
Audited Consolidated Financial Statements

Firebird Republics Fund, Ltd.

Year Ended December 31, 2015

With Report of Independent Auditors



FIREBIRD MANAGEMENT LLC

Firebird Republics Fund, Ltd.

Audited Consolidated Financial Statements

Year Ended December 31, 2015

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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, 2015, 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 consolidated 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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, 2015, 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 29, 2016

Firebird Republics Fund, Ltd.

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

December 31, 2015

Assets

Cash and cash equivalents	\$ 4,609,031
Investments in securities, at fair value (cost \$121,197,777) (of which investments in securities with a cost of \$17,158,934 and fair value of \$48,514,860 are held for Firebird Republics SPV Ltd. under participation note)	170,535,962
Investments in other investment funds, at fair value (cost \$205,836)	640,979
Loan receivable	16,611
Dividends receivable	173,381
Due from brokers	316,266
Other assets	10,544
Total assets	176,302,774

Liabilities

Due to Firebird Republics SPV Ltd. under participation note (<i>see Note 4</i>)	40,432,378
Class A redemptions payable	2,310,270
Class A Allocation Shares distributions payable	400,000
Unrealized capital gains tax reserve (of which unrealized capital gains tax reserve of \$8,059,265 relates to investments in securities held for Firebird Republics SPV Ltd. under participation note)	8,727,704
Accounts payable and accrued expenses	196,668
Total liabilities	52,067,020
Net assets	\$ 124,235,754

Net asset value per share

Class A (based on 96,516.09 shares outstanding)	\$ 787.92
Class M (based on 66,198.71 shares outstanding)	\$ 92.00
Class A Allocation shares (based on 4,600.43 shares outstanding)	\$ 9,150.39
Class B Allocation shares (based on 400.00 shares outstanding)	\$ 7.32

See accompanying notes.

Firebird Republics Fund, Ltd.

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

December 31, 2015

Quantity	Fair Value	Percent of Net Assets
Investments in securities		
Equities:		
Common stock:		
Bulgaria:		
	\$ 1,023,027	0.82%
	—	—
	3,876,320	3.12
	1,545,096	1.25
	467,998	0.38
	152,640	0.12
	2,476,227	1.99
	1,308,869	1.05
	<u>10,850,177</u>	<u>8.73</u>
	Total Bulgaria (cost \$8,787,180)	
	Estonia:	
	3,862,559	3.11
	1,386,707	1.12
	506,058	0.41
	2,700,689	2.17
	444,979	0.36
	3,932,192	3.16
	Transportation:	
6,712,956	6,245,459	5.03
	<u>19,078,643</u>	<u>15.36</u>
	Total Estonia (cost \$13,063,092)	
	Georgia:	
	Banking:	
510,052	14,310,703	11.52
	569,652	0.46
	139,941	0.11
	<u>15,020,296</u>	<u>12.09</u>
	Total Georgia (cost \$4,312,446)	

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):		
Kazakhstan:		
Banking	\$ 6,652,432	5.35%
Cement	823,325	0.66
Metallurgy & Mining	964,197	0.78
Oil & Gas	3,052,922	2.46
Telecommunications	1,657,308	1.33
Total Kazakhstan (cost \$15,879,909)	13,150,184	10.58
Kyrgyzstan:		
Metallurgy & Mining	–	–
Oil & Gas	–	–
Telecommunications	13,157	0.01
Utilities	43,568	0.04
Total Kyrgyzstan (cost \$300,595)	56,725	0.05
Latvia:		
Agriculture	79,536	0.07
Transportation	76,794	0.06
Total Latvia (cost \$173,347)	156,330	0.13

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:		
	\$ 1,340,001	1.08%
	939,965	0.76
	166,444	0.13
	534,035	0.43
	3,936,850	3.17
	6,917,295	5.57
	Total Lithuania (cost \$5,500,135)	
Mongolia:		
	2,324,114	1.87
	Metallurgy & Mining (cost \$3,837,403)	
Poland:		
	407,471	0.33
	164,951	0.13
	572,422	0.46
	Total Poland (cost \$623,071)	
Romania:		
	1,180,594	0.95
	Automobiles	
	Banking:	
18,632,020	10,929,579	8.80
	54,723	0.04
	281,088	0.23
	324,432	0.26
	2,904,540	2.34
	228,705	0.18
	3,243,733	2.61
	4,302,968	3.47
	471,191	0.38
	439,320	0.35
	3,308,339	2.66
	27,669,212	22.27
	Total Romania (cost \$20,109,352)	

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:		
Airlines	\$ 1,269,584	1.02%
Automobiles	305,864	0.25
Banking	3,514,011	2.83
Fishing	3,040,000	2.45
Food	259,952	0.21
Gold	9,420	0.01
Manufacturing	126,147	0.10
Metallurgy & Mining	3,992,710	3.21
Nuclear	542,850	0.44
Oil & Gas	4,749,018	3.82
Pulp & Paper	2,857,397	2.30
Stock Exchange	2,487,941	2.00
Technology	85,618	0.07
Telecommunications	450,784	0.36
Utilities	164,178	0.13
Total Russia (cost \$25,370,529)	23,855,474	19.20
Ukraine:		
Agriculture	308,249	0.25
Food	318,995	0.26
Real Estate	42,832	0.03
Total Ukraine (cost \$4,090,695)	670,076	0.54
Total common stock (cost \$102,047,754)	120,320,948	96.85
Preferred stock:		
Russia:		
Manufacturing	845,070	0.68
Oil & Gas	792,173	0.64
Utilities	19,367	0.01
Total Russia (cost \$344,047)	1,656,610	1.33

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):		
Preferred stock (continued)		
Total preferred stock (cost \$344,047)	\$ 1,656,610	1.33%
Restricted stock:		
Armenia:		
Gold	43,544	0.04
Total restricted stock (cost \$1,647,042)	43,544	0.04
Total equities (cost \$104,038,843)	122,021,102	98.22
Total investments in securities (cost \$104,038,843)	\$ 122,021,102	98.22%
Investments in securities held for Firebird Republics SPV Ltd. under participation note		
Equities:		
Common stock:		
Kazakhstan:		
	Metallurgy & Mining	\$ 823,946 0.66%
	Oil & Gas:	
153,561	Aktobemunaigas	40,941,497 32.96
	Total Kazakhstan (cost \$4,779,095)	41,765,443 33.62
Kyrgyzstan:		
	Cement (cost \$645,034)	3,434,473 2.76
Russia:		
	Banking (cost \$6,684,795)	3,314,944 2.67

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)	\$ —	—%
Total common stock (cost \$17,158,934)	48,514,860	39.05
Total equities (cost \$17,158,934)	48,514,860	39.05
Total investments in securities held for Firebird Republics SPV Ltd. under participation note (cost \$17,158,934)	\$ 48,514,860	39.05%
Total investments in securities including investments in securities held for Firebird Republics SPV Ltd. under participation note (cost \$121,197,777)	\$ 170,535,962	137.27%
Investments in other investment funds		
Baltics:		
Miscellaneous	640,979	0.52
Total investments in other investment funds (cost \$205,836)	\$ 640,979	0.52%

See accompanying notes.

Firebird Republics Fund, Ltd.

Consolidated Statement of Operations
(Stated in United States Dollars)

Year Ended December 31, 2015

Investment income

Dividend income (net of \$350,084 withholding taxes)	\$ 4,203,971
Interest income	508
Total investment income	<u>4,204,479</u>

Expenses

Management fees	1,749,248
Professional fees and other	707,853
Custodian fees	260,114
Total expenses	<u>2,717,215</u>

Net investment income	1,487,264
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Net gain (loss) on investments and foreign currency transactions

Net change in unrealized capital gains tax reserve (net of \$3,902,049 decrease in unrealized capital gains tax reserve allocated to Firebird Republics SPV Ltd. under terms of participation note)	173,968
Net realized gain on investments and foreign currency transactions (net of \$53,454 realized loss on investments and foreign currency transactions allocated to Firebird Republics SPV Ltd. under terms of participation note)	624,015
Net change in unrealized depreciation on investments and foreign currency transactions (net of \$24,954,302 change in unrealized depreciation on investments and foreign currency transactions allocated to Firebird Republics SPV Ltd. under terms of participation note)	<u>(18,219,260)</u>
Net loss on investments and foreign currency transactions	<u>(17,421,277)</u>
Net decrease in net assets resulting from operations	<u>\$ (15,934,013)</u>

See accompanying notes.

Firebird Republics Fund, Ltd.

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

Year Ended December 31, 2015

Decrease in net assets resulting from operations	
Net investment income	\$ 1,487,264
Net change in unrealized capital gains tax reserve (net of \$3,902,049 decrease in unrealized capital gains tax reserve allocated to Firebird Republics SPV Ltd. under terms of participation note)	173,968
Net realized gain on investments and foreign currency transactions (net of \$53,454 realized loss on investments and foreign currency transactions allocated to Firebird Republics SPV Ltd. under terms of participation note)	624,015
Net change in unrealized depreciation on investments and foreign currency transactions (net of \$24,954,302 change in unrealized depreciation on investments and foreign currency transactions allocated to Firebird Republics SPV Ltd. under terms of participation note)	(18,219,260)
Net decrease in net assets resulting from operations	<u>(15,934,013)</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 (see Note 6)	194,516
Class A shares subscribed	1,100,000
Class B Allocation shares subscribed	16
Class A shares redeemed	(5,723,696)
Distributions on Class A Allocation shares	(2,400,000)
Performance allocation to Allocation shares	24
Performance allocation from Class A shares	(24)
Net decrease in net assets resulting from capital share transactions	<u>(6,829,164)</u>
Net change in net assets	(22,763,177)
Net assets at beginning of year	<u>146,998,931</u>
Net assets at end of year	<u><u>\$ 124,235,754</u></u>

See accompanying notes.

Firebird Republics Fund, Ltd.

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

Year Ended December 31, 2015

Operating activities

Net decrease in net assets resulting from operations	\$ (15,934,013)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities:	
Net realized gain on investments	(768,077)
Net change in unrealized depreciation on investments	43,235,307
Purchases of investments	(12,175,994)
Proceeds from sales of investments	13,442,214
Changes in operating assets and liabilities:	
Loan receivable	(16,611)
Dividends receivable	4,063,134
Due from brokers	(246,682)
Other assets	(1,070)
Due to Firebird Republics SPV Ltd. under terms of participation note	(24,793,382)
Unrealized capital gains tax reserve	(4,076,017)
Accounts payable and accrued expenses	(12,080)
Net cash provided by operating activities	<u>2,716,729</u>

Financing activities

Proceeds from issuance of Class A shares	994,516
Proceeds from issuance of Class B Allocation shares	16
Payments for redemptions of Class A shares	(4,182,260)
Distributions paid on Class A Allocation shares	<u>(2,500,000)</u>
Net cash used in financing activities	<u>(5,687,728)</u>
Net change in cash and cash equivalents	(2,970,999)
Cash and cash equivalents at beginning of year	<u>7,580,030</u>
Cash and cash equivalents at end of year	<u>\$ 4,609,031</u>

See accompanying notes.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements

December 31, 2015

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. Trident Trust Company (Luxembourg) S.A. provides administration services to Lexik while Dechert Luxembourg maintains its registered office.

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”) as detailed in the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) and are stated in United States Dollars. The Fund meets the definition of an investment company and follows the accounting and reporting guidance in ASC 946, *Financial Services – Investment Companies*. 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 investments 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, 2015, 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 and Mongolia. The Fund does not expect any material losses as a result of this allocation.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

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.

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, 2015, the Fund and its subsidiaries held \$535,982 (cost \$542,201) 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.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

In accordance with Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*, 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.

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 Level 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 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. One of these investment funds is a private equity fund and withdrawals are made in accordance with the terms of the offering memorandum. The 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 merger and acquisition 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 or semi-annual 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.

Loans Receivable

Loans receivable disclosed in the consolidated statement of assets and liabilities are recorded at their carrying value as of December 31, 2015 and are subject to impairment testing.

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, 2015, 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, 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, 2015
Investments in securities:				
Equities:				
Baltics:				
Estonia	\$ –	\$ 18,858,891	\$ 219,752	\$ 19,078,643
Lithuania	4,876,815	1,874,036	166,444	6,917,295
Other	–	156,330	–	156,330
Total Baltics	4,876,815	20,889,257	386,196	26,152,268
Central Asia:				
Kazakhstan	143,577	9,941,356	3,065,251	13,150,184
Other	–	56,725	–	56,725
Total Central Asia	143,577	9,998,081	3,065,251	13,206,909
Eastern Asia:				
Mongolia	1,596,385	182,356	545,373	2,324,114
Eastern Europe:				
Bulgaria	–	8,451,448	2,398,729	10,850,177
Georgia	14,310,703	–	709,593	15,020,296
Romania	10,984,302	16,455,210	229,700	27,669,212
Russia	13,712,336	3,477,117	8,322,631	25,512,084
Other	923,503	362,539	–	1,286,042
Total Eastern Europe	39,930,844	28,746,314	11,660,653	80,337,811
Total equities	\$ 46,547,621	\$ 59,816,008	\$ 15,657,473	\$ 122,021,102

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, 2015
Investments in securities held by the Fund on behalf of the SPV under terms of participation note:				
Equities:				
Central Asia:				
Kazakhstan	\$ –	\$ –	\$ 41,765,443	\$ 41,765,443
Other	–	–	3,434,473	3,434,473
Total Central Asia	–	–	45,199,916	45,199,916
Eastern Europe	–	–	3,314,944	3,314,944
Total equities	–	–	48,514,860	48,514,860
Total investments in securities	<u>\$ 46,547,621</u>	<u>\$ 59,816,008</u>	<u>\$ 64,172,333</u>	<u>\$ 170,535,962</u>
Investments in other investment funds:				
Baltics	\$ –	\$ 375,925	\$ 265,054	\$ 640,979
Total investments in other investment funds	<u>\$ –</u>	<u>\$ 375,925</u>	<u>\$ 265,054</u>	<u>\$ 640,979</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:

	<u>Equities</u>				
	<u>Baltics</u>	<u>Central Asia</u>	<u>Eastern Asia</u>	<u>Eastern Europe</u>	<u>Total</u>
Balance as at December 31, 2014	\$ 925,230	\$ 4,410,607	\$ 511,997	\$ 12,213,693	\$ 18,061,527
Net realized loss	(705,941)	-	-	(212,226)	(918,167)
Net change in unrealized appreciation (depreciation)	688,823	(1,233,145)	33,376	(365,619)	(876,565)
Purchases	81,229	-	-	24,805	106,034
Sales	(603,145)	-	-	-	(603,145)
Transfers out of Level 3*	-	(112,211)	-	-	(112,211)
Balance as at December 31, 2015	<u>\$ 386,196</u>	<u>\$ 3,065,251</u>	<u>\$ 545,373</u>	<u>\$ 11,660,653</u>	<u>\$ 15,657,473</u>
Net change in unrealized appreciation (depreciation) on investments still held as of December 31, 2015	<u>\$ 727,843</u>	<u>\$ (1,233,145)</u>	<u>\$ 33,376</u>	<u>\$ (553,469)</u>	<u>\$ (1,025,395)</u>

*\$112,211 of securities was transferred to Level 2 due to the availability of direct observable market information.

	<u>Convertible Bonds</u>
	<u>Central Asia</u>
Balance as at December 31, 2014	\$ 19,060
Net change in unrealized appreciation	5,351
Purchases	16,274
Transfer to Level 2*	(40,685)
Balance as at December 31, 2015	<u>\$ -</u>
Net change in unrealized appreciation from investments still held as of December 31, 2015	<u>\$ -</u>

*Securities were transferred into Level 2 after conversion into equities for which observable market information was available.

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, 2014	\$ 69,053,316	\$ 4,429,716	\$ 73,483,032
Net change in unrealized depreciation	(23,853,400)	(1,114,772)	(24,968,172)
Balance as at December 31, 2015	<u>\$ 45,199,916</u>	<u>\$ 3,314,944</u>	<u>\$ 48,514,860</u>
Net change in unrealized depreciation from investments still held as of December 31, 2015	<u>\$ (23,853,400)</u>	<u>\$ (1,114,772)</u>	<u>\$ (24,968,172)</u>

	Other Investment Funds
	Baltics
Balance as at December 31, 2014	\$ 295,776
Net realized loss	(6,030)
Net change in unrealized appreciation	875
Sales	(25,567)
Balance as at December 31, 2015	<u>\$ 265,054</u>
Net change in unrealized appreciation from investments still held as of December 31, 2015	<u>\$ 875</u>

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, 2015	Valuation Techniques	Unobservable Inputs	Ranges (Weighted Averages)
Equities	Baltics	\$ 386,196	Market comparable companies	Enterprise value/EBITDA ratio Enterprise value/Sales ratio Price/Book value ratio	3.30-7.43 (3.71) 0.82 0.75-2.10 (1.35)
	Central Asia	48,265,167	Market comparable companies	Cost of Capital Enterprise value/EBITDA ratio Price/Book value ratio Price/Earnings ratio Price/Reserves Last	0.07-0.16 (0.07) 3.30-7.43 (3.71) 0.75-2.10 (1.35) 6.70-7.89 (6.80) 2.90
	Eastern Asia	545,373	Quarterly net asset valuation		
	Eastern Europe	14,975,597	Market comparable companies	Enterprise value/EBITDA ratio Price/Book value ratio Price/Earnings ratio	3.30-7.43 (3.71) 0.75-2.10 (1.35) 6.70-7.89 (6.80)
Other investment funds	Baltics	\$ 265,054	Quarterly net asset valuation	Lock up discount	10.0%

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

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.

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.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

6. Share Capital (continued)

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).

The Class A Allocation shares and Class B Allocation shares are owned by the principals and key employees, respectively, of the Advisor. These Allocation shares are not subject to management fees and will receive a performance allocation each year equal to 20% of the net increase in the Net Asset Value of each outstanding Class A Share (see note 8).

Class M shares are only offered to employees of the Advisor, 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.

In 2015, the SPV made total distributions of \$2,798,687 to its shareholders, of which \$194,516 was reinvested into shares of the Fund in accordance with the terms of the participation note.

Share transactions for the year ended December 31, 2015, were as follows:

	Class A	Class M	Class A Allocation Shares	Class B Allocation Shares
Shares outstanding at December 31, 2014	102,031.52	66,198.71	4,600.43	400.00
Shares issued with respect to the redemption of shares in Firebird Republics SPV Ltd. under the terms of the participation note	232.18	-	-	-
Shares issued	1,239.83	-	-	-
Shares redeemed	(6,985.34)	-	-	-
Equalization adjustment	(2.10)	-	-	-
Shares outstanding at December 31, 2015	<u>96,516.09</u>	<u>66,198.71</u>	<u>4,600.43</u>	<u>400.00</u>

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

7. Management Fees

Pursuant to the Memorandum and Articles of Association and the Management 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, 2015, the Fund recorded and paid \$1,749,248 in management fees during the year.

Management fees are not charged to the Class M and Allocation Shares shareholders. The Advisor may, in its discretion, waive all or a portion of the management fee with respect to any shareholder.

8. Performance Allocation

Pursuant to the Memorandum and Articles of Association and the Management Agreement, 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, 2015 was \$24. The performance allocation can be withdrawn at any time by the holders of the Allocation shares by way of distribution or redemption.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

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.

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.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

9. Taxation (continued)

As at December 31, 2015, the Advisor has identified eight investment holdings in Bulgaria, Georgia and Kazakhstan which, under the current tax regulation in these jurisdictions, would be subject to income taxes on the investment gains realized for the period since purchase of the investment holdings to the date of realization. As such, the Advisor has accrued an income tax liability of \$8,727,704 (of which unrealized capital gains tax reserve of \$8,059,265 relates to investments in securities held for the SPV under participation note) with regard to such investment holdings, which is disclosed in the unrealized capital gains tax reserve in the consolidated statement of assets and liabilities. Should the fair value of the investment holdings identified change prior to the realization of the investment then the accrued income tax liability would be adjusted accordingly.

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.

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.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

11. Related Party Transactions (continued)

Outstanding balances at year-end and transactions with these entities during the year were as follows:

	<u>Principal Ownership</u>	<u>Associated Companies</u>	<u>Affiliates</u>
Loan receivable	\$ 16,611	\$ —	\$ —
Interest receivable	560	—	—
Interest income	560	—	—
Purchases of investments	81,229	—	697,080
Sales of investments	433,130	33,179	—
Realized loss	(702,135)	(1,428)	—

Outstanding balances at year-end and transactions with the SPV under the participation note during the year ended December 31, 2015, were as follows:

	<u>Firebird Republics SPV Ltd.</u>
Due to Firebird Republics SPV Ltd. under participation note as at December 31, 2014	\$ 65,225,760
Recognition of net change in unrealized capital gains tax liability on investments in securities held by the Fund on behalf of the SPV	3,902,049
Recognition of unrealized depreciation during the year on investments in securities held by the Fund on behalf of the SPV	(24,968,172)
Decrease in receivable held by the Fund on behalf of the SPV	(3,727,259)
Due to Firebird Republics SPV Ltd. under participation note as at December 31, 2015	<u>\$ 40,432,378</u>

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	2015 Ownership by the Fund and Affiliates	2015 Investments Held by the Fund	Industry
Amber Trust	3.01%	\$ 265,054	Miscellaneous
Arco Vara AS	11.32	444,979	Real Estate
Global Gold Corp	52.09	43,544	Gold
Iron Wolf Partners L.P.	44.14	375,925	Miscellaneous
NBD Bank*	6.86	955,495	Banking
PR Foods	56.97	506,058	Food
Sharyn Gol	71.86	182,356	Metallurgy & Mining
Sharyn Gol Holdings, Ltd.	88.46	545,373	Metallurgy & Mining
Tallink Grupp	5.55	6,245,459	Transportation
Teliani Valley	23.03	442,065	Consumer Products
Utenos Trikotazas	11.85	166,444	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.

The Fund provided an unsecured loan of \$16,611 to Mogul Coal Holdings Pte. Ltd., a company incorporated under the laws of Singapore, which is repayable on or before January 15, 2017. The loan is at a commercial rate of interest and has been recorded at December 31, 2015 at principal plus interest.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

12. Investment Risks

The Fund's investments are based principally in the emerging economies of Russia, the other 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;
- 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 investors;
- 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;
- the risk of restrictions being imposed by foreign governments on the repatriation of cash; and
- geopolitical and macroeconomic uncertainty involving Russia may lead to further devaluation of the ruble and weaken certain of the markets in which the Fund operates.

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, 2015, were as follows:

	<u>Class A</u>
Per share operating performance	
Beginning net asset value	\$ 891.86
Change in net assets resulting from operations:	
Net investment income	2.92
Net loss on investments and foreign currency transactions	(106.86)
Performance allocation	—
Net change in net assets resulting from operations	<u>(103.94)</u>
Ending net asset value	<u>\$ 787.92</u>
Total return	
Total return before and after performance allocation	(11.65)%
Ratios to average net assets	
Total expenses before and after performance allocation	(2.67)%
Net investment income	0.34%

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, 2015, 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 \$3,100,000. These lines of credit are at market rates and as at December 31, 2015, there were no outstanding amounts due.

16. Subsequent Events

Management has evaluated events subsequent to year-end and through March 29, 2016, the date the financial statements were available to issue. During this period, the Fund recorded Class A subscriptions of \$1,000,000.