

FMG COMBO FUND LTD.

Financial Statements
(With Auditors' Report Thereon)

March 31, 2010 and 2009



KPMG

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AUDITORS' REPORT

To the Board of Directors and Shareholders of
FMG Combo Fund Ltd.

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of FMG Combo Fund Ltd. (the "Fund") as at March 31, 2010, and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the financial statements referred to above present fairly in all material respects the financial position of FMG Combo Fund Ltd. as at March 31, 2010 and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in Bermuda and Canada.

As explained in note 7, as at March 31, 2009, the financial statements of the Fund included investments in FMG (EU) Africa Fund Ltd., FMG (EU) Rising 3 Fund Ltd., FMG Russia Fund Ltd. and FMG Special Opportunity Fund Ltd. These funds held investments in underlying investment companies and unquoted equity securities whose fair values had been estimated by the manager of the funds in the absence of readily ascertainable fair values at that date. The fair value of the Fund's indirect exposure to these underlying investments at March 31, 2009 was \$1,090,084 (6.7% of net assets). The auditors' reports on the financial statements of FMG (EU) Africa Fund Ltd., FMG (EU) Rising 3 Fund Ltd., FMG Russia Fund Ltd. and FMG Special Opportunity Fund Ltd. included a qualification due to the lack of sufficient appropriate audit evidence to provide a reliable estimate of the fair values of the underlying investments, or regarding the explanations and information provided by the managers of the underlying investment companies which are not considered to be sufficient to provide a reliable estimate of the fair values of the underlying investment companies and unquoted equity securities held at March 31, 2009. Accordingly, we were not able to determine whether any adjustments were necessary to the fair values of the Fund's investment in FMG (EU) Africa Fund Ltd., FMG (EU) Rising 3 Fund Ltd., FMG Russia Fund Ltd. and FMG Special Opportunity Fund Ltd. at March 31, 2009, or to the net decrease in net assets from operations, or to the net decrease in net assets from capital share transactions during the year then ended.

Chartered Accountants
Hamilton, Bermuda
October 27, 2010

FMG COMBO FUND LTD.

Statement of Assets and Liabilities

March 31, 2010

(Expressed in United States Dollars)

	<u>2010</u>	<u>2009</u>
Assets		
Investments in other investment companies (cost - \$19,795,460; 2009 - \$29,163,622) (See Schedule of Investments) (Notes 5, 7, 8, 9 and 11)	\$ 12,695,387	\$ 16,365,925
Cash and cash equivalents (Notes 5 and 8)	1,725,749	803,370
Unrealized gain on forward foreign exchange contract (Notes 5, 7 and 11)	97,456	387,325
Rebate income receivable (Note 3)	46,304	68,129
Other assets	7,829	12,126
Total assets	<u>14,572,725</u>	<u>17,636,875</u>
Liabilities		
Unrealized loss on forward foreign exchange contract (Notes 7 and 11)	34,747	430,266
Redemptions payable (Note 6)	2,145,437	802,159
Management and incentive fees payable (Note 3)	59,330	71,885
Administration fees payable (Note 4)	16,740	13,410
Audit fees payable	25,210	21,000
Accounts payable and accrued expenses	5,727	15,609
Total liabilities	<u>2,287,191</u>	<u>1,354,392</u>
Net assets	12,285,534	16,282,546
Less: attributable to 100 common shares (Note 6)	<u>(100)</u>	<u>(100)</u>
Net assets attributable to redeemable preference shares (Note 6)	<u>\$ 12,285,434</u>	<u>\$ 16,282,446</u>
Net assets attributable to 8,731 (2009 - 14,232) US Dollar		
Class A redeemable preference shares	<u>\$ 648,237</u>	<u>\$ 1,020,826</u>
Net asset value per US Dollar Class A redeemable preference share	<u>\$ 74.24</u>	<u>\$ 71.73</u>
Net assets attributable to 384 (2009 - nil) US Dollar		
Class A09 redeemable preference shares	<u>\$ 37,682</u>	<u>\$ -</u>
Net asset value per US Dollar Class A09 redeemable preference share	<u>\$ 98.13</u>	<u>\$ -</u>
Net assets attributable to 991,877 (2009 - 1,191,410) US Dollar		
Class B redeemable preference shares	<u>\$ 7,902,173</u>	<u>\$ 9,124,387</u>
Net asset value per US Dollar Class B redeemable preference share	<u>\$ 7.97</u>	<u>\$ 7.65</u>

See accompanying notes to financial statements

FMG COMBO FUND LTD.

Statement of Assets and Liabilities (continued)

March 31, 2010

(Expressed in United States Dollars)

	<u>2010</u>	<u>2009</u>
Net assets attributable to 16,173 (2009 - nil) US Dollar		
Class B09 redeemable preference shares	\$ 166,736	\$ -
Net asset value per US Dollar Class B09 redeemable preference share	<u>\$ 10.31</u>	<u>\$ -</u>
Net assets of \$451,021 (2009 - \$904,661) attributable to 4,814 (2009 - 10,134) Euro Class A redeemable preference shares	€ 333,861	€ 680,913
Net asset value per Euro Class A redeemable preference share	<u>€ 69.35</u>	<u>€ 67.19</u>
Net assets of \$1,412,812 (2009 - \$3,082,245) attributable to 140,586 (2009 - 323,507) Euro Class B redeemable preference shares	€ 1,045,810	€ 2,319,920
Net asset value per Euro Class B redeemable preference share	<u>€ 7.44</u>	<u>€ 7.17</u>
Net assets of \$44,802 (2009 - \$208,187) attributable to 522 (2009 - 2,706) GBP Class A redeemable preference shares	£ 29,483	£ 145,108
Net asset value per GBP Class A redeemable preference share	<u>£ 56.48</u>	<u>£ 53.62</u>
Net assets of \$nil (2009 - \$112,594) attributable to nil (2009 - 14,376) GBP Class B redeemable preference shares	£ -	£ 78,479
Net asset value per GBP Class B redeemable preference share	<u>£ -</u>	<u>£ 5.45</u>
Net assets of \$1,608,153 (2009 - \$1,811,012) attributable to 15,154 (2009 - 20,316) NOK Class A redeemable preference shares	NOK 9,555,228	NOK 12,170,782
Net asset value per NOK Class A redeemable preference share	<u>NOK 630.53</u>	<u>NOK 599.07</u>
Net assets of \$13,818 (2009 - \$nil) attributable to 78 (2009 - nil) NOK Class A09 redeemable preference shares	NOK 80,797	NOK -
Net asset value per NOK Class A09 redeemable preference share	<u>NOK 1,035.86</u>	<u>NOK -</u>
Net assets of \$nil (2009 - \$18,534) attributable to nil (2009 - 198) NOK Class B redeemable preference shares	NOK -	NOK 124,554
Net asset value per NOK Class B redeemable preference share	<u>NOK -</u>	<u>NOK 629.13</u>

See accompanying notes to financial statements

Signed on behalf of the Board

_____ Director

_____ Director

FMG COMBO FUND LTD.

Schedule of Investments

March 31, 2010

(Expressed in United States Dollars)

	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>	<u>Redemption Frequency</u>
<u>Other Investment Companies</u>				
FMG (EU) Africa Fund, Class B EUR	\$ 3,291,049	\$ 1,674,670	13.63%	Monthly
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 (EU) Global Hedge Fund, Class B09 EUR	1,396,900	1,272,548	10.36%	Monthly
FMG (EU) Middle East North Africa Fund, Class B	3,091,303	1,422,705	11.58%	Monthly
FMG (EU) Rising 3 Fund, Class B EUR	4,198,835	2,089,203	17.00%	Monthly
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
Total investments in other investment companies	\$ 19,795,460	\$ 12,695,387	103.34%	

See accompanying notes to financial statements

FMG COMBO FUND LTD.

Schedule of Investments

March 31, 2009

(Expressed in United States Dollars)

	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>	<u>Redemption Frequency</u>
<u>Other Investment Companies</u>				
FMG (EU) Africa Fund, Class B EUR	\$ 3,291,049	\$ 1,405,312	8.63%	Monthly
FMG Bio-Med Hedge Fund Ltd., USD Class	2,249,283	1,803,306	11.07%	Monthly
FMG (EU) Bio-Med Hedge Fund, Class B09 EUR	1,396,900	1,162,525	7.14%	Monthly
FMG Global Hedge Fund Ltd., USD Class B	7,909,283	6,135,975	37.69%	Monthly
FMG (EU) Global Hedge Fund, Class B09 EUR	1,396,900	1,316,643	8.08%	Monthly
FMG (EU) India Opportunity Fund, Class B09 EUR	1,386,223	359,459	2.21%	Monthly
FMG (EU) Middle East North Africa Fund Ltd., Class B09 EUR	3,091,303	1,201,217	7.38%	Monthly
FMG (EU) Rising 3 Fund, Class B09 EUR	4,198,835	1,319,608	8.11%	Monthly
FMG Russia Fund Ltd., USD Class B	1,995,082	565,604	3.47%	Monthly
FMG Special Opportunity Fund Ltd., USD Class B	549,011	292,076	1.79%	Monthly
FMG (EU) New Balkans, Class B09 EUR	1,699,753	804,200	4.94%	Monthly
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Total investments in other investment companies	\$ 29,163,622	\$ 16,365,925	100.51%	

See accompanying notes to financial statements

FMG COMBO FUND LTD.

Statement of Operations

Year Ended March 31, 2010

(Expressed in United States Dollars)

	<u>2010</u>	<u>2009</u>
Investment income		
Rebate income (Note 3)	\$ 221,402	\$ 515,718
Total income	<u>221,402</u>	<u>515,718</u>
Expenses		
Management fees (Note 3)	269,666	522,915
Incentive fees (Note 3)	6,175	-
Administration fees (Note 4)	61,790	60,262
Bank charges	3,294	16,279
Audit fees	26,812	37,705
Directors' and secretarial fees	13,500	12,514
Bermuda company fees	3,370	3,411
Custodian fees (Note 5)	7,708	8,862
Miscellaneous	13,443	35,902
Total expenses	<u>405,758</u>	<u>697,850</u>
Net investment loss	<u>(184,356)</u>	<u>(182,132)</u>
Realized and unrealized gains and losses on investments		
Net realized losses on sale of investments	(4,568,798)	(1,241,979)
Net realized gains (losses) on forward foreign exchange contracts	134,206	(2,099,129)
Net change in unrealized gains and losses of investments	5,697,624	(16,184,019)
Net change in unrealized gains and losses on forward foreign exchange contacts	<u>105,650</u>	<u>(807,058)</u>
Net realized and unrealized gains and losses on investments	<u>1,368,682</u>	<u>(20,332,185)</u>
Net increase (decrease) in net assets resulting from operations	<u>\$ 1,184,326</u>	<u>\$ (20,514,317)</u>

See accompanying notes to financial statements

FMG COMBO FUND LTD.

Statement of Changes in Net Assets

Year Ended March 31, 2010

(Expressed in United States Dollars)

	<u>2010</u>	<u>2009</u>
From operations		
Net investment loss	\$ (184,356)	\$ (182,132)
Net realized losses on sale of investments	(4,568,798)	(1,241,979)
Net realized gains (losses) on forward foreign exchange contracts	134,206	(2,099,129)
Net change in unrealized gains and losses of investments	5,697,624	(16,184,019)
Net change in unrealized gains and losses on forward foreign exchange contacts	<u>105,650</u>	<u>(807,058)</u>
Net increase (decrease) in net assets from operations	<u>1,184,326</u>	<u>(20,514,317)</u>
From capital share transactions		
Proceeds from sale of nil (2009 - 6,305) US Dollar Class A redeemable preference shares	-	691,537
Proceeds from sale of 384 (2009 - nil) US Dollar Class A09 redeemable preference shares	38,400	-
Proceeds from sale of 738 (2009 - 580,630) US Dollar Class B redeemable preference shares	5,912	6,324,399
Proceeds from sale of 34,988 (2009 - nil) US Dollar Class B09 redeemable preference shares	360,196	-
Proceeds from sale of nil (2009 - 13,197) Euro Class A redeemable preference shares	-	2,432,179
Proceeds from sale of nil (2009 - 153,207) Euro Class B redeemable preference shares	-	2,820,068
Proceeds from sale of 130,981 (2009 - nil) Euro Class B09 redeemable preference shares	1,909,465	-
Proceeds from sale of nil (2009 - 914) GBP Class A redeemable preference shares	-	173,392
Proceeds from sale of nil (2009 - 14,984) GBP Class B redeemable preference shares	-	285,451
Proceeds from sale of 37 (2009 - 7,551) NOK Class A redeemable preference shares	3,296	1,466,358
Proceeds from sale of 86 (2009 - nil) NOK Class A09 redeemable preference shares	14,526	-
Proceeds from sale of nil (2009 - 198) NOK Class B redeemable preference shares	-	30,226
Payment on redemption of 5,501 (2009 - 19,697) US Dollar Class A redeemable preference shares	(410,773)	(2,088,412)
Payment on redemption of 200,271 (2009 - 794,477) US Dollar Class B redeemable preference shares	(1,624,203)	(8,774,294)
Payment on redemption of 18,815 (2009 - nil) US Dollar Class B09 redeemable preference shares	(189,694)	-
Payment on redemption of 5,320 (2009 - 14,989) Euro Class A redeemable preference shares	(533,410)	(1,954,860)
Payment on redemption of 182,921 (2009 - 576,221) Euro Class B redeemable preference shares	(1,910,860)	(7,840,245)
Payment on redemption of 130,981 (2009 - nil) Euro Class B09 redeemable preference shares	(1,938,812)	-

FMG COMBO FUND LTD.

Statement of Changes in Net Assets (continued)

Year Ended March 31, 2010

(Expressed in United States Dollars)

	<u>2010</u>	<u>2009</u>
From capital share transactions (continued)		
Payment on redemption of 2,184 (2009 - 1,283) GBP Class A redeemable preference shares	\$ (202,582)	\$ (143,760)
Payment on redemption of 14,376 (2009 - 5,643) GBP Class B redeemable preference shares	(123,346)	(57,942)
Payment on redemption of 5,199 (2009 - 4,338) NOK Class A redeemable preference shares	(554,371)	(667,060)
Payment on redemption of 8 (2009 - nil) NOK Class A09 redeemable preference shares	(1,546)	-
Payment on redemption of 198 (2009 - 871) NOK Class B redeemable preference shares	<u>(23,536)</u>	<u>(84,408)</u>
Net decrease in net assets from capital share transactions	<u>(5,181,338)</u>	<u>(7,387,371)</u>
Net decrease in net assets attributable to redeemable preference shares	(3,997,012)	(27,901,688)
Net assets attributable to redeemable preference shares at beginning of year	<u>16,282,446</u>	<u>44,184,134</u>
Net assets attributable to redeemable preference shares at end of year	<u>\$ 12,285,434</u>	<u>\$ 16,282,446</u>

See accompanying notes to financial statements

FMG COMBO FUND LTD.

Statement of Cash Flows

Year Ended March 31, 2010

(Expressed in United States Dollars)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Net increase (decrease) in net assets from operations	\$ 1,184,326	\$ (20,514,317)
Adjustments to reconcile net increase (decrease) 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	3,564,888	20,178,756
Advance payment for investment purchased	-	3,400,000
Rebate income receivable	21,825	85,482
Other assets	4,297	14,802
Management and incentive fees payable	(12,555)	(113,196)
Administration fees payable	3,330	(492)
Audit fees payable	4,210	9,250
Accounts payable and accrued expenses	(9,882)	(1,885)
Net cash provided by operating activities	<u>4,760,439</u>	<u>3,058,400</u>
Cash flows from financing activities		
Proceeds from issue of redeemable preference shares	2,331,795	16,411,869
Payments on redemptions of redeemable preference shares	<u>(6,169,855)</u>	<u>(20,808,822)</u>
Net cash used in financing activities	<u>(3,838,060)</u>	<u>(4,396,953)</u>
Net increase (decrease) in cash and cash equivalents	922,379	(1,338,553)
Cash and cash equivalents at beginning of year	<u>803,370</u>	<u>2,141,923</u>
Cash and cash equivalents at end of year	<u>\$ 1,725,749</u>	<u>\$ 803,370</u>
Supplementary cash flow information		
Interest paid	<u>\$ 635</u>	<u>\$ 11,852</u>

See accompanying notes to financial statements

FMG COMBO FUND LTD.

Notes to Financial Statements

March 31, 2010

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.

2. **Significant accounting policies**

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in Bermuda and Canada. 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 11).

(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 11) 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 appropriate class of redeemable preference shares. Management and incentive fees are calculated separately for each class of redeemable preference shares (Note 3).

FMG COMBO FUND LTD.

Notes to Financial Statements

March 31, 2010

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

(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 9). 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) *Changes in accounting policies*

On April 1, 2008, the Fund adopted CICA Section 3862, *Financial Instruments – Disclosures* (“Section 3862”) and CICA Section 3863, *Financial Instruments – Presentation* (“Section 3863”), replacing Section 3861. Section 3862 requires enhanced disclosure of the nature and extent of the risks arising from financial instruments and how the Fund manages those risks. Section 3863 carries forward unchanged the presentation requirements of Section 3861 with respect of financial instruments.

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

Management fees

The Fund pays FMG Fund Managers Limited (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, 2010, this management fee was \$269,666 (2009 - \$522,915), of which \$59,330 (2009 - \$71,885) was payable at March 31, 2010.

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

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, 2010, the incentive fee was \$6,175 (2009 - \$nil), of which \$nil (2009 - \$nil) was payable at March 31, 2010.

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. To ensure that the Fund is not double charged for such management and incentive fees, the manager rebates 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 \$221,402 (2009 - \$515,718) of which \$46,304 (2009 - \$68,129) is receivable at March 31, 2010.

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, 2010, load fees were \$nil (2009 - \$82,280), of which, \$1,902 (2009 - \$5,658) 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 \$2,000 per month for net assets up to \$10 million and \$3,000 per month for net assets exceeding \$10 million, or fifteen basis points of the Fund’s net assets per annum. Effective December 1, 2008, the minimum fee was increased to \$3,000 per month for net assets up to \$10 million and \$4,000 per month for net assets exceeding \$10 million. For the year ended March 31, 2010, administration fees were \$61,790 (2009 - \$60,262), of which \$16,740 (2009 - \$13,410) was payable at March 31, 2010.

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, a set up fee of US\$1,500 will be payable together with all the respective disbursement and out-of-pocket expenses. Prior to August 14, 2009, HSBC Institutional Trust Services (Bermuda) Limited was the custodian for the Fund. Fees for custody services prior to August 14, 2009 were charged at the higher of \$3,000 per annum or five basis points of the gross asset value of custodial investments held in custody (calculated monthly). In addition, custody transaction fees were chargeable on individual transactions on a sliding scale, depending on the market and type of security.

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 of contracts as well as claims on other legal grounds resulting from business operations with the Fund.

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 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 are 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.

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). Each of the redeemable preference shares carries no preferential or pre-emptive rights upon the issue of new shares and has 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, subject to certain restrictions as described in the Prospectus.

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6. Share capital (continued)

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. a fund managed by the same Manager as the Fund. At March 31, 2009, FMG (EU) Combo Fund, held 31.80% of the EUR Class B redeemable preference shares.

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.

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments in other investment companies	\$ <u>–</u>	\$ <u>12,695,387</u>	\$ <u>–</u>	\$ <u>12,695,387</u>
Total investments	\$ <u>–</u>	\$ <u>12,695,387</u>	\$ <u>–</u>	\$ <u>12,695,387</u>
Derivative assets		\$ <u>97,456</u>		\$ <u>97,456</u>
Derivative liabilities		\$ <u>(34,747)</u>		\$ <u>(34,747)</u>

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, if available, or other available information to arrive at fair value.

FMG COMBO FUND LTD.

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March 31, 2010

7. Fair value of financial instruments (continued)

Investment in FMG (EU) Africa Fund Ltd.

The Fund had an investment in FMG (EU) Africa Fund Ltd. which had a fair value of \$1,405,312 at March 31, 2009, representing 8.63% of the net asset value of the Fund at that date. The sole investment held by FMG (EU) Africa Fund Ltd. is in FMG Africa Fund Ltd. ("FMG Africa"). The auditors' report on the financial statements of FMG Africa for the year ended March 31, 2009 included a scope limitation due to the lack of sufficient appropriate audit evidence to provide a reliable estimate of the fair values of FMG Africa's investment in four underlying investment companies. At March 31, 2009, the fair value of the Fund's indirect exposure to the four underlying investments held by FMG Africa was \$851,746 (5.23% of net assets).

Investment in FMG (EU) Rising 3 Fund Ltd.

The Fund had an investment in FMG (EU) Rising 3 Fund Ltd. which had a fair value of \$1,319,608 at March 31, 2009, representing 8.10% of the net asset value of the Fund at that date. The sole investment held by FMG (EU) Rising 3 Fund Ltd is in FMG Rising 3 Fund Ltd. ("FMG Rising 3"), which in turn invests in FMG Russia Fund Ltd. and FMG China Fund Ltd. These funds, in turn, held investments in underlying investment companies and an unquoted equity security whose fair values have been estimated by the manager of FMG Russia Fund Ltd. and FMG China Fund Ltd., respectively.

The auditors' reports on the financial statements of FMG Russia Fund Ltd. and FMG China Fund Ltd. for the year ended March 31, 2009 included a qualification regarding the explanations and information provided by the manager of those funds which are not considered to be sufficient to provide a reliable estimate of the fair values of the underlying investment companies and unquoted equity security held at March 31, 2009. The fair value of the Fund's indirect exposure to these underlying investments at March 31, 2009 was \$97,914 (0.60% of net assets).

Investment in FMG Russia Fund Ltd.

The Fund had an investment in FMG Russia Fund Ltd. ("FMG Russia") with a fair value of \$565,604 at March 31, 2009, representing 3.47% of the net asset value of the Fund at that date. At March 31, 2009 FMG Russia held two investments in other investment companies with a total estimated fair value of \$3,020,363, representing 15.19% of the net asset value of FMG Russia. The fair values of these investments at March 31, 2009 have been estimated by the manager of FMG Russia.

The auditors' report on the financial statements of FMG Russia for the year ended March 31, 2009 included a qualification regarding the explanations and information provided by the manager of the fund which are not considered to be sufficient to provide a reliable estimate of the fair values of the underlying investment companies held at March 31, 2009. The fair value of the Fund's indirect exposure to these underlying investments at March 31, 2009 was \$85,837 (0.53% of net assets).

Investment in FMG Special Opportunity Fund Ltd.

The Fund had an investment in FMG Special Opportunity Fund Ltd. ("FMG SOF") which had a fair value of \$292,076 at March 31, 2009, representing 1.79% of the net asset value of the Fund at that date. At March 31, 2009 FMG SOF held three investments in other investment companies and an investment in unquoted equity securities with a total estimated fair value of \$2,662,197, representing 25.09% of the net asset value of FMG SOF. The fair value of the fund's investment in the other investment companies and unquoted equity securities at March 31, 2009 has been estimated by the manager of FMG SOF.

FMG COMBO FUND LTD.

Notes to Financial Statements

March 31, 2010

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

Investment in FMG Special Opportunity Fund Ltd. (continued)

The auditors' report on the financial statements of FMG SOF for the year ended March 31, 2009 included a qualification regarding the explanations and information provided by the manager of the fund which are not considered to be sufficient to provide a reliable estimate of the fair values of the underlying investment companies and unquoted equity securities held at March 31, 2009. The fair value of the Fund's indirect exposure to these underlying investments at March 31, 2009 was \$54,587 (0.34% of net assets).

There is a significant amount of uncertainty as to the fair value of the investments held in FMG (EU) Africa Fund Ltd., FMG (EU) Rising 3 Fund Ltd., FMG Russia Fund Ltd. and FMG Special Opportunity Fund Ltd. at March 31, 2009. There could be significant differences between the realizable values of these investments upon their eventual sale and the fair value amounts estimated by the Manager at March 31, 2009, and such differences could be material to the Fund's financial statements.

8. **Overdraft facility**

During the year the Fund had an overdraft facility in the amount of \$2,500,000 with HSBC Bank of Bermuda Limited (the "Bank"). Collateral for the overdraft facility is a fixed and floating charge over the investment portfolio and deposits held in the Fund's restricted account with the Bank. Aggregate drawings on the facility are limited to the lesser of \$2,500,000 or 15% of the net asset value of the Fund. Borrowings bear interest at LIBOR plus 1.5% per annum which is payable monthly. On August 31, 2009, the Fund closed its custody account with the Bank which resulted in the termination of this facility.

9. **Related party transactions**

At March 31, 2010, the Fund's investments with a total value of \$12,695,387 (2009 - \$16,365,925) are in other investment companies which are also managed by the Manager.

10. **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.

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

11. **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.

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

(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 at March 31, 2010. 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, 2010, 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.

(c) *Credit risk*

Credit risk arises from the potential inability of counterparties to perform under the terms of the contract. The Fund has cash and cash equivalents and derivative financial instruments with a major bank of high quality credit standing. 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 investments listed on the schedule of investments.

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.

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 investments 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.

FMG COMBO FUND LTD.

Notes to Financial Statements

March 31, 2010

11. Financial instruments and risk management (continued)

(d) Market risk (continued)

At March 31, 2010, if the price of the investments increased by 5%, this would have increased the net assets attributable to holders of redeemable preference shares by \$634,769 (2009 - \$818,296); 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:

	<u>Monetary Assets</u>	<u>Monetary Liabilities</u>	<u>Net assets attributable to non-USD denominated share classes</u>	<u>Forward FX Contracts</u>	<u>Net Exposure</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	<u>(3)</u>	<u>-</u>	<u>(1,660,155)</u>	<u>45,903</u>	<u>(1,614,255)</u>
	<u>\$ 9,809,497</u>	<u>\$ -</u>	<u>\$ (3,568,790)</u>	<u>\$ (3,688,424)</u>	<u>\$ 2,552,283</u>
March 31, 2009					
EUR	\$ 7,568,964	\$ -	\$ -	\$ (7,253,215)	\$ 315,749
EUR	-	(97,714)	(3,986,906)	3,928,665	(155,955)
NOK	-	(31,861)	(1,829,546)	1,790,789	(70,618)
GBP	<u>-</u>	<u>-</u>	<u>(320,781)</u>	<u>322,938</u>	<u>2,157</u>
	<u>\$ 7,568,964</u>	<u>\$ (129,575)</u>	<u>\$ (6,137,233)</u>	<u>\$ (1,210,823)</u>	<u>\$ 91,333</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.

Forward foreign exchange contracts are entered in to 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.

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Notes to Financial Statements

March 31, 2010

12. Subsequent events

Subsequent to year-end, certain investments of the Fund were transferred to FMG (EU) Combo Fund Ltd., a sub-fund of FMG Funds SICAV Ltd. which is a regulated Malta entity managed by FMG Malta Ltd. In exchange for these investments, the Fund received shares in FMG (EU) Combo Fund Ltd. Class B09 USD for the same value.

Effective April 1, 2010, the redemption notice period changed from being 10 and 20 business days written notice for Class A and Class B shares, respectively, to providing notice by at least the 20th day of the month prior to the Dealing Day.
