
Audited Consolidated Financial Statements

Firebird New Russia Fund, Ltd. (On a Liquidation Basis)

Year Ended December 31, 2016

With Report of Independent Auditors



FIREBIRD MANAGEMENT LLC

Firebird New Russia Fund, Ltd. (On a Liquidation Basis)

Audited Consolidated Financial Statements

Year Ended December 31, 2016

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Report of Independent Auditors

The Board of Directors
Firebird New Russia Fund, Ltd. (On a Liquidation Basis)

We have audited the accompanying consolidated financial statements of Firebird New Russia Fund, Ltd. (On a Liquidation Basis) (the Fund), which comprise the consolidated statement of assets and liabilities, including the consolidated condensed schedule of investments, as of December 31, 2016, 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

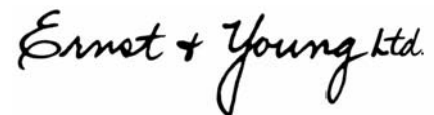
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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. (On a Liquidation Basis) at December 31, 2016, 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.



March 31, 2017

Firebird New Russia Fund, Ltd. (On a Liquidation Basis)

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

December 31, 2016

Assets

Cash and cash equivalents	\$	2,389,269
Investments in securities, at fair value (cost \$40,512,516)		43,768,715
Dividends receivable		113,155
Due from brokers		302,332
Total assets		<u>46,573,471</u>

Liabilities

Unrealized capital gains tax reserve		1,998,320
Accounts payable and accrued expenses (see Note 2)		637,022
Total liabilities		<u>2,635,342</u>
Net assets	\$	<u>43,938,129</u>

Net asset value per share

Class A (based on 5,871.1986 shares outstanding)	\$	2,033.67
Class A1 (based on 17,127.7503 shares outstanding)	\$	837.65
Class M (based on 14,559.1844 shares outstanding)	\$	99.02
Allocation Shares (based on 2,977.6896 shares outstanding)	\$	5,444.95

See accompanying notes.

Firebird New Russia Fund, Ltd. (On a Liquidation Basis)

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

December 31, 2016

Quantity		Fair Value	Percent of Net Assets
Investments in securities			
Common stock:			
Estonia:			
	Transportation		
3,818,626	Tallink Grupp AS (cost \$2,021,150)	\$ 3,667,699	8.35%
Georgia:			
	Banking:		
78,920	BGEO Group PLC (cost \$439,099)	2,910,040	6.62
Kazakhstan:			
	Banking	2,320,134	5.28
	Metallurgy & Mining	1,700,538	3.87
	Oil & Gas:		
39,998	Aktobemunaigas JSC	9,840,144	22.40
	Other	594,566	1.35
	Total Oil & Gas	10,434,710	23.75
	Telecommunications	253,830	0.58
	Total Kazakhstan (cost \$12,285,868)	14,709,212	33.48
Mongolia:			
	Metallurgy & Mining (cost \$188,349)	187,660	0.43
Romania:			
	Banking (cost \$87,693)	185,771	0.42

Firebird New Russia Fund, Ltd. (On a Liquidation Basis)

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

Quantity		Fair Value	Percent of Net Assets
Investments in securities (continued)			
Common stock (continued):			
Russia:			
	Agriculture	\$ 640,029	1.46%
	Automobiles	1,813,638	4.13
	Banking:		
1,755,628	Sberbank	4,937,607	11.24
	Others	2,776,126	6.31
	Total Banking	7,713,733	17.55
	Biotechnology	41,300	0.09
	Diamonds & Gems	51,276	0.12
	Fishing	-	-
	Manufacturing	548,915	1.25
	Metallurgy & Mining	2,977,748	6.77
	Nuclear	1,080,016	2.46
	Oil & Gas:		
60,888	Lukoil PJSC SPON ADR	3,415,817	7.77
143,655	Gazpromneft SPON ADR	2,521,145	5.74
	Total Oil & Gas	5,936,962	13.51
	Pharmaceuticals	35,400	0.08
	Real Estate	438,501	1.00
	Retail	162,617	0.37
	Stock Exchange	276,111	0.63
	Technology	86,422	0.20
	Uranium	27,409	0.06
	Utilities	16,129	0.04
	Total Russia (cost \$23,201,469)	21,846,206	49.72

Firebird New Russia Fund, Ltd. (On a Liquidation Basis)

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

<u>Quantity</u>	<u>Fair Value</u>	<u>Percent of Net Assets</u>
Investments in securities (continued)		
Common stock (continued):		
Ukraine:		
Agriculture	\$ 35,721	0.08%
Real Estate	1,157	—
Total Ukraine (cost \$1,425,581)	<u>36,878</u>	<u>0.08</u>
Total common stock (cost \$39,649,209)	<u>43,543,466</u>	<u>99.10</u>
Preferred stock:		
Russia:		
Automobiles	44,463	0.10
Fishing	—	—
Pharmaceuticals	158,446	0.36
Uranium	2,331	—
Utilities	<u>20,009</u>	<u>0.05</u>
Total Russia (cost \$863,307)	<u>225,249</u>	<u>0.51</u>
Total preferred stock (cost \$863,307)	<u>225,249</u>	<u>0.51</u>
Total investments in securities (cost \$40,512,516)	<u>\$ 43,768,715</u>	<u>99.61%</u>

See accompanying notes.

Firebird New Russia Fund, Ltd. (On a Liquidation Basis)

Consolidated Statement of Operations
(Stated in United States Dollars)

Year Ended December 31, 2016

Investment income

Dividend income (net of \$172,201 withholding taxes) \$ 1,556,982

Expenses

Professional fees and other (including liquidation accrual, *see Note 2*) 346,505

Management fees 714,307

Total expenses 1,060,812

Net investment income 496,170

Net gain on investments and foreign currency transactions

Net change in unrealized capital gains tax reserve 173,134

Net realized gain on investments and foreign currency transactions 9,194,328

Net change in unrealized appreciation on investments and foreign currency transactions 10,443,302

Net gain on investments and foreign currency transactions 19,810,764

Net increase in net assets resulting from operations \$ 20,306,934

See accompanying notes.

Firebird New Russia Fund, Ltd. (On a Liquidation Basis)

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

Year Ended December 31, 2016

Increase in net assets resulting from operations	
Net investment income	\$ 496,170
Net change in unrealized capital gains tax reserve	173,134
Net realized gain on investments and foreign currency transactions	9,194,328
Net change in unrealized appreciation on investments and foreign currency transactions	10,443,302
Net increase in net assets resulting from operations	<u>20,306,934</u>
Decrease in net assets resulting from capital share transactions	
Class A shares redeemed	(15,399,698)
Class A1 shares redeemed	(18,477,713)
Class M shares redeemed	(1,847,432)
Allocation Class shares redeemed	(20,775,157)
Net performance allocation from Class A shareholders	(978)
Net performance allocation to Allocation Class shareholders	978
Net decrease in net assets resulting from capital share transactions	<u>(56,500,000)</u>
Net change in net assets	(36,193,066)
Net assets at beginning of year	<u>80,131,195</u>
Net assets at end of year	<u>\$ 43,938,129</u>

See accompanying notes.

Firebird New Russia Fund, Ltd. (On a Liquidation Basis)

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

Year Ended December 31, 2016

Operating activities

Net increase in net assets resulting from operations	\$ 20,306,934
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:	
Net realized gain on investments	(9,228,519)
Net change in unrealized appreciation on investments	(10,729,973)
Purchases of investments	(1,222,681)
Proceeds from sales of investments	50,359,896
Changes in operating assets and liabilities:	
Dividends receivable	75,858
Due from brokers	(109,571)
Unrealized capital gains tax reserve	(173,134)
Accounts payable and accrued expenses	(634,306)
Net cash provided by operating activities	<u>48,644,504</u>

Financing activities

Payments for redemptions of Class A Shares	(15,693,731)
Payments for redemptions of Class A1 Shares	(18,477,713)
Payments for redemptions of Class M Shares	(1,847,432)
Payments for redemptions of Allocation Class Shares	(20,775,157)
Net cash used in financing activities	<u>(56,794,033)</u>
Net change in cash and cash equivalents	(8,149,529)
Cash and cash equivalents at beginning of year	<u>10,538,798</u>
Cash and cash equivalents at end of year	<u>\$ 2,389,269</u>

See accompanying notes.

Firebird New Russia Fund, Ltd. (On a Liquidation Basis)

Notes to Consolidated Financial Statements

December 31, 2016

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 commenced operations on July 18, 1996. The Fund is currently in license under termination under the Cayman Islands Mutual Funds Law. Prior to announcing the liquidation of the Fund (see below), the purpose of the Fund was 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.

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.

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.

Trident Trust Company (Cayman) Limited (the “Administrator”) provides administration services and maintains the registered office of the Fund. Seaward Management Limited provides administration services to FNRF and maintains its registered and regional office.

On November 20, 2015, the Board of Directors of the Fund resolved to wind the Fund down, suspend redemptions and commence the realization process of the assets held by the Fund. Going forward, the Fund will be managed with the sole intention of returning cash to investors on a pro-rata basis as and when its assets are realized.

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.

Firebird New Russia Fund, Ltd. (On a Liquidation Basis)

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

The Fund meets the definition of an investment company and follows the accounting and reporting guidance in ASC Topic 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 subsidiary, FNRF, after the elimination of all intercompany balances and transactions.

The Fund adopted the liquidation basis of accounting. Under the liquidation basis of accounting, assets are stated at their net realizable values, liabilities are stated at their estimated settlement amounts, and expenses include all estimated costs to be incurred in connection with the liquidation of the Fund. The Advisor has determined that based upon the expected timing and manner of disposition and extinguishment of the Fund's assets and liabilities, respectively, the fair value and carrying amounts of such assets and liabilities approximate net realizable value and settlement amounts, respectively. Estimated liquidation expenses of \$637,022 are accrued at the year end and are included within accounts payable and accrued expenses in the consolidated statement of assets and liabilities.

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 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.

Firebird New Russia Fund, Ltd. (On a Liquidation Basis)

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

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, 2016, the Fund and its subsidiaries held \$181,251 (cost \$180,491) 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 ASC Topic 825, *Financial Instruments*, approximates the carrying amounts presented in the consolidated financial statements.

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

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

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

Firebird New Russia Fund, Ltd. (On a Liquidation Basis)

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

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. During 2016, there were no transfers into or out of Level 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 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.

Firebird New Russia Fund, Ltd. (On a Liquidation Basis)

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 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.

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 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.

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.

Firebird New Russia Fund, Ltd. (On a Liquidation Basis)

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

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.

3. Financial Instruments

The following is a summary of the inputs used as of December 31, 2016, in valuing the Fund's investments carried at fair value, disaggregated by geographic region.

	Level 1		Level 2		Level 3		Fair Value
	Quoted Prices in		Other Significant		Significant		December 31,
	Active Markets		Observable		Unobservable		2016
	for Identical		Inputs		Inputs		
	Assets						
Investments in securities							
Equities:							
Baltics:							
Estonia	\$	–	\$	3,667,699	\$	–	\$ 3,667,699
Central Asia:							
Kazakhstan		–		3,168,530		11,540,682	14,709,212
Eastern Asia:							
Mongolia		187,660		–		–	187,660
Eastern Europe:							
Georgia		2,910,040		–		–	2,910,040
Romania		185,771		–		–	185,771
Russia		10,302,746		7,780,637		3,988,072	22,071,455
Ukraine		–		36,878		–	36,878
Total Eastern Europe		13,398,557		7,817,515		3,988,072	25,204,144
Total investments in securities	\$	13,586,217	\$	14,653,744	\$	15,528,754	\$ 43,768,715

Firebird New Russia Fund, Ltd. (On a Liquidation Basis)

Notes to Consolidated Financial Statements (continued)

3. Financial Instruments (continued)

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

	<u>Central Asia</u>	<u>Eastern Europe</u>	<u>Total</u>
Balance as at December 31, 2015	\$ 11,291,853	\$ 7,368,676	\$ 18,660,529
Net realized gain	–	7,455,900	7,455,900
Net change in unrealized depreciation	(858,505)	(1,683,098)	(2,541,603)
Purchases	1,107,334	–	1,107,334
Sales	–	(9,153,406)	(9,153,406)
Balance as at December 31, 2016	<u>\$ 11,540,682</u>	<u>\$ 3,988,072</u>	<u>\$ 15,528,754</u>
Net change in unrealized appreciation (depreciation) on investments still held as of December 31, 2016	<u>\$ (858,505)</u>	<u>\$ 949,765</u>	<u>\$ 91,260</u>

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, 2016	Valuation Techniques	Unobservable Inputs	Ranges (Weighted Averages)
Equities	Central Asia	\$ 11,540,682	Market comparable companies	Price/Earnings ratio	9.40
				Enterprise value/EBITDA ratio	5.35
			Discounted cash flows	Price/Reserves last	2.53
				Cost of capital	0.06
	Eastern Europe	3,988,072	Market comparable companies	Discount	25%
				Price/Earnings ratio	9.89
				Price/Book value ratio	0.16 - 0.86 (0.80)
				Enterprise value/EBITDA ratio	1.25
			Discount	20%	

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.

Firebird New Russia Fund, Ltd. (On a Liquidation Basis)

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, 2016 were as follows:

	<u>Class A</u>	<u>Class A1</u>	<u>Class M</u>	<u>Allocation Shares</u>
Shares outstanding at December 31, 2015	15,381.23	44,870.88	38,141.81	7,800.88
Shares redeemed	(9,510.03)	(27,743.13)	(23,582.63)	(4,823.19)
Shares outstanding at December 31, 2016	<u>5,871.20</u>	<u>17,127.75</u>	<u>14,559.18</u>	<u>2,977.69</u>

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, 2016, the Fund recorded and paid during the year \$714,307 in management fees.

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.

Firebird New Russia Fund, Ltd. (On a Liquidation Basis)

Notes to Consolidated Financial Statements (continued)

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. For the year ended December 31, 2016, the Fund recorded \$978 Class A performance allocations which were reallocated to the Allocation shareholders.

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 June 28, 2036.

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.

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.

Firebird New Russia Fund, Ltd. (On a Liquidation Basis)

Notes to Consolidated Financial Statements (continued)

8. Taxation (continued)

As at December 31, 2016, the Advisor has identified two investment holdings in Kazakhstan which, under the current tax regulation in this jurisdiction, 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 \$1,998,320 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.

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 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. (On a Liquidation Basis)

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:

	<u>Principal Ownership</u>		<u>Associated Companies</u>		<u>Affiliates</u>
Purchases of investments	\$	–	\$	–	\$ 1,107,280
Sales of investments		–		416,073	8,406,289
Realized loss on investments		–		(44,259)	(2,405,403)

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

<u>Name of Company</u>	<u>2016 Ownership by the Fund and Affiliates</u>		<u>2016 Investments Held by the Fund</u>	<u>Industry</u>
Tallink Grupp AS	5.45%	\$	3,667,699	Transportation

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

Firebird New Russia Fund, Ltd. (On a Liquidation Basis)

Notes to Consolidated Financial Statements (continued)

11. Investment Risks

The Fund's investments are based principally in the emerging economies of Russia, the other former Soviet Republics and emerging Eastern Europe (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 New Russia Fund, Ltd. (On a Liquidation Basis)

Notes to Consolidated Financial Statements (continued)

11. 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 A1, M 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 depositories, administrators and/or auditors than the Fund, or may have no such depository, 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 New Russia Fund, Ltd. (On a Liquidation Basis)

Notes to Consolidated Financial Statements (continued)

11. 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 New Russia Fund, Ltd. (On a Liquidation Basis)

Notes to Consolidated Financial Statements (continued)

11. 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.

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. (On a Liquidation Basis)

Notes to Consolidated Financial Statements (continued)

13. Financial Highlights

Financial highlights for the year ended December 31, 2016, were as follows:

	<u>Class A</u>	<u>Class A1</u>
Per share operating performance		
Beginning net asset value	\$ 1,429.45	\$ 585.83
Change in net assets resulting from operations:		
Net investment income (expense)	(4.84)	2.10
Net gains on investments and foreign currency transactions	609.23	249.72
Performance allocation	(0.17)	–
Net change in net assets resulting from operations	<u>604.22</u>	<u>251.82</u>
Ending net asset value	<u>\$ 2,033.67</u>	<u>\$ 837.65</u>
Total return		
Total return before performance allocation	42.28%	42.99%
Performance allocation	(0.01)	–
Total return after performance allocation	<u>42.27%</u>	<u>42.99%</u>
Ratios to average net assets		
Total expenses before performance allocation	(2.77)%	(2.28)%
Performance allocation	(0.01)	–
Total expenses after performance allocation	<u>(2.78)%</u>	<u>(2.28)%</u>
Net investment income (expense)	(0.25)%	0.26%

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.

14. Credit Facilities

As of December 31, 2016, 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 \$4,400,000. These lines of credit are at market rates and as at December 31, 2016, there were no outstanding amounts due.

Firebird New Russia Fund, Ltd. (On a Liquidation Basis)

Notes to Consolidated Financial Statements (continued)

15. Subsequent Events

Management has evaluated events subsequent to year end through March 31, 2017, the date the consolidated financial statements were available to issue. On February 2, 2017, the Fund made its sixth winding down distribution of \$7,000,000 pro-rata to all Class A, Sub-class A1, M and Allocation shareholders representing approximately 15.93% of the net asset value of the Fund as at December 31, 2016.