

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Firebird Republics Fund, Ltd.
Year Ended December 31, 2013
With Report of Independent Auditors

Ernst & Young Ltd.



Building a better
working world

Firebird Republics Fund, Ltd.

Audited Consolidated Financial Statements

Year Ended December 31, 2013

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Report of Independent Auditors

The Board of Directors
Firebird Republics Fund, Ltd.

We have audited the accompanying consolidated financial statements of Firebird Republics Fund, Ltd. (the “Fund”), which comprise the consolidated statement of assets and liabilities, including the consolidated condensed schedule of investments, as of December 31, 2013, and the related consolidated statements of operations, changes in net assets and cash flows for the year then ended and the related notes to the accompanying financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor’s 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 the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 the auditor’s 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, the auditor considers internal control relevant to the Fund’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 Fund’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 referred to above present fairly, in all material respects, the consolidated financial position of Firebird Republics Fund, Ltd. at December 31, 2013, and the consolidated results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young Ltd.

March 26, 2014

Firebird Republics Fund, Ltd.

Consolidated Statement of Assets and Liabilities (Stated in United States Dollars)

December 31, 2013

Assets

Cash and cash equivalents	\$	9,043,696
Investments in securities, at fair value (cost \$111,216,882) (of which investments in securities with a cost of \$20,494,840 and fair value of \$99,328,330 are held for Firebird Republics SPV Ltd. under participation note)		282,295,172
Investment in other investment funds, at fair value (cost \$261,129)		850,325
Due from brokers		26,273
Other assets		9,893
Total assets		<u>292,225,359</u>

Liabilities

Due to Firebird Republics SPV Ltd. under participation note (<i>see Note 4</i>)		82,090,173
Class A redemptions payable		1,136,428
Allocation Shares dividends payable		1,000,000
Due to brokers		802,341
Unrealized capital gains tax reserve (of which unrealized capital gains tax reserve of \$17,169,653 relates to investments in securities held for Firebird Republics SPV Ltd. under participation note)		17,563,749
Accounts payable and accrued expenses		238,313
Total liabilities		<u>102,831,004</u>
Net assets	\$	<u>189,394,355</u>

Net asset value per share

Class A (based on 98,680.65 shares outstanding)	\$	1,152.92
Class M (based on 64,479.85 shares outstanding)	\$	129.33
Allocation shares (based on 4,589.65 shares outstanding)	\$	14,659.93

See accompanying notes.

Firebird Republics Fund, Ltd.

Consolidated Condensed Schedule of Investments
(Stated in United States Dollars)

December 31, 2013

Quantity	Fair Value	Percent of Net Assets
Investments in securities		
Equities:		
Common stock:		
Bulgaria:		
Banking	\$ 453,689	0.24%
Chemicals	31,439	0.02
Consumer products	6,628,395	3.50
Insurance	2,379,078	1.26
Manufacturing	547,634	0.29
Miscellaneous	86,496	0.05
Pharmaceutical	4,379,619	2.31
Tourism	1,977,806	1.04
Total Bulgaria (cost \$7,289,924)	16,484,156	8.71
Canada:		
Gold	6,500	–
Oil & Gas	15,358	0.01
Total Canada (cost \$272,925)	21,858	0.01
Estonia:		
Construction	3,342,455	1.76
Consumer products	2,275,442	1.20
Food	1,149,862	0.61
Gambling	3,552,599	1.88
Real Estate	1,238,052	0.66
Retail	7,213,297	3.81
Transportation	8,220,769	4.34
Total Estonia (cost \$12,859,914)	26,992,476	14.26
Georgia:		
Banking:		
546,418	Bank of Georgia PLC	21,666,359 11.44
	Consumer Products	1,174,614 0.62

Firebird Republics Fund, Ltd.

Consolidated Condensed Schedule of Investments (continued)
(Stated in United States Dollars)

Quantity	Fair Value	Percent of Net Assets
Investments in securities (continued)		
Equities (continued):		
Common stock (continued):		
Georgia (continued):		
Miscellaneous	\$ 310,903	0.16%
Utilities	14,900	0.01
Total Georgia (cost \$4,442,485)	23,166,776	12.23
Kazakhstan:		
Banking	12,226,912	6.45
Cement	2,062,668	1.09
Metallurgy & Mining	1,111,503	0.59
Oil & Gas	112,066	0.06
Telecommunications	5,569,568	2.94
Total Kazakhstan (cost \$8,540,316)	21,082,717	11.13
Kenya:		
Oil & Gas (cost \$35,530)	2,637,427	1.39
Kyrgyzstan:		
Metallurgy & Mining	-	-
Oil & Gas	-	-
Telecommunications	83,028	0.04
Utilities	121,103	0.06
Total Kyrgyzstan (cost \$300,595)	204,131	0.10
Latvia:		
Agriculture	80,308	0.04
Transportation	133,993	0.07
Total Latvia (cost \$173,820)	214,301	0.11

Firebird Republics Fund, Ltd.

Consolidated Condensed Schedule of Investments (continued)
(Stated in United States Dollars)

Quantity	Fair Value	Percent of Net Assets
Investments in securities (continued)		
Equities (continued):		
Common stock (continued):		
Lithuania:		
Construction	\$ 1,453,650	0.77%
Manufacturing	211,047	0.11
Retail	5,022,433	2.65
Total Lithuania (cost \$4,247,177)	6,687,130	3.53
Mongolia:		
Metallurgy & Mining (cost \$2,369,962)	1,625,251	0.86
Romania:		
Automobiles	1,136,986	0.60
Banking	8,489,728	4.49
Chemicals	33,235	0.02
Consumer Products	81,897	0.04
Manufacturing	1,826,801	0.96
Metallurgy & Mining	320,061	0.17
Miscellaneous	4,493,154	2.37
Oil & Gas	7,095,258	3.75
Real Estate	202,603	0.11
Transportation	513,505	0.27
Total Romania (cost \$16,680,183)	24,193,228	12.78
Russia:		
Airlines	4,145,028	2.19
Automobiles	1,288,416	0.68
Banking	7,135,744	3.77

Firebird Republics Fund, Ltd.

Consolidated Condensed Schedule of Investments (continued)
(Stated in United States Dollars)

Quantity	Fair Value	Percent of Net Assets
Investments in securities (continued)		
Equities (continued):		
Common stock (continued):		
Russia (continued):		
Gold	\$ 3,018,215	1.60%
Manufacturing	436,494	0.23
Metallurgy & Mining	4,531,518	2.39
Nuclear	1,165,082	0.62
Oil & Gas	19,633,317	10.37
Pulp & Paper	3,454,630	1.82
Software	882,077	0.47
Telecommunications	2,638,906	1.39
Utilities	476,591	0.23
Total Russia (cost \$25,708,969)	48,806,018	25.76
Ukraine:		
Agriculture	677,059	0.36
Food	1,924,497	1.02
Real Estate	245,552	0.13
Total Ukraine (cost \$4,472,304)	2,847,108	1.51
Total common stock (cost \$87,394,104)	174,962,577	92.38
Preferred stock:		
Russia:		
Fishing	3,200,000	1.69
Manufacturing	1,214,509	0.64
Oil & Gas	3,056,879	1.61
Utilities	80,460	0.05
Total Russia (cost \$1,680,897)	7,551,848	3.99
Total preferred stock (cost \$1,680,897)	7,551,848	3.99

Firebird Republics Fund, Ltd.

Consolidated Condensed Schedule of Investments (continued)
(Stated in United States Dollars)

Quantity	Fair Value	Percent of Net Assets
Investments in securities (continued)		
Equities (continued):		
Restricted stock:		
Armenia:		
	\$ 452,417	0.24%
	452,417	0.24
	182,966,842	96.61
	\$ 182,966,842	96.61%
Investments in securities held for Firebird Republics SPV Ltd. under participation note		
Equities:		
Common stock:		
Kazakhstan:		
	\$ 1,230,308	0.65%
	87,469,327	46.18
161,561	88,699,635	46.83
	2,425,681	1.28
	—	—
	8,109,166	4.28

Firebird Republics Fund, Ltd.

Consolidated Condensed Schedule of Investments (continued)
(Stated in United States Dollars)

Quantity	Fair Value	Percent of Net Assets
Investments in securities held for Firebird Republics SPV Ltd. under participation note (continued)		
Equities (continued):		
Common stock (continued):		
Ukraine:		
Real Estate (cost \$5,050,010)	\$ 93,848	0.05%
Total common stock (cost \$20,494,840)	<u>99,328,330</u>	<u>52.44</u>
Total equities (cost \$20,494,840)	<u>99,328,330</u>	<u>52.44</u>
Total investments in securities held for Firebird Republics SPV Ltd. under participation note (cost \$20,494,840)	<u>\$ 99,328,330</u>	<u>52.44%</u>
Total investments in securities including investments in securities held for Firebird Republics SPV Ltd. under participation note (cost \$111,216,882)	<u>\$ 282,295,172</u>	<u>149.05%</u>
Investments in other investment funds		
Lithuania:		
Miscellaneous (cost \$261,129)	\$ 850,325	0.45%
Total investments in other investment funds (cost \$261,129)	<u>\$ 850,325</u>	<u>0.45%</u>

See accompanying notes.

Firebird Republics Fund, Ltd.

Consolidated Statement of Operations
(Stated in United States Dollars)

Year Ended December 31, 2013

Investment income

Dividend income (net of \$575,487 withholding taxes)	\$ 6,286,111
Interest income	1,275
Total investment income	<u>6,287,386</u>

Expenses

Management fees	2,164,549
Professional fees and other	738,832
Custodian fees	434,719
Total expenses	<u>3,338,100</u>

Net investment income	2,949,286
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Net gain (loss) on investments and foreign currency transactions

Net change in unrealized capital gains tax reserve (net of \$319,252 decrease in unrealized capital gains tax reserve allocated to Firebird Republics SPV Ltd. under terms of participation note)	(314,743)
Net realized gain on investments and foreign currency transactions (net of \$43,530 realized loss on investments and foreign currency transactions allocated to Firebird Republics SPV Ltd. under terms of participation note)	13,518,523
Net change in unrealized appreciation on investments and foreign currency transactions (net of \$865,355 change in unrealized depreciation on investments and foreign currency transactions allocated to Firebird Republics SPV Ltd. under terms of participation note)	23,540,545
Net gain on investments and foreign currency transactions	<u>36,744,325</u>
Net increase in net assets resulting from operations	<u>\$ 39,693,611</u>

See accompanying notes.

Firebird Republics Fund, Ltd.

Consolidated Statement of Changes in Net Assets
(Stated in United States Dollars)

Year Ended December 31, 2013

Increase in net assets resulting from operations	
Net investment income	\$ 2,949,286
Net change in unrealized capital gains tax reserve (net of \$319,252 decrease in unrealized capital gains tax reserve allocated to Firebird Republics SPV Ltd. under terms of participation note)	(314,743)
Net realized gain on investments and foreign currency transactions (net of \$43,530 realized loss on investments and foreign currency transactions allocated to Firebird Republics SPV Ltd. under terms of participation note)	13,518,523
Net change in unrealized appreciation on investments and foreign currency transactions (net of \$865,355 change in unrealized depreciation on investments and foreign currency transactions allocated to Firebird Republics SPV Ltd. under terms of participation note)	23,540,545
Net increase in net assets resulting from operations	<u>39,693,611</u>
Decrease in net assets resulting from capital share transactions	
Class A shares issued with respect to the redemption of shares in Firebird Republics SPV Ltd. under terms of participation note (<i>see Note 6</i>)	2,390,252
Class A shares subscribed	8,765,000
Class M shares issued with respect to the redemption of shares in Firebird Republics SPV Ltd. under terms of participation note (<i>see Note 6</i>)	965,651
Class M shares subscribed	800,000
Class A shares redeemed	(27,267,360)
Allocation shares subscribed	114,038
Dividends declared on Allocation shares	(2,450,000)
Performance allocation to Allocation shares	467,639
Performance allocation from Class A shares	(467,639)
Net decrease in net assets resulting from capital share transactions	<u>(16,682,419)</u>
Net change in net assets	23,011,192
Net assets at beginning of year	166,383,163
Net assets at end of year	<u>\$ 189,394,355</u>

See accompanying notes.

Firebird Republics Fund, Ltd.

Consolidated Statement of Cash Flows
(Stated in United States Dollars)

Year Ended December 31, 2013

Operating activities

Net increase in net assets resulting from operations	\$ 39,693,611
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:	
Net realized gain on investments	(13,582,255)
Net change in unrealized appreciation on investments	(22,643,334)
Purchase of investments	(13,131,573)
Proceeds from sales of investments	34,726,919
Changes in operating assets and liabilities:	
Dividends receivable	11,355,712
Due from brokers	373,727
Other assets	(469)
Due to Firebird Republics SPV Ltd. under terms of participation note	(11,796,725)
Due to broker	802,341
Unrealized capital gains tax reserve	(4,509)
Accounts payable and accrued expenses	(498)
Net cash provided by operating activities	<u>25,792,947</u>

Financing activities

Proceeds from issuance of Class A shares	9,155,252
Proceeds from issuance of Class M shares	1,765,651
Proceeds from issuance of Allocation shares	114,038
Payments for redemptions of Class A shares	(40,662,959)
Payments for Allocation share dividends	(3,200,000)
Net cash used in financing activities	<u>(32,828,018)</u>
Net change in cash and cash equivalents	(7,035,071)
Cash and cash equivalents at beginning of year	16,078,767
Cash and cash equivalents at end of year	<u>\$ 9,043,696</u>

See accompanying notes.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements

December 31, 2013

1. Organization

Firebird Republics Fund, Ltd. (the “Fund”) was incorporated as an exempted company under the laws of the Cayman Islands on January 22, 1997, and was registered under the Cayman Islands Mutual Fund Law on April 11, 1997. The Fund commenced operations on April 25, 1997. The purpose of the Fund is to invest primarily in publicly traded securities of companies operating in Russia, the other former Soviet republics, and certain Eastern European countries. The Class A shares of the Fund are listed on the Bermuda Stock Exchange.

Clairmont Holdings Ltd. (“Clairmont”) is a wholly owned subsidiary of the Fund and was incorporated as a limited liability company under the Companies Law, Cap. 113, of Cyprus on April 18, 1997. Clairmont owns shares of companies operating in Russia and various Eastern European countries.

Lexik Holdings S.a.r.L. (“Lexik”) is a wholly owned subsidiary of the Fund and was incorporated as a private limited liability company (Société à responsabilité limitée or S.à r.l.) under the laws of Luxembourg on June 20, 2012. Lexik owns shares of a company operating in Mongolia.

Firebird Republics SPV Ltd. (the “SPV”) is a Cayman Islands exempt company which was incorporated on March 19, 2009, in order to hold illiquid assets of the Fund under a participation note dated March 31, 2009 (see Note 4 and Note 6).

The Fund’s investment advisor is Firebird Management, LLC (the “Advisor”), a New York limited liability company, which also acts as the investment advisor of the SPV. The principals of the Advisor are also directors of the Fund and of the SPV. The Advisor is a registered investment advisor with the United States Securities and Exchange Commission.

Trident Trust Company (Cayman) Limited (the “Administrator”) provides administration services to and maintains the registered office of the Fund and the SPV. Seaward Services Limited provides administration services to Clairmont and maintains its registered office. DLN S.A. provides administration services to Lexik while Dechert Luxembourg maintains the registered office of Lexik.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies

The consolidated financial statements of the Fund have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) and are stated in United States Dollars. The following is a summary of the significant accounting and reporting policies used in preparing the consolidated financial statements.

Basis of Consolidation

The consolidated financial statements include the results of the Fund and its subsidiaries, Clairmont and Lexik, after the elimination of all intercompany balances and transactions.

The Fund consolidates its investment in other investment funds in which it has a controlling financial interest. Consolidation requirements typically define a controlling interest as an ownership, directly or indirectly, of over 50% of the outstanding voting interest of another investment fund unless control is temporary or does not rest with the majority owner.

The Fund does not consolidate operating companies for which there is a controlling interest, unless the entity is an operating company providing services to the investment company. For the year ended December 31, 2013, the Fund did not consolidate any investment funds or operating companies.

Cash and Cash Equivalents

Cash and cash equivalents include amounts due from banks on demand and deposits with original maturities of three months or less. Substantially all of the cash and cash equivalents are held at Swedbank AS and State Street Bank. All cash and cash equivalents are held at banks organized in the United States of America, Estonia, Georgia, Kazakhstan, Mongolia and Romania. The Fund does not expect any material losses as a result of this allocation.

Participation Note

Assets and liabilities for which all net proceeds are held by the Fund on behalf of the SPV under the terms of the participation note are disclosed in the consolidated statement of assets and liabilities, the consolidated condensed schedule of investments held for Firebird Republics SPV Ltd. under participation note, and in Note 3. Allocated changes in valuation of investments held by the Fund on behalf of the SPV under the terms of the participation note, and related allocated movements in the unrealized capital gains tax reserve on such investments, are disclosed on the consolidated statement of operations.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Security Transactions and Related Investment Income and Expenses

Security transactions are accounted for on a trade date basis. Realized gains and losses from investment transactions are determined using the specific identification method and are recorded in the consolidated statement of operations. Interest is recorded on the accrual basis and dividends are recorded net of withholding taxes on the ex-dividend date in the consolidated statement of operations.

Foreign Exchange Transactions

Assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the date of the consolidated financial statements. Transactions in foreign currencies are translated at the rates of exchange prevailing at the time of the transaction. Exchange gains or losses are included in the consolidated statement of operations. As at December 31, 2013, the Fund and its subsidiaries held \$1,191,300 of cash in foreign currencies.

The Fund does not isolate that portion of gains and losses on investments which is due to changes in foreign exchange rates from that which is due to changes in market prices of the investments. Such fluctuations are included with the net realized and change in unrealized gains and losses on investments and foreign currency transactions.

Fair Value of Financial Instruments

The fair value of the Fund's assets and liabilities which qualify as financial instruments under Accounting Standards Codification Topic 825, *Financial Instruments*, approximates the carrying amounts presented in the consolidated financial statements.

In accordance with Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures* (ASC Topic 820), fair value is defined as the price that the Fund would receive to sell an investment or pay to transfer a liability under an orderly liquidation in a timely transaction with an independent buyer in the principal market or, in the absence of a principal market, the most advantageous market for the investment or liability.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

ASC Topic 820 establishes a three-tier hierarchy to distinguish between inputs obtained from sources independent of the reporting entity that affect assumptions that market participants would use in pricing an asset or liability (observable inputs) and inputs that reflect the reporting entity's own assumptions that it thinks market participants would use in pricing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. The inputs are summarized in the three broad levels listed below:

Level 1 – valuations based on quoted prices in active markets for identical assets or liabilities that the Fund has the ability to assess and in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Valuation adjustments and block discounts are not applied to Level 1 securities. Because valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these instruments does not entail a significant degree of judgment.

Level 2 – valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – valuations based on inputs that are unobservable and significant to the overall fair value measurement. These inputs may include the Advisor's own assumptions in determining the fair value of investments.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Investments may move between different levels during the course of the year and are caused by certain information becoming available to the Advisor. The Fund recognizes transfers between levels as occurring at the beginning of the reporting period. Information relating to transfers into and out of Level 3 can be found in Note 3.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

In general, portfolio securities that are traded in an active market (in most cases a market where there has been at least one transaction in the last 15 business days and had at least 12 trading days in the recent month at sufficient volumes with reasonably consistent price levels taking into account the volatility of the market in question) are classified as Level 1. These securities are valued at their last reported sales price on the valuation date in the case of securities listed or quoted on a recognized securities exchange, the U.S. NASDAQ National Market List or any comparable foreign quotation system for securities that generally trade daily, or if no prices were quoted on such date, at the last reported sales price on the last prior date when a price was quoted for such securities.

If no such prices have been quoted in an active market, the investment is valued in good faith by the Advisor, in consultation with the Administrator, and approved by the Directors, according to the steps outlined in ASC Topic 820. For these Level 2 or 3 securities, the Advisor may consult with and rely upon information provided by the Fund's custodians, market makers, brokers, and outside valuation services.

Level 2 securities will normally be priced using other observable information including identical or similar securities traded on other exchanges and quotations received from the counterparty, dealers, or brokers, whenever available and considered reliable. The Fund holds certain restricted securities which are restricted under Rule 144A. Restricted securities are generally fair valued at a discount to similar publicly traded securities.

Investments in other investment funds that meet the definition of an investment company for which its net asset value or partners' capital has been measured in accordance with, or in a manner consistent with, the principles of ASC Topic 946, *Financial Services – Investment Companies*, are valued using the reported net asset value as a practical expedient. Investments in other investment funds are classified as Level 3, but can be Level 2 if they are redeemable at net asset value within six months of the measurement date.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

The Fund's investments in other investment funds are generally valued at the reported values, provided by the administrator or management of the investment fund, after discounts for any applicable redemption charges and any lock up periods, which valuations are prepared in accordance with such investment fund's governing documents. The Advisor considers this a reliable representation of fair value if the investment fund is accepting subscriptions and processing redemptions based on this reported value. However, in certain circumstances, the Advisor will estimate the value of such investment based on available relevant information as it considers material.

The strategies of the other investment funds in which the Fund has a position are to invest into investments in the Baltic region. Certain of these investment funds are private equity funds and withdrawals are made in accordance with the terms of the offering memorandum. One other investment fund has a redemption notice period of 30 days.

For Level 3 securities, the Advisor will value the equity securities using either a "market approach," an "income approach," or both approaches, as appropriate. The "market approach" uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The "income approach" uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted).

In following these approaches, the types of factors that may be taken into account include, as relevant: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, the nature and realizable value of any collateral, the issuer of the security's ability to make payments, the issuer's earnings, discounted cash flows and net asset value analysis, the markets in which the issuer does business, comparisons of financial ratios of peer public companies, recent M&A transactions for comparable public or private companies, actual and imminent capital transactions in the subject investee company and the principal market for the relevant security, among other factors.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

The Advisor and analysts monitor and review the valuation methodologies on a monthly basis. They use the latest available information to update the valuations each month. The Fund also engages the services of an independent valuation firm to perform quarterly valuations on certain Level 3 assets. A Valuation Committee oversees the process and procedures for the valuation of the Level 3 investments in accordance with the valuation policy approved by the Board of Directors. The Valuation Committee meets on a quarterly basis or more frequently as required. It is comprised of staff of the Advisor and two Directors, who are also principals of the Advisor.

Because of the inherent uncertainty of valuation of securities and investment funds traded in emerging market economies (see Note 12), the estimated fair values may differ significantly from values that will eventually be realized upon an actual liquidation of the portfolio, and such differences could be material.

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Investment Classification

The industry and geographic classifications reflected in the consolidated condensed schedule of investments represent the Advisor's belief as to the most meaningful presentation of the classification of the principal business of the holdings in the portfolio.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

3. Financial Instruments

The following is a summary of the inputs used as of December 31, 2013, in valuing the Fund's investments, including the investments held by the Fund on behalf of the SPV under terms of participation note, carried at fair value. Investments have been categorized by class and are further disaggregated by geographic region.

	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Fair Value December 31, 2013
Investments in securities				
Equities:				
Africa	\$ 2,637,427	\$ –	\$ –	\$ 2,637,427
Baltics:				
Estonia	6,222,588	19,576,114	1,193,774	26,992,476
Other	5,022,433	1,667,951	211,047	6,901,431
Total Baltics	11,245,021	21,244,065	1,404,821	33,893,907
Central Asia:				
Kazakhstan	2,062,668	18,022,617	997,432	21,082,717
Other	–	–	204,131	204,131
Total Central Asia	2,062,668	18,022,617	1,201,563	21,286,848
Eastern Asia	1,188,393	436,858	–	1,625,251
Eastern Europe:				
Bulgaria	634,127	11,880,571	3,969,458	16,484,156
Georgia	21,666,359	–	1,500,417	23,166,776
Romania	5,023,237	18,770,859	399,132	24,193,228
Russia	37,075,369	8,343,927	10,938,570	56,357,866
Other	–	3,208,986	90,539	3,299,525
Total Eastern Europe	64,399,092	42,204,343	16,898,116	123,501,551
North America	21,858	–	–	21,858
Total equities	81,554,459	81,907,883	19,504,500	182,966,842

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

3. Financial Instruments (continued)

	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Fair Value December 31, 2013
Investments in securities held by the Fund on behalf of the SPV under terms of participation note				
Equities:				
Central Asia:				
Kazakhstan	\$ –	\$ –	\$ 88,699,635	\$ 88,699,635
Other	–	–	2,425,681	2,425,681
Total Central Asia	–	–	91,125,316	91,125,316
Eastern Europe	–	–	8,203,014	8,203,014
Total equities	–	–	99,328,330	99,328,330
Total investments in securities	<u>\$ 81,554,459</u>	<u>\$ 81,907,883</u>	<u>\$ 118,832,830</u>	<u>\$ 282,295,172</u>
Investments in other investment funds:				
Baltics	\$ –	\$ 502,220	\$ 348,105	\$ 850,325
Total investments in other investment funds	<u>\$ –</u>	<u>\$ 502,220</u>	<u>\$ 348,105</u>	<u>\$ 850,325</u>

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

3. Financial Instruments (continued)

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining value:

	Equities			
	Baltics	Central Asia	Eastern Europe	Total
Balance as at December 31, 2012	\$ 951,292	\$ 940,440	\$ 11,859,843	\$ 13,751,575
Net realized gain (loss)	(138,726)	6,911	(2,978,232)	(3,110,047)
Net change in unrealized appreciation	592,255	235,582	4,606,819	5,434,656
Purchases	–	25,541	494,365	519,906
Sales	–	(6,911)	–	(6,911)
Transfers into Level 3*	–	–	2,931,927	2,931,927
Transfers out of Level 3**	–	–	(16,606)	(16,606)
Balance as at December 31, 2013	<u>\$ 1,404,821</u>	<u>\$ 1,201,563</u>	<u>\$ 16,898,116</u>	<u>\$ 19,504,500</u>
Net change in unrealized appreciation on investments still held as of December 31, 2013	<u>\$ 453,529</u>	<u>\$ 288,321</u>	<u>\$ 1,628,587</u>	<u>\$ 2,370,437</u>

*\$2,931,927 of investments were transferred from Level 2 due to the unavailability of observable market information.

**\$16,606 of investments were transferred to Level 1 due to availability of observable market information as a result of the increase in market activity of these securities.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

3. Financial Instruments (continued)

	Investments in Securities Held by the Fund on Behalf of the SPV Under Terms of Participation Note		
	Equities		
	Central Asia	Eastern Europe	Total
Balance as at December 31, 2012	\$ 93,690,467	\$ 6,518,084	\$ 100,208,551
Net change in unrealized appreciation (depreciation)	(2,565,151)	1,684,930	(880,221)
Balance as at December 31, 2013	\$ 91,125,316	\$ 8,203,014	\$ 99,328,330
Net change in unrealized appreciation (depreciation) from investments still held as of December 31, 2013	\$ (2,565,151)	\$ 1,684,930	\$ (880,221)
			Other Investment Funds Baltics
Balance as at December 31, 2012			\$ 595,333
Net realized loss			(16,137)
Net change in unrealized appreciation			147,716
Sales			(378,807)
Balance as at December 31, 2013			\$ 348,105
Net change in unrealized appreciation from investments still held as of December 31, 2013			\$ 147,716

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

3. Financial Instruments (continued)

A quantitative disclosure of the unobservable inputs and assumptions for Level 3 securities has been provided in the table below.

Asset Class	Geographic Region	Fair Value as at December 31, 2013	Valuation Techniques	Unobservable Inputs	Ranges (Weighted Averages)
Equities	Baltics Central Asia Eastern Europe	\$ 1,404,821 92,326,879 25,101,130	Market comparable companies Dividend Discount Model	Price/Book value ratio Enterprise value/EBITDA ratio Price/EBITDA ratio Price/Earnings ratio Cost of Capital Price/Reserves Last	0.79-2.52 (1.34) 5.66-10.40 (7.40) 3.13 4.00-6.18 (4.21) 0.13-0.18 (0.13) 5.80
Other investment funds	Baltics	348,105	Quarterly net asset valuation	Lock up discount	10.0%

4. Participation Note

On March 31, 2009, the Fund entered into a participation note with the SPV under which the Fund agreed to pay to the SPV the net proceeds as defined therein received by the Fund with respect to certain designated investments and other receivables of the Fund, being about 38% of the net asset value of the Fund at that date. In return for this payment, the SPV issued participating shares to each of the shareholders of the Fund pro-rata to the value of their respective shareholdings of the Fund at that date. The net proceeds are defined as the cash received from dividends, interest, sale or other realization proceeds on each such designated investment, less (a) expenses incurred by the Fund in connection with the realization or receipt of such cash, (b) management fees and performance allocation due to the Advisor with respect to such designated investments and (c) any other expenses incurred by the Fund on behalf of the SPV.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

5. Due From/to Brokers and Concentration of Credit Risk

Due from/to brokers generally includes amounts receivable or payable for securities transactions that have not been settled at the date of the consolidated financial statements and cash held at brokers for settled trades. The majority of publicly traded investments are held with Swedbank AS and State Street Bank. The Fund periodically monitors the credit standing of the brokers and does not expect any material losses as a result of default by brokers.

6. Share Capital

The Fund's authorized share capital is \$50,000 divided into 4,990,000 Class A and Class M Common shares and 10,000 Allocation shares each having a par value of \$0.01 per share. Outstanding Common and Allocation shares will participate in the assets of the Fund upon liquidation ratably in proportion to their respective redemption values. Each Common and Allocation shareholder is entitled to one vote for each share held on any matter presented to a meeting of shareholders. The holders of the Allocation shares are principals of the Advisor.

Class A shares are issued, redeemed and adjusted for equalization in accordance with the Memorandum and Articles of Association. At the end of each year, the number of shares held by each Class A shareholder is adjusted for equalization purposes so that each share has the same net asset value, and that each shareholder pays a Performance Allocation each year equal to 20% of the net increase in the Net Asset Value of the shares held by that shareholder (see Note 8).

Class M shares are only offered to employees of the Advisor and its affiliates and related persons, and are subject to the same rights, terms and conditions as the Class A shares except that Class M shares will not be subject to any management fee or performance allocation. The value of the Class M shares outstanding as at December 31, 2013, was \$8,339,179.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

6. Share Capital (continued)

In 2013, the SPV made total distributions of \$9,887,010 to its shareholders, of which \$3,355,903 was reinvested into shares of the Fund in accordance with the terms of the participation note.

Share transactions for the year ended December 31, 2013, were as follows:

	<u>Class A</u>	<u>Class M</u>	<u>Allocation Shares</u>
Shares outstanding at December 31, 2012	114,995.93	48,251.82	4,581.08
Shares issued with respect to the redemption of shares in Firebird Republics SPV Ltd. under the terms of the participation note	2,328.25	8,511.81	–
Shares subscribed	8,607.93	7,716.22	8.57
Shares redeemed	(26,831.76)	–	–
Equalization adjustment	(419.70)	–	–
Shares outstanding at December 31, 2013	<u>98,680.65</u>	<u>64,479.85</u>	<u>4,589.65</u>

7. Management Fees

Pursuant to the Memorandum and Articles of Association and the Investment Advisory Agreement, the Fund pays the Advisor a management fee at an annual rate of 2.00% of the Class A net asset value calculated and payable quarterly in advance based on the Class A share of the Fund's net asset value (before accrual for performance allocation) as of the last business day of the preceding quarter. For the year ended December 31, 2013, the Fund recorded \$2,164,549 of management fees, of which \$2,160,216 was paid during the year.

The Advisor may, in its discretion, waive all or a portion of the management fee with respect to any shareholder.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

8. Performance Allocation

Pursuant to the Memorandum and Articles of Association and the offering memorandum, Allocation shares receive a performance allocation annually equal in the aggregate to 20% of the net increase each year in the Net Asset Value of each outstanding Class A Share (including net unrealized gains and losses) subject to a loss carryforward.

However, the performance allocation for Class A shareholders who also hold Participating shares in the SPV shall only be paid to the Allocation shares to the extent that the combined net gain for each such Class A shareholder on their shares in the Fund and their Participating shares in the SPV exceeds any loss carryforward or high watermark applicable to the relevant Class A shares in the Fund prior to the date of the participation note. In making this calculation, the appreciation of the Participating shares in the SPV reflects only realized gains on the sale or disposition of investments and other assets held under the terms of the participation note that have been or are being distributed to the shareholders of the SPV, thus excluding any unrealized appreciation on unsold investments while such investments are held within the SPV.

The Advisor may waive all or part of the performance allocation for certain investors. The performance allocation to the Allocation shares for the year ended December 31, 2013, was \$467,639. The performance allocation can be withdrawn at any time by the holders of the Allocation shares by way of dividend or redemption.

9. Taxation

There is currently no taxation imposed on income or profits of the Fund by the Government of the Cayman Islands. If any form of taxation were to be enacted, the Fund has been granted an exemption therefrom until May 6, 2017.

The Fund is not subject to United States Federal, state or local taxation. The Fund reports tax information to its U.S. resident shareholders on the accrual basis. The Fund has elected to be treated as a partnership for U.S. Federal income tax purposes.

ASC Topic 740, *Income Taxes*, provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the consolidated financial statements. ASC Topic 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Fund's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. The Fund has adopted ASC Topic 740 and its impact is reflected in these consolidated financial statements.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

9. Taxation (continued)

Unrealized capital gains tax reserve is allocated by the Fund to the SPV on specific investments under the terms of the participation note. The Fund recognizes interest and penalties, if any, as capital gains tax expense in the consolidated statement of operations. During the year, the Fund did not accrue any interest or penalties.

Tax accruals are calculated in local currencies. The effective rate to the Fund can exceed or be less than the above rates if the local currency has appreciated or depreciated against the US Dollar during the period of investment.

Tax legislation in all of the jurisdictions in which the Fund invests is subject to varying interpretations and changes, which can occur unexpectedly. The Advisor's interpretation of such legislation as applied to transactions and activities of the Fund and its subsidiaries since inception may be challenged by the relevant regional and federal authorities. It is not practical to determine the amount of unasserted claims that may manifest themselves, if any, or the likelihood of any unfavorable outcome thereof.

10. Derivative Financial Instruments

In the normal course of business, the Fund may enter into transactions involving derivative financial instruments in connection with its investing activities. These instruments are subject to various risks similar to non-derivative instruments, including market, credit, liquidity, and operational risks. The Fund manages these risks on an aggregate basis along with the risks associated with its investing activities as part of its overall risk management policies. The Fund does not distinguish derivative profit or loss from any other category of investments for consolidated statement of operations presentation purposes. No derivative positions were held during the year.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

11. Related-Party Transactions

In accordance with ASC Topic 850, *Related-Party Disclosures*, related parties include principal ownership (defined to include investments where the Fund combined with funds under common control hold interests greater than 10%), associated companies (defined as investments where the Fund combined with funds under common control hold interests less than 10% and have members on the Board of Directors), and Affiliates. Affiliates are defined as other investment funds managed by the Advisor and related parties of the Advisor.

Transactions with these entities during the year were as follows:

	Principal Ownership	Associated Companies	Affiliates
Purchases of investments	\$ 494,365	\$ —	\$ —
Sales of investments	250,000	880,683	1,406,514
Realized gain	154,442	337,458	844,749

Outstanding balances at year-end and transactions with the SPV under the participation note during the year ended December 31, 2013, were as follows:

	Firebird Republics SPV Ltd.
Due to Firebird Republics SPV Ltd. under participation note as at December 31, 2012	\$ 93,886,898
Recognition of net change in unrealized capital gains tax liability on investments in securities held by the Fund on behalf of the SPV	319,252
Recognition of unrealized depreciation during the year on investments in securities held by the Fund on behalf of the SPV	(880,221)
Decrease in receivable held by the Fund on behalf of the SPV	(11,235,756)
Due to Firebird Republics SPV Ltd. under participation note as at December 31, 2013	\$ 82,090,173

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

11. Related-Party Transactions (continued)

Included in related parties are the following entities in which the Fund and Affiliates have a greater than 20% aggregate interest in the entity and/or a Director(s) seat is held.

Name of Company	2013 Ownership by the Fund and Affiliates	2013 Equity in Investments Held by the Fund	Industry
Amber Trust I	1.05%	\$ 348,105	Miscellaneous
Global Gold Corp	53.67	452,417	Gold
Iron Wolf Partners L.P.	37.40	502,220	Miscellaneous
NBD Bank*	6.86	1,979,553	Banking
Premia Foods	56.97	1,149,862	Food
Sharyn Gol	71.43	436,858	Metallurgy & Mining
Tallink Grupp	5.63	8,220,769	Transportation
Teliani Valley	30.64	1,174,614	Consumer Products
Utenos Trikotazas	18.19	211,047	Manufacturing

*Denotes investments in securities held by the Fund on behalf of the SPV under the participation note.

All investments in the above companies are carried at fair value, as discussed in Note 2.

12. Investment Risks

The Fund's investments are based principally in the emerging economies of Russia, the former Soviet republics, and certain Eastern European countries. Therefore, they are subject to the risks inherent in those economies including, but not limited to:

- the ability to find a buyer in order to sell security positions owned by the Fund;
- the risk that brokers which hold shares for the Fund may become insolvent, which may result in a loss of such shares;
- uncertainties regarding existing local laws and regulations that provide protection to owners of investment securities;
- uncertainties regarding the convertibility of local currencies into U.S. dollars;

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

12. Investment Risks (continued)

- private companies in which the Fund holds or will hold an interest will be returned to some form of state control or that the assets of such companies will be confiscated by the state without or with inadequate compensation to shareholders;
- the risk of an economic or political catastrophe or renationalization that could result in a substantial or total loss of the value of the investments;
- a liquidity risk associated with restructuring of companies, during which time such securities may be frozen until registration has been completed; and
- the risk of restrictions being imposed by foreign governments on the repatriation of cash.

The above risks are not unique in the context of emerging markets investing.

The Fund could be affected, for the foreseeable future, by these risks and their consequences, and the effects could be significant. The accompanying consolidated financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Fund's consolidated financial statements in the period when they become known and estimable.

13. Indemnifications

The Fund enters into contracts that contain a variety of indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

14. Financial Highlights

Financial highlights for the year ended December 31, 2013, were as follows:

	Class A
Per share operating performance	
Beginning net asset value	\$ 928.31
Change in net assets resulting from operations:	
Net investment income	9.88
Net gain on investments and foreign currency transactions	218.99
Performance allocation	(4.26)
Net change in net assets resulting from operations	224.61
Ending net asset value	\$ 1,152.92
Total return	
Total return before performance allocation	24.66%
Performance allocation	(0.46)
Total return after performance allocation	24.20%
Ratios to average net assets	
Total expenses before performance allocation	(2.61)%
Performance allocation	(0.42)
Total expenses after performance allocation	(3.03)%
Net investment income	0.98%

Per share operating information and total return are calculated for Class A shares. Ratios to average net assets are calculated for Class A shares taken as a whole. An individual investor's per share operating performance, total return and ratios to average net assets may vary from these amounts and ratios based on the timing of capital transactions and differing management fee and performance allocation rates.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

15. Credit Facilities

As of December 31, 2013, the Fund had a credit agreement (“Credit Facility”) with Swedbank AS, pursuant to which the Fund has granted security over its assets held at Swedbank AS in order to have access to funds on a short-term basis to fulfill redemption requests in limited circumstances, as determined by the Advisor. Pursuant to the terms of the Credit Facility, the Fund can borrow up to \$3,664,080. These lines of credit are at market rates and as at December 31, 2013, there were no outstanding amounts due.

16. Subsequent Events

Management has evaluated events subsequent to year-end and through March 26, 2014, the date the financial statements were available to issue. During this period, the Fund recorded Class A and Class M subscriptions of \$1,312,236 and \$167,867, respectively, which were distributions by the SPV re-invested into the Fund. The Fund also recorded Allocation shares subscriptions of \$151,047.

Starting in 2014, Trident Trust Company (Luxembourg) S.A. began providing the administration services to Lexik.

In light of events post year-end surrounding the political crisis in Ukraine and Russia’s annexation of Crimea, the Advisor has been monitoring the situation closely and shifted a significant portion of NAV to cash, reducing exposure to Russia.

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