T2 Income Fund Limited

Consolidated and Company Annual Report and Audited Financial Statements

For the year ended 31 December 2008

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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 Fulcrum Group (Guernsey) Limited (Formerly Butterfield Fund Services (Guernsey) Limited) 2nd Floor 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 GY13AP 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 Adminral Park St Peter Port Guernsey, GY1 6HJ Channel Islands
In the UK:	Freshfields Bruckhaus Deringer 65 Fleet Street London EC4Y 1HS United Kingdom
Registered office:	2nd Floor Regency Court Glategny Esplanade St Peter Port Guernsey GY1 3NQ

CHAIRMAN'S STATEMENT

Attached please find the Accounts of T2 Income Fund Limited (the "Company") for the one year period ended 31 December 2008.

The year 2008 was a very harsh and difficult year in the global credit markets. Accordingly, the Company, as well as many other investment companies, was required to adjust to rapidly changing conditions. In the face of unprecedented dislocations in the market, the Company chose to adopt a defensive posture in the management of its portfolio and also, in the interest of prudence, regretfully decided to suspend the Company's dividend.

As of 31 December 2008, the Company had invested assets with a fair value of approximately £126.6 million. The portfolio is comprised of variable rate investments and, on a weighted average basis, carried a spread of approximately 406 basis points over LIBOR at year-end. The Company's Net Asset Value per Share as of 31 December 2008 was £1.25. For the year ended 31 December 2008 the Company recorded a profit, including the combination of net unrealized losses on assets and net unrealized gains on liabilities, of approximately £16.4 million. Basic earnings per share for the year ended 31 December 2008 were approximately £0.38.

The consolidated results of operations for the Company include the impact of carrying its investments and its liabilities at fair value; in our case, the markdowns associated with the change in fair value of the loan notes of our CLO subsidiary (T2 Income Fund CLO I Ltd.,) creates, for financial reporting purposes, an accumulated unrealized (and potentially unrealizable) gain of approximately £82.5 million as of 31 December 2008. This anomaly represents the theoretical gain which would be realized if the Company were able to acquire its own notes in the marketplace at prices equal to the fair values ascribed to the various series of notes (those fair values, on a mark-to-market basis, have been significantly diminished by the distressed sales and/or downgrading of other similar notes and the extreme dislocation of the global credit markets). Notably, the dislocation in the structured credit markets (i.e., the market in which the CLO loan notes would trade) has been significantly more severe than the dislocation in the corporate loan market. Accordingly, the CLO loan notes have been marked down to a greater extent than the loans held in the Company's portfolio causing the NAV to increase significantly for book purposes under IFRS and increasing reported book income under IFRS. If and to the extent that the Company cannot acquire all of the CLO loan notes at their ascribed fair values the CLO loan notes will need to be repaid by the Company at their respective par values (not their fair values), and the unrealized gains on those notes would be reversed. In the view of T2 Advisers, LLC (the "Adviser"), it may be possible to acquire some small portion of the CLO loan notes at a discount to par value but it is extremely unlikely that a substantial portion of loan notes, let alone all of them, could be so acquired by the Company. Therefore, shareholders should be aware that the Company's realization of the incremental value suggested by the markdowns on the CLO loan notes as of year-end is almost certain to prove to be unattainable and should consider evaluating the NAV and book income reported under IFRS accordingly. On the other side of the issue, we also are required to mark our investments at fair value, and have recorded an accumulated unrealized loss of £70.8 million as of 31 December 2008 as a result of changes in fair value. In a similar way, if we continue to hold these investments to maturity the fair value may return to par if we are repaid in full those amounts. I would also note that, in spite of the fair value markdowns on our investment portfolio, all of our investments thus far continue to pay their scheduled interest and principal, and there have been no payment defaults in our portfolio through 31 December 2008. Of course, it should also be noted that because both the investment portfolio and the CLO loan notes are denominated in US dollars, the strengthening of the USD against the GBP during 2008 has created substantial unrealized FX gains on the investment portfolio, and substantial unrealized FX losses on the CLO loan notes. The net result of all these fair value and FX related changes are reflected in the consolidated financial results.

In 2007 the Company, through its subsidiary T2 Income Fund CLO I Ltd., issued dollar denominated long-term notes, referred to above, in the amount of approximately US$249.2 million. The CLO loan notes have a twelve year term and a weighted average annual interest rate of LIBOR plus 75 basis points. The CLO loan notes were issued by our CLO subsidiary and contain a variety of covenants, compliance with which is being made very difficult by the deteriorating and volatile market conditions.

CHAIRMAN'S STATEMENT (continued)

For the quarterly payment period ending December 2008, certain covenant violations occurred, caused in part by ratings downgrades of a number of the CLO's loan assets. The covenant violations reduced the Company's quarterly distribution payment from the CLO subsidiary at that time. However, during this period the portfolio has continued to perform and the CLO subsidiary has been accumulating cash. Such cash could be utilized to acquire new investments and/or make quarterly cash distributions from the CLO subsidiary to the Company, subject to covenant compliance, These quarterly distribution payments could then be utilized to fund future dividends that the Company may declare.

The Adviser continues to monitor this situation closely, and is hopeful that there may be attractive risk-adjusted investment opportunities that we may avail ourselves of, including the possibility of repurchasing certain of our CLO loan notes. Over time, as we fully assess our prospects, the Board will, of course, consider reinstatement of the dividend at some appropriate level, although there can be no guarantee when, or if, that will happen as it is possible that the Company will remain unable to access cash in the CLO subsidiary indefinitely. The Adviser believes that the credit environment will continue to be very challenging over the coming year.

The total dividends paid from inception in August 2005 through December 2008 were 19.5p per share. As mentioned above, dividends in respect of the periods after June 2008 were suspended as a result of market conditions. The dividends paid during 2008 were as follows:

Month paid	Dividend Per share	For period ended
March 2008	2.5p	31 December 2007
June 2008	2.5p	31 March 2008
September 2008	2.5p	30 June 2008

We value your support during these difficult times and, although I am retiring upon release of these financial statements, I am sure your new chairman looks forward to reporting on our future progress.

William Tozier
Chairman
June 2009

T2 Income Fund Limited
For the year ended 31 December 2008

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 December 2008.

Principal activities
T2 Income Fund Limited (the "Company") is a closed-ended investment company which was incorporated as a company limited by shares and with limited liability in Guernsey on 9 June 2005 in accordance with The Companies (Guernsey) Law, 1994 (since superseded by The Companies (Guernsey) Law, 2008). The Company was admitted to the Alternative Investment Market of the London Stock Exchange (AIM) on 5 August 2005.

A 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") have sought to achieve an attractive risk adjusted return by investing in debt securities, consisting primarily of senior debt across multiple industries.

The Group invests primarily in 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 8. Dividends of £3,225,000 were paid during the year (2007: £3,860,000).

Statement of directors' responsibilities
The Directors are responsible for preparing the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, 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 IFRS and The Companies (Guernsey) Law, 2008. 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, 2008. 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 8 June 2009.

Saul Barak Rosenthal	Patrick Francis Conroy
Director	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 2008 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 16. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 262 of The Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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) as adopted by the European Union, 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, 2008 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 as adopted by the European Union, of the state of the Group's and the Parent Company's affairs as at 31 December 2008 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, 2008.
- the information given in the Directors' Report is consistent with the financial statements.

GRANT THORNTON UK LLP
CHARTERED ACCOUNTANTS
LONDON
Date: 8 June 2009

T2 Income Fund Limited
For the year ended 31 December 2008

CONSOLIDATED AND COMPANY INCOME STATEMENTS

	Notes	Group Year to 31 December 2008 GBP	Group Year to 31 December 2007 GBP	Company Year to 31 December 2008 GBP	Company Year to 31 December 2007 GBP
Revenue					
Interest income	2	12,528,242	10,821,834	6,468,643	1,389,774
Other income	2	32,588	43,716	32,588	43,716
Dividend income		-	-	-	711,182
Investment Income					
Gain/(loss) on financial assets and liabilities at fair value through profit or loss	6				
- Realised		(896,251)	1,768,561	832,634	(547,568)
- Unrealised		16,765,411	122,030	16,351,137	3,198,134
Gain/(loss) on foreign currency transactions					
- Realised		(1,256,063)	475,301	(1,256,063)	267,496
- Unrealised		(74,727)	78,248	251,913	(248,392)
Total Income		27,099,200	13,309,690	22,680,852	4,814,342
Expenses					
Management fees	4	2,969,672	2,420,301	2,969,672	2,420,301
Administration and secretarial fees	4	40,000	40,000	40,000	40,000
Custodian fees	4	15,010	15,043	15,010	15,043
Legal and professional fees		99,887	43,806	99,887	43,806
Directors' remuneration	4	64,929	64,919	64,929	64,919
Directors' and officers' insurance		44,236	44,415	44,236	44,415
Audit fees		45,730	40,478	45,730	40,478
Loan note expenses	4	-	3,054,047	-	-
Finance costs	4	6,235,227	5,207,811	-	-
Other expenses		1,166,170	773,287	378,602	436,224
Total Expenses		10,680,861	11,704,107	3,658,066	3,105,186
Profit for the year		16,418,339	1,605,583	19,022,786	1,709,156
Basic earnings per share	5	0.3818	0.0396	0.4424	0.0421
Diluted earnings per share	5	0.3662	0.0356	0.4243	0.0379

All of the profit for the period relates to the equity holders of the parent

The accompanying notes on pages 13 to 29 form an integral part of these financial statements.

T2 Income Fund Limited
As at 31 December 2008

CONSOLIDATED BALANCE SHEET

	Notes	31 December 2008 GBP	31 December 2007 GBP
ASSETS			
Non-current assets			
Financial assets at fair value through profit or loss	6	126,644,228	140,315,881
Note receivable	8	-	500,000
		126,644,228	140,815,881
Current assets			
Note receivable	8	500,000	-
Trade and other receivables	8	1,417,933	1,119,113
Cash and cash equivalents	9	16,158,356	16,078,863
		18,076,289	17,197,976
Total assets		144,720,517	158,013,857
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share premium	11	5,619,040	5,619,040
Distributable reserve	11	34,800,000	36,200,000
Foreign exchange reserve		2,743,441	138,994
Retained earnings		10,687,402	(2,505,937)
Total equity		53,849,883	39,452,097
LIABILITIES			
Non-current liabilities			
Loan notes at fair value through profit or loss	10	88,538,096	114,590,180
Current liabilities			
Trade and other payables	10	2,332,538	3,971,580
Total liabilities		90,870,634	118,561,760
Total equity and liabilities		144,720,517	158,013,857
Net Asset Value per Share		£1.25	£0.92

The financial statements were approved by the Board of Directors on 8 June 2009 and were signed on its behalf by:

Patrick Francis Conroy
Director

Saul Barak Rosenthal
Director

The accompanying notes on pages 13 to 29 form an integral part of these financial statements.

T2 Income Fund Limited
As at 31 December 2008

COMPANY BALANCE SHEET

	Notes	31 December 2008 GBP	31 December 2007 GBP
ASSETS			
Non-current assets			
Financial assets at fair value through profit or loss	6	614,381	4,227,734
Investment in subsidiary	7	48,625,653	31,365,126
Note receivable	8	-	500,000
		49,240,034	36,092,860
Current assets			
Note receivable	8	500,000	-
Trade and other receivables	8	119,628	196,498
Cash and cash equivalents	9	4,165,697	3,380,265
		4,785,325	3,576,763
Total assets		54,025,359	39,669,623
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share premium	11	5,619,040	5,619,040
Other reserve		34,800,000	36,200,000
Retained earnings		13,430,843	(2,366,943)
Total equity		53,849,883	39,452,097
LIABILITIES			
Current liabilities			
Trade and other payables	10	175,476	217,526
Total liabilities		175,476	217,526
Total equity and liabilities		54,025,359	39,669,623
Net Asset Value per Share		£1.25	£0.92

The financial statements were approved by the Board of Directors on 8 June 2009 and were signed on its behalf by:

Patrick Francis Conroy
Director

Saul Barak Rosenthal
Director

The accompanying notes on pages 13 to 29 form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Group	Share Capital	Share Premium	Other Reserve**	Foreign Exchange Reserve	Retained Earnings**	Total Equity
	GBP	GBP	GBP	GBP	GBP	GBP
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
Net proceeds from share issue	-	-	-	-	-	-
Transfer to distributable reserve	-	-	-	-	-	-
Profit for the year	-	-	-	-	16,418,339	16,418,339
Foreign exchange on consolidation	-	-	-	2,604,447	-	2,604,447
Total income & expense for the year	-	-	-	2,604,447	16,418,339	19,022,786
Settlement of share options	-	-	(1,400,000)	-	-	(1,400,000)
Dividends paid*	-	-	-	-	(3,225,000)	(3,225,000)
Balance at 31 December 2008	-	5,619,040	34,800,000	2,743,441	10,687,402	53,849,883

Company	Share Capital	Share Premium	Other Reserve**	Foreign Exchange Reserve	Retained Earnings**	Total Equity
	GBP	GBP	GBP	GBP	GBP	GBP
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
Net proceeds from share issue	-	-	-	-	-	-
Transfer to distributable reserve	-	-	-	-	-	-
Profit for the year	-	-	-	-	19,022,786	19,022,786
Total income & expense for the year	-	-	-	-	19,022,786	19,022,786
Settlement of share options	-	-	(1,400,000)	-	-	(1,400,000)
Dividends paid*	-	-	-	-	(3,225,000)	(3,225,000)
Balance at 31 December 2008	-	5,619,040	34,800,000	-	13,430,843	53,849,883

*During the year the Company made three dividend payments.
** Distributable reserves.

The accompanying notes on pages 13 to 29 form an integral part of these financial statements.

STATEMENT OF CASHFLOWS

	Notes	Group 31 December 2008 GBP	Group 31 December 2007 GBP	Company 31 December 2008 GBP	Company 31 December 2007 GBP
Cash flows from operating activities					
Cash generated from operations	13	(1,388,683)	2,111,936	1,873,835	(1,421,108)
Purchase of investments	6	(21,723,644)	(137,310,167)	-	(10,226,998)
Sale of investments	6	7,244,591	40,750,789	3,528,951	18,877,404
Net cash inflow/(outflow) from operating activities		(15,867,736)	(94,447,442)	5,402,786	7,229,298
Cashflows from investing activities					
Payment to subsidiary	6,7	-	-	-	(17,819,912)
Receipt from subsidiary	6,7	-	-	-	8,951,516
Principal received	6	17,967,782	1,670,903	7,646	-
Net cash outflow from investing activities		17,967,782	1,670,903	7,646	(8,868,396)
Cashflows from financing activities					
Net proceeds from issue of shares	11	-	5,024,891	-	5,024,891
Warehouse facility		-	(18,874,945)	-	-
Settlement of share options		(1,400,000)	-	(1,400,000)	-
Loan notes		-	121,532,370	-	-
Dividends paid		(3,225,000)	(3,860,000)	(3,225,000)	(3,860,000)
Net cash inflow/(outflow) from financing activities		(4,625,000)	103,822,316	(4,625,000)	1,164,891
Net increase/(decrease) in cash and cash equivalents		(2,524,954)	11,045,777	785,432	(474,207)
Cash and cash equivalents at beginning of year		16,078,863	4,929,513	3,380,265	3,854,472
Foreign exchange gain on consolidation		2,604,447	103,573	-	-
Cash and cash equivalents at end of year		16,158,356	16,078,863	4,165,697	3,380,265

The accompanying notes on pages 13 to 29 form an integral part of these financial statements.

1. GENERAL INFORMATION

T2 Income Fund Limited (the "Company") was incorporated and domiciled in Guernsey, Channel Islands, as a company limited by shares and with limited liability on 9 June 2005. The address of the registered office is 2nd Floor, Regency Court, Glategny Esplanade, St Peter Port, Guernsey, 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".

Investing Policy

The Group generally invests in syndicated and non-syndicated corporate loans issued by a range of companies, with a focus to date on issuers with a credit rating of B or CCC (S&P). The Group began with a particular focus on technology related companies and continues to leverage the technology-based expertise of its principals. The Group focuses its investments primarily in small to medium sized companies, including those companies traditionally defined as “middle market.” The Group usually expects to take a senior debt position, and may also invest in senior and junior subordinated debt.

T2 Advisers seeks to take advantage of its current relationships with US and global agent banks and private equity funds to source deals. The Group principally targets companies with experienced management, a significant financial or strategic sponsor or partner, a strong competitive position and positive cash flow.

The Board anticipates that the Group’s maximum investment size, at the time of investment, will be limited to 15 per cent of the Group’s gross assets; however, the Group may make larger investments and in such circumstances it may seek to syndicate or sell a portion of its initial investment.

The Group may seek additional debt (or raise additional capital through the issuance of its equity) to fund future investments. Any gearing will not be undertaken without the approval of the Board.

The Group’s objective is to produce a stable and predictable dividend yield, with long term preservation of net asset value.

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 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. The Company carries its investment in the CLO subsidiary at fair value through profit or loss. This is based upon the fair value of the assets and liabilities held by the CLO, which the Directors consider to be indicative of fair value for financial reporting purposes; however, the disparity between the Company's NAV per share, as determined under IFRS, and share price has been recognised by the Directors and is believed to be reflective of significant dislocations in the global credit markets as well as practical limitations on the Company's ability to realise the discount reflected in the fair value of the CLO loan notes, due to the unwillingness of the holders of those notes to execute a transaction at those prices.

(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

2. ACCOUNTING POLICIES (Continued)
(c) Foreign currency translation (continued)
(i) Functional and presentation currency (continued)
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.

(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 which is recognised under the effective interest rate method.

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 on call with banks, other short term highly liquid investments and bank overdrafts.

2. ACCOUNTING POLICIES (Continued)

(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 CLO loan notes were designated at fair value through profit or loss because the purpose of issuing the CLO loan notes was to be able to make investments in syndicated loans which were based upon the same or similar variable interest rates, and the fair value designation avoided an accounting mismatch. The Directors recognise that the magnitude of fair value movement of the CLO loan notes is substantially greater than the movement of the investments, due to variations in the different markets in which these instruments are traded.

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. In addition, because of the generally limited trading activity in the syndicated loan market, the Investment Manager prepares an analysis of the portfolio companies' recent and projected financial performance as well as other relevant business developments. In those instances where the Investment Manager believes additional analysis is necessary, for example due to a significant change in the market quote without related transaction volume, an outside valuation firm will provide a valuation estimate based upon their proprietary methodologies and techniques. Factors considered in these independent valuation analyses include discounted cash flows, comparable company and comparable transaction analysis, and credit spread analysis based upon the independent valuation firms' view of the implied credit rating of the investment and the corresponding required spread in the marketplace. The Board considers all the information presented to it, including indicative bids, internal analysis, and independent valuations, in order reach, in good faith, their fair value determination.

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:

- 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.
- The company's capital structure.
- Recent business events disclosed by the Company.
- Potential requirement for additional funding.

As of December 2008, there were no bi-lateral loans in the Group's portfolio.

2. ACCOUNTING POLICIES (Continued)
(l) Investments and loan notes (Continued)
(i) Financial assets and liabilities at fair value through profit or loss (continued)
The fair value of the loan notes is determined primarily by reference to a mid-market value report provided by the independent broker-dealer which makes the market in the CLO notes. Due to the very limited trading activity in this security, and the significant dislocations which have occurred in the credit markets generally and in the CLO markets in particular, the Directors consider the mid-market value report to be the best indicator of fair value for the notes. The mid-market value report reflects the proprietary analysis of the broker-dealer, specifically considering the cash flows projections of the T2 CLO subsidiary, the credit quality of the investments included in the CLO, and the credit spread required by the marketplace for CLO notes with these particular characteristics. The Directors also consider any trading activity in the CLO notes, if any, as well as other indicators of value based upon discussions between the Investment Manager and the few holders of the notes. The Directors believe that the mid-market value report is the best reflection of fair value of the notes, consistent with the requirements of IFRS, 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. The Company carries its investment in the CLO subsidiary at fair value through profit or loss. This is based upon the fair value of the assets and liabilities held by the CLO, which the Directors consider to be indicative of fair value for financial reporting purposes. 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 6 for carrying amount at year end.

Because the Group's portfolio investments are generally not traded in active markets, fair value determinations are based upon additional information, including internal analysis and projections as well as independent valuation work performed by outside firms, beyond the indicative quotes which are generally also available for portfolio investments. These other analyses rely upon observable data including comparable transactions, interest rates and credit spreads.

The Group's liabilities likewise are not traded in active markets, and the independent analysis which provides the basis for the fair value determination is based, in part, upon observable market data including interest rates and credit spreads. The fair value change in the Group's liabilities substantially exceeded the change in the investment portfolio, even though both are related to interest rates generally, because the assumptions relative to the value of CLO liabilities specifically include the assumptions about credit quality of the individual component companies of the CLO investment portfolio, the anticipated cash flow from those investments, and the resulting possibility of covenant defaults which could dramatically effect the sustainability of the CLO structure and therefore the fair value of the loan notes.

2. ACCOUNTING POLICIES (Continued)

(n) New standards

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but they are not relevant to the company's operations:

- IFRIC 14, "IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction" (effective from 1 January 2008).
- IFRIC 12, "Service concession arrangements" (effective from 1 January 2008)
- IFRIC 13, "Customer loyalty programmes" (effective from 1 July 2008).

New standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted:

- IAS 23 (Amendment), "Borrowing costs" (effective from 1 January 2009)
- IFRS 8, "Operating segments" (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information".
- IAS 1 (Revised), "Presentation of financial statements" (effective from 1 January 2009).
- IFRS 2 (Amendment), "Share-based payment" (effective from 1 January 2009).
- IAS 32 (Amendment), "Financial instruments: Presentation", and IAS 1 (Amendment), "Presentation of financial statements" – "Puttable financial instruments and obligations arising on liquidation" (effective from 1 January 2009).
- IFRS 1 (Amendment) "First time adoption of IFRS", and IAS 27 "Consolidated and separate financial statements" (effective from 1 January 2009).
- IAS 27 (Revised) "Consolidated and separate financial statements" (effective from 1 July 2009).
- IFRS 3 (Revised), "Business combinations" (effective from 1 July 2009).
- IFRS 5 (Amendment), "Non-current assets held-for-sale and discontinued operations" (effective from 1 July 2009).
- IAS 28 (Amendment), "Investments in associates" (effective from 1 January 2009).
- IAS 36 (Amendment), "Impairment of assets" (effective from 1 January 2009).
- IAS 38 (Amendment), "Intangible assets" (effective from 1 January 2009).
- IAS 19 (Amendment), "Employee benefits" (effective from 1 January 2009).
- IAS 39 (Amendment), "Financial instruments: Recognition and measurement" (effective from 1 January 2009).
- IAS 16 (Amendment), "Property, plant and equipment" (effective from 1 January 2009).
- IAS 27 (Amendment), "Consolidated and separate financial statements" (effective from 1 January 2009).
- IAS 28 (Amendment), "Investment in associates" (effective from 1 January 2009).
- IAS 29 (Amendment), "Financial reporting in hyperinflationary economies" (effective from 1 January 2009).
- IAS 31 (Amendment), "Interest in joint ventures" (effective from 1 January 2009).
- IAS 40 (Amendment), "Investment property" (effective from 1 January 2009).
- IAS 41 (Amendment), "Agriculture" (effective from 1 January 2009).
- IAS 20 (Amendment), "Accounting for government grants and disclosure of government assistance" (effective from 1 January 2009).
- IFRIC 15, "Agreements for construction of real estates" (effective from 1 January 2009).

The Directors anticipate that the adoption of these standards and interpretations in future periods will not have a material impact on the financial statements of the company.

(o) Share based payments

Share options are valued in accordance with IFRS2. In accordance with IFRS2, the value of the options is based upon an estimate of the fair value of the services received. See note 11.

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.

3. FINANCIAL RISK MANAGEMENT (Continued)
(1) Financial risk factors (continued)

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 liability and equity instrument are disclosed in note 2 to the Financial Statements.

Capital Risk Management
The Group has sought to achieve an attractive risk adjusted return by investing in debt securities, consisting primarily of senior debt across multiple industries.

The Group intends to invest primarily in 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 2008 the Group had total equity of GBP53,849,883 (2007:GBP39,452,097).

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. Consistent with shareholder approval obtained in December 2006, the Group may apply leverage up to 500%, or five times, the net asset value of the Group. Leverage is the ability to incur indebtedness for the purpose of making investments. The Group has incurred indebtedness (approximately US$249.2 million) through its CLO subsidiary in the form of long-term notes.

(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 2008, 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 GBP1,905,306 (2007:GBP1,286,285), due to the increase in the fair value of financial assets at fair value through profit or loss by GBP6,332,211 (2007:GBP7,015,794) offset by the increase in the fair value of the financial liabilities at fair value through profit or loss by GBP4,426,905 (2007:GBP5,729,509). Conversely, if market prices had decreased by 5%, this would have decreased net assets attributable to holders of equity shares by approximately GBP1,905,306 (2007:GBP1,286,285), due to the decrease in the fair value of financial assets at fair value through profit or loss by GBP6,332,211 (2007:GBP7,015,794) offset by the decrease in the fair value of the financial liabilities at fair value through profit or loss by GBP4,426,905 (2007:5,729,509).

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. Interest rate risk is comprised of two elements: spread risk and rate risk.

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 2008	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	126,644,228	-	-	126,644,228
Note receivable	-	500,000	-	500,000
Trade and other receivables	-	-	1,417,933	1,417,933
Cash and cash equivalents	16,158,356	-	-	16,158,356
Total assets	142,802,584	500,000	1,417,933	144,720,517
Liabilities				
Loan notes	88,538,096	-	-	88,538,096
Trade and other payables	-	-	2,332,538	2,332,538
Total liabilities	88,538,096	-	2,332,538	90,870,634
Total interest sensitivity gap	54,264,488	500,000	(914,605)	53,849,883

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
Total liabilities	114,590,180	-	3,971,580	118,561,760
Total interest sensitivity gap	41,804,564	500,000	(2,852,467)	39,452,097

A 200 basis point increase or decrease is used when reporting interest spread risk internally and represents management's assessment of the possible change in interest spreads, and 50 basis points is used when reporting interest rate risk.

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Interest rate risk (continued)

At 31 December 2008, should the interest spread have lowered by 200 basis points with all other variables remaining constant, the decrease in net assets attributable to holders of equity for the year would amount to approximately GBP4,648,060 (2007: GBP2,466,100). If the interest spread had risen by 200 basis points, the increase in net assets attributable to holders of equity would amount to approximately GBP4,648,060 (2007: GBP2,466,100).

At 31 December 2008, should interest rates have lowered by 50 basis points with all other variables remaining constant, the increase in net assets attributable to holders of equity for the year would amount to approximately GBP302,970 (2007: reduction in net assets GBP206,996). If the interest rate had risen by 50 basis points, the decrease in net assets attributable to holders of equity would amount to approximately GBP302,970 (2007: increase in net assets GBP206,996).

(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.

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

31 December 2008

Assets	USD	EUR	GBP	Total
Financial assets at fair value through profit or loss account	126,644,228	-	-	126,644,228
Cash and cash equivalents	16,158,356	-	-	16,158,356
Trade and other receivables	1,329,598	-	588,335	1,917,933
Total assets	144,132,182	-	588,335	144,720,517
Liabilities				
Trade and other payables	90,781,834	-	88,800	90,870,634
Total currency sensitivity gap	53,350,348	-	499,535	53,849,883

31 December 2007

Assets	USD	EUR	GBP	Total
Financial assets at fair value through profit or loss account	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

At 31 December 2008, 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 GBP2,156,562 (2007: GBP36,454).

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.

3. FINANCIAL RISK MANAGEMENT (Continued)

(d) Credit risk (continued)

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	2008	2007
1	22%	2%
2	50%	77%
3	28%	21%
4	0%	0%
5	0%	0%
Total	100%	100%

Credit Ratings Level	Ratings Criteria Methodology (1) (General Parameters)
1	Company is performing ahead of expectations and / or outperforming financial covenant requirements 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) The above methodology outlines the general parameters adopted to determine ratings, and other facts and circumstances may be considered when determining an appropriate Credit Ratings Level.

(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 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 flows, assuming interest rates in effect at the year end. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

3. FINANCIAL RISK MANAGEMENT (Continued)
(e) Liquidity risk (continued)

	Current		Non-Current		
	within 6 months	6 to 12 months	1 to 5 years	later than 5 years	No stated maturity
At December 2008					
Loan notes	4,704,711	4,704,711	37,637,684	223,163,401	-
Trade and other payables	2,332,538	-	-	-	-
Total financial liabilities	7,037,249	4,704,711	37,637,684	223,163,401	-
At 31 December 2007					
Loan notes	3,856,328	3,856,328	30,850,626	176,193,334	-
Trade and other payables	3,971,580	-	-	-	-
Total financial liabilities	7,827,908	3,856,328	30,850,626	176,193,334	-

(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 2008 amounted to GBP2,969,672 (2007:GBP2,420,301). The total amount due and payable at the year end amounted to GBP nil (2007:GBP12,725).

Administration and secretarial fees
The Administrator and Secretary, Butterfield Fulcrum Group (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 2008 amounted to GBP40,000 (2007:GBP40,000). The total amount due and payable at the year end amounted to GBP10,000 (2007:GBP10,000).

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 2008 amounted to GBP15,010 (2007:GBP15,043). The total amount due and payable at the year end amounted to GBP7,520 (2007:GBP3,750).

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 2008 amounted to GBP64,929 (2007:GBP64,919). The total amount due and payable at the year end amounted to GBP16,250 (2007:GBP16,321).

Loan note expenses
Total loan note expenses for 2008 was GBPnil (2007:GBP3,054,047). 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 2007.

4. FUND EXPENSES (Continued)

Finance costs

Total finance costs for 2008 was GBP6,235,227 (2007:GBP5,207,811). These finance costs are for interest paid to Merrill Lynch for the Warehouse facility GBP nil (2007: GBP1,686,232) and interest due to the loan note holders GBP6,235,227 (2007: GBP3,521,579). The liability for the Warehouse facility was repaid on 19 July 2007 and replaced with long-term notes. Long-term notes outstanding at 31 December 2008 were GBP88,538,096 (2007: GBP114,590,180).

5. EARNINGS PER SHARE

Earnings per share has been calculated by dividing the profit attributable to ordinary share holders GBP16,418,339 Group, GBP19,022,786 Company (2007:GBP1,605,583 Group, GBP1,709,156 Company) by the weighted average number of ordinary shares outstanding during the year 43,000,000 (2007:40,589,041). Fully diluted profit per share has been calculated by dividing the profit attributable to ordinary share holders of GBP16,418,339 Group, GBP19,022,786 Company (2006: GBP1,605,583 Group, GBP1,709,156 Company), by the weighted average number of ordinary shares outstanding during the year adjusted for the effects of all dilutive potential ordinary shares 44,836,065 (2007:45,098,934).

Basic earnings per share

Date	No. of shares	No. of days	Weighted average no. of shares
01/01/08 & 31/12/08	43,000,000	366	43,000,000
01/01/07	38,000,000	176	18,323,288
25/06/07	43,000,000	189	22,265,753
		365	40,589,041

Diluted earnings per share

Date	Fully diluted no. of shares	No. of days	Weighted average no. of shares
01/01/08	47,777,777	111	14,489,982
21/04/08	43,555,555	255	30,346,083
		366	44,836,065
01/01/07	42,222,222	176	20,359,208
25/06/07	47,777,777	189	24,739,726
		365	45,098,934

	2008 No. of shares	2007 No. of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	43,000,000	40,589,041
Effect of dilutive potential ordinary shares:		
Share options	1,836,065	4,509,893
Weighted average number of ordinary shares for the purposes of diluted earnings per share	44,836,065	45,098,934

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	Group 2008 GBP	Group 2007 GBP	Company 2008 GBP	Company 2007 GBP
Listed debt securities	28,102,380	30,063,114	-	-
Unlisted debt securities	98,541,848	110,252,767	614,381	4,227,734
Investment in subsidiary	-	-	48,625,653	31,365,126
	126,644,228	140,315,881	49,240,034	35,592,860
Realised (loss)/gains recognised on financial assets and liabilities at fair value through profit or loss (1)				
Realised (loss)/gain on investments	(896,251)	(1,730,802)	832,634	(547,568)
Realised gain on warehouse facility	-	3,499,363	-	-
	(896,251)	1,768,561	832,634	(547,568)
Unrealised gains recognised on financial assets and liabilities at fair value through profit or loss (2)				
Unrealised (loss)/gain on financial assets	(9,286,677)	(6,820,160)	16,351,137	3,198,134
Unrealised gain on financial liabilities	26,052,088	6,942,190	-	-
	16,765,411	122,030	16,351,137	3,198,134

	Group 2008 GBP	Group 2007 GBP	Company 2008 GBP	Company 2007 GBP
Opening open of financial assets	148,937,826	55,780,153	4,064,098	27,387,224
Purchases	21,723,644	137,310,167	-	10,226,998
Sales	(7,244,591)	(40,750,789)	(3,528,951)	(18,877,404)
Realised (loss)/gain on sale of investments	(896,251)	(1,730,802)	832,634	(547,568)
Transfer to subsidiary	-	-	-	(14,125,152)
Capital repayments	(17,967,782)	(1,670,903)	(7,646)	-
Cost of investments at year end	144,552,846	148,937,826	1,360,135	4,064,098
Unrealised (loss)/gain at year end	(17,908,618)	(8,621,945)	(745,754)	163,636
Closing value at year end	126,644,228	140,315,881	614,381	4,227,734

(1) For the year ended 31 December 2008 the Group had a realised loss of GBP896,251 (2007: realised gain of GBP1,768,561) which comprised a realised loss on investments of GBP896,251 (2007:GBP1,730,802) and a realised gain on warehouse facility of GBPnil (2007: GBP3,499,363).

(2) For the year ended 31 December 2008 the Group had an unrealised gain on financial assets and liabilities at fair value through the profit and gain of GBP16,765,411 (2007: GBP122,030). This is comprised of an unrealised loss on financial assets of GBP9,286,676 (2007: GBP6,820,160) and an unrealised gain on liabilities of GBP26,052,087 (2007:GBP6,942,190).

7. INVESTMENT IN SUBSIDIARY

	Company 2008 GBP	Company 2007 GBP
Opening value of Investment in subsidiary	29,928,228	6,934,680
Additions at cost	-	22,993,548
Cost of Investment in subsidiary at year end	29,928,228	29,928,228
Unrealised gain on net assets transferred to subsidiary	18,697,425	1,436,898
Closing fair value of Investment in subsidiary	48,625,653	31,365,126

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 2008 GBP	Group 2007 GBP	Company 2008 GBP	Company 2007 GBP
Accrued bank interest	118	32,312	-	-
Loan interest receivable	1,384,117	1,060,213	85,930	169,909
Prepaid expenses	33,698	26,588	33,698	26,589
	1,417,933	1,119,113	119,628	196,498
Current assets				
Note receivable	500,000	-	500,000	-
Non current assets				
Note receivable	-	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 2008 GBP	Group 2007 GBP	Company 2008 GBP	Company 2007 GBP
Call account	16,158,356	16,078,863	4,165,697	3,380,265

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

10. TRADE AND OTHER PAYABLES

	Group 2008	Group 2007	Company 2008	Company 2007
Current liabilities	GBP	GBP	GBP	GBP
Due to Subsidiary	-	-	76,778	56,440
Management fees	-	12,725	-	12,725
Administrator's fees	10,000	10,000	10,000	10,000
Custodian's fees	7,520	3,750	7,520	3,750
Audit fees	40,000	35,204	40,000	35,204
Directors' fees	16,250	16,321	16,250	16,321
Finance cost (1)	2,038,708	3,556,392	-	-
Unrealised loss on forward exchange contracts	-	5,266	-	5,266
Other accruals	220,060	331,922	24,928	77,820
	2,332,538	3,971,580	175,476	217,526

	Group 2008	Group 2007	Company 2008	Company 2007
Non current liabilities				
Loan notes	88,538,096	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 2007 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, was 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:

11. SHARE CAPITAL (Continued)
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 vested and became 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.

Effective 21 April 2008, the options to acquire 4,222,222 ordinary shares were cancelled in consideration of a one-off cash payment by the Company to the Investment Advisor of £1.4 million. The amount of the payment was determined by the Board with reference to the present value of the options, with the application of a further discount, and after consultation with the Company's nominated advisor.

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 2008 the Company charged £nil (2006: £85,833) 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

	31 December 2008	31 December 2007
Ordinary shares - nil par value	Shares in issue	Shares in issue
Balance at start year	43,000,000	38,000,000
Issued during the year	-	5,000,000
Balance at end year	43,000,000	43,000,000

	31 December 2008	31 December 2007
Share Premium	GBP	GBP
Balance at start year	5,619,040	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	5,619,040

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 GBP53,849,883 (2007:GBP39,452,097) by the Ordinary Shares in issue at the end of the year being 43,000,000 (2007:43,000,000).

13. CASH GENERATED FROM OPERATIONS

	Group 2008 GBP	Group 2007 GBP	Company 2008 GBP	Company 2007 GBP
Profit for the year	16,418,339	1,605,583	19,022,786	1,709,156
Adjustments for:				
Realised (gain)/loss arising on adjustment to financial assets and liabilities	896,251	(1,768,561)	(832,634)	547,568
Unrealised (gain)/loss arising on adjustment to financial assets and liabilities	(16,765,411)	(122,030)	(16,351,137)	(3,198,134)
Amortisation of fair value of options	-	85,833	-	85,833
Changes in working capital:				
Trade and other receivables	(298,820)	(508,167)	76,870	282,042
Trade and other payables	(1,639,042)	2,819,278	(42,050)	(847,573)
Cash inflow/(outflow) from operations	(1,388,683)	2,111,936	1,873,835	(1,421,108)

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 Fulcrum Group (Guernsey) Limited.

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

	Group 2008 GBP	Group 2007 GBP	Company 2008 GBP	Company 2007 GBP
Amounts incurred during the year to related parties				
Fees due to P Conroy as Chief Financial Officer to the Company	75,137	99,495	75,137	99,495
Fees due to the Investment Manager, T2 Advisers, LLC	2,969,672	2,420,301	2,969,672	2,420,301
Reimbursement due to BDC Partners, LLC	185,720	193,974	185,720	193,974

	Group 2008 GBP	Group 2007 GBP	Company 2008 GBP	Company 2007 GBP
Amounts due to related parties at the year end				
Fees due to P Conroy as Chief Financial Officer to the Company	6,250	54,165	6,250	54,165
Due to subsidiary in relation to Wall Street Office system	-	-	56,440	56,440
Fees due to the Investment Manager, T2 Advisers, LLC	-	12,725	-	-
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

15. RELATED PARTY TRANSACTIONS (continued)

Directors shareholdings in Company

Saul Rosenthal has a beneficial interest in 263,889 ordinary shares (2007: 1,319,445) in the Company as at 31 December 2008. Through his ownership interest in T2 Advisers, LLC, the Investment Manager, Mr Rosenthal has an interest of 138,889 shares (2007: 1,194,445) related to the share option plan (re note 11), and 125,000 shares (2007: 125,000) relate to a purchase of shares during 2007 for his own account. As at 31 December 2008, this was equal to a beneficial interest of 0.6% based on the Share Capital as at that date when diluted by the number of Ordinary Shares subject to the option.

On 18 February 2009, Saul Rosenthal acquired 700,000 ordinary shares through Privet Acquisition LLC, a company in which Mr Rosenthal owns a 50% interest. Following this acquisition, Mr Rosenthal has a pro-rata beneficial interest in 475,000 ordinary shares, representing 1.1% of the Company's issued share capital.

16. POST BALANCE SHEET EVENTS

On 18 February 2009, New Star Management Limited increased their interest in the Company to 9,100,000 ordinary shares. This represents 21.16% of the total voting rights of the Company.

On 25 February 2009, the Group sold their entire position in Harrah's B-1 (par value US$5,000,000). This realised a loss on sale of GBP320,773.

In April 2009, the Group made a purchase in Community Health (par value US$4,000,000) at 90.00 and Aramark (par value US$4,000,000) at 90.75.

In May 2009, the Group made a purchase in Huish Detergents Inc. (par value US$4,000,000) at 91.25.

On 1 June 2009, the Board of Directors approved the appointment of Geoffrey Miller as a non-executive director of the Board, and the retirement from the Board of William Tozier, Saul Rosenthal and Patrick Conroy effective on the later to occur of the publication of the Group's financial statements and the confirmation of the Guernsey Financial Services Commission.

T2 Income Fund Limited

Portfolio Statement of the Group
For the year ended 31 December 2008

	Fair Value GBP	% of net assets
Atlantic Inertial	2,104,092	3.91%
4437667 Canada Inc. (Mold Master)	2,439,108	4.53%
Attachmate	2,956,620	5.49%
Broadlane	1,642,539	3.05%
Cavalier Telephone	2,059,449	3.82%
Conner Steel	2,330,173	4.33%
Corel	4,813,727	8.94%
CPM Holdings	2,018,019	3.75%
DTN	2,308,464	4.29%
Emdeon Business Services LLC	3,003,353	5.58%
Express Energy	1,822,899	3.39%
First Data Corp B1 Term Loan	3,847,510	7.14%
Ford	2,431,382	4.52%
Georgia Pacific LLC	2,459,163	4.57%
Getty Images	3,346,875	6.22%
Harrahs B-1	1,967,704	3.65%
HCA TL-A	2,769,070	5.14%
Houghton	2,642,160	4.91%
Hudson Products Holdings Inc.	2,634,906	4.89%
Inverness Medical	2,297,770	4.27%
InfoNXX	3,953,619	7.34%
Infor Global	1,961,707	3.64%
Investools	4,373,516	8.12%
Koosharem Corp 1st Lien Credit	614,381	1.14%
Koosharem (Select Remedy) 2nd	926,244	1.72%
Krispy Kreme	2,695,295	5.01%
Lyondell B-2	1,519,997	2.82%
Macrovision	2,430,326	4.51%
Merrill Corp	260,720	0.48%
MR Default	1,679,131	3.12%
NameMedia, Inc.	2,737,564	5.08%
NPC 1st lien	1,331,398	2.47%
NPC 2nd lien	1,097,770	2.04%
Navisite	1,489,879	2.77%
Nuvox	3,406,106	6.33%
Oshkosh Trucks	2,109,590	3.92%
PAETEC Holding Corp.	2,213,967	4.11%
Peacock Engineering	2,007,131	3.73%
Pegasus	5,730,817	10.64%
Prodigy Health 1st lien	2,622,308	4.87%
Prodigy Health 2nd lien	686,106	1.27%
Proquest	4,709,434	8.75%
QA Direct Holdings, LLC	1,951,225	3.62%
Realogy	5,078,748	9.43%
Sirsi Dynix	1,089,262	2.02%
SkillSoft	1,904,720	3.54%
Stratus Technologies	3,108,912	5.77%
Sunquest Holdings(Misys)	2,010,566	3.73%
Topps Co. Inc.	1,852,487	3.44%
TravelCLICK Acquisition Co	2,309,434	4.29%
TVC	2, 004,733	3.72%
VS Holdings (CBA Group)	109,126	0.20%
Workflow	1,430,819	2.66%
X-rite 1st Lien	1,342,207	2.49%
Total financial assets at fair value through profit or loss	126,644,228	235.18%
Cash balances	16,158,356	30.01%
Other net liabilities	(88,952,701)	-165.19%
Net Assets	53,849,883	100.00%