

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

Ernst & Young Ltd.



Building a better
working world

Firebird New Russia Fund, Ltd.

Audited Consolidated Financial Statements

Year Ended December 31, 2013

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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, 2013, and the related consolidated statements of operations, changes in net assets and cash flows for the year then ended and the related notes to the 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 Fund’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Firebird New Russia Fund, Ltd. at December 31, 2013, and the consolidated results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young Ltd.

March 26, 2014

Firebird New Russia Fund, Ltd.

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

December 31, 2013

Assets

Cash and cash equivalents	\$ 35,404,324
Investments in securities, at fair value (cost \$90,020,754)	162,164,598
Investment in other investment fund, at fair value (cost \$2,903,877)	983,543
Dividends receivable	41,908
Due from brokers	1,014,422
Other assets	2,546
Total assets	<u>199,611,341</u>

Liabilities

Class A redemptions payable	20,882,149
Allocation shares dividends payable	1,500,000
Subscriptions received in advance	35,000,000
Due to brokers	2,487,506
Unrealized capital gains tax reserve	4,273,566
Accounts payable and accrued expenses	185,937
Total liabilities	<u>64,329,158</u>
Net assets	<u>\$ 135,282,183</u>

Net asset value per share

Class A (based on 29,471.30 shares outstanding)	\$ 2,464.69
Class M (based on 38,141.81 shares outstanding)	\$ 113.00
Allocation Shares (based on 7,800.88 shares outstanding)	\$ 7,478.47

See accompanying notes.

Firebird New Russia Fund, Ltd.

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

December 31, 2013

Quantity	Fair Value	Percent of Net Assets
Investments in securities		
Common stock:		
Estonia:		
	\$ 1,884,902	1.39%
	1,322,832	1.00
	1,353,802	1.00
	4,876,336	3.60
	9,437,872	6.99
	Total Estonia (cost \$6,735,636)	
Georgia:		
Banking		
238,732	9,466,111	7.00
	Bank of Georgia (cost \$1,944,798)	
Kazakhstan:		
	3,078,750	2.28
	792,504	0.59
	Metallurgy & Mining	
Oil & Gas:		
39,998	21,654,967	16.00
	126,202	0.09
	21,781,169	16.09
	25,652,423	18.96
	Total Oil & Gas	
	Total Kazakhstan (cost \$10,715,640)	
Latvia:		
	-	-
	Banking (cost \$599,995)	
Lithuania:		
	797,891	0.59
	Retail (cost \$672,763)	
Mongolia:		
	330,415	0.23
	Metallurgy & Mining (cost \$319,548)	

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)		
Common stock (continued):		
Romania:		
	\$ 1,401,908	1.04%
	1,464,677	1.08
	<u>2,866,585</u>	<u>2.12</u>
Total Romania (cost \$2,600,618)		
Russia:		
	4,566,871	3.38
	6,125,465	4.53
	Banking:	
682,794	8,589,549	6.34
	5,127,018	3.79
	<u>13,716,567</u>	<u>10.13</u>
	Total Banking	
	3,924,351	2.90
	623,278	0.46
	205,244	0.15
	3,864,302	2.86
	5,289,458	3.91
	8,601,716	6.36
	1,936,185	1.44
	Oil & Gas:	
273,981	17,110,113	12.65
3,067,970	6,108,897	4.52
	7,993,507	5.91
	<u>31,212,517</u>	<u>23.08</u>
	Total Oil & Gas	
	843,164	0.62
	5,040,770	3.72
	2,696,456	1.99
	8,878,321	6.56
	778,855	0.58
	4,007,535	2.96
	185,933	0.14
	3,746,776	2.76
	<u>106,243,764</u>	<u>78.53</u>
	Total Russia (cost \$62,045,071)	

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)		
Common stock (continued):		
Ukraine:		
Agriculture	\$ 72,431	0.05%
Real Estate	47,922	0.04
Total Ukraine (cost \$1,302,685)	120,353	0.09
Total common stock (cost \$86,936,754)	154,915,414	114.51
Preferred stock:		
Russia:		
Automobiles	208,346	0.15
Fishing	181,924	0.13
Oil & Gas:		
2,459,965 TNK-BP Holding Preferred	4,000,247	2.97
Other	1,976,790	1.46
Total Oil & Gas	5,977,037	4.43
Pharmaceuticals	135,718	0.10
Telecommunications	607,472	0.45
Uranium	14,356	0.01
Utilities	124,331	0.09
Total Russia	7,249,184	5.36
Total preferred stock (cost \$3,084,000)	7,249,184	5.36
Total investments in securities		
(cost \$90,020,754)		
	\$ 162,164,598	119.87%
Investment in other investment fund		
Russia:		
Utilities	\$ 983,543	0.73%
Total investment in other investment fund		
(cost \$2,903,877)		
	\$ 983,543	0.73%

See accompanying notes.

Firebird New Russia Fund, Ltd.

Consolidated Statement of Operations
(Stated in United States Dollars)

Year Ended December 31, 2013

Investment income

Dividend income (net of \$1,234,541 withholding taxes)	\$ 6,778,205
Interest income	10,214
Total investment income	<u>6,788,419</u>

Expenses

Management fees	2,042,922
Professional fees and other	736,074
Custodian fees	383,370
Total expenses	<u>3,162,366</u>

Net investment income	3,626,053
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Net gain (loss) on investments and foreign currency transactions

Net change in unrealized capital gains tax reserve	(911)
Net realized gain on investments and foreign currency transactions	12,232,420
Net change in unrealized depreciation on investments and foreign currency transactions	<u>(9,697,251)</u>
Net gain on investments and foreign currency transactions	<u>2,534,258</u>
Net increase in net assets resulting from operations	<u>\$ 6,160,311</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, 2013

Increase in net assets resulting from operations	
Net investment income	\$ 3,626,053
Net change in unrealized capital gains tax reserve	(911)
Net realized gain on investments and foreign currency transactions	12,232,420
Net change in unrealized depreciation on investments and foreign currency transactions	<u>(9,697,251)</u>
Net increase in net assets resulting from operations	6,160,311
 Decrease in net assets resulting from capital share transactions	
Class A shares subscribed	1,130,000
Class M shares subscribed	775,000
Class A shares redeemed	(43,654,354)
Net performance allocation from Class A shareholders	(1,110)
Net performance allocation to Allocation Class shareholders	1,110
Dividends declared to Allocation Class shareholders	<u>(3,100,000)</u>
Net decrease in net assets resulting from capital share transactions	<u>(44,849,354)</u>
 Net change in net assets	(38,689,043)
Net assets at beginning of year	<u>173,971,226</u>
Net assets at end of year	<u>\$ 135,282,183</u>

See accompanying notes.

Firebird New Russia Fund, Ltd.

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

Year Ended December 31, 2013

Operating activities

Net increase in net assets resulting from operations	\$ 6,160,311
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:	
Net realized gain on investments	(12,252,282)
Net change in unrealized depreciation on investments	9,653,187
Purchases of investments	(23,123,699)
Proceeds from sales of investments	35,048,344
Changes in operating assets and liabilities:	
Dividends receivable	521,957
Due from brokers	(290,463)
Interest receivable	31,796
Other assets	10,049
Due to brokers	2,487,506
Unrealized capital gains tax reserve	911
Accounts payable and accrued expenses	(41,016)
Net cash provided by operating activities	<u>18,206,601</u>

Financing activities

Proceeds from issuance of Class A Shares	1,130,000
Subscriptions received in advance	35,000,000
Payments for redemptions of Class A Shares	(26,958,335)
Proceeds from issuance of Class M Shares	775,000
Dividends paid to Allocation Class shareholders	(3,350,000)
Net cash provided by financing activities	<u>6,596,665</u>
Net change in cash and cash equivalents	24,803,266
Cash and cash equivalents at beginning of year	10,601,058
Cash and cash equivalents at end of year	<u>\$ 35,404,324</u>

See accompanying notes.

Firebird New Russia Fund, Ltd.

Notes to Consolidated Financial Statements

December 31, 2013

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.

FNRH Holdings Ltd. (“FNRH”) 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. FNRH 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 FNRH 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 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, FNRH, after the elimination of all intercompany balances and transactions.

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

Firebird New Russia Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Basis of Consolidation (continued)

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

Cash and Cash Equivalents

Cash and cash equivalents include amounts due from banks on demand and deposits with original maturities of three months or less. Substantially all of the cash and cash equivalents are held at 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.

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.

Firebird New Russia Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

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.

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)

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

The Fund's investments in other investment funds are generally valued at the reported values, provided by or on behalf 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 such reasonably available relevant information as it considers material.

The strategy of the other investment fund in which the Fund has a position is to invest in Russian utility companies. Current redemption terms are monthly with 35 days' prior written notice.

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

Firebird New Russia Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

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

Because of the inherent uncertainty of valuation of securities and investment funds traded in emerging market economies (see Note 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.

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, 2013, 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, 2013
Investments in securities:				
Eastern Europe:				
Russia	\$ 74,996,690	\$ 25,942,862	\$ 12,553,396	\$ 113,492,948
Georgia	9,466,111	–	–	9,466,111
Other	–	2,914,507	72,431	2,986,938
Total Eastern Europe	84,462,801	28,857,369	12,625,827	125,945,997
Baltics:				
Estonia	3,207,734	6,230,138	–	9,437,872
Other	797,891	–	–	797,891
Total Baltics	4,005,625	6,230,138	–	10,235,763
Central Asia:				
Kazakhstan	–	3,325,794	22,326,629	25,652,423
Eastern Asia:				
Mongolia	330,415	–	–	330,415
Total investments in securities	\$ 88,798,841	\$ 38,413,301	\$ 34,952,456	\$ 162,164,598
Total investment in other investment fund:				
Eastern Europe	\$ –	\$ 983,543	\$ –	\$ 983,543

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:

	Investments in Securities		
	Central Asia	Eastern Europe	Total
Balance as at December 31, 2012	\$ 22,347,183	\$ 14,476,771	\$ 36,823,954
Net realized gain	–	1,540,226	1,540,226
Net change in unrealized loss	(20,554)	(2,284,094)	(2,304,648)
Purchases	–	588,359	588,359
Sales	–	(2,680,313)	(2,680,313)
Transfers into Level 3*	–	984,878	984,878
Balance as at December 31, 2013	<u>\$ 22,326,629</u>	<u>\$ 12,625,827</u>	<u>\$ 34,952,456</u>
Net change in unrealized gain/(loss) on investments still held as of December 31, 2013	<u>\$ (20,554)</u>	<u>\$ (137,108)</u>	<u>\$ (157,662)</u>

*\$1,042,231 of securities was transferred from Level 2 due to the unavailability of indirect observable market information. \$57,353 of securities was transferred out of Level 3 due to the availability of indirect observable market information.

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

Asset Class	Geographic Region	Fair Value as at December 31, 2013	Valuation Techniques	Unobservable Inputs	Ranges (Weighted Averages)
Equities	Eastern Europe Central Asia	\$ 12,625,827 22,326,629	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	0.12 – 0.79 (0.67) 1.80 – 5.66 (3.92) 5.80 0.13 – 0.18 (0.13) 3.13 4.00 – 6.18 (4.23)

Firebird New Russia Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

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. The Fund periodically monitors the credit standing of the brokers and does not expect any material losses as a result of default by brokers.

5. Share Capital

The Fund's authorized share capital consists of 4,990,000 Class A and M shares and 10,000 Allocation shares each having a par value of \$0.01 per share. Outstanding Class A, 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, M and Allocation shareholder is entitled to one vote for each share held on any matter presented to a meeting of shareholders.

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 shares except that Class M shares will not be subject to any Management Fee or Performance Allocation. The Allocation Shares are owned by principals of the Advisor.

Class A shares are issued, redeemed and adjusted for equalization in accordance with the Memorandum and Articles of Association. At the end of each year, the number of shares held by each Class A shareholder is adjusted for equalization purposes so that each share has the same net asset value, and that each shareholder pays a performance allocation each year equal to 20% of the net increase in the net asset value of the shares held by that shareholder (see Note 7).

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

	Class A	Class M	Allocation Shares
Shares outstanding at December 31, 2012	47,580.11	30,840.25	7,800.88
Shares issued	458.51	7,301.56	—
Shares redeemed	(18,567.32)	—	—
Shares outstanding at December 31, 2013	<u>29,471.30</u>	<u>38,141.81</u>	<u>7,800.88</u>

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 net asset value calculated and payable quarterly in advance based on the Class A share of the Fund's net asset value (before accrual for performance allocation) as of the last business day of the preceding quarter. For the year ended December 31, 2013, the Fund recorded \$2,042,922 in management fees, of which \$2,045,648 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

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. For the year ended December 31, 2013, the Fund recorded \$1,110 of Class A performance allocations which were reallocated to 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 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	\$	– \$	– \$ 1,508,991

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

Name of Company	2013 Ownership by the Fund and Affiliates	2013 Equity in Investments Held by the Fund	Industry
Tallink Group	5.63%	\$ 4,876,336	Transportation

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;
- 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; and
- the risk of restrictions being imposed by foreign governments on the repatriation of cash.

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

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

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, 2013, were as follows:

	Class A
Per share operating performance	
Beginning net asset value	\$ 2,368.13
Change in net assets resulting from operations:	
Net investment income	32.88
Net gain on investments	63.70
Performance allocation	(0.02)
Net change in net assets resulting from operations	96.56
Ending net asset value	\$ 2,464.69
 Total return	
Total return before performance allocation	4.08%
Performance allocation	—
Total return after performance allocation	4.08%
 Ratios to average net assets	
Total expenses before performance allocation	(2.30)%
Performance allocation	—
Total expenses after performance allocation	(2.30)%
 Net investment income	 1.42%

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

Firebird New Russia Fund, Ltd.

Notes to Consolidated Financial Statements (continued)

14. Credit Facilities

As of December 31, 2013, the Fund had a credit agreement (Credit Facility) with Swedbank AS, pursuant to which the Fund has granted security over its assets held at Swedbank AS in order to have access to funds on a short-term basis to fulfill redemption requests in limited circumstances, as determined by the Advisor. Pursuant to the terms of the Credit Facility, the Fund can borrow up to approximately \$6,150,420. These lines of credit are at market rates and as at December 31, 2013, \$Nil was outstanding.

15. Subsequent Events

Management has evaluated events subsequent to year-end and through March 26, 2014, the date the consolidated financial statements were available to issue. During this period, the Fund recorded no Class M or Class A subscriptions.

On January 1, 2014, the Fund created a new share class, Sub-Class A1 and received a \$35,000,000 subscription.

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

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