Income Statements, the Consolidated Balance Sheet, the Company Balance Sheet, the Statement of Changes in Shareholders' Equity, the Statement of Cash Flows and notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 64 of The Companies (Guernsey) Law, 1994. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable Guernsey law and International Financial Reporting Standards (IFRSs) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view, whether the financial statements have been properly prepared in accordance with The Companies (Guernsey) Law, 1994 and whether the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Directors' Report and the Portfolio Statement of the Group. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs of the state of the Group's and the Parent Company's affairs as at 31 December 2007 and of the Group's and the Parent Company's profit for the year then ended; and
- the financial statements have been properly prepared in accordance with The Companies (Guernsey) Law, 1994.

GRANT THORNTON UK LLP
CHARTERED ACCOUNTANTS
LONDON
Date: 16 April 2008

T2 Income Fund Limited
For the year ended 31 December 2007

CONSOLIDATED AND COMPANY INCOME STATEMENTS

	Notes	Group Year to 31 December 2007 GBP	Group Year to 31 December 2006 GBP	Company Year to 31 December 2007 GBP	Company Year to 31 December 2006 GBP
Revenue					
Interest income	2	10,821,834	2,950,030	1,389,774	2,676,375
Other income	2	43,716	36,814	43,716	36,814
Dividend income		-	-	711,182	-
Investment Income					
Gain/(loss) on financial assets and liabilities at fair value through profit or loss	6				
- Realised		1,768,561	(248,633)	(547,568)	(248,633)
- Unrealised		122,030	(1,835,169)	3,198,134	(1,630,983)
Gain/(loss) on foreign currency transactions					
- Realised		475,301	295,151	267,496	295,151
- Unrealised		78,248	129,740	(248,392)	129,740
Total Income		13,309,690	1,327,933	4,814,342	1,258,464
Expenses					
Management fees	4	2,420,301	298,751	2,420,301	298,751
Administration and secretarial fees	4	40,000	40,000	40,000	40,000
Custodian fees	4	15,043	15,000	15,043	15,000
Legal and professional fees		43,806	25,455	43,806	25,455
Directors' remuneration	4	64,919	65,000	64,919	65,000
Directors' and officers' insurance		44,415	43,485	44,415	43,485
Audit fees		40,478	39,001	40,478	39,001
Loan note expenses	4	3,054,047	-	-	-
Finance costs	4	5,207,811	104,215	-	-
Other expenses		773,287	200,502	436,224	199,827
Total Expenses		11,704,107	831,409	3,105,186	726,519
Profit for the year		1,605,583	496,524	1,709,156	531,945

Basic earnings per share	5	0.0396	0.0131	0.0421	0.0140
Diluted earnings per share	5	0.0356	0.0118	0.0379	0.0126

The accompanying notes on pages 12 to 24 form an integral part of these financial statements.

T2 Income Fund Limited
As at 31 December 2007

CONSOLIDATED BALANCE SHEET

	Notes	31 December 2007 GBP	31 December 2006 GBP
ASSETS			
Non-current assets			
Financial assets at fair value through the profit or loss account	6	140,315,881	53,978,368
Note receivable	8	500,000	500,000
		140,815,881	54,478,368
Current assets			
Trade and other receivables	8	1,119,113	610,946
Cash and cash equivalents	9	16,078,863	4,929,513
		17,197,976	5,540,459
Total assets		**158,013,857**	**60,018,827**
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share premium	11	5,619,040	36,694,149
Other reserve		36,200,000	14,167
Foreign exchange reserve		138,994	35,421
Retained earnings		(2,505,937)	(251,520)
Total equity		**39,452,097**	**36,492,217**
LIABILITIES			
Non-current liabilities			
Warehouse facility	10	-	22,374,308
Loan notes	10	114,590,180	-
Current liabilities			
Trade and other payables	10	3,971,580	1,152,302
Total liabilities		118,561,760	23,526,610
Total equity and liabilities		**158,013,857**	**60,018,827**
Net Asset Value per Share		£0.92	£0.96

The financial statements were approved by the Board of Directors on 16 April 2008 and were signed on its behalf by:

Patrick Francis Conroy
Director

Saul Barak Rosenthal
Director

The accompanying notes on pages 12 to 24 form an integral part of these financial statements.

T2 Income Fund Limited
As at 31 December 2007

COMPANY BALANCE SHEET

	Notes	31 December 2007 GBP	31 December 2006 GBP
ASSETS			
Non-current assets			
Financial assets at fair value through the profit or loss account	6	4,227,734	26,401,578
Investment in subsidiary	7	31,365,126	6,322,726
Note receivable	8	500,000	500,000
		36,092,860	33,224,304
Current assets			
Trade and other receivables	8	196,498	478,540
Cash and cash equivalents	9	3,380,265	3,854,472
		3,576,763	4,333,012
Total assets		**39,669,623**	**37,557,316**
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share premium	11	5,619,040	36,694,149
Other reserve		36,200,000	14,167
Retained earnings		(2,366,943)	(216,099)
Total equity		**39,452,097**	**36,492,217**
LIABILITIES			
Current liabilities			
Trade and other payables	10	217,526	1,065,099
Total liabilities		217,526	1,065,099
Total equity and liabilities		**39,669,623**	**37,557,316**
Net Asset Value per Share		£0.92	£0.96

The financial statements were approved by the Board of Directors on 16 April 2008 and were signed on its behalf by:

Patrick Francis Conroy
Director

Saul Barak Rosenthal
Director

The accompanying notes on pages 12 to 24 form an integral part of these financial statements.

T2 Income Fund Limited
For the year ended 31 December 2007

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Group	**Share Capital GBP**	**Share Premium GBP**	**Other Reserve** GBP**	**Foreign exchange Reserve GBP**	**Retained Earnings** GBP**	**Total Equity GBP**
Balance at 31 December 2005	-	36,694,149	4,167	-	201,956	36,900,272
Profit for the year	-	-	-	-	496,524	496,524
Foreign exchange on consolidation	-	-	-	35,421	-	35,421
Total income & expense for the year	-	-	-	35,421	496,524	531,945
						-
Amortisation of fair value of options	-	-	10,000	-	-	10,000
Dividends paid	-	-	-	-	(950,000)	(950,000)
Balance at 31 December 2006	-	36,694,149	14,167	35,421	(251,520)	36,492,217
Net proceeds from share issue	-	5,024,891	-	-	-	5,024,891
Transfer to distributable reserve	-	(36,100,000)	36,100,000	-	-	-
Profit for the year	-	-	-	-	1,605,583	1,605,583
Foreign exchange on consolidation	-	-	-	103,573	-	103,573
Total income & expense for the year	-	-	-	103,573	1,605,583	1,709,156
Amortisation of fair value of options	-	-	85,833	-	-	85,833
Dividends paid*	-	-	-	-	(3,860,000)	(3,860,000)
Balance at 31 December 2007	-	5,619,040	36,200,000	138,994	(2,505,937)	39,452,097

Company	**Share Capital GBP**	**Share Premium GBP**	**Other Reserve** GBP**	**Foreign exchange Reserve GBP**	**Retained Earnings** GBP**	**Total Equity GBP**
Balance at 31 December 2005	-	36,694,149	4,167	-	201,956	36,900,272
Profit for the year	-	-	-	-	531,945	531,945
Total income & expense for the year	-	-	-	-	531,945	531,945
						-
Amortisation of fair value of options	-	-	10,000	-	-	10,000
Dividends paid	-	-	-	-	(950,000)	(950,000)
Balance at 31 December 2006	-	36,694,149	14,167	-	(216,099)	36,492,217
Net proceeds from share issue	-	5,024,891	-	-	-	5,024,891
Transfer to distributable reserve	-	(36,100,000)	36,100,000	-	-	-
Profit for the year	-	-	-	-	1,709,156	1,709,156
Total income & expense for the year	-	-	-	-	1,709,156	1,709,156
Amortisation of fair value of options	-	-	85,833	-	-	85,833
Dividends paid*	-	-	-	-	(3,860,000)	(3,860,000)
Balance at 31 December 2007	-	5,619,040	36,200,000	-	(2,366,943)	39,452,097

*During the year the Company made four dividend payments. In February 2007 the Company paid a dividend of 2p per ordinary share (£760,000), for the period to 31 December 2006. In May 2007 the Company paid a dividend of 2.5p per ordinary share (£950,000), for the period to 31 March 2007. In September 2007 the Company paid a dividend of 2.5p per ordinary share (£1,075,000). for the period to 30 June 2007. In December 2007 the Company paid a dividend of 2.5p per ordinary share (£1,075,000), for the period to 30 September 2007.

** Distributable reserves.

The accompanying notes on pages 12 to 24 form an integral part of these financial statements.

T2 Income Fund Limited
For the year ended 31 December 2007

STATEMENT OF CASHFLOWS

	Notes	Group 31 December 2007 GBP	Group 31 December 2006 GBP	Company 31 December 2007 GBP	Company 31 December 2006 GBP
Cash flows from operating activities					
Cash generated from operations	13	2,215,509	(2,014,562)	(1,421,108)	(2,173,545)
Net cash inflow/(outflow) from operating activities		2,215,509	(2,014,562)	(1,421,108)	(2,173,545)
Cashflows from investing activities					
Purchase of investments	6	(137,310,167)	(59,465,371)	(10,226,998)	(41,570,229)
Sale of investments	6	40,750,789	8,307,610	18,877,404	8,307,610
Payment to subsidiary	6,7	-	-	(17,819,912)	(3,081,460)
Receipt from subsidiary	6,7	-	-	8,951,516	6,921,988
Principal received	6	1,670,903	983,235	-	705,815
Net cash outflow from investing activities		(94,888,475)	(50,174,526)	(217,990)	(28,716,276)
Cashflows from financing activities					
Net proceeds from issue of shares	11	5,024,891	-	5,024,891	-
Warehouse facility		(18,874,945)	22,374,308	-	-
Loan notes		121,532,370	-	-	-
Dividends paid		(3,860,000)	(950,000)	(3,860,000)	(950,000)
Net cash inflow/(outflow) from financing activities		103,822,316	21,424,308	1,164,891	(950,000)
Net increase/(decrease) in cash and cash equivalents		11,149,350	(30,764,780)	(474,207)	(31,839,821)
Cash and cash equivalents at beginning of year		4,929,513	35,694,293	3,854,472	35,694,293
Cash and cash equivalents at end of year		16,078,863	4,929,513	3,380,265	3,854,472

The accompanying notes on pages 12 to 24 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

1. GENERAL INFORMATION

T2 Income Fund Limited (the "Company") was incorporated and domiciled in Guernsey, Channel Islands, as a company limited by shares on 9 June 2005. The address of the registered office is Regency Court, Glategny Esplanade, St Peter Port, Guernsey, Channel Islands, GY1 3NQ.

A new Cayman Islands registered subsidiary company, T2 Income Fund CLO I Ltd., was created on 11 October 2006. Through its ownership of 100% of the preferred shares of T2 Income Fund CLO I Ltd. the Directors consider the CLO to be a wholly owned subsidiary and the operating results are consolidated in these financial statements. The Group is comprised of the "Company" and the "CLO".

2. ACCOUNTING POLICIES

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and all applicable requirements of Guernsey Company Law. The financial statements have been prepared under the historical cost convention, apart from the inclusion of non-current asset investments, foreign currency derivatives and non-current liabilities at fair value through profit or loss. The principal accounting policies of the Group and Company have remained unchanged from the previous year, exept for the adoption of IFRS "Financial Instruments:Disclosures", and are set out below.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of T2 Income Fund Limited and its subsidiary T2 Income Fund CLO I Ltd. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated.

(c) Foreign currency translation

(i) Functional and presentation currency

The Financial Statements of the Company are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The Directors have considered the primary economic currency of the Company and considered the currency in which the original finance was raised, distributions made, and ultimately what currency would be returned on a break up basis. The Directors have also considered the currency to which the underlying investments are exposed. On balance, the Directors believe Sterling best represents the functional currency of the Company and Dollars the functional currency of the subsidiary. Therefore the books and records are maintained in Sterling and Dollars respectively and for the purpose of the financial statements the results and financial position of the Group are presented in Sterling, which is the presentation currency of the Group.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement.

Translation differences on non-monetary items are reported as part of the fair value gain or loss reported in the Income Statement.

(iii) Subsidiary company

The results and financial position of the subsidiary entity that has a functional currency different to the presentation currency is translated into the presentation currency as follows:

1. assets and liabilities of the Balance Sheet presented are translated at the closing rate at the date of the balance sheet;
2. income and expenses for the Income Statement are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
3. all resulting exchange differences are recognised as a separate component of shareholders' equity.

T2 Income Fund Limited

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

2. ACCOUNTING POLICIES (Continued)

(d) Revenue recognition

Revenue is recognised as follows:

Interest income - recognised on an accruals basis as this relates to bank interest income and coupon interest.

Other income - relates to note receivable interest (2006:closing fees) which are recognised when they fall due.

Dividend income - dividend income is recognised when the right to receive payment is established.

(e) Expenditure

All expenses are accounted for on an accruals basis. The management fees, administration fees, finance costs and all other expenses (excluding set up expenses which were offset against share premium) are charged through the Income Statement.

(f) Taxation

The Company is exempt from Guernsey taxation under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989. A fixed annual fee of £600 is payable to the States of Guernsey in respect of this exemption.

(g) Share issue expenses

Share issue expenses of an equity transaction are accounted for as a deduction from equity (net of any income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

(h) Dividends

Dividend distributions to the Group's shareholders are recognised in the Group's financial statements in the period in which the dividends are paid.

(i) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments and bank overdrafts.

(j) Trade and other receivables

Receivables are recognised initially at fair value plus transaction costs that are directly attributable to their acquisition or origination. They are subsequently measured at amortised cost.

(k) Trade and other payables

Payables are recognised initially at fair value and subsequently stated at amortised cost.

(l) Investments and loan notes

(i) Financial assets and liabilities at fair value through profit or loss

Purchases and sales of all investments are recognised on trade date - the date on which the Group acquires or disposes of the economic benefits of the asset. All investments are initially recognised at fair value, and transaction costs for all financial assets and financial liabilities carried at fair value through profit or loss are expensed as incurred. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Group has transferred substantially all risks and rewards of ownership.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. Valuation techniques used include the use of comparable recent arm's length transactions.

For broadly syndicated loans T2 receives market quotes from agent banks on a quarterly basis. This information is reviewed by T2 management and used to price the portfolio companies.

For bi-lateral loans, an independent third party performs portfolio company evaluations. As part of this independent third party's due diligence they review the following:

2. ACCOUNTING POLICIES(continued)

(l) Investments (continued)

(i) Financial assets and liabilities at fair value through profit or loss (continued)

- Audited and/or unaudited historical financial information including the most recent fiscal year.
- Financial information for the most current period available.
- Financial forecast prepared by the Portfolio Company.
- Most current capitalisation table.
- T2 Investment Committee Memorandum prepared prior to the date of investment.
- Documents relating to business operations, financial performance and corporate planning.
- Public filings by the Portfolio Companies.

In assessing the fair value of each investment, a third party valuation firm reviews the following:

- Recent financial performance including cash flow and profitability on an actual basis compared to plan.
- Funding history of the company, the implied valuation from the most recent funding and anticipated future funding transactions.
- Company's capital structure.
- Recent business events disclosed by the Company.
- Potential requirement for additional funding.

The fair value of loan notes is determined primarily by reference to indicative mid-market prices provided by a third party in good faith. Due to the limited trading activity, or the absence of trading activity, in these securities, the Directors do not believe that these prices represent a "market value" but consider other factors in their fair value determination including trends in credit spreads, interest rates and yields on similar securities. The Directors believe that the mid-market convention is an accurate reflection of the fair value of these securities, and is consistent with the other factors which have been taken into consideration.

Gains and losses arising from changes in the fair value of the financial assets and liabilities at fair value through profit or loss are included in the Income Statement in the period in which they arise.

(ii) Derivative Financial Instruments

Derivatives are categorised as financial assets or liabilities held for trading and valued at fair value through profit or loss.

(iii) Subsidiary

Investment in subsidiary is initially recorded at cost. After initial recognition, the investment in subsidiary is measured at fair value, with movements in the unrealised gains and losses recognised in the Company Income Statement. Through its ownership of 100% of the preferred shares of T2 Income Fund CLO I Ltd the Directors consider the CLO to be a wholly owned subsidiary and the operating results are consolidated in these financial statements.

(m) Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group also makes assumptions on the classification of financial assets.

Unlisted Debt Securities

The Group can invest in financial instruments which are not quoted in active markets. Fair values are determined by using valuation techniques. Where valuation techniques, such as the Market Capitalization Approach, are used to determine fair values they are carried out by an independent valuation firm specifically engaged by the Group to carry out the valuations. Changes in assumptions could affect the reported fair value of financial instruments. See note 5 for carrying amount at year end.

(n) New standards

New standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the Group has not early adopted:

The Group has not early adopted the new standard IFRS 8 (Operating Segments), therefore no additional disclosures have been made.

(o) Share based payments

Share options are valued in accordance with IFRS2 on an estimate of the fair value of the services received.

3. FINANCIAL RISK MANAGEMENT

(1) Financial risk factors

The Group is exposed to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The risk management policies employed by the Group to manage these risks are discussed below. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liabilitiy and equity instrument are disclosed in note 2 to the Financial Statements.

Capital Risk Management

The Group will seek to achieve a high level of current income by investing in debt securities, consisting primarily of senior debt across multiple industries.

The Group intends to invest primarily in companies located in the United States, Europe and the United Kingdom. The Group will target companies with attractive fundamental characteristics including experienced management, a significant financial or strategic sponsor or partner, a strong competitive position and positive cash flow.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders, comprising share premium, distributable reserves and retained earnings. The Group does not have any externally imposed capital requirements. At 31 December 2007 the Group had total equity of GBP39,452,097 (2006:GBP36,492,217).

The Group manages its capital to ensure that its objective is met. It does this by investing available cash whilst maintaining sufficient liquidity to meet on-going expenses and dividend payments.

The Investment Manager ensures that not more than 15% of the Group's gross assets are invested in any one investment. The Group's leverage is capped at 500% of the Group's net asset value.

(a) Market risk

The Group's exposure to market risk is comprised mainly of movements in the Group's investments. The investment portfolio is managed within parameters disclosed in the Group's offering memorandum. All investments present a risk of loss of capital.

At 31 December 2007, the Group's market risk is affected by three main components: changes in actual market prices, interest rate and foreign currency movements. Interest rates and foreign currency movements are covered at (b) and (c) below.

The following details the Group's sensitivity to a 5% increase and decrease in the market prices, with 5% being the sensitivity rate used when reporting price risk to key management and represents management's assessment of the possible change in market price.

If market prices had increased by 5% with all other variables held constant, this would have increased net assets attributable to holders of equity shares by approximately GBP1,286,285 (2006:GBP2,698,918), due to the increase in the fair value of financial assets at fair value through profit or loss by GBP7,015,794 (2006:GBP2,698,918) offset by the increase in the fair value of the financial liabilities at fair value through profit or loss by GBP5,729,509 (2006:GBPnil). Conversely, if market prices had decreased by 5%, this would have decreased net assets attributable to holders of equity shares by approximately GBP1,286,285 (2006:GBP2,698,918), due to the decrease in the fair value of financial assets at fair value through profit or loss by GBP7,015,794 (2006:GBP2,698,918) offset by the decrease in the fair value of the financial liabilities at fair value through profit or loss by GBP5,729,509 (2006:nil).

T2 Income Fund Limited

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

3. FINANCIAL RISK MANAGEMENT (continued)

(b) Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Group has exposure to interest rate risk because it has borrowed to fund investments. The exposure arises on the difference between the rate of interest the Group is required to pay on borrowed funds and the rate of interest which it receives on the debt securities in which it invests.

The Group is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group's cash balances, debt instruments and loan notes are open to interest rate risk.

The Group may, but is not required to, hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts.

The table below summarises the Group's exposure to interest rate risk.

At 31 December 2007	Floating rate Financial Assets GBP	Fixed rate Financial Assets GBP	Non- interest Bearing Financial Assets GBP	Total GBP
Assets				
Financial assets at fair value through profit or loss	140,315,881	-	-	140,315,881
Note receivable	-	500,000	-	500,000
Trade and other receivables		-	1,119,113	1,119,113
Cash and cash equivalents	16,078,863	-	-	16,078,863
Total assets	156,394,744	500,000	1,119,113	158,013,857
Liabilities				
Loan notes	114,590,180	-	-	114,590,180
Trade and other payables	-	-	3,971,580	3,971,580
Capital and reserves attributable to the Company's equity holders	-	-	39,452,097	39,452,097
Total liabilities	114,590,180	-	43,423,677	158,013,857
Total interest sensitivity gap	41,804,564	500,000	(42,304,564)	-

At 31 December 2006	Floating rate Financial Assets GBP	Fixed rate Financial Assets GBP	Non- interest Bearing Financial Assets GBP	Total GBP
Assets				
Financial assets at fair value through profit or loss	53,978,368	-	-	53,978,368
Note receivable	-	500,000	-	500,000
Trade and other receivables		-	610,946	610,946
Cash and cash equivalents	4,929,513	-	-	4,929,513
Total assets	58,907,881	500,000	610,946	60,018,827
Liabilities				
Warehouse facility	22,374,308	-	-	22,374,308
Trade and other payables	-	-	1,152,302	1,152,302
Capital and reserves attributable to the Company's equity holders	-	-	36,492,217	36,492,217
Total liabilities	22,374,308	-	37,644,519	60,018,827
Total interest sensitivity gap	36,533,573	500,000	(37,033,573)	-

A 25 basis point increase or decrease is used when reporting interest rate risk internally to key management and represents management's assessment of the possible change in interest rates.

At 31 December 2007, should interest rates have lowered by 25 basis points with all other variables remaining constant, the reduction in net assets attributable to holders of equity for the year would amount to approximately GBP103,498 (2006:GBP64,389). If interest rates had risen by 25 basis points, the increase in net assets attributable to holders of equity would amount to approximately GBP103,498 (2006:64,389).

T2 Income Fund Limited

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group may make investments in currencies other than Sterling. To the extent that it does, the Group will be exposed to a potentially adverse currency risk. Changes in the rate of exchange may affect the value of the Group's investments, and the level of income that it receives from those investments. The Group has entered into currency hedging transactions to minimise this risk (see note 16).

Foreign currency denominated financial assets and liabilities, translated into GBP at the closing rate, are as follows:

31 December 2007

Assets	**USD**	**EUR**	**GBP**	**Total**
Financial assets at fair value	137,374,272	2,941,609	-	140,315,881
Cash and cash equivalents	15,907,649	100,259	70,955	16,078,863
Trade and other receivables	1,049,316	-	569,797	1,619,113
Total assets	154,331,237	3,041,868	640,752	158,013,857
Liabilities				
Trade and other payables	118,474,858	-	86,902	118,561,760
Total currency sensitivity gap	35,856,379	3,041,868	553,850	39,452,097

31 December 2006

Assets	**USD**	**EUR**	**GBP**	**Total**
Financial assets at fair value	49,060,856	4,917,512	-	53,978,368
Cash and cash equivalents	2,826,963	130,412	1,972,138	4,929,513
Trade and other receivables	574,186	35,675	501,085	1,110,946
Total assets	52,462,005	5,083,599	2,473,223	60,018,827
Liabilities				
Trade and other payables	23,270,769	-	255,841	23,526,610
Total currency sensitivity gap	29,191,236	5,083,599	2,217,382	36,492,217

At 31 December 2007, had the exchange rate between the US dollar, EUR and GBP increased or decreased by 5%, with all other variables held constant, the increase or decrease respectively in net assets attributable to holders of equity shares would amount to approximately GBP36,454 (2006: GBP52,411).

In accordance with the Group's policy, the Investment Manager monitors the Group's currency position on a regular basis, and the Board of Directors reviews it on a quarterly basis.

(d) Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. The Group invests primarily in senior debt, senior subordinated debt and junior subordinated debt. The maximum investment size, at the time of the investment, will generally be limited to 15% of the Group's Gross Assets. However, the Group may make larger investments and it may seek to syndicate or sell down a portion of any such investment, after it has been acquired.

The Group has established a credit rating system. The purpose of the rating system is to monitor the credit quality of T2's investment portfolio on both an individual and portfolio basis and the future on-going monitoring required.

Portfolio by rating category	**2007**	**2006**
1	2%	0%
2	77%	100%
3	21%	0%
4	0%	0%
5	0%	0%
Total	100%	100%

T2 Income Fund Limited

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

3. FINANCIAL RISK MANAGEMENT (continued)
(d) Credit risk (continued)

Credit Ratings Level	Ratings Criteria Methodology (1) (General Parameters)
1	Company is ahead of expectations and this trend is expected to continue.
2	Full repayment of principal and interest is expected.
3	Closer monitoring is required. Full repayment of principal and interest is expected.
4	A reduction of interest income has occurred or is expected to occur. No loss of principal is expected.
5	A loss of some portion of principal is expected. **(2)**

(1) These are guidelines and when determining a Credit Ratings Level and other facts and circumstances may be considered.

(2) An estimate of the potential amount of principal loss will be determined on a quarterly basis.

None of the Group's financial assets are secured by collateral or other credit enhancements.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

(e) Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. As the Group's investments will not generally be in publicly traded securities, they are likely to be subject to legal and other restrictions on resale or otherwise be less liquid than publicly traded securities. The illiquidity of the Group's investments may make it difficult for them to be sold quickly if the need arises. Since the Group intends to invest in debt securities with a term of up to seven years, and hold investments in debt securities and related equity securities until maturity of the debt, the Group does not expect realisation events to occur in the near term.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flow. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Current		Non-Current		
	within 6 months	6 to 12 months	1 to 5 years	later than 5 years	No stated maturity
At December 2007					
Loan notes	-	-	-	114,590,180	-
Trade and other payables	3,971,580	-	-	-	-
Total financial liabilities	3,971,580	-	-	114,590,180	-
At 31 December 2006					
Warehouse facility	-	-	22,374,308	-	-
Trade and other payables	1,152,302	-	-	-	-
Total financial liabilities	1,152,302	-	22,374,308	-	-

(2) Fair value estimation

The fair values of the Group's short-term trade receivables and payables approximate their carrying amounts at the balance sheet date.

4. FUND EXPENSES

Management fee

The Investment Manager, T2 Advisers, LLC, is entitled to receive an annual fee payable quarterly in advance. The management fee is calculated based on 2% of the average value of the Company's gross assets at the most recently completed calendar quarter and the projected gross assets as of the end of the current calendar quarter.

Total fees charged for the year ended 31 December 2007 amounted to GBP2,420,301 (2006:GBP298,751). The total amount due and payable at the year end amounted to GBP12,725 (2006:GBP57,207).

Administration and secretarial fees

The Administrator and Secretary, Butterfield Fund Services (Guernsey) Limited, is entitled to an annual fee for its services, as administrator and secretary, of 0.075% of the Net Asset Value of the Group, calculated on the last business day of each quarter and payable quarterly in arrears. The fee is subject to a minimum of GBP40,000 per annum. They are also due a fixed accounting fee of GBP10,000 per annum plus a fixed fee of GBP5,000 for their registrar services.

Total Administration and secretarial fees (excluding accounting and registrar fees) charged for the year ended 31 December 2007 amounted to GBP40,000 (2006:GBP40,000). The total amount due and payable at the year end amounted to GBP10,000 (2006:GBP20,000).

Custodian fees

The Custodian, Butterfield Bank (Guernsey) Limited is entitled to custody fees of 0.02% of the Net Asset Value of the Group subject to a minimum of GBP15,000 per annum. The fee is payable quarterly in arrears.

Total fees charged for the year ended 31 December 2007 amounted to GBP15,043 (2006:GBP15,000). The total amount due and payable at the year end amounted to GBP3,750 (2006:GBP3,780).

Directors fees

The current level of fees for the Chairman of the Board of Directors of the Group is GBP25,000 per annum, and GBP20,000 each for non-executive directors.

Total fees charged to the Group for the year ended 31 December 2007 amounted to GBP64,919 (2006:GBP65,000). The total amount due and payable at the year end amounted to GBP16,321 (2006:GBP16,250).

Patrick Conroy received fees, as Chief Financial Officer to the Group, for the year ended 31 December 2007 of GBP99,495 (2006:GBP50,000) . Fees outstanding at the year end amounted to GBP54,165 (2006:4,167).

Loan note expenses

Total loan note expenses for 2007 was GBP3,054,047 (2006:GBP nil). These costs are the transaction costs that were incurred as a direct result of the raising and issuing of the loan notes raised and issued during the year.

Finance costs

Total finance costs for 2007 was GBP5,207,811 (2006:GBP104,215). These finance costs are for interest paid to Merrill Lynch for the Warehouse facility (GBP1,686,232) and interest due to the loan note holders (GBP3,521,579). The liability for the Warehouse facility was repaid on 19 July 2007 (2006:GBP22,374,308) and replaced with long-term notes. Long-term notes outstanding at 31 December 2007 were GBP114,590,180.

5. EARNINGS PER SHARE

Earnings per share has been calculated by dividing the profit attributable to ordinary share holders GBP1,605,583 Group, GBP1,709,156 Company (2006:GBP496,524 Group, GBP531,945 Company) by the weighted average number of ordinary shares outstanding during the year 40,589,041 (2006:38,000,000). Fully diluted profit per share has been calculated by dividing the profit attributable to ordinary share holders of GBP1,605,583 Group, GBP1,709,156 Company (2006: GBP496,524 Group, GBP531,945 Company), by the weighted average number of ordinary shares outstanding during the year adjusted for the effects of all dilutive potential ordinary shares 45,098,934 (2006:42,222,222).

Date	No. of shares	No. of days	Weighted average no. of shares
01/01/07	38,000,000	176	18,323,288
25/06/07	43,000,000	189	22,265,753
		365	40,589,041

Date	Fully diluted no. of shares	No. of days	Weighted average no. of shares
01/01/07	42,222,222	176	20,359,208
25/06/07	47,777,777	189	24,739,726
		365	45,098,934

T2 Income Fund Limited

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group 2007 GBP	Group 2006 GBP	Company 2007 GBP	Company 2006 GBP
Listed debt securities	30,063,114	8,127,281	-	6,085,423
Unlisted debt securities	110,252,767	45,851,087	4,227,734	20,316,155
	140,315,881	53,978,368	4,227,734	26,401,578
(Loss)/Gains recognised in relation to financial assets at fair value through profit or loss				
- realised (1)	(1,730,802)	(248,633)	(547,568)	(248,633)
- unrealised (2)	(6,820,160)	(1,835,169)	3,198,134	(1,630,983)
	(8,550,962)	(2,083,802)	2,650,566	(1,879,616)

	Group 2007 GBP	Group 2006 GBP	Company 2007 GBP	Company 2006 GBP
Opening value of financial assets	55,780,153	5,854,260	27,387,224	5,854,260
Purchases	137,310,167	59,465,371	10,226,998	41,570,229
Sales	(40,750,789)	(8,307,610)	(18,877,404)	(8,307,610)
Realised loss on sale of investments	(1,730,802)	(248,633)	(547,568)	(248,633)
Transfer to subsidiary	-	-	(14,125,152)	(10,775,207)
Capital repayments	(1,670,903)	(983,235)	-	(705,815)
Cost of investments at year end	148,937,826	55,780,153	4,064,098	27,387,224
Unrealised (loss)/gain at year end	(8,621,945)	(1,801,785)	163,636	(985,646)
Closing value at year end	140,315,881	53,978,368	4,227,734	26,401,578

(1) For the year ended 31 December 2007 the Group had a realised gain on financial assets and liabilities at fair value through the profit and loss account of GBP1,768,561. This is comprised of a realised loss on financial assets of GBP1,730,802 and a realised gain on liabilities of GBP3,499,363.

(2) For the year ended 31 December 2007 the Group had an unrealised gain on financial assets and liabilities at fair value through the profit and gain of GBP122,030. This is comprised of an unrealised loss on financial assets of GBP6,820,160 and an unrealised gain on liabilities of GBP6,942,190.

7. INVESTMENT IN SUBSIDIARY

	Company 2007 GBP	Company 2006 GBP
Opening value of Investment in subsidiary	6,934,680	-
Additions at cost	22,993,548	6,934,680
Cost of Investment in subsidiary at year end	29,928,228	6,934,680
Unrealised gain/(loss) on net assets transferred to subsidiary	1,436,898	(611,954)
Closing fair value of Investment in subsidiary	31,365,126	6,322,726

The cost of the investment is represented by the net assets transferred to the subsidiary.

The Company from time to time makes asset transfers between the Company, T2 Income Fund Limited, and the subsidiary, T2 Income Fund CLO I Ltd.

8. TRADE AND OTHER RECEIVABLES

	Group 2007	Group 2006	Company 2007	Company 2006
	GBP	GBP	GBP	GBP
Accrued bank interest	32,312	6,138	-	6,138
Loan interest receivable	1,060,213	444,417	169,909	312,011
Prepaid expenses	26,588	28,106	26,589	28,106
Unrealised gain on forward exchange contracts	-	132,285	-	132,285
	1,119,113	610,946	196,498	478,540
Non current assets				
Note receivable	500,000	500,000	500,000	500,000

The GBP500,000 note receivable relates to a promissory note due for payment in 2009 from T2 Advisers, LLC, the Company's Investment Manager. This note, which is subject to certain conditions, was signed on 5 December 2006 and is subject to interest of 8% per annum, compounded annually. The promissory note is recognised in the financial statements as the Directors, having reviewed the conditions pertaining to the promissory note, deem that receipt of payment is virtually certain.

9. CASH AND CASH EQUIVALENTS

	Group 2007	Group 2006	Company 2007	Company 2006
	GBP	GBP	GBP	GBP
Call account	16,078,863	4,929,513	3,380,265	3,854,472

For the purposes of the Cash Flow Statement, the above items represent the year end cash and cash equivalents.

Included within call account balances is an amount held as Collateral by RBC Capital Markets for GBPnil (2006:GBP1,413,332 (US$2,768,717)) in relation to the forward exchange contracts.

10. TRADE AND OTHER PAYABLES

	Group 2007	Group 2006	Company 2007	Company 2006
Current liabilities	GBP	GBP	GBP	GBP
Due to RBC	-	896,461	-	896,461
Due to Subsidiary	-	-	56,440	-
Management fees	12,725	57,207	12,725	57,207
Administrator's fees	10,000	20,000	10,000	20,000
Custodian's fees	3,750	3,780	3,750	3,780
Audit fees	35,204	28,500	35,204	28,500
Directors' fees	16,321	16,250	16,321	16,250
Finance cost (1)	3,556,392	86,788	-	-
Unrealised loss on forward exchange contracts	5,266	-	5,266	-
Other accruals	331,922	43,316	77,820	42,901
	3,971,580	1,152,302	217,526	1,065,099
Non current liabilities				
Warehouse facility	-	22,374,308	-	-
Loan notes	114,590,180	-	-	-

On 21 November 2006 T2 Income Fund CLO I Ltd. entered into a credit and warehouse agreement (the "Agreement") by and among Merrill Lynch Capital Corp., T2 Income Fund CLO I Ltd. (as the Issuer), T2 Advisers, LLC (as the Collateral Manager) and T2 Income Fund Limited. The facility amount was US$200,000,000. Interest due to Merrill Lynch was calculated daily on the total amount at 1 month LIBOR plus 50 basis points. Merrill Lynch provided funding of 80% of the par value of loans assigned to T2 Income Fund CLO I Ltd.

On 19 July 2007 the Warehouse facility was repaid and loan-notes were issued in the amount of US$309,050,000 with a twelve year term. The "Indenture" dated 19 July 2007 is among T2 Income Fund CLO I Ltd as the "Issuer", T2 Income Fund CLO I LLC as the "Co-Issuer" and The Bank of New York Mellon as the "Trustee".

(1) Interest on the loan-notes is calculated on a weighted average interest rate of LIBOR plus 75 basis points.

11. SHARE CAPITAL

The Company has the power to issue an unlimited number of ordinary shares of no par value.

On incorporation two Ordinary Shares were issued at 100p each to the subscribers to the Memorandum of Association of the Company. On Admission to the AIM on 5 August 2005 the Company repurchased these Ordinary Shares.

On Admission to the AIM on 5 August 2005 the Company allotted 38,000,000 fully paid Ordinary Shares.

During the year 5,000,000 Ordinary Shares of no par value were issued at 101.75p per Share.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds, net of tax.

On 15 June 2007 Court approval was received to reduce the issued share premium of the Company by an amount of £0.95 per share and that the aggregate of such reduction be credited as a distributable reserve.

The distributable reserve may be applied in any manner in which the Company's profits available for distribution are able to be applied, including the purchase of the Company's own shares and the payment of dividend.

The Investment manager, T2 Advisers LLC, has been granted options to purchase 4,222,222 Ordinary Shares at the Placing Price, as reduced by dividends paid per share, subject to the Company achieving certain performance criteria as follows:

The Investment manager options vested and became exercisable in respect of 50 per cent immediately on conclusion of the first three month period during which the Company paid dividends on the Shares in an aggregate amount during that three month period equal to or exceeding 8 per cent of the Initial Offer Price on an annualised basis (the hurdle rate). The remaining 50 per cent vest and become exercisable immediately on conclusion of the twelve month period following the date specified above.

On 23 February 2007 the hurdle rate was met. Accordingly on 31 March 2007 the options on 2,111,111 of these Ordinary shares became vested. The remaining options for 2,111,111 Ordinary shares vested on 31 March 2008.

The Investment Manager has been granted options to purchase 555,555 Ordinary Shares at 101.75p per Share, based upon the 5,000,000 Ordinary Shares issued in June 2007, in accordance with the terms of the Investment Manager Agreement.

In accordance with IFRS2, the value of the options was based upon an estimate of the fair value of the services received. The Company believes that the fair value can be determined by a comparison to a performance-based incentive fee program, which arrangements are common practice in the industry, because the option program was similarly intended to compensate the Investment manager for achieving superior returns. The fair value estimate was based, in good faith, upon the present value of a hypothetical performance-based incentive fee, assuming a fee of 20% of the excess return above an 8% hurdle rate over a ten-year period; the fair value of the options was determined to be £100,000. For the year ending 31 December 2007 the Company charged £85,833 (2006: £10,000) to expenses representing the amortisation of the fair value of the options.

The calculation of fair value is sensitive to a number of assumptions, including the average interest rate on investments, the pace of investment activity, the amount and cost of leverage, if any, and expenses. It should be noted that the actual value of the options may ultimately be substantially greater or less than the fair value calculated. If actual financial performance is significantly better than the assumptions used in the calculation of fair value, the options could be worth several million pounds; to the extent that the performance criteria is not achieved, the options would expire worthless.

Share Capital

Ordinary shares - nil par value	**Shares in issue**	**Shares in issue**
Balance at start year	38,000,000	38,000,000
Issued during the year	5,000,000	-
Balance at end year	43,000,000	38,000,000

	31 December 2007	**31 December 2006**
Share Premium	GBP	GBP
Balance at start year	36,694,149	36,694,149
Issued during year	5,087,500	-
Issue costs	(62,609)	-
Transfer to distributable reserves	(36,100,000)	-
Balance at end year	5,619,040	36,694,149

12. NET ASSET VALUE PER SHARE

The net asset value per Ordinary Share is calculated by dividing the net assets at the year end of GBP39,452,097 (2006:GBP36,492,217) by the Ordinary Shares in issue at the end of the year being 43,000,000 (2006:38,000,000).

13. CASH GENERATED FROM OPERATIONS

	Group 2007 GBP	Group 2006 GBP	Company 2007 GBP	Company 2006 GBP
Profit for the year	1,605,583	496,524	1,709,156	531,945
Adjustments for:				
Realised (gain)/loss arising on adjustment to financial assets and liabilities	(1,768,561)	248,633	547,568	248,633
Unrealised (gain)/loss arising on adjustment to financial assets and liabilities	(122,030)	1,835,169	(3,198,134)	1,630,983
Amortisation of fair value of options	85,833	10,000	85,833	10,000
Foreign exchange on consolidation	103,573	35,421	-	-
Changes in working capital:				
Trade and other receivables	(508,167)	(1,070,506)	282,042	(938,100)
Trade and other payables	2,819,278	(3,569,803)	(847,573)	(3,657,006)
Cash inflow/(outflow) from operations	2,215,509	(2,014,562)	(1,421,108)	(2,173,545)

14. CONSOLIDATED SUBSIDIARY UNDERTAKING

Through its 100% ownership of preferred shares in T2 Income Fund CLO I Ltd., the Directors consider the following entity as a wholly owned subsidiary of the Company and its results and financial position are included within the consolidated results of the Company.

	Date of incorporation	Country of incorporation	Nature of holding	Percentage holding
T2 Income Fund CLO I Ltd.	11 October 2006	Cayman Islands	Direct	100%

15. RELATED PARTY TRANSACTIONS

Saul Rosenthal is a member of BDC Partners which owns T2 Advisers, LLC., the Investment Manager.
Saul Rosenthal and Patrick Conroy are officers of T2 Advisers, LLC., the Investment Manager.
Patrick Firth is a director of the Administrator, Butterfield Fund Services (Guernsey) Limited.

The following transactions were carried out with related parties in addition to the related party transactions disclosed in note 4:

	Group 2007 GBP	Group 2006 GBP	Company 2007 GBP	Company 2006 GBP
Amounts incurred during the year to related parties				
Fees due to P Conroy as Chief Financial Officer to the Company	99,495	50,000	99,495	50,000
Fees due to the Investment Manager, T2 Advisers, LLC	2,420,301	798,751	2,420,301	798,751
Note receivable from the Investment Manager, T2 Advisers, LLC	-	(500,000)	-	(500,000)
Reimbursement due to BDC Partners, LLC	193,974	28,912	193,974	28,912
Amounts due to related parties at the year end				
Fees due to P Conroy as Chief Financial Officer to the Company	54,165	4,167	54,165	4,167
Due to subsidiary in relation to Wall Street Office system	-	-	56,440	-
Fees due to the Investment Manager, T2 Advisers, LLC	12,725	57,207	12,725	57,207
Amounts due from related parties at the year end				
Note receivable from the Investment Manager, T2 Advisers, LLC	500,000	500,000	500,000	500,000

The Investment Manager has been granted options giving it the right to acquire a total of 4,777,777 Ordinary Shares, refer note 11.

Directors shareholdings in Company

Saul Rosenthal has a beneficial interest in 1,319,445 ordinary shares (2006:1,055,556) in the Company as at 31 December 2007. Through his ownership interest in T2 Advisers, LLC, the Investment Manager, Mr Rosenthal has an interest of 1,194,445 shares related to the share option plan (re note 11), and 125,000 shares relate to a purchase of shares during the year for his own account. This is equal to a beneficial interest of 2.8% based on the Share Capital as at that date when diluted by the number of Ordinary Shares subject to the option.

16. COMMITMENTS

At the balance sheet date the following commitment in respect of forward foreign exchange contracts existed:

Contract amount - GBP	Buy	Sell	Unrealised loss
GBP1,563,524 (USD3,100,000)	USD	GBP	(5,266)

17. POST BALANCE SHEET EVENTS

Since the year end the Group has made three new investment purchases, these are detailed below:

Date	Par Amount	Purchase Price
4 January 2008	US$4,000,000 Houghton International	99.50
12 March 2008	US$3,000,000 Paetec	90.75
14 March 2008	US$5,000,000 HCA,Inc.	91.75

T2 Income Fund Limited

Portfolio Statement of the Group
As at 31 December 2007

	Fair Value GBP	% of net assets
Atlantic Inertial	2,421,382	6.14%
4437667 Canada Inc. (Mold Master)	2,958,239	7.50%
Attachmate	4,370,064	11.08%
Cavalier Telephone	5,206,354	13.20%
Conner Steel	2,425,402	6.15%
Corel	5,540,960	14.04%
CPM Holdings	1,887,664	4.78%
DTN	2,433,928	6.17%
Emdeon Business Services LLC	3,028,153	7.68%
Express Energy	4,393,944	11.14%
First Data Corp B1 Term Loan	4,292,087	10.88%
Ford	4,155,987	10.53%
Georgia Pacific LLC	2,389,834	6.06%
Hudson Products Holdings Inc.	1,164,120	2.95%
Inverness Medical	2,393,154	6.07%
InfoNXX	3,368,532	8.54%
Infor Global	2,868,815	7.27%
Investools	4,403,087	11.16%
Koosharem Corp 1st Lien Credit	1,286,125	3.26%
Koosharem (Select Remedy) 2nd	2,723,559	6.90%
Krispy Kreme	2,547,041	6.46%
Merrill Corp	471,579	1.20%
Metrologic 1st lien	1,411,636	3.58%
Metrologic 2nd lien	1,392,041	3.53%
MR Default	1,590,331	4.03%
NameMedia, Inc.	2,995,915	7.59%
Nova 10.75%	2,941,609	7.46%
NPC 1st lien	1,855,169	4.70%
NPC 2nd lien	1,896,404	4.81%
Navisite	1,927,072	4.88%
Nuvox	3,394,327	8.60%
Oshkosh Trucks	2,875,723	7.29%
PAETEC Holding Corp.	1,297,069	3.29%
Peacock Engineering	1,497,957	3.80%
Pegasus	5,055,375	12.81%
Prodigy Health 1st lien	2,696,326	6.83%
Prodigy Health 2nd lien	887,678	2.25%
Proquest	4,165,229	10.56%
QA Direct Holdings, LLC	2,777,104	7.04%
Realogy	5,291,913	13.41%
Sirsi Dynix	865,002	2.19%
SkillSoft	2,935,769	7.43%
Stratus Technologies	2,977,083	7.55%
Sunquest Holdings(Misys)	1,982,146	5.02%
Topps Co. Inc.	2,874,868	7.29%
TravelCLICK Acquisition Co	2,007,364	5.09%
Tribune	2,135,960	5.40%
TVC	1,932,088	4.90%
VS Holdings (CBA Group)	3,285,520	8.33%
Wimar Landco (Tropicana)	2,950,522	7.48%
Workflow	1,703,420	4.32%
X-rite 1st Lien	1,987,251	5.04%
Total financial assets at fair value through profit or loss	140,315,881	355.66%
Cash balances	16,078,863	40.76%
Other net liabilities	(116,942,647)	-296.42%
Net Assets	39,452,097	100.00%