
Audited Consolidated Financial Statements

Firebird Republics Fund, Ltd.

Year Ended December 31, 2017

With Report of Independent Auditors



FIREBIRD MANAGEMENT LLC

Firebird Republics Fund, Ltd.

Audited Consolidated Financial Statements

Year Ended December 31, 2017

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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, 2017, 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, 2017, 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 28, 2018

Firebird Republics Fund, Ltd.

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

December 31, 2017

Assets	
Cash and cash equivalents	\$ 1,154,273
Investments in securities, at fair value (cost \$108,183,988) (of which investments in securities with a cost of \$11,528,666 and fair value of \$65,714,844 are held for Firebird Republics SPV Ltd. under participation note)	241,398,331
Investments in other investment funds, at fair value (cost \$179,897)	858,165
Loans receivable	4,236
Dividend receivable	399,840
Due from brokers	90,339
Other assets	32,002
Total assets	<u>243,937,186</u>
Liabilities	
Due to Firebird Republics SPV Ltd. under participation note (see Note 4)	53,935,812
Class A redemptions payable	2,455,988
Realized capital gains tax payable	122,690
Unrealized capital gains tax reserve (of which unrealized capital gains tax reserve of \$11,758,273 relates to investments in securities held for Firebird Republics SPV Ltd. under participation note)	12,452,581
Accounts payable and accrued expenses	187,876
Total liabilities	<u>69,154,947</u>
Net assets	<u>\$ 174,782,239</u>
Net asset value per share	
Class A Series 1 - 1 (based on 60,512.43 shares outstanding)	\$ 1,248.96
Class A Series 1 - 2 (based on 149.47 shares outstanding)	\$ 1,236.90
Class A Series 2 - 1 (based on 65.64 shares outstanding)	\$ 1,019.37
Class A Series 2 - 2 (based on 66.64 shares outstanding)	\$ 1,196.07
Class A Series 2 - 3 (based on 66.96 shares outstanding)	\$ 1,214.93
Class A Series 2 - 4 (based on 416.72 shares outstanding)	\$ 1,214.94
Class A Series 2 - 5 (based on 7.86 shares outstanding)	\$ 1,214.95
See accompanying notes.	

Firebird Republics Fund, Ltd.

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

December 31, 2017

Net asset value per share (continued)

Class A Series 2 - 6 (based on 27.28 shares outstanding)	\$	1,214.97
Class A Series 2 - 7 (based on 42.94 shares outstanding)	\$	1,218.51
Class A Series 2 - 8 (based on 432.59 shares outstanding)	\$	1,218.54
Class A Series 2 - 9 (based on 5.35 shares outstanding)	\$	1,218.55
Class A Series 2 - 10 (based on 44.67 shares outstanding)	\$	1,218.91
Class A Series 2 - 11 (based on 2.03 shares outstanding)	\$	1,220.43
Class A Series 2 - 12 (based on 0.46 shares outstanding)	\$	1,225.80
Class A Series 2 - 13 (based on 10.62 shares outstanding)	\$	1,225.89
Class A Series 2 - 14 (based on 3.89 shares outstanding)	\$	1,225.90
Class A Series 2 - 15 (based on 0.88 shares outstanding)	\$	1,225.91
Class A Series 2 - 16 (based on 212.23 shares outstanding)	\$	1,233.25
Class A Series 2 - 17 (based on 504.04 shares outstanding)	\$	1,236.83
Class A Series 3 - 1 (based on 500.00 shares outstanding)	\$	1,023.00
Class A Series 3 - 2 (based on 457.00 shares outstanding)	\$	1,028.75
Class A Series 3 - 3 (based on 211.82 shares outstanding)	\$	1,194.24
Class A Series 3 - 4 (based on 4,092.36 shares outstanding)	\$	1,196.48
Class A Series 3 - 5 (based on 85.08 shares outstanding)	\$	1,200.39
Class A Series 3 - 6 (based on 243.54 shares outstanding)	\$	1,202.81
Class A Series 3 - 7 (based on 821.42 shares outstanding)	\$	1,218.30
Class A Series 3 - 8 (based on 135.01 shares outstanding)	\$	1,223.30
Class A Series 3 - 9 (based on 88.21 shares outstanding)	\$	1,224.22
Class A Series 3 - 10 (based on 228.79 shares outstanding)	\$	1,227.63
Class A Series 3 - 11 (based on 206.01 shares outstanding)	\$	1,227.91
Class A Series 3 - 12 (based on 196.10 shares outstanding)	\$	1,229.38
Class A Series 3 - 13 (based on 1,989.17 shares outstanding)	\$	1,229.75
Class A Series 3 - 14 (based on 300.45 shares outstanding)	\$	1,234.88
Class A Series 3 - 15 (based on 391.26 shares outstanding)	\$	1,244.80
Class A Series 3 - 16 (based on 216.20 shares outstanding)	\$	1,246.22
Class A Series 3 - 17 (based on 1,425.35 shares outstanding)	\$	1,248.96
Class M Series 1 - 1 (based on 81,929.70 shares outstanding)	\$	151.80
Class M Series 1 - 2 (based on 70,141.40 shares outstanding)	\$	1,000.00
Class M Series 1 - 3 (based on 135.44 shares outstanding)	\$	1,022.78
Class A Allocation shares Series 1 - 1 (based on 1.99 shares outstanding)	\$	15,246.60
Class A Allocation shares Series 1 - 2 (based on 1.03 shares outstanding)	\$	15,250.21
Class B Allocation shares (based on 35.80 shares outstanding)	\$	111.72

See accompanying notes.

Firebird Republics Fund, Ltd.

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

December 31, 2017

Quantity	Fair Value	Percent of Net Assets
Investment in securities		
Equities:		
Common stock:		
Bulgaria		
	\$ 2,693,812	1.54 %
	2,529,683	1.45
	198,582	0.11
	4,023,450	2.30
	1,544,053	0.88
	10,989,580	6.28
	Total Bulgaria (cost \$4,721,279)	
Estonia:		
	3,996,744	2.29
	3,534,002	2.02
	859,411	0.49
	4,145,274	2.37
	650,314	0.37
	3,257,010	1.86
	8,914,303	5.10
5,941,136	25,357,058	14.50
	Total Estonia (cost \$12,917,184)	
Georgia:		
Banking:		
432,415	20,780,502	11.89
	2,026,095	1.16
	22,806,597	13.05
	3,825,961	2.19
	1,713,654	0.98
	28,346,212	16.22
	Total Georgia (cost \$8,787,251)	

See accompanying notes.

Firebird Republics Fund, Ltd.

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

Quantity	Fair Value	Percent of Net Assets
Investment in securities (continued)		
Equities (continued):		
Common stock (continued):		
Kazakhstan:		
Banking	\$ 4,133	- %
Cement	1,658,045	0.95
Metallurgy & Mining	-	-
Oil & Gas	4,826,073	2.76
Telecommunications	3,748,558	2.14
Total Kazakhstan (cost \$10,339,015)	10,236,809	5.85
Kyrgyzstan:		
Metallurgy & Mining	-	-
Oil & Gas	-	-
Telecommunications	10,007	0.01
Utilities	25,179	0.01
Total Kyrgyzstan (cost \$300,592)	35,186	0.02
Lithuania:		
Banking	5,920,437	3.39
Construction	1,029,208	0.59
Retail	3,313,531	1.90
Total Lithuania (cost \$4,466,443)	10,263,176	5.88
Mongolia:		
Metallurgy & Mining (cost \$1,307,997)	1,309,732	0.75
Poland:		
Construction	1,778,654	1.02
Media and Entertainment	1,245,616	0.71
Total Poland (cost \$2,906,534)	3,024,270	1.73

See accompanying notes

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):		
Romania		
	\$ 5,203,656	2.98 %
	2,054,596	1.18
	Banking:	
20,344,987	11,149,516	6.38
	58,766	0.03
	321,222	0.18
	603,853	0.35
	1,859,427	1.06
	5,079,934	2.91
	765,205	0.44
	268,974	0.15
	3,318,703	1.90
	30,683,852	17.56
Total Romania (cost \$15,367,959)		
Russia:		
	1,696,510	0.97
	3,760,658	2.15
	693,035	0.40
	7,696,206	4.40
	1,945,482	1.11
	9,958,614	5.71
	658,625	0.38
	11,401,881	6.52
	215,559	0.12
	3,377,082	1.93
	3,496,290	2.00
	-	0.00
	44,899,942	25.69
	\$ 165,145,817	94.48 %
Total common stock (cost \$91,773,850)		

See accompanying notes.

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):		
Depository receipts (includes ADRs and GDRs):		
Kazakhstan:		
Banking	\$ 6,916,682	3.96 %
Oil & Gas	412,360	0.24
Telecommunications	29	0.00
Total Kazakhstan (cost \$605,363)	<u>7,329,071</u>	<u>4.20</u>
Russia:		
Oil & Gas	364,663	0.21
Retail	272,376	0.15
Total Russia (cost \$599,571)	<u>637,039</u>	<u>0.36</u>
Ukraine:		
Agriculture (cost \$1,837,495)	1,932,371	1.11
Total depository receipts (cost \$3,042,429)	<u>9,898,481</u>	<u>5.67</u>
Preferred stock:		
Russia:		
Manufacturing (cost \$192,000)	600,000	0.35
Total preferred stock (cost \$192,000)	<u>600,000</u>	<u>0.35</u>
Restricted stock:		
Armenia:		
Gold (cost \$1,647,043)	39,189	0.02
Total restricted stock (cost \$1,647,043)	<u>39,189</u>	<u>0.02</u>
Total equities (cost \$96,655,322)	<u>175,683,487</u>	<u>100.52</u>
Total investments in securities (cost \$96,655,322)	<u>\$ 175,683,487</u>	<u>100.52 %</u>

See accompanying notes.

Firebird Republics Fund, Ltd.

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

Quantity	Fair Value	Percent of Net Assets
Investment in securities held for Firebird Republics SPV Ltd. under participation note		
Equities:		
Common stock:		
Kazakhstan:		
	Metallurgy & Mining	\$ 200,016 0.11 %
	Oil & Gas	
153,561	Aktobemunaigas	59,451,790 34.01
	Total Kazakhstan (cost \$4,198,837)	<u>59,651,806 34.12</u>
Kyrgyzstan:		
	Cement (cost \$645,034)	1,474,404 0.84
Russia:		
	Banking (cost \$6,684,795)	4,588,634 2.63
	Total common stock (cost \$11,528,666)	<u>65,714,844 37.59</u>
	Total equities (cost \$11,528,666)	<u>65,714,844 37.59</u>
Total investment in securities held for Firebird Republics SPV Ltd. under participation note (cost \$11,528,666)		
	\$ 65,714,844	37.59 %
Total investment in securities including investments in securities held for Firebird Republics SPV Ltd. under participation note (cost 108,183,988)		
	\$ 241,398,331	138.11 %

See accompanying notes.

Firebird Republics Fund, Ltd.

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

<u>Quantity</u>	<u>Fair Value</u>	<u>Percent of Net Assets</u>
Investment in other investment funds		
Estonia:		
Miscellaneous (cost \$0)	\$ 282,543	0.16 %
Lithuania		
Miscellaneous (cost \$179,897)	575,622	0.33
Total investment in other investment funds (cost \$179,897)	\$ 858,165	0.49 %

See accompanying notes.

Firebird Republics Fund, Ltd.

Consolidated Statement of Operations

(Stated in United States Dollars)

Year Ended December 31, 2017

Investment income

Dividend income (net of \$463,840 withholding taxes) (net of dividend income \$1,707,007 and withholding taxes of \$324,238 allocated to Firebird Republics SPV Ltd. under terms of participation note)	\$ 6,265,441
Interest income	3,991
Other income	56,756
Total investment income	<u>6,326,188</u>

Expenses

Management fees	1,684,479
Professional fees and other (net of \$2,567 of professional fees allocated to Firebird Republics SPV Ltd. under terms of participation note)	960,257
Custodian fees	332,212
Interest expense	18,822
Total expenses	<u>2,995,770</u>

Net investment income 3,330,418

Net gain on investments and foreign currency transactions

Net change in realized capital gains tax reserve	(349)
Net change in unrealized capital gains tax reserve (net of \$4,334,292 increase in unrealized capital gains tax reserve allocated to Firebird Republics SPV Ltd. under terms of participation note)	(216,929)
Net realized loss on investments and foreign currency transactions (net of \$624,369 realized loss on investments and foreign currency transactions allocated to Firebird Republic SPV Ltd. under terms of participation note)	(2,247,862)

Firebird Republics Fund, Ltd.

Consolidated Statement of Operations (continued)

(Stated in United States Dollars)

Year Ended December 31, 2017

Net change in unrealized appreciation on investments and foreign currency transactions (net of \$19,231,659 change in unrealized appreciation on investments and foreign currency transactions allocated to Firebird Republic SPV Ltd. under terms of participation note)	<u>37,739,706</u>
Net gain on investments and foreign currency transactions	<u>35,274,566</u>
Net increase in net assets resulting from operations	<u>\$ 38,604,984</u>

See accompanying notes.

Firebird Republics Fund, Ltd.

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

Year Ended December 31, 2017

Increase in net assets resulting from operations	
Net investment income	\$ 3,330,418
Net change in realized capital gains tax reserve	(349)
Net change in unrealized capital gains tax reserve (net of \$ 4,334,292 increase in unrealized capital gains tax reserve allocated to Firebird Republics SPV Ltd. under terms of participation note)	(216,929)
Net realized loss on investments and foreign currency transactions (net of \$624,369 realized loss on investments and foreign currency transactions allocated to Firebird Republic SPV Ltd. under terms of participation note)	(2,247,862)
Net change in unrealized appreciation on investments and foreign currency transactions (net of \$19,231,659 change in unrealized appreciation on investments and foreign currency transactions allocated to Firebird Republic SPV Ltd. under terms of participation note)	37,739,706
Net increase in net assets resulting from operations	<u>38,604,984</u>
Decrease in net assets resulting from capital share transactions	
Class A shares subscribed	3,508,045
Class A allocation shares subscribed	210,464
Class B allocation shares subscribed	6
Class M shares subscribed	1,245,608
Class A shares redeemed	(7,340,879)
Transfers from Class A allocation shares	(70,100,706)
Transfers from Class B allocation shares	(40,689)
Transfers to Class M shares	70,141,395
Performance allocation to Allocation shares	401,971
Performance allocation from Class A shares	(401,971)
Net change in net assets resulting from capital share transactions	<u>(2,376,756)</u>
Net change in net assets	36,228,228
Net assets at beginning of year	138,554,011
Net assets at end of year	<u>\$ 174,782,239</u>

See accompanying notes.

Firebird Republics Fund, Ltd.

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

Year Ended December 31, 2017

Operating activities

Net increase in net assets resulting from operations	\$ 38,604,984
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:	
Net realized gain on investments	1,536,462
Net change in unrealized appreciation on investments	(56,969,657)
Purchases of investments	(18,527,315)
Proceeds from sales of investments	20,710,543
Changes in operating assets and liabilities:	
Loans receivable	802,389
Dividends receivable	(152,339)
Due from brokers	360,651
Other assets	9,889
Due to Firebird Republics SPV Ltd. under terms of participation note	14,366,000
Realized capital gains tax payable	350
Unrealized capital gains tax reserve	4,551,221
Accounts payable and accrued expenses	(1,257)
Net cash provided by operating activities	5,291,921

Financing activities

Proceeds from issuance of Class A shares	3,452,411
Proceeds from issuance of Class A allocation shares	210,464
Proceeds from issuance of Class B allocation shares	6
Proceeds from issuance of Class M shares	495,608
Payments for redemptions of Class A shares	(20,549,466)
Net cash used in financing activities	(16,390,977)

Net change in cash and cash equivalents	(11,099,056)
Cash and cash equivalents at beginning of year	12,253,329
Cash and cash equivalents at end of year	\$ 1,154,273

Non-cash Activity

Transfers from Class A allocation shares	(70,100,706)
Transfers from Class B allocation shares	(40,689)
Transfers to Class M shares	70,141,395

See accompanying notes.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements

Year Ended December 31, 2017

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 owned 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).

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 served as the administrator to the Fund and SPV until June 30, 2017. The Fund and SPV entered into a new fund administration agreement with HedgeServ (Cayman) Ltd. (the “Administrator”) effective July 1, 2017. The Harbour Trust Co. Ltd. maintains the registered office of the Fund and the SPV. Seaward Management Limited provides administration and management services to Clairmont and maintains its registered and regional 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.

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, Bulgaria and Mongolia. 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, 2017, the Fund and its subsidiaries held \$172,543 (cost \$172,144) 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*, 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 Board of 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.

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 distributions are received as assets are liquidated. 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. 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 less any impairment write-down as of December 31, 2017.

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, 2017, 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, 2017
Investments in securities:				
Equities and Depository receipts (includes ADRs and GDRs):				
Baltics:				
Estonia	\$ 3,534,002	\$ 21,666,061	\$ 156,995	\$ 25,357,058
Lithuania	6,949,645	3,313,531	-	10,263,176
Total Baltics	10,483,647	24,979,592	156,995	35,620,234
Central Asia:				
Kazakhstan	412,360	14,056,180	3,097,340	17,565,880
Kyrgyzstan	-	-	35,186	35,186
Total Central Asia	412,360	14,056,180	3,132,526	17,601,066
Eastern Asia:				
Mongolia	1,309,732	-	-	1,309,732
Eastern Europe:				
Armenia	-	39,189	-	39,189
Bulgaria	4,222,030	5,439,261	1,328,289	10,989,580
Georgia	20,780,502	3,739,749	3,825,961	28,346,212
Poland	3,024,270	-	-	3,024,270
Romania	13,262,878	17,152,001	268,973	30,683,852
Russia	29,110,749	12,735,709	4,290,523	46,136,981
Ukraine	-	1,932,371	-	1,932,371
Total Eastern Europe	70,400,429	41,038,280	9,713,746	121,152,455
Total investments in securities	\$ 82,606,168	\$ 80,074,052	\$ 13,003,267	\$ 175,683,487

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, 2017
Investments in securities held by the Fund on behalf of the SPV under terms of the participation note:				
Equities:				
Central Asia:				
Kazakhstan	\$ -	\$ -	59,651,806	59,651,806
Kyrgyzstan	-	-	1,474,404	1,474,404
Total Central Asia	-	-	61,126,210	61,126,210
Eastern Europe:				
Russia	-	-	4,588,634	4,588,634
Total equities	-	-	65,714,844	65,714,844
Total investments in securities	\$ 82,606,168	\$ 80,074,052	\$ 78,718,111	\$ 241,398,331
Investments in other investment funds:				
Baltics:				
Estonia	-	-	282,543	282,543
Lithuania	-	575,622	-	575,622
Total investments in other investment funds:	\$ -	\$ 575,622	\$ 282,543	\$ 858,165

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				Total
	Baltics	Central Asia	Eastern Asia	Eastern Europe	
Balance as at December 31, 2016	\$ 159,434	\$ 2,575,042	\$ 111,048	\$ 9,927,549	\$ 12,773,073
Net realized gain (loss)	-	28,346	(999,180)	2,208,494	1,237,660
Net change in unrealized appreciation (depreciation)	(2,439)	1,077,897	1,011,282	(2,113,039)	(26,299)
Purchases	-	-	-	3,126,021	3,126,021
Sales	-	(548,759)	(123,150)	(3,435,279)	(4,107,188)
Transfers in to Level 3	-	-	-	-	-
Balance as at December 31, 2017	<u>\$ 156,995</u>	<u>\$ 3,132,526</u>	<u>\$ -</u>	<u>\$ 9,713,746</u>	<u>\$ 13,003,267</u>
Net change in unrealized appreciation (depreciation) on investments still held as of December 31, 2017	<u>\$ (2,439)</u>	<u>\$ 1,101,407</u>	<u>\$ -</u>	<u>\$ (150,466)</u>	<u>\$ 948,502</u>

	Other Investment Funds Baltics
Balance as at December 31, 2016	\$ 246,135
Realized gain	-
Net change in unrealized appreciation	36,408
Sales	-
Balance as at December 31, 2017	<u>\$ 282,543</u>
Net change in unrealized appreciation on investments still held as of December 31, 2017	<u>\$ 36,408</u>

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, 2016	\$ 41,256,260	\$ 5,807,179	\$ 47,063,439
Net realized gain	674,653	-	674,653
Net change in unrealized appreciation (depreciation)	20,450,207	(1,218,545)	19,231,662
Sales	(1,254,910)	-	(1,254,910)
Balance as at December 31, 2017	<u>\$ 61,126,210</u>	<u>\$ 4,588,634</u>	<u>\$ 65,714,844</u>
Net change in unrealized appreciation (depreciation) from investments still held as of December 31, 2017	<u>\$ 20,805,333</u>	<u>\$ (1,218,545)</u>	<u>\$ 19,586,788</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, 2017	Valuation Techniques	Unobservable Inputs	Ranges (Weighted Averages)
Equities	Baltics	\$ 156,995	Market comparable companies	Price/Book Value Ratio Enterprise value/EBITDA Ratio Enterprise Value/Sales Ratio Discount	0.5 7.7 0.3 30%
	Central Asia	3,132,526	Market comparable companies Discounted cash flows	Price/Earnings ratio Price/Reserves last Discount Cost of capital	7.8 4.1 25% 5%
	Eastern Europe	9,713,746	Market comparable companies	Enterprise value/EBITDA Ratio Price/Book Value Ratio Enterprise Value/Sales Ratio Price/Earnings ratio Discount	3.7-21.2 (15.9) 0.6-1.4 (0.7) 0.6-3.7 (2.7) 5.5 10-30%
Other investment funds	Baltics	\$ 282,543	Quarterly net asset valuation	Lock up discount	10%

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 \$1 of Net Asset Value on any matter presented to a meeting of shareholders.

In 2017, the Investment Manager transferred 99% of its Class A Allocation shares (\$70,100,706) into Class M shares. This was done to separate the performance allocations earned in the years before 2018, and the capital growth thereon, from the Class A Allocation shares, with the Class A Allocation shares to receive any future performance allocations, as the latter are subject to different taxation under the new U.S. law.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

6. Share Capital (continued)

As at January 1, 2017 the Fund switched from equalization to series of shares accounting methodology, as per the Memorandum and Articles of Association. Class A shares are issued and redeemed in accordance with the Memorandum and Articles of Association. At the end of each year, each shareholder pays a performance allocation 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.

Share transactions for the year ended December 31, 2017, were as follows:

	Class A	Class M	Class A Allocation Shares	Class B Allocation Shares
Shares outstanding at December 31, 2016	77,152.54	73,063.14	4,600.43	400.00
Shares issued	3,296.02	9,001.99	-	-
Shares redeemed	(6,288.09)	-	-	-
Shares transferred	-	70,141.41	(4,597.41)	(364.20)
Shares outstanding at December 31, 2017	74,160.47	152,206.54	3.02	35.80

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, 2017, the Fund recorded \$1,684,479 in management fees during the year of which \$6,738 was outstanding at year end. The outstanding management fees are included in accounts payable and accrued expenses in the consolidated statement of assets and liabilities.

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, 2017 was \$401,971. 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 April 12, 2037.

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 applicable 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, 2017, the Advisor has identified seven 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 \$12,452,581 (of which unrealized capital gains tax reserve of \$11,758,273 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.

The Fund has recorded a realized capital gains tax payable of \$122,690 from the sale of a Kazakhstan investment during 2017.

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	\$ 4,236	\$ –	\$ –
Interest receivable	779	–	–
Other payables	–	–	16,510
Purchases of investments	1,508,839	–	2,462,951
Sales of investments	123,149	–	314,572
Realized loss	(999,181)	–	(3,720,930)

Outstanding balances at year-end and transactions with the SPV under the participation note during the year ended December 31, 2017, were as follows:

	<u>Firebird Republics SPV Ltd.</u>
Due to Firebird Republics SPV Ltd. under participation note as at December 31, 2016	\$ 39,569,812
Recognition of net change in unrealized capital gains tax liability on investments in securities held by the Fund on behalf of the SPV	(4,334,292)
Recognition of realized gain during the year on investments in securities held by the Fund on behalf of the SPV	674,653
Recognition of unrealized appreciation during the year on investments in securities held by the Fund on behalf of the SPV	19,231,659
Proceeds from sale of securities held by the Fund on behalf of the SPV	(1,254,910)
Increase in payable held by the Fund on behalf of the SPV	48,890
Due to Firebird Republics SPV Ltd. under participation note as at December 31, 2017	<u>\$ 53,935,812</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	2017 Ownership by the Fund and Affiliates	2017 Investments Held by the Fund	Industry
Amber Trust	2.34%	\$ 282,543	Miscellaneous
Arco Vara AS	10.65	650,314	Real Estate
Global Gold Corp	48.27	39,190	Gold
Iron Wolf Partners L.P.	45.85	575,621	Miscellaneous
PR Foods	56.97	859,411	Food
Tallink Grupp AS	5.45	8,914,303	Transportation
Teliani Valley	23.37	3,825,961	Consumer Products

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

The Fund provided an unsecured loan of \$803,700 to Global Beer Georgia, LLC., a company incorporated under the laws of Georgia, which was repayable on or before February 15, 2017. The loan was at a commercial rate of interest and had been recorded at principal plus interest as of December 31, 2016. The principal and interest were fully repaid before the repayment date, which is recorded in the statement of cash flows.

The Fund also provided an unsecured loan of \$16,611 to Mogul Coal Holdings Pte. Ltd., a company incorporated under the laws of Singapore and a fully owned subsidiary of Firebird Mongolia Fund (Cayman) Ltd., which is repayable on or before December 31, 2018. The carrying value of this loan was written down to \$4,236 to reflect recent offers for Mogul Coal Holdings in which the loan was included as part of the deal price.

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 (the "Target Region"). Therefore, they are subject to the risks inherent in those economies including, but not limited to:

- **Political Risk** Changes in government policy of countries in the Target Region (such as nationalization, expropriation or confiscatory taxation, currency blockage, political changes, government regulation, social instability or diplomatic developments) could adversely affect the economies of the countries in the Target Region. In addition, any change in the leadership or policies of any countries in the Target Region may halt the expansion, or reverse the liberalization, of foreign investment policies now occurring and may adversely affect existing and potential investment opportunities for the Fund;
- **Legal Risk** Many of the laws that govern private and foreign investment, securities transactions, creditors' rights and other contractual relationships in countries in the Target Region are new and largely untested and not fully developed. As a result, the Fund may be subject to a number of unusual risks, including contradictory legislation, incomplete, unclear and changing laws, ignorance or breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, lack of standard practices and confidentiality customs characteristic of developed markets, and lack of enforcement of existing regulations. There can be no assurance that difficulties in protecting and enforcing rights will not have a material adverse effect on the Fund and its operations. Laws and regulations of countries in the Target Region could change quickly and unpredictably and may impose restrictions or approvals that do not exist in countries with more developed market economies;
- **Market Risk** Stock prices are volatile and are affected by the real or perceived impacts of such factors as economic conditions and political events. The stock market tends to be cyclical, with periods when stock prices generally rise and periods where stock prices generally decline. Any given stock market segment may remain out of favor with investors for a short or long period of time, and stocks as an asset class may underperform bonds or other asset classes during some periods;

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

12. Investment Risks (continued)

- **Exchange and Currency Risk** At present, some of the currencies of countries in the Target Region are not freely and fully convertible into other currencies or traded internationally. Currency exchange values are also subject to direct and indirect government controls. Such internal exchange markets can therefore be said to be neither liquid nor competitive. Historically, many currencies in the Target Region have experienced sharp devaluations relative to the U.S. dollar and other Western currencies. The value of investments in the Fund will be affected by fluctuations in the value of local currencies against the U.S. dollar or by changes in local exchange control regulations, tax laws, withholding taxes, and economic or monetary policies. Additionally, since several of the countries in the Target Region are either Eurozone members or have local currencies pegged to the Euro, fluctuations in the Euro's value against the U.S. dollar will affect the Fund. Adverse fluctuations in currency exchange rates can result in a decrease in net return and in a loss of capital. Accordingly, investors must recognize that the value of Class A, Class M Common shares and Allocation shares can fall as well as rise for this reason;
- **Investments through Subsidiaries** The Fund may make investments in portfolio companies through wholly-owned or jointly-owned subsidiaries under certain circumstances, for example to minimize exposure to certain taxes, to facilitate future sales of portfolio companies, or to facilitate an initial offering of stock of the holding company on an international stock exchange. These subsidiaries may have different depositaries, administrators and/or auditors than the Fund, or may have no such depositary, administrator or auditors. Therefore, the use of these subsidiaries may subject the Fund to additional risks that would not have been incurred if investments were made directly;
- **Illiquidity of Investments** Securities held by the Fund may be subject to greater price volatility than is usually the case with stocks in more developed markets, in some cases to a substantial degree. A limited number of issuers often represent a disproportionately large percentage of market capitalization and trading value in markets in the Target Region. Also, the Fund may invest in securities that are acquired from companies in offerings that are not registered under U.S. or other securities laws. Such securities may be illiquid, may not be actively and widely traded, may only be traded by a limited number of institutional investors, or may not be traded at all. Registered securities may also be "deregistered" after they are acquired by the Fund;

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

12. Investment Risks (continued)

- **Settlement Risk** The clearing, settlement and registration systems through which transactions are executed and settled in certain countries in the Target Region are significantly less developed than those in more mature world markets. This can result in significant delays and other material difficulties in settling trades and in registering transfers of securities;
- **Quality of Information** Investors in the Target Region often have access to less reliable or less detailed information, including both general economic data and information concerning the operations, financial results, capitalization and financial obligations, earnings and securities of specific enterprises. The quality and reliability of information available to the Fund will, therefore, be less than in respect of investments in Western countries;
- **Taxation in Target Region** Investments by the Fund in the Target Region will have differing tax consequences. Not all jurisdictions in the Target Region have tax treaties providing relief from capital gains or other taxes. Consequently, the Fund may be subject to substantial taxation in certain jurisdictions. In order to minimize the tax consequences of investments, the Fund may invest through the Subsidiary or create investment vehicles in other jurisdictions or make investments directly. Tax laws and administration in certain countries in the Target Region, however, are fluid and often capricious, and there can be no assurance that the Fund will be able to anticipate all taxes or will be able to create a structure to minimize taxes in any particular jurisdiction;
- **Accounting Practices** Accounting standards in many nations in the Target Region frequently do not correspond to international accounting standards or generally accepted accounting practices in all material respects. In addition, auditing requirements and standards may differ from those generally accepted in the international capital markets and, consequently, information available to investors in developed capital markets is not always obtainable in respect of companies in the Target Region;

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

12. Investment Risks (continued)

- **Criminality** Organized crime and corruption, including extortion and fraud, remain common in many countries in the Target Region. Threats or incidents of crime may cause or force the Fund to cease or alter certain activities or liquidate certain investments, which may cause losses or otherwise have a material adverse effect on the Fund.

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. Commitments

In December 2016, the Fund, together with Firebird Avrova Fund, Ltd. ("Avrova") an affiliate of the Fund (collectively the "Funds"), entered into an indemnity and guarantee agreement (the "Indemnity Agreement") with JSC BGEO Group ("BGEO"), a joint stock company in which the Funds own shares. The Indemnity Agreement was in connection with a EUR 18.5 million loan extended by European Bank for Reconstruction and Development ("EBRD") and DEG – Deutsche Investitions – Und Entwicklungsgesellschaft MBH ("DEG") (collectively the "Lenders") to Global Beer Georgia, LLC (the "Company"), a wholly owned subsidiary of Teliani Valley. BGEO has issued a project completion guarantee to the Lenders for the full amount of the loan. Under the Indemnity Agreement, the Funds have agreed to reimburse BGEO for up to 11.63% and 15.16%, being the Fund's and Avrova's respective ownership of the Company, through Teliani Valley, of any payments BGEO may make to the Lenders pursuant to the project completion guarantee. Firebird Fund, L.P. (an affiliate of the Funds) became an investor in Teliani Valley in 2017 and at that time agreed to reimburse the Funds its pro rata share of any payments made in relation to the completion guarantee. The loan was used to finance the construction of a brewery by the Company. The entry into the Indemnity Agreement was for the commercial benefit of the Funds.

14. 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)

15. Financial Highlights

Financial highlights for the year ended December 31, 2017, were as follows:

	<u>Class A</u>
Total return before performance allocation	26.59 %
Performance allocation	<u>(0.53)%</u>
Total return after performance allocation	<u>26.06 %</u>
Ratios to average share-holders capital	
Total expenses before performance allocation	(2.76)%
Performance allocation	<u>(0.46)%</u>
Total expenses after performance allocation	<u>(3.22)%</u>
Net investment income	<u>1.20 %</u>

Shares are issued within classes to each investor by series. These series are permanent and will remain outstanding until the investor fully redeems. As a result, the Fund presents financial highlights consistent with those presented for a partnership, which are ratios to average net assets and total return, but not per share data.

Firebird Republics Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

16. Credit Facilities

As of December 31, 2017, 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 \$2,500,000. This line of credit is at market rates and as at December 31, 2017, there were no outstanding amounts due.

17. Subsequent Events

Management has evaluated events subsequent to year-end and through March 28, 2018, the date the consolidated financial statements were available to issue. During this period, the Fund recorded Class A subscriptions of \$225,002.