
Audited Consolidated Financial Statements

Firebird New Russia Fund, Ltd.

Year Ended December 31, 2014

With Report of Independent Auditors



FIREBIRD MANAGEMENT LLC

Firebird New Russia Fund, Ltd.

Audited Consolidated Financial Statements

Year Ended December 31, 2014

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Report of Independent Auditors

The Board of Directors
Firebird New Russia Fund, Ltd.

We have audited the accompanying consolidated financial statements of Firebird New Russia Fund, Ltd. (the Fund), which comprise the consolidated statement of assets and liabilities, including the consolidated condensed schedule of investments, as of December 31, 2014, 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 New Russia Fund, Ltd. at December 31, 2014, 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 27, 2015

Firebird New Russia Fund, Ltd.

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

December 31, 2014

Assets

Cash and cash equivalents	\$ 6,143,680
Investments in securities, at fair value (cost \$98,645,125)	96,078,108
Dividends receivable	1,362,948
Due from brokers	523,488
Total assets	<u>104,108,224</u>

Liabilities

Class A redemptions payable	5,979,135
Allocation shares dividends payable	500,000
Unrealized capital gains tax reserve	3,166,824
Accounts payable and accrued expenses	175,566
Total liabilities	<u>9,821,525</u>
Net assets	<u>\$ 94,286,699</u>

Net asset value per share

Class A (based on 17,465.09 shares outstanding)	\$ 1,612.12
Class A1 (based on 44,941.75 shares outstanding)	\$ 657.38
Class M (based on 38,141.81 shares outstanding)	\$ 75.41
Allocation Shares (based on 7,800.88 shares outstanding)	\$ 4,322.21

See accompanying notes.

Firebird New Russia Fund, Ltd.

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

December 31, 2014

Quantity	Fair Value	Percent of Net Assets
Investments in securities		
Equities:		
Common stock:		
Estonia:		
	\$ 733,317	0.78%
	1,064,322	1.13
	3,255,663	3.45
	<u>5,053,302</u>	<u>5.36</u>
	Total Estonia (cost \$5,445,794)	
Georgia:		
Banking:		
225,882	7,305,008	7.75
	Bank of Georgia PLC (cost \$1,787,643)	
Kazakhstan:		
Banking:		
1,331,334	5,059,069	5.37
	1,783,861	1.89
	<u>6,842,930</u>	<u>7.26</u>
	Total Banking	
	811,108	0.86
	804,352	0.85
	Cement	
	Metallurgy & Mining	
Oil & Gas:		
39,998	15,891,672	16.85
	553,345	0.59
	<u>16,445,017</u>	<u>17.44</u>
	Total Oil & Gas	
	533,804	0.57
	<u>25,437,211</u>	<u>26.98</u>
	Total Kazakhstan (cost \$14,368,986)	
Lithuania:		
	754,411	0.80
	Retail (cost \$726,458)	
Mongolia:		
	1,388,397	1.47
	Metallurgy & Mining (cost \$1,576,911)	

Firebird New Russia 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:		
	\$ 3,263,768	3.46%
	2,185,998	2.32
	1,528,028	1.62
	6,977,794	7.40
	Total Romania (cost \$7,081,748)	
Russia:		
	1,018,855	1.08
	1,426,459	1.51
	6,086,134	6.46
	142,121	0.15
	1,557,836	1.65
	1,416,090	1.50
	2,961,466	3.14
	817,456	0.87
	87,983	0.09
	8,599,077	9.12
	1,010,840	1.07
	Oil & Gas:	
140,092	5,575,662	5.91
	3,253,908	3.46
	8,829,570	9.37
	703,835	0.75
	4,286,497	4.55
	1,095,664	1.16
	2,071,539	2.20
	1,746,630	1.85
	125,878	0.13
	809,198	0.86
	182,559	0.19
	1,512,428	1.61
	46,488,115	49.31
	Total Russia (cost \$63,179,256)	

Firebird New Russia 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):		
Ukraine:		
Food	\$ 209,223	0.22%
Real Estate	11,977	0.01
Total Ukraine (cost \$1,425,580)	<u>221,200</u>	<u>0.23</u>
Total common stock (cost \$95,592,376)	<u>93,625,438</u>	<u>99.30</u>
Preferred stock:		
Kazakhstan:		
Oil & Gas (cost \$708,441)	611,047	0.65
Russia:		
Automobiles	76,520	0.08
Fishing	149,913	0.16
Oil & Gas	1,275,145	1.35
Pharmaceuticals	95,500	0.10
Telecommunications	190,210	0.20
Uranium	14,095	0.02
Utilities	22,240	0.02
Total Russia (cost \$2,321,255)	<u>1,823,623</u>	<u>1.93</u>
Total preferred stock (cost \$3,029,696)	<u>2,434,670</u>	<u>2.58</u>
Total equities (cost \$98,622,072)	<u>96,060,108</u>	<u>101.88</u>
Convertible bonds:		
Kazakhstan:		
Oil & Gas	18,000	0.02
Total convertible bonds (cost \$23,053)	<u>18,000</u>	<u>0.02</u>
Total investments in securities (cost \$98,645,125)	<u>\$ 96,078,108</u>	<u>101.90%</u>

See accompanying notes.

Firebird New Russia Fund, Ltd.

Consolidated Statement of Operations
(Stated in United States Dollars)

Year Ended December 31, 2014

Investment income

Dividend income (net of \$945,137 withholding taxes)	\$	5,579,678
Interest income		5,552
Total investment income		<u>5,585,230</u>

Expenses

Management fees		1,690,273
Professional fees and other		694,541
Custodian fees		418,932
Total expenses		<u>2,803,746</u>

Net investment income 2,781,484

Net gain (loss) on investments and foreign currency transactions

Net change in unrealized capital gains tax reserve		1,106,742
Net realized gain on investments and foreign currency transactions		15,090,583
Net change in unrealized depreciation on investments and foreign currency transactions		<u>(72,961,276)</u>
Net loss on investments and foreign currency transactions		<u>(56,763,951)</u>
Net decrease in net assets resulting from operations	\$	<u><u>(53,982,467)</u></u>

See accompanying notes.

Firebird New Russia Fund, Ltd.

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

Year Ended December 31, 2014

Decrease in net assets resulting from operations

Net investment income	\$ 2,781,484
Net change in unrealized capital gains tax reserve	1,106,742
Net realized gain on investments and foreign currency transactions	15,090,583
Net change in unrealized depreciation on investments and foreign currency transactions	(72,961,276)
Net decrease in net assets resulting from operations	<u>(53,982,467)</u>

Increase in net assets resulting from capital share transactions

Class A shares subscribed	2,599,975
Class A1 shares subscribed	35,000,000
Class A shares redeemed	(16,079,992)
Class A1 shares redeemed	(1,783,000)
Dividends declared on Allocation Class shares	(6,750,000)
Net increase in net assets resulting from capital share transactions	<u>12,986,983</u>

Net change in net assets	(40,995,484)
Net assets at beginning of year	<u>135,282,183</u>
Net assets at end of year	<u>\$ 94,286,699</u>

See accompanying notes.

Firebird New Russia Fund, Ltd.

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

Year Ended December 31, 2014

Operating activities

Net decrease in net assets resulting from operations	\$ (53,982,467)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities:	
Net realized gain on investments	(15,020,796)
Net change in unrealized depreciation on investments	72,790,527
Purchases of investments	(28,437,041)
Proceeds from sales of investments	37,737,343
Changes in operating assets and liabilities:	
Dividends receivable	(1,321,040)
Due from brokers	490,934
Other assets	2,546
Due to brokers	(2,487,506)
Unrealized capital gains tax reserve	(1,106,742)
Accounts payable and accrued expenses	(10,371)
Net cash provided by operating activities	<u>8,655,387</u>

Financing activities

Proceeds from issuance of Class A Shares	2,599,975
Payments for redemptions of Class A Shares	(30,983,006)
Payments for redemptions of Class A1 Shares	(1,783,000)
Dividends paid on Allocation Class shares	(7,750,000)
Net cash used in financing activities	<u>(37,916,031)</u>
Net change in cash and cash equivalents	(29,260,644)
Cash and cash equivalents at beginning of year	<u>35,404,324</u>
Cash and cash equivalents at end of year	<u>\$ 6,143,680</u>

See accompanying notes.

Firebird New Russia Fund, Ltd.

Notes to Consolidated Financial Statements

December 31, 2014

1. Organization

Firebird New Russia Fund, Ltd. (“the Fund”) was incorporated as an exempted company under the laws of the Cayman Islands on June 6, 1996, and was registered under the Cayman Islands Mutual Funds Law on June 24, 1996. The Fund commenced operations on July 18, 1996. The purpose of the Fund is to invest primarily in publicly traded securities of companies operating in Russia and the other former Soviet republics. The Class A shares of the Fund are listed on the Bermuda Stock Exchange.

FNRF Holdings Ltd. (“FNRF”) 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 June 4, 1996. FNRF owns shares of companies operating in Russia and other countries.

The Fund’s investment advisor is Firebird Management, LLC (the “Advisor”), a New York limited liability company. The principals of the Advisor are also directors of the Fund. 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 and maintains the registered office of the Fund. Seaward Services Limited provides administration services to FNRF and maintains its registered office.

2. Significant Accounting Policies

The consolidated financial statements of the Fund have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) and are stated in United States Dollars. The 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.

Firebird New Russia Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Basis of Consolidation

The consolidated financial statements include the results of the Fund and its subsidiary, FNRF, after the elimination of all intercompany balances and transactions.

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, 2014, 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 JPMorgan Chase, State Street Bank and Swedbank AS. All cash and cash equivalents are held at banks organized in the United States of America and Estonia. The Fund does not expect any material losses as a result of this allocation.

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, 2014, the Fund and its subsidiaries held \$97,334 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.

Firebird New Russia Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments

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

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

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.

Firebird New Russia Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

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.

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

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

Level 2 securities will normally be priced using other observable information including identical or similar securities traded on other exchanges and quotations received from the counterparty, dealers, or brokers, whenever available and considered reliable.

Firebird New Russia Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

For Level 3 securities, the Advisor will value the equity securities using either a “market approach,” an “income approach,” or both approaches, as appropriate. The “market approach” uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The “income approach” uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). In following these approaches, the types of factors that may be taken into account include, as relevant: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, the nature and realizable value of any collateral, the issuer of the security’s ability to make payments, the issuer’s earnings, discounted cash flows and net asset value analysis, the markets in which the issuer does business, comparisons of financial ratios of peer public companies, recent M&A transactions for comparable public or private companies, actual and imminent capital transactions in the subject investee company and the principal market for the relevant security, among other factors.

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 traded in emerging market economies (see Note 11), 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.

Firebird New Russia Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Use of Estimates

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

Investment Classification

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

Firebird New Russia Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

3. Financial Instruments

The following is a summary of the inputs used as of December 31, 2014, in valuing the Fund's investments 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, 2014
Investments in securities				
Equities:				
Baltics:				
Estonia	\$ 1,797,639	\$ 3,255,663	\$ –	\$ 5,053,302
Other	–	754,411	–	754,411
Total Baltics	1,797,639	4,010,074	–	5,807,713
Central Asia:				
Kazakhstan	1,749,565	7,652,888	16,645,805	26,048,258
Eastern Asia:				
Mongolia	1,388,397	–	–	1,388,397
Eastern Europe:				
Russia	27,558,052	11,460,132	9,293,554	48,311,738
Georgia	7,305,008	–	–	7,305,008
Other	3,263,768	3,935,226	–	7,198,994
Total Eastern Europe	38,126,828	15,395,358	9,293,554	62,815,740
Total investments in equities	\$ 43,062,429	\$ 27,058,320	\$ 25,939,359	\$ 96,060,108
Convertible bonds				
Central Asia:				
Kazakhstan	–	–	18,000	18,000
Total investments in convertible bonds	\$ –	\$ –	\$ 18,000	\$ 18,000
Total investments in securities	\$ 43,062,429	\$ 27,058,320	\$ 25,957,359	\$ 96,078,108

Firebird New Russia 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			
	Central Asia	Eastern Europe	Baltics	Total
Balance as at December 31, 2013	\$ 22,326,629	\$ 12,625,827	\$ –	\$ 34,952,456
Net realized loss	–	(1,305,944)	(583,736)	(1,889,680)
Net change in unrealized appreciation (depreciation)	(5,680,824)	(1,624,628)	599,995	(6,705,457)
Purchases	–	500,014	–	500,014
Sales	–	(847,438)	(16,259)	(863,697)
Transfers into Level 3*	–	330	–	330
Transfers out of Level 3*	–	(54,607)	–	(54,607)
Balance as at December 31, 2014	<u>\$ 16,645,805</u>	<u>\$ 9,293,554</u>	<u>\$ –</u>	<u>\$ 25,939,359</u>
Net change in unrealized depreciation on investments still held as of December 31, 2014	<u>\$ (5,680,824)</u>	<u>\$ (3,458,960)</u>	<u>\$ –</u>	<u>\$ (9,139,784)</u>

*\$330 of securities was transferred from Level 1 due to the unavailability of direct observable market information. \$54,607 of securities was transferred to Level 2 due to the availability of direct observable market information.

	Convertible bonds
	Central Asia
Balance as at December 31, 2013	\$ –
Purchases	23,053
Net change in unrealized depreciation	(5,053)
Balance as at December 31, 2014	<u>\$ 18,000</u>
Net change in unrealized depreciation on investments still held as of December 31, 2014	<u>\$ (5,053)</u>

Firebird New Russia 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, 2014	Valuation Techniques	Unobservable Inputs	Ranges (Weighted Averages)
Equities	Eastern Europe Central Asia	\$ 9,293,554 16,645,805	Market comparable companies Dividend discount model	Price/Book value ratio Enterprise value/EBITDA ratio Price/Reserves Last Cost of capital Price/EBITDA ratio Price/Earnings ratio Dividend Yield	0.10 – 1.43 (1.18) 4.43 – 8.46 (7.86) 5.16 0.09 – 0.16 (0.09) 2.20 4.32 – 5.91 (4.49) 0.03
Convertible bonds	Central Asia	\$ 18,000	Discounted par value	Discount rate	20.0%

4. 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.

The Fund also invests in convertible bonds. Until such investments are sold or mature, the Fund is exposed to credit risk relating to whether the issuer will meet its obligation when it comes due.

Firebird New Russia Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

5. Share Capital

The Fund's authorized share capital is \$50,000 divided into 4,990,000 Class A, Class A1 and M shares and 10,000 Allocation shares each having a par value of \$0.01 per share. Outstanding Class A, Class A1, M and Allocation shares will participate in the assets of the Fund upon liquidation ratably in proportion to their respective redemption values. Each Class A, Class A1, M and Allocation shareholder is entitled to one vote for each share held on any matter presented to a meeting of shareholders. The Allocation Shares are owned by principals of the Advisor.

Class A and Class A1 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 and Class A1 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% and 15% respectively of the net increase in the net asset value of the shares held by that shareholder (see Note 7).

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 Class A and Class A1 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, 2014 were as follows:

	Class A	Class A1	Class M	Allocation Shares
Shares outstanding at December 31, 2013	29,471.30	–	38,141.81	7,800.88
Shares issued*	1,182.17	46,861.59	–	–
Shares redeemed	(13,188.38)	(1,919.84)	–	–
Shares outstanding at December 31, 2014	17,465.09	44,941.75	38,141.81	7,800.88

*Effective January 1, 2014, Class A shares with value \$11,861,587 were redesignated as Class A1 shares. This transfer is not reflected within the consolidated statement of changes in net assets.

Firebird New Russia Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

6. Management Fees

Pursuant to the Memorandum and Articles of Association and the Investment Advisory Agreement, the Fund pays the Advisor a management fee at an annual rate of 2.00% of the Class A and 1.50% of the Class A1 net asset value calculated and payable quarterly in advance based on the Class A and Class A1 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, 2014, the Fund recorded \$1,690,273 in management fees, of which \$1,690,106 was paid during the year.

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

7. 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% and 15% of the net increase each year in the Net Asset Value of each outstanding Class A share and Class A1 share respectively (including net unrealized gains and losses) subject to a loss carryforward. There was no Class A or Class A1 performance allocation reallocated to the Allocation shares for the year ended December 31, 2014.

The Advisor may waive all or part of the Performance Allocation for certain investors. The performance allocation can be withdrawn at any time by the holders of the Allocation shares by way of dividend or redemption.

8. 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 July 16, 2016.

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.

Firebird New Russia Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

8. Taxation (continued)

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.

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 FNRF 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.

9. Derivative Financial Instruments

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

Firebird New Russia Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

10. Related Party Transactions

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

Transactions with these entities during the year were as follows:

	Principal Ownership	Associated Companies	Affiliates
Purchases of investments	\$	–	\$ 887,435
Sales of investments		–	581,224
Realized loss on investments		–	(37,314)

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	2014 Ownership by the Fund and Affiliates	2014 Investments Held by the Fund	Industry
Tallink Grupp	5.61%	\$ 3,255,663	Transportation
Caspian Energy Inc.	21.17	192,516	Oil & Gas

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

Firebird New Russia Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

11. Investment Risks

The Fund's investments are based principally in the emerging economies of Russia and the other former Soviet republics. 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 shareholders;
- the risk of an economic or political catastrophe or renationalization that could result in a substantial or total loss of the value of the investments;
- a liquidity risk associated with restructuring of companies, during which time such securities may be frozen until registration has been completed;
- 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.

12. 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 New Russia Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

13. Financial Highlights

Financial highlights for the year ended December 31, 2014, were as follows:

	<u>Class A</u>	<u>Class A1</u>
Per share operating performance		
Beginning net asset value	\$ 2,464.69	\$ 1,000.00
Change in net assets resulting from operations:		
Net investment income	22.00	14.59
Net loss on investments and foreign currency transactions	(874.57)	(357.21)
Performance allocation	—	—
Net change in net assets resulting from operations	<u>(852.57)</u>	<u>(342.62)</u>
Ending net asset value	<u>\$ 1,612.12</u>	<u>\$ 657.38</u>
Total return		
Total return before and after performance allocation	(34.59)%	(34.26)%
Ratios to average net assets		
Total expenses before and after performance allocation	(3.46)%	(3.04)%
Net investment income	0.98%	1.62%

Per share operating information and total return are calculated for Class A and Class A1 shares on an annualized basis. Ratios to average net assets are calculated for each class 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 New Russia Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

14. Credit Facilities

As of December 31, 2014, 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 approximately \$6,220,000. These lines of credit are at market rates and as at December 31, 2014, there were no outstanding amounts due.

15. Subsequent Events

Management has evaluated events subsequent to year-end and through March 27, 2015, the date the consolidated financial statements were available to issue. During this period, the Fund recorded Class A redemptions of \$325,000.