

**FMG COMBO FUND LTD.**

**Financial Statements**  
(With Auditors' Report Thereon)

March 31, 2011 and 2010

**KPMG**

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**Independent Auditors' Report**

To the Directors and Shareholders of  
FMG Combo Fund Ltd.

We have audited the accompanying financial statements of FMG Combo Fund Ltd. (the "Fund"), which comprise the statement of assets and liabilities, including the schedule of investments, as at March 31, 2011, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Bermuda and Canada, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2011 and its financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

Chartered Accountants  
Hamilton Bermuda  
December 6, 2011

**FMG COMBO FUND LTD.**

## Statement of Assets and Liabilities

March 31, 2011

*(Expressed in United States Dollars)*

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Investments in other investment companies (cost - \$9,812,743; 2010 - \$19,795,460) (See Schedule of Investments) (Notes 5, 7 and 10)	\$ 9,880,736	\$ 12,695,387
Cash and cash equivalents (Note 5)	608,323	1,725,749
Unrealized gain on forward foreign exchange contract (Notes 5, 7 and 10)	34,065	97,456
Rebate income receivable (Note 3)	161,447	46,304
Receivable for investments sold	2,500	—
Other assets	7,241	7,829
Total assets	<u>10,694,312</u>	<u>14,572,725</u>
<b>Liabilities</b>		
Unrealized loss on forward foreign exchange contract (Notes 5, 7 and 10)	157	34,747
Redemptions payable (Note 6)	46,515	2,145,437
Management and incentive fees payable (Note 3)	42,389	59,330
Administration fees payable (Note 4)	—	16,740
Audit fees payable	23,000	25,210
Accounts payable and accrued expenses (Note 3)	—	5,727
Total liabilities	<u>112,061</u>	<u>2,287,191</u>
<b>Net assets</b>	<u>10,582,251</u>	<u>12,285,534</u>
Less: attributable to 100 common shares (Note 6)	<u>(100)</u>	<u>(100)</u>
<b>Net assets attributable to redeemable preference shares</b> (Note 6)	<u>\$ 10,582,151</u>	<u>\$ 12,285,434</u>
Net assets attributable to 5,006 (2010 - 8,731) US Dollar Class A redeemable preference shares	<u>\$ 380,776</u>	<u>\$ 648,237</u>
<b>Net asset value per US Dollar Class A redeemable preference share</b>	<u>\$ 76.08</u>	<u>\$ 74.24</u>
Net assets attributable to nil (2010 - 384) US Dollar Class A09 redeemable preference shares	<u>\$ —</u>	<u>\$ 37,682</u>
<b>Net asset value per US Dollar Class A09 redeemable preference share</b>	<u>\$ —</u>	<u>\$ 98.13</u>
Net assets attributable to 847,759 (2010 - 991,877) US Dollar Class B redeemable preference shares	<u>\$ 6,957,400</u>	<u>\$ 7,902,173</u>
<b>Net asset value per US Dollar Class B redeemable preference share</b>	<u>\$ 8.20</u>	<u>\$ 7.97</u>

*See accompanying notes to financial statements*

**FMG COMBO FUND LTD.**

## Statement of Assets and Liabilities (continued)

March 31, 2011

(Expressed in United States Dollars)

	<u>2011</u>	<u>2010</u>
Net assets attributable to 15,844 (2010 - 16,173) US Dollar		
Class B09 redeemable preference shares	\$ 166,631	\$ 166,736
<b>Net asset value per US Dollar Class B09 redeemable preference share</b>	<u>\$ 10.51</u>	<u>\$ 10.31</u>
Net assets of \$386,778 (2010 - \$451,021) attributable to 3,968		
(2010 - 4,814) Euro Class A redeemable preference shares	€ 272,878	€ 333,861
<b>Net asset value per Euro Class A redeemable preference share</b>	<u>€ 68.77</u>	<u>€ 69.35</u>
Net assets of \$1,362,961 (2010 - \$1,412,812) attributable to 129,694		
(2010 - 140,586) Euro Class B redeemable preference shares	€ 961,592	€ 1,045,810
<b>Net asset value per Euro Class B redeemable preference share</b>	<u>€ 7.41</u>	<u>€ 7.44</u>
Net assets of \$19,539 (2010 - \$nil) attributable to 1,377		
(2010 - nil) Euro Class B09 redeemable preference shares	€ 13,785	€ –
<b>Net asset value per Euro Class B09 redeemable preference share</b>	<u>€ 10.01</u>	<u>€ –</u>
Net assets of \$nil (2010 - \$44,802) attributable to nil (2010 - 522)		
GBP Class A redeemable preference shares	£ –	£ 29,483
<b>Net asset value per GBP Class A redeemable preference share</b>	<u>£ –</u>	<u>£ 56.48</u>
Net assets of \$1,308,066 (2010 - \$1,608,153) attributable to 11,262		
(2010 - 15,154) NOK Class A redeemable preference shares	NOK 7,234,913	NOK 9,555,228
<b>Net asset value per NOK Class A redeemable preference share</b>	<u>NOK 642.39</u>	<u>NOK 630.53</u>
Net assets of \$nil (2010 - \$13,818) attributable to nil		
(2010 - 78) NOK Class A09 redeemable preference shares	NOK –	NOK 80,797
<b>Net asset value per NOK Class A09 redeemable preference share</b>	<u>NOK –</u>	<u>NOK 1,035.86</u>

See accompanying notes to financial statements

Signed on behalf of the Board


 \_\_\_\_\_ Director


 \_\_\_\_\_ Director



**FMG COMBO FUND LTD.**

## Schedule of Investments

March 31, 2011

*(Expressed in United States Dollars)*

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	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>	<u>Redemption Frequency</u>
<b><u>Other Investment Companies</u></b>				
FMG Funds SICAV plc - FMG (EU) Combo Fund B 09 USD	\$ 9,812,743	\$ 9,880,736	93.37%	Weekly
<b>Total investments in other investment companies</b>	<u>\$ 9,812,743</u>	<u>\$ 9,880,736</u>	<u>93.37%</u>	

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*See accompanying notes to financial statements*

**FMG COMBO FUND LTD.**

## Schedule of Investments (continued)

March 31, 2010

*(Expressed in United States Dollars)*

	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>	<u>Redemption Frequency</u>
<b><u>Other Investment Companies</u></b>				
FMG Funds SICAV plc – FMG (EU) Africa Fund, Class B EUR	\$ 3,291,049	\$ 1,674,670	13.63%	Monthly
FMG Funds SICAV plc – FMG (EU) Bio-Med Hedge Fund, Class B09 EUR	1,396,900	1,015,877	8.27%	Monthly
FMG Global Hedge Fund Ltd., USD Class B	2,116,834	1,613,068	13.13%	Monthly
FMG Funds SICAV plc – FMG (EU) Global Hedge Fund, Class B09 EUR	1,396,900	1,272,548	10.36%	Monthly
FMG Funds SICAV plc – FMG (EU) Middle East North Africa Fund, Class B	3,091,303	1,422,705	11.58%	Monthly
FMG Funds SICAV plc – FMG (EU) Rising 3 Fund, Class B EUR	4,198,835	2,089,203	17.00%	Monthly
FMG Funds SICAV plc – FMG (EU) Rising 3 Fund, Class B09 EUR	1,700,000	1,557,288	12.68%	Monthly
FMG Special Opportunity Fund Ltd., USD Class B	549,011	238,038	1.94%	Monthly
FMG Real Estate Fund Accumulator, USD Class B09	2,054,628	1,811,990	14.75%	Monthly
<b>Total investments in other investment companies</b>	<b>\$ 19,795,460</b>	<b>\$ 12,695,387</b>	<b>103.34%</b>	

*See accompanying notes to financial statements*

**FMG COMBO FUND LTD.**

## Statement of Operations

Year Ended March 31, 2011  
(Expressed in United States Dollars)

	<u>2011</u>	<u>2010</u>
<b>Investment income</b>		
Rebate income (Note 3)	\$ 196,282	\$ 221,402
Total income	<u>196,282</u>	<u>221,402</u>
<b>Expenses</b>		
Management fees (Note 3)	175,033	269,666
Incentive fees (Note 3)	775	6,175
Administration fees (Note 4)	47,781	61,790
Bank charges	8,823	3,294
Audit fees	21,129	26,812
Directors' and secretarial fees	13,500	13,500
Bermuda company fees	3,425	3,370
Custodian fees (Note 5)	11,928	7,708
Miscellaneous	<u>12,126</u>	<u>13,443</u>
Total expenses	<u>294,520</u>	<u>405,758</u>
<b>Net investment loss</b>	<u>(98,238)</u>	<u>(184,356)</u>
<b>Realized and unrealized gains and losses on investments</b>		
Net realized losses on sale of investments	(7,191,856)	(4,568,798)
Net realized gains on forward foreign exchange contracts and foreign exchange	557,151	134,206
Net change in unrealized gains and losses on investments	7,168,066	5,697,624
Net change in unrealized gains and losses on forward foreign exchange contracts	<u>(28,801)</u>	<u>105,650</u>
Net realized and unrealized gains on investments	<u>504,560</u>	<u>1,368,682</u>
<b>Net increase in net assets resulting from operations</b>	<u>\$ 406,322</u>	<u>\$ 1,184,326</u>

See accompanying notes to financial statements

**FMG COMBO FUND LTD.**

## Statement of Changes in Net Assets

Year Ended March 31, 2011

*(Expressed in United States Dollars)*

	<u>2011</u>	<u>2010</u>
<b>From operations</b>		
Net investment loss	\$ (98,238)	\$ (184,356)
Net realized losses on sale of investments	(7,191,856)	(4,568,798)
Net realized gains on forward foreign exchange contracts and foreign exchange	557,151	134,206
Net change in unrealized gains and losses on investments	7,168,066	5,697,624
Net change in unrealized gains and losses on forward foreign exchange contracts	(28,801)	105,650
Net increase in net assets from operations	406,322	1,184,326
<b>From capital share transactions</b>		
Proceeds from sale of nil (2010 - 384) US Dollar Class A09 redeemable preference shares	–	38,400
Proceeds from sale of nil (2010 - 738) US Dollar Class B redeemable preference shares	–	5,912
Proceeds from sale of 3,930 (2010 - 34,988) US Dollar Class B09 redeemable preference shares	40,643	360,196
Proceeds from sale of 1,377 (2010 - 130,981) Euro Class B09 redeemable preference shares	19,738	1,909,465
Proceeds from sale of nil (2010 - 37) NOK Class A redeemable preference shares	–	3,296
Proceeds from sale of 7 (2010 - 86) NOK Class A09 redeemable preference shares	1,222	14,526
Payment on redemption of 3,725 (2010 - 5,501) US Dollar Class A redeemable preference shares	(276,716)	(410,773)
Payment on redemption of 384 (2010 - nil) US Dollar Class A09 redeemable preference shares	(37,487)	–
Payment on redemption of 144,118 (2010 - 200,271) US Dollar Class B redeemable preference shares	(1,170,752)	(1,624,203)
Payment on redemption of 4,259 (2010 - 18,815) US Dollar Class B09 redeemable preference shares	(44,329)	(189,694)
Payment on redemption of 846 (2010 - 5,320) Euro Class A redeemable preference shares	(69,802)	(533,410)
Payment on redemption of 10,892 (2010 - 182,921) Euro Class B redeemable preference shares	(105,439)	(1,910,860)
Payment on redemption of nil (2010 - 130,981) Euro Class B09 redeemable preference shares	–	(1,938,812)
Payment on redemption of 522 (2010 - 2,184) GBP Class A redeemable preference shares	(46,920)	(202,582)
Payment on redemption of nil (2010 - 14,376) GBP Class B redeemable preference shares	–	(123,346)
Payment on redemption of 3,892 (2010 - 5,199) NOK Class A redeemable preference shares	(404,588)	(554,371)

**FMG COMBO FUND LTD.**

## Statement of Changes in Net Assets (continued)

Year Ended March 31, 2011

*(Expressed in United States Dollars)*

	<u>2011</u>	<u>2010</u>
<b>From capital share transactions</b> (continued)		
Payment on redemption of 85 (2010 - 8) NOK Class A09 redeemable preference shares	\$ (15,175)	\$ (1,546)
Payment on redemption of nil (2010 - 198) NOK Class B redeemable preference shares	—	(23,536)
Net decrease in net assets from capital share transactions	<u>(2,109,605)</u>	<u>(5,181,338)</u>
<b>Net decrease in net assets attributable to redeemable preference shares</b>	(1,703,283)	(3,997,012)
<b>Net assets attributable to redeemable preference shares at beginning of year</b>	<u>12,285,434</u>	<u>16,282,446</u>
<b>Net assets attributable to redeemable preference shares at end of year</b>	<u>\$ 10,582,151</u>	<u>\$ 12,285,434</u>

*See accompanying notes to financial statements*

**FMG COMBO FUND LTD.**

## Statement of Cash Flows

Year Ended March 31, 2011

*(Expressed in United States Dollars)*

	<u>2011</u>	<u>2010</u>
<b>Cash flows from operating activities</b>		
Net increase in net assets from operations	\$ 406,322	\$ 1,184,326
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Change in assets and liabilities:		
Net change in investments and derivative financial instruments	1,132,722	3,564,888
Rebate income receivable	(115,143)	21,825
Receivable for investments sold	(2,500)	—
Other assets	588	4,297
Management and incentive fees payable	(16,941)	(12,555)
Administration fees payable	(16,740)	3,330
Audit fees payable	(2,210)	4,210
Accounts payable and accrued expenses	<u>(5,727)</u>	<u>(9,882)</u>
Net cash provided by operating activities	<u>1,380,371</u>	<u>4,760,439</u>
<b>Cash flows from financing activities</b>		
Proceeds from issue of redeemable preference shares	61,603	2,331,795
Payments on redemptions of redeemable preference shares	<u>(2,559,400)</u>	<u>(6,169,855)</u>
Net cash used in financing activities	<u>(2,497,797)</u>	<u>(3,838,060)</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	(1,117,426)	922,379
<b>Cash and cash equivalents at beginning of year</b>	<u>1,725,749</u>	<u>803,370</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 608,323</u>	<u>\$ 1,725,749</u>
<b>Supplementary cash flow information</b>		
Interest paid	<u>\$ 5,196</u>	<u>\$ 635</u>

**Non-cash operating and financing activities**

During the year ended March 31, 2011, investments with a fair market value of \$1,710,730 were transferred in-kind to settle redemption payments (see Note 6).

*See accompanying notes to financial statements*

## FMG COMBO FUND LTD.

### Notes to Financial Statements

March 31, 2011

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#### 1. Operations

FMG Combo Fund Ltd. (the "Fund") commenced operations in Bermuda on October 1, 2005 as an open-ended investment fund, empowered by its bye-laws to issue, redeem and reissue its own redeemable preference shares at prices based on their net asset value.

The Fund invests in other funds which are managed by FMG Fund Managers Limited (the "Manager") to provide investors access to a wide variety of underlying fund managers covering a broad range of hedge fund strategies, industry sectors and geographic regions. Effective April 1, 2010 the Fund achieves this investment strategy by investing in FMG (EU) Combo Fund Ltd., a sub-fund of FMG Funds SICAV plc, which is a regulated Malta entity managed by FMG Malta Ltd., an entity related to the Manager.

#### 2. Significant accounting policies

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in Bermuda and Canada ("Canadian GAAP"). The following are the significant accounting policies adopted by the Fund:

##### (a) Investment transactions and valuation

Investments are categorized as held for trading in accordance with CICA Section 3855, *Financial Instruments – Recognition and Measurement* ("Section 3855") and therefore are recorded at fair value. Investments in other investment companies are recorded on the effective date of the subscription and are valued at their net asset value as reported by the administrators of the other investment companies. Where net asset values are not reported on a timely basis, the Manager (Note 3) may estimate the net asset value based on information provided by the other investment companies. The other investment companies in which the Fund invests generally value securities traded on a national securities exchange or reported on a national market and securities traded in the over-the-counter market at the last reported bid price if held long and the last reported ask price if sold short on the valuation day. Realized gains or losses on sale of investments are determined on an average cost basis. Realized gains and losses and the net change in unrealized gains and losses are included in the statement of operations.

##### (b) Forward foreign exchange contracts

The Fund purchases forward foreign exchange contracts in amounts approximating the net assets attributable to the Euro, GBP and NOK classes of redeemable preference shares to manage its exposure against changes in the US Dollar/Euro, US Dollar/GBP and US Dollar/NOK exchange rates. Forward foreign exchange contracts are recorded at fair value at the reporting date. The unrealized gain or loss on open forward foreign exchange contracts on each valuation date is the difference between the contract exchange rate and the forward exchange rate at the valuation date, as reported by published sources, applied to the face amount of the contract. The unrealized gain or loss at the reporting date is included in the statement of assets and liabilities. Realized and unrealized changes in the fair value of the contracts are included in the statement of operations in the period in which the change occurs and are attributed entirely to the classes of redeemable preference shares to which the individual contracts relate (Notes 2(c) and 10(e)).

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## FMG COMBO FUND LTD.

### Notes to Financial Statements

March 31, 2011

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#### 2. Significant accounting policies (continued)

##### *(c) Allocation of profits and losses*

The profit or loss of the Fund for each month, excluding realized and unrealized gains and losses on forward foreign exchange contracts used for hedging (Notes 2(b) and 10(e)) and before management and incentive fees, is allocated at the end of each month between the US Dollar, Euro, GBP and NOK classes of redeemable preference shares (Note 6). The amount is allocated in proportion to the relative net assets of each class of redeemable preference shares on the first day of the month after adding subscriptions and deducting redemptions effective that day. All of the realized and unrealized gains and losses on forward foreign exchange contracts used for hedging are allocated to the related class of redeemable preference shares. Management and incentive fees are calculated separately for each class of redeemable preference shares (Note 3).

##### *(d) Foreign currency transactions*

Foreign currency investments and balances that are monetary items, predominantly cash, are translated into US dollars at the rate of exchange prevailing on the valuation date. Foreign currency transactions are translated at the rate in effect at the date of the transaction. Any realized or unrealized exchange adjustments are included in the related caption in the statement of operations.

##### *(e) Investment income and expenses*

Investment income and expenses are recognized on the accrual basis of accounting.

##### *(f) Rebate income*

The Fund receives partial rebates with respect to the management and incentive fees charged on those investments in other investment companies that are also managed by the Manager (Note 3) or entities related to the Manager. If the amount and timing of such receipts can be estimated, they are accrued, otherwise rebate income is recorded on a cash basis.

##### *(g) Cash and cash equivalents*

Cash and cash equivalents include deposits and money market funds which have an original maturity date of ninety days or less.

##### *(h) Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

##### *(i) Future accounting standards*

The Accounting Standards Board ("ASB") previously confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. In June 2010, the ASB issued an exposure draft "Adoption of IFRSs by Investment Companies", proposing that investment companies currently applying Accounting Guideline 18 ("AcG 18") "Investment Companies" issued by the Canadian Institute of Chartered Accountants ("CICA"), defer the adoption of IFRS by one year to fiscal years beginning on or after January 1, 2012. In September 2010, the ASB approved the optional one year deferral from IFRS adoption for investment companies applying AcG 18. Management opted to defer the adoption of IFRS and is evaluating the impact of the adoption of IFRS.

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## FMG COMBO FUND LTD.

### Notes to Financial Statements

March 31, 2011

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#### 3. Management, incentive and load fees

##### *(a) Management fees*

The Fund pays the Manager a management fee at the rate of 2.0% per annum of the net assets attributable to the Class A Shares of the Fund and 1.5% per annum of the net assets attributable to the Class B Shares of the Fund, calculated on a monthly basis and payable quarterly. For the year ended March 31, 2011, the management fee was \$175,033 (2010 - \$269,666), of which \$42,389 (2010 - \$59,330) was payable at March 31, 2011.

##### *(b) Incentive fees*

The Class A Shares also incur a quarterly incentive fee equal to 20% of the Net Profits of the Fund, if any, during each calendar quarter (each a "Performance Period") accrued with respect to each Class A Share of the Fund. The Net Profits are computed in a manner consistent with the principles applicable to the computation of the net assets of the Fund. If a Class A Share has a loss chargeable to it during any Performance Period and during a subsequent Performance Period there is a profit allocable to such share there will be no incentive fee payable with respect to such share until the amount of the net loss previously allocated to the share has been recouped. Incentive fees are only paid when the net asset value of the shares increase above a previously established "high water mark" net asset value for those shares. In the event of either a redemption being made at a date other than the end of a Performance Period or the Management Agreement being terminated at any time prior to the last day of a Performance Period, the incentive fee will be computed as though the termination date or Redemption Date, was the last day of such Performance Period. Once earned, the incentive fee will be retained by the Manager regardless of the Fund's future results.

The Class B Shares also pay to the Manager an incentive fee of 10% of the net profits attributable to the Class B Shares, calculated monthly and payable quarterly. Net profits are defined as the amount by which cumulative profits attributable to the Class B Shares before the incentive fee but after deduction of all transaction costs, management fees and expenses exceeds a hurdle rate equal to the amount that would have been earned in that fiscal period had the assets of the Fund been invested at the USD 12-month LIBOR rate at the beginning of the fiscal period. Net profits include both realized and unrealized gains less losses on investments. If the net profit for a month is negative, it will be carried forward ("carry forward losses"). No incentive fee will be payable until the net profits in subsequent month(s) exceed carry forward losses and the hurdle as discussed above, together with any cumulative actual losses incurred in the previous years, adjusted for redemptions. However, the net profit amount, upon which incentive fees are calculated, is not offset by actual losses incurred in previous fiscal years at the time the performance fee becomes payable. Once earned, the incentive fee is retained by the Manager regardless of the Fund's future results.

For the year ended March 31, 2011, the incentive fee was \$775 (2010 - \$6,175), of which \$nil (2010 - \$nil) was payable at March 31, 2011.

The Fund is charged management and incentive fees by the Manager as described above on its net assets and its performance. However, some of the other investment companies in which the Fund invests are also managed by the Manager or entities related to the Manager. To ensure that the Fund is not double charged for such management and incentive fees, the Manager or entities related to the Manager rebate to the Fund its proportionate share of such fees. In addition, the Fund enters into agreements with certain investment companies not managed by the Manager to rebate a portion of the management and incentive fees charged to the Fund. The total of the management and incentive fees rebated to the Fund during the year amounted to \$196,282 (2010 - \$221,402) of which \$161,447 (2010 - \$46,304) is receivable at March 31, 2011.

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## FMG COMBO FUND LTD.

### Notes to Financial Statements

March 31, 2011

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#### 3. Management, incentive and load fees (continued)

##### *(c) Load fees*

The Manager may charge load fees of up to 5% of the amount subscribed. When charged, these load fees will reduce the amount available to shareholders for the purchase of redeemable preference shares in the Fund. For the year ended March 31, 2011, load fees were \$nil (2010 - \$nil), of which, \$nil (2010 - \$1,902) were included within accounts payable and accrued expenses.

One of the directors of the Fund is also a director of the Manager.

#### 4. Administration fees

Apex Fund Services Limited (the "Administrator") acts as the administrator, registrar and transfer agent for the Fund. For administration services provided, the Fund pays fees at the higher of \$3,000 per month for net assets up to \$10 million and \$4,000 per month for net assets exceeding \$10 million, or 15 basis points of the Fund's average net assets per annum.

Effective April 1, 2010, the minimum fee was reduced to \$2,500 per month for net assets up to \$10 million and \$3,500 per month for net assets exceeding \$10 million or 15 basis points of the net assets per annum. For the year ended March 31, 2011, administration fees were \$47,781 (2010 - \$61,790), of which \$nil (2010 - \$16,740) was payable at March 31, 2011.

One of the directors of the Fund is also the Managing Director of the Administrator.

#### 5. Custodian fees

Effective August 14, 2009, Credit Suisse AG (the "Custodian") acts as custodian to the Fund. Fees for custody services are charged a fee of 7 basis points per annum of the value of the net assets of the Fund under custody subject to an annual minimum of CHF 5,500. In addition, the Custodian is entitled to receive reimbursement for all the respective disbursements and out-of-pocket expenses incurred by the Custodian.

Effective August 25, 2009, the Custodian has a right of lien against all currency accounts and investments in other investment companies held by the Custodian on the Fund's behalf. The purpose of the right of lien is to secure any and all claims of the Custodian against the Fund arising from any agreements or contracts as well as claims on other legal grounds resulting from business operations with the Fund.

Effective January 3, 2011, fees for custody services are charged at 0.075% per annum of the value of the net assets of the Fund under custody up to \$500 million and 0.065% per annum of the value of the net assets of the Fund under custody in excess of \$500 million.

#### 6. Share capital

The authorized share capital of the Fund is \$11,000, which is divided into 100 common shares of par value \$1 each and 10,900,000 redeemable preference shares (the "Shares"), issued in US Dollars, Euro, GBP and Norwegian Kroner ("NOK") with a par value of \$0.001 each. Redeemable preference shares are issued as Class A and Class A09 shares (collectively the "Class A Shares") and Class B and Class B09 shares (collectively the "Class B Shares"). Effective February 2, 2009, Class A09 and Class B09 shares were offered for sale. Effective March 2, 2009, the existing Class A and Class B shares were closed to new subscriptions, except in situations where approved by the Board of Directors and the Manager.

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## **FMG COMBO FUND LTD.**

### Notes to Financial Statements

March 31, 2011

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#### **6. Share capital (continued)**

The holder of the common shares is not entitled to receive dividends, may not redeem their holding and is only entitled to be repaid the par value of the common shares upon a winding-up or distribution of capital. The common shares are entitled to one vote per share at a general meeting. All the common shares are owned by the Manager (Note 3). The redeemable preference shares carry no preferential or pre-emptive rights upon the issue of new shares and have no voting rights at general meetings of the Fund.

Shares may be purchased and redeemed on a Dealing Day, which is generally the first business day of each calendar month. Shares may be purchased at the net asset value per share calculated at the immediately preceding Valuation Day, generally the last business day of the preceding month. Class A Shares and Class B Shares may be redeemed with 10 and 20 business days' written notice, respectively, at their net asset value per share up to March 31, 2010. Effective from April 1, 2010, shareholders must provide redemption notice by at least the 20<sup>th</sup> day of the month prior to the Dealing Day, subject to certain restrictions as described in the Prospectus.

If on any Valuation Day, any shareholder wishes to redeem Shares totaling more than 5% of the issued capital of the Fund or several shareholders which to redeem Shares totaling more than 15% of the issued capital of the Fund, the directors may defer redemption of such Shares, and the calculation of the redemption price, to a subsequent Dealing Day being not later than the fifth Dealing Day following receipt of the application for redemption. In such cases, suspended redemption requests shall be carried out on the basis of the next Net Asset Value.

At March 31, 2010, redemptions payable include \$1,710,730 payable to FMG (EU) Combo Fund Ltd. These redemptions were settled by an in-kind transfer of certain of the Fund's instruments in other investment companies, which were valued at fair value at the time of transfer.

#### **7. Fair value of financial instruments**

The methods used to determine the fair value of investments in other investment companies and unrealized gains and losses on forward foreign exchange contracts are described in Notes 2(a) and 2(b). The fair value of the Fund's other financial assets and financial liabilities approximate their carrying amount due to their short term nature.

CICA 3862 establishes a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. The hierarchy of inputs is summarized below:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

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**FMG COMBO FUND LTD.**

## Notes to Financial Statements

March 31, 2011

**7. Fair value of financial instruments (continued)**

The following is a summary of the inputs used as of March 31, 2011 and 2010 in valuing the Fund's investments and derivatives carried at fair value:

<u>2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments in other investment companies	\$ —	\$ 9,880,736	\$ —	\$ 9,880,736
Total investments	\$ —	\$ 9,880,736	\$ —	\$ 9,880,736
Derivative assets		\$ 34,065		\$ 34,065
Derivative liabilities		\$ (157)		\$ (157)
<u>2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments in other investment companies	\$ —	\$ 12,695,387	\$ —	\$ 12,695,387
Total investments	\$ —	\$ 12,695,387	\$ —	\$ 12,695,387
Derivative assets		\$ 97,456		\$ 97,456
Derivative liabilities		\$ (34,747)		\$ (34,747)

For investments in other investment companies, the Manager has estimated fair values by using the reported net asset value per share as provided by the administrators of the investment companies.

**8. Related party transactions**

At March 31, 2011, SVP Ltd., a company managed by the Manager, holds 31,463.76 shares in Class B USD.

On April 1, 2010 certain investments of the Fund were transferred to FMG (EU) Combo Fund Ltd. at their fair value of \$6,442,538. In exchange for these assets the Fund received shares in FMG (EU) Combo Fund Ltd. for the same value.

**9. Taxation**

Under current Bermuda laws, the Fund is not required to pay any taxes in Bermuda on either income or capital gains. The Fund has received an undertaking from the Minister of Finance in Bermuda exempting it from any such taxes at least until the year 2016.

It is management's belief that the Fund is not engaged in a United States trade or business and will not be subject to United States income or withholding taxes in respect of the profits and losses of the Fund other than the 30% withholding tax on U.S. source dividends.

## FMG COMBO FUND LTD.

### Notes to Financial Statements

March 31, 2011

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9. **Taxation** (continued)

As a result, management has made no provision for income taxes in these financial statements.

10. **Financial instruments and risk management**

The Fund's investment activities expose it to a variety of financial risks. The schedule of investments presents the investments held by the Fund as at the end of the year.

*(a) Liquidity risk*

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's investments in other investment companies are not traded in an organized public market. As a result, the Fund may not be able to quickly liquidate its investments in other investment companies at their stated fair value in order to meet its liquidity requirements, including redemption requests from its shareholders. The Fund's exposure to liquidity risk is managed by the Manager.

The schedule of investments summarizes the redemption frequencies of the Fund's investments in other investment companies as at March 31, 2011. The information has been obtained by the Manager from the offering memoranda or similar information provided by the manager of the underlying investment companies.

The liabilities of the Fund are comprised of accrued expenses and redemptions payable and these are due within 3 months of the date of statement of assets and liabilities.

At March 31, 2011, there were no redemption restrictions on any of the investments in other investment companies held by the Fund.

*(b) Interest rate risk*

Interest rate risk arises when a fund invests in interest-bearing financial instruments. The Fund does not hold investments which are sensitive to interest rates but is indirectly exposed to the interest rate risk of the investments held by the investment companies in which the Fund invests. However, the Fund's risk is limited to the net asset value of its investments in those other investment companies.

*(c) Credit risk*

Credit risk arises from the potential inability of counterparties to perform under the terms of the related contract. The Fund has cash and cash equivalents and derivative financial instruments held in the custody of a major bank with a long term credit rating of Aa2 issued by Moody's. As the Fund invests in other investment companies, the Fund is exposed to the credit risk of each of those underlying investment companies. The maximum amount of credit exposure is represented by the carrying amounts of the assets listed on statement of assets and liabilities.

Bankruptcy or insolvency of the Bank or Custodian may cause the Fund's rights to be delayed with respect to the cash and cash equivalents and securities held in the custodial relationship. The Manager monitors the credit quality and financial position of the Bank and Custodians and should it decline significantly, the Manager will move cash holdings and custodial relationships to another institution.

*(d) Market risk*

Market risk is the risk that the changes in interest rates, foreign exchange rates or securities prices will affect the fair value of the financial instruments held by the Fund.

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**FMG COMBO FUND LTD.**

## Notes to Financial Statements

March 31, 2011

**10. Financial instruments and risk management (continued)***(d) Market risk (continued)*

The Fund is indirectly exposed to the market risk of the investments held by the other investment companies in which the Fund invests. Some of those other investment companies may deal or trade derivative financial instruments as their principal investment activity or use these instruments as part of their investment strategy. This may result in market risk to those other investment companies in excess of the amount invested in these securities. However, the Fund's risk is limited to the net asset value of its investments in those other investment companies.

At March 31, 2011, if the price of the investments increased by 5%, this would have increased the net assets attributable to holders of redeemable preference shares by \$494,037 (2010 - \$634,769); an equal change in the opposite direction would have decreased the net assets attributable to holders of redeemable preference shares by an equal amount. Actual results may differ from this sensitivity analysis and the differences could be material.

*(e) Currency risk*

The Fund may invest in other investment companies and enter into transactions denominated in currencies other than the US Dollar. Consequently, the Fund is exposed to risks that the exchange rate of the US Dollar relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Fund's assets or liabilities denominated in currencies other than the US Dollar.

The following table sets out the Fund's total exposure to foreign currency risk split between monetary assets and liabilities, net assets attributable to non-USD denominated share classes, forward foreign exchange contracts and the resulting net exposure to foreign currencies:

	Monetary <u>Assets</u>	Monetary <u>Liabilities</u>	Net assets attributable to non-USD denominated share classes	Forward FX <u>Contracts</u>	Net <u>Exposure</u>
March 31, 2011					
EUR	\$ —	\$ —	\$ (1,769,278)	\$ 1,710,442	\$ (58,836)
NOK	—	—	(1,308,066)	1,286,271	(21,795)
GBP	—	—	—	11,032	11,032
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (3,077,344)</u>	<u>\$ 3,007,745</u>	<u>\$ (69,599)</u>
March 31, 2010					
EUR	\$ 9,032,291	\$ —	\$ —	\$ (8,780,052)	\$ 252,239
EUR	776,973	—	(1,863,833)	3,390,768	2,303,908
NOK	236	—	(44,802)	1,654,957	1,610,391
GBP	(3)	—	(1,660,155)	45,903	(1,614,255)
	<u>\$ 9,809,497</u>	<u>\$ —</u>	<u>\$ (3,568,790)</u>	<u>\$ (3,688,424)</u>	<u>\$ 2,552,283</u>

The amounts in the above table are based on the carrying value of monetary assets and liabilities, net assets attributable to non-USD denominated share classes and the underlying notional amounts of forward foreign exchange contracts.

**FMG COMBO FUND LTD.**

## Notes to Financial Statements

March 31, 2011

**10. Financial instruments and risk management (continued)***(e) Currency risk (continued)*

Forward foreign exchange contracts are entered into by the Fund to hedge exposure to monetary assets and liabilities denominated in currencies other than USD and to hedge the exposure of certain share classes denominated in currencies other than USD.

The gains and losses on forward foreign exchange contracts entered into for the purpose of hedging the exposure to monetary assets and liabilities are recorded in gains and losses on forward foreign exchange contracts in the statement of operations. The gains and losses on contracts entered into for the purpose of hedging the exposure of share classes denominated in currencies other than USD are also recorded in gains and losses on forward foreign exchange contracts in the statement of operations, but are allocated specifically to the non-USD denominated share classes to which the hedging activities, and resultant gains and losses, relate.

At March 31, 2011, had the US Dollar strengthened by 5% in relation to the other currencies, there would be an approximate net impact of \$nil (2010 - \$(12,612)) on the statement of operations and net assets of the Fund arising from the change in the carrying value of monetary assets, net of the effect of hedging instruments. There would also be an approximate net impact of \$3,480 (2010 - \$(115,002)) on the statement of operations and on the net assets attributable to the hedged non-USD denominated share classes. A 5% weakening of the US Dollar against the other currencies would have resulted in an approximate equal but opposite effect.

Actual results may differ from this sensitivity analysis and the difference could be material to the financial statements.

At March 31, 2011, the Fund had the following open forward foreign exchange contracts:

	Currency to be <u>bought</u>		Currency to be <u>sold</u>	Contract due <u>date</u>		<u>Fair value</u>
EUR	1,226,212	USD	1,710,442	April 4, 2011	\$	25,566
NOK	7,172,248	USD	1,286,271	April 4, 2011		8,499
GBP	6,785	USD	11,032	April 4, 2011		(157)
Net unrealized gain on open forward foreign exchange contracts						\$ 33,908

At March 31, 2010, the Fund had the following open forward foreign exchange contracts:

	Currency to be <u>bought</u>		Currency to be <u>sold</u>	Contract due <u>date</u>		<u>Fair value</u>
EUR	2,485,172	USD	3,390,768	April 7, 2010	\$	(33,550)
USD	8,780,052	EUR	6,427,564	April 7, 2010		97,056
NOK	9,826,308	USD	1,654,957	April 7, 2010		(1,197)
GBP	30,516	USD	45,903	April 7, 2010		400
Net unrealized gain on open forward foreign exchange contracts						\$ 62,709

**FMG COMBO FUND LTD.**

Notes to Financial Statements

March 31, 2011

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10. **Financial instruments and risk management** (continued)

*(f) Capital management*

The Fund's objectives in managing the redeemable preference shares are to ensure a stable base to maximize returns to all investors, and to manage liquidity risk arising from redemptions. The Fund's management of the liquidity risk arising from redeemable preference shares is discussed in Note 10(a).

The Fund is not subject to any externally imposed capital requirements.

11. **Subsequent events**

For the period from April 1, 2011 to October 31, 2011 there have been subscriptions of \$40,582 and redemptions of \$2,576,820.

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