

**FMG RISING 3 FUND LTD.**

**Financial Statements**  
(With Auditors' Report Thereon)

March 31, 2011 and 2010

## **FMG RISING 3 FUND LTD.**

### **ANNUAL REPORT**

March 31, 2011

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Dear Shareholders:

We are pleased to send you the annual report and audited financial statements of FMG Rising 3 Fund Ltd. (the "Fund") for the year ending March 31, 2011. The Fund began operations on November 1, 2003 with a view to investing equally in the markets of China, India and Russia. These are areas which FMG Fund Managers Limited (the "Manager") views as having the greatest economic growth potential over the next decade. The Fund aims to reduce its volatility by diversifying its asset allocation among different managers in each country.

During the year, the Net Asset Value ("NAV") per US Dollar Class A Redeemable Preference Share increased by 3.48% to \$159.86; and the NAV per US Dollar Class B Redeemable Preference Share increased by 4.0% to \$18.75. The Fund also has Euro, GBP and NOK classes with performance ranging from loss of 1% to gain of 2% depending on the hedging of the currency exposure and the fee schedule. The 09 shares classes performance in USD, EUR, NOK, GBP ranged from down 1% to up 4%.

Russian, Indian and Chinese equity markets behaved rather differently during the period. We saw a continued strong rally in the Russian equity markets reinforced by a rise in global commodity prices. The Indian markets performed well during the first half of the year with record inflow from foreign institutional investors, but the markets did not manage to keep most of the gains. The Indian Markets corrected substantially in the latter part of the year as foreign investors reversed their fund flow. Lastly, the Chinese equity market remained to be the worst market among the three. In fact, the China A-shares market was the World's third worst performing market in 2010. The Fund's positive contributors were its Russia, Greater China and India Large Cap exposure. The Fund's domestic China A-share exposure also registered a positive performance, outperformed the local index. The Fund's main negative contributors were India Mid Cap and India Real Estate exposure. As of March 25<sup>st</sup>, 2011, 43% of the assets were invested in Russia, 26% in India and 31% in China. We had brought down the Fund's Russian exposure back down below 40% in April.

Yours sincerely,  
**FMG Fund Managers Limited**  
As Manager for  
**FMG Rising 3 Fund Ltd.**



**KPMG**

Crown House  
4 Par-la-Ville Road  
Hamilton HM 08, Bermuda  
Mailing Address:  
P.O. Box HM 906  
Hamilton HM DX, Bermuda

Telephone 441 295-5063  
Fax 441 295-9132  
www.kpmg.bm

**Independent Auditors' Report**

To the Directors and Shareholders of  
FMG Rising 3 Fund Ltd.

We have audited the accompanying financial statements of FMG Rising 3 Fund Ltd. (the "Fund"), which comprise the statement of assets and liabilities, including the schedule of investments, as at March 31, 2011, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Bermuda and Canada, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 our 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, we consider 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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 present fairly, in all material respects, the financial position of the Fund as at March 31, 2011 and of its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

Chartered Accountants  
Hamilton Bermuda  
December 8, 2011

**FMG RISING 3 FUND LTD.**

## Statement of Assets and Liabilities

March 31, 2011

*(Expressed in United States Dollars)*

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Investments in other investment companies (cost - \$54,783,425; 2010 - \$80,521,638) (See Schedule of Investments) (Notes 5, 7, and 10)	\$ 56,657,378	\$ 83,530,963
Unrealized gain on forward foreign exchange contracts (Notes 5, 7 and 10)	162,537	182,406
Cash and cash equivalents (Notes 5 and 10)	2,502,293	4,887,166
Rebate income receivable (Note 3)	204,064	391,246
Other assets	<u>12,088</u>	<u>4,997</u>
Total assets	<u>59,538,360</u>	<u>88,996,778</u>
<b>Liabilities</b>		
Unrealized loss on forward foreign exchange contracts (Notes 5, 7 and 10)	64,547	188,684
Subscriptions received in advance	10,000	263,767
Redemption payable	5,545,905	8,017,042
Management and incentive fees payable (Note 3)	269,491	391,412
Administration fees payable (Note 4)	28,184	43,090
Accounts payable and accrued expenses (Note 3)	<u>29,913</u>	<u>84,939</u>
Total liabilities	<u>5,948,040</u>	<u>8,988,934</u>
<b>Net assets</b>	<u>\$ 53,590,320</u>	<u>\$ 80,007,844</u>
Less: attributable to 100 common shares (Note 6)	<u>(100)</u>	<u>(100)</u>
<b>Net assets attributable to redeemable preference shares (Note 6)</b>	<u>\$ 53,590,220</u>	<u>\$ 80,007,744</u>
Net assets attributable to 134,997 (2010 - 179,590) US Dollar Class A redeemable preference shares	<u>\$ 21,581,711</u>	<u>\$ 27,743,919</u>
<b>Net asset value per US Dollar Class A redeemable preference share</b>	<u>\$ 159.86</u>	<u>\$ 154.48</u>
Net assets attributable to 20,994 (2010 - 17,241) US Dollar Class A 09 redeemable preference shares	<u>\$ 3,296,647</u>	<u>\$ 2,639,838</u>
<b>Net asset value per US Dollar Class A 09 redeemable preference share</b>	<u>\$ 157.02</u>	<u>\$ 153.11</u>
Net assets attributable to 478,486 (2010 - 1,335,890) US Dollar Class B redeemable preference shares	<u>\$ 8,978,312</u>	<u>\$ 24,091,199</u>
<b>Net asset value per US Dollar Class B redeemable preference share</b>	<u>\$ 18.75</u>	<u>\$ 18.03</u>

*See accompanying notes to financial statements*

**FMG RISING 3 FUND LTD.**

## Statement of Assets and Liabilities (continued)

March 31, 2011

*(Expressed in United States Dollars)*

	<u>2011</u>	<u>2010</u>
Net assets attributable to 158,238 (2010 - 198,383) US Dollar Class B 09 redeemable preference shares	\$ 2,386,417	\$ 2,888,730
<b>Net asset value per US Dollar Class B 09 redeemable preference share</b>	<b>\$ 15.08</b>	<b>\$ 14.56</b>
Net assets of \$5,384,246 (2010 - \$6,157,433) attributable to 34,148 (2010 - 40,636) Euro Class A redeemable preference shares issued and outstanding	€ 3,798,678	€ 4,558,022
<b>Net asset value per Euro Class A redeemable preference share</b>	<b>€ 111.24</b>	<b>€ 112.17</b>
Net assets of \$927,141 (2010 - \$1,289,366) attributable to 4,353 (2010 - 6,300) Euro Class A 09 redeemable preference shares issued and outstanding	€ 654,114	€ 954,450
<b>Net asset value per Euro Class A 09 redeemable preference share</b>	<b>€ 150.26</b>	<b>€ 151.50</b>
Net assets of \$3,021,004 (2010 - \$4,331,332) attributable to 166,537 (2010 - 249,768) Euro Class B redeemable preference shares issued and outstanding	€ 2,131,370	€ 3,206,256
<b>Net asset value per Euro Class B redeemable preference share</b>	<b>€ 12.79</b>	<b>€ 12.84</b>
Net assets of \$490,054 (2010 - \$684,086) attributable to 22,425 (2010 - 32,742) Euro Class B 09 redeemable preference shares issued and outstanding	€ 345,741	€ 506,395
<b>Net asset value per Euro Class B 09 redeemable preference share</b>	<b>€ 15.41</b>	<b>€ 15.47</b>
Net assets of \$3,502,472 (2010 - \$4,673,174) attributable to 18,265 (2010 - 26,347) GBP Class A redeemable preference shares issued and outstanding	£ 2,183,042	£ 3,079,928
<b>Net asset value per GBP Class A redeemable preference share</b>	<b>£ 119.52</b>	<b>£ 116.90</b>
Net assets of \$1,164,092 (2010 - \$990,585) attributable to 4,761 (2010 - 4,355) GBP Class A 09 redeemable preference shares issued and outstanding	£ 725,560	£ 652,860
<b>Net asset value per GBP Class A 09 redeemable preference share</b>	<b>£ 152.38</b>	<b>£ 149.90</b>

*See accompanying notes to financial statements*

**FMG RISING 3 FUND LTD.**

## Statement of Assets and Liabilities (continued)

March 31, 2011

*(Expressed in United States Dollars)*

	<u>2011</u>	<u>2010</u>
Net assets of \$196,272 (2010 - \$219,091) attributable to 2,250 (2010 - 2,730) GBP Class B redeemable preference shares issued and outstanding	£ 122,336	£ 144,396
<b>Net Asset Value per GBP Class B redeemable preference share</b>	<u>£ 54.36</u>	<u>£ 52.89</u>
Net assets of \$nil (2010 - \$308,119) attributable to nil (2010 - 17,877) GBP Class B 09 redeemable preference shares issued and outstanding	£ –	£ 203,070
<b>Net Asset Value per GBP Class B 09 redeemable preference share</b>	<u>£ –</u>	<u>£ 11.36</u>
Net assets of \$1,819,249 (2010 - \$2,236,108) attributable to 8,419 (2010 - 11,274) NOK Class A redeemable preference shares issued and outstanding	NOK 10,062,265	NOK 13,286,510
<b>Net Asset Value per NOK Class A redeemable preference share</b>	<u>NOK 1,195.21</u>	<u>NOK 1,178.40</u>
Net assets of \$103,930 (2010 - \$77,327) attributable to 396 (2010 - 317) NOK Class A 09 redeemable preference shares issued and outstanding	NOK 574,834	NOK 459,464
<b>Net Asset Value per NOK Class A 09 redeemable preference share</b>	<u>NOK 1,451.92</u>	<u>NOK 1,452.78</u>
Net assets of \$706,052 (2010 - \$1,663,756) attributable to 2,723 (2010 - 7,027) NOK Class B redeemable preference shares issued and outstanding	NOK 3,905,174	NOK 9,885,705
<b>Net Asset Value per NOK Class B redeemable preference share</b>	<u>NOK 1,434.34</u>	<u>NOK 1,406.84</u>
Net assets of \$32,621 (2010 - \$13,681) attributable to 169 (2010 - 77) NOK Class B 09 redeemable preference shares issued and outstanding	NOK 180,427	NOK 81,287
<b>Net Asset Value per NOK Class B 09 redeemable preference share</b>	<u>NOK 1,070.37</u>	<u>NOK 1,055.34</u>

*See accompanying notes to financial statements*

Signed on behalf of the Board

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

**FMG RISING 3 FUND LTD.**

Schedule of Investments

March 31, 2011

*(Expressed in United States Dollars)*

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	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>	<u>Redemption Frequency</u>
<b><u>Other Investment Company</u></b>				
FMG (EU) Rising 3 Fund Class B 09 USD	\$ <u>54,783,425</u>	\$ <u>56,657,378</u>	<u>105.72%</u>	Weekly
Total investments in other investment companies	\$ <u>54,783,425</u>	\$ <u>56,657,378</u>	<u>106.38%</u>	

*See accompanying notes to financial statements*

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**FMG RISING 3 FUND LTD.**

## Schedule of Investments

March 31, 2010

*(Expressed in United States Dollars)*

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	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>	<u>Redemption Frequency</u>
<b><u>Other Investment Companies</u></b>				
FMG China Fund Class B	\$ 20,265,884	\$ 25,190,478	31.49%	Monthly
FMG (EU) China Fund Ltd. - Class B09 EUR	1,396,900	2,277,617	2.85%	Monthly
FMG India Fund Ltd. - Class B	14,292,693	18,930,184	23.66%	Monthly
FMG India Fund Ltd. - Class B 09	2,479,167	4,103,021	5.13%	Monthly
FMG (EU) India Fund Ltd. - Class B 09 EUR	1,396,900	2,184,405	2.73%	Monthly
FMG Russia Fund Class B	32,441,881	20,741,026	25.92%	Monthly
FMG Russia Fund Class B 09	1,700,000	2,043,400	2.55%	Monthly
FMG Russia Fund Class B Eur	1,000,000	306,104	0.38%	Monthly
FMG (EU) Russia Fund Class B09 EUR	3,396,900	4,185,778	5.23%	Monthly
FMG IOF (EU) Fund Class B EUR	1,551,313	2,971,037	3.71%	Monthly
FMG IOF (EU) Fund Class B 09 EUR	<u>600,000</u>	<u>597,913</u>	<u>0.75%</u>	Monthly
Total investments in other investment companies	\$ <u>80,521,638</u>	\$ <u>83,530,963</u>	<u>104.40%</u>	

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*See accompanying notes to financial statements*



**FMG RISING 3 FUND LTD.**

## Statement of Operations

Year ended March 31, 2011

*(Expressed in United States Dollars)*

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	<u>2011</u>	<u>2010</u>
<b>Investment income</b>		
Rebate income (Note 3)	\$ <u>1,281,436</u>	\$ <u>1,687,723</u>
Total income	<u>1,281,436</u>	<u>1,687,723</u>
<b>Expenses</b>		
Incentive fees (Note 3)	55,626	212,007
Management fees (Note 3)	1,213,271	1,398,866
Administration fees (Note 4)	138,156	156,623
Custodian fees (Note 5)	52,071	42,049
Interest on overdraft facility and bank charges	25,312	6,404
Audit fees	18,069	25,050
Directors' and secretarial fees	21,000	20,583
Bermuda company fees	3,368	4,448
Miscellaneous	<u>14,878</u>	<u>23,711</u>
Total expenses	<u>1,541,751</u>	<u>1,889,741</u>
<b>Net investment loss</b>	<u>(260,315)</u>	<u>(202,018)</u>
<b>Realized and unrealized gains and losses on investments</b>		
Net realized gains and losses on sale of investments	2,633,097	(2,417,475)
Net realized gains on forward foreign exchange contracts and foreign exchange	514,178	204,148
Net change in unrealized gains and losses on investments	(1,135,372)	38,571,022
Net change in unrealized gains and losses on forward foreign exchange contracts	<u>104,168</u>	<u>(476,401)</u>
Net realized and unrealized gains on investments	<u>2,116,071</u>	<u>35,881,294</u>
<b>Net increase in net assets from operations</b>	<u>\$ 1,855,756</u>	<u>\$ 35,679,276</u>

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*See accompanying notes to financial statements*

**FMG RISING 3 FUND LTD.**

## Statement of Changes in Net Assets

Year ended March 31, 2011

*(Expressed in United States Dollars)*

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	<u>2011</u>	<u>2010</u>
<b>From operations</b>		
Net investment loss	\$ (260,315)	\$ (202,018)
Net realized gains and losses on sale of investments	2,633,097	(2,417,475)
Net realized gains on forward foreign exchange contracts and foreign exchange	514,178	204,148
Net change in unrealized gains and losses on investments	(1,135,372)	38,571,022
Net change in unrealized gains and losses on forward foreign exchange contracts	<u>104,168</u>	<u>(476,401)</u>
Net increase in net assets from operations	<u>1,855,756</u>	<u>35,679,276</u>
<b>From capital share transactions</b>		
Proceeds from sale of 772 (2010 - 479) US Dollar Class A redeemable preference shares	111,668	68,660
Proceeds from sale of 9,859 (2010 - 20,055) US Dollar Class A 09 redeemable preference shares	1,466,876	2,729,677
Proceeds from sale of 33,570 (2010 - 367) US Dollar Class B redeemable preference shares	604,467	5,533
Proceeds from sale of 4,416 (2010 -198,383) US Dollar Class B 09 redeemable preference shares	68,117	2,735,079
Proceeds from sale of nil (2010 - 216) Euro Class A preference shares	-	22,812
Proceeds from sale of 806 (2010 - 7,294) Euro Class A 09 preference shares	142,253	1,426,331
Proceeds from sale of 10,687 (2010 - nil) Euro Class B preference shares	185,083	-
Proceeds from sale of nil (2010 - 332,598) Euro Class B 09 preference shares	-	6,449,591
Proceeds from sale of nil (2010 - 449) GBP Class A redeemable preference shares	-	66,363
Proceeds from sale of 2,440 (2010 - 4,501) GBP Class A 09 redeemable preference shares	526,014	980,265
Proceeds from sale of nil (2010 -249) GBP Class B redeemable preference shares	-	21,245
Proceeds from sale of nil (2010 - 32,232) GBP Class B 09 redeemable preference shares	-	566,849
Proceeds from sale of 23 (2010 - nil) NOK Class A redeemable preference shares	4,497	-
Proceeds from sale of 212 (2010 - 474 ) NOK Class A 09 redeemable preference shares	48,934	102,685
Proceeds from sale of 289 (2010 - nil) NOK Class B redeemable preference shares	68,501	-
Proceeds from sale of 92 (2010 - 110) NOK Class B 09 redeemable preference shares	16,729	19,275
Payment on redemption of 45,366 (2010 - 45,492) US Dollar Class A redeemable preference shares	(6,867,618)	(6,182,539)
Payment on redemption of 6,105 (2010 - 2,910) US Dollar Class A 09 redeemable preference shares	(922,854)	(404,469)
Payment on redemption of 890,974 (2010 - 562,354) US Dollar Class B redeemable preference shares	(16,075,128)	(9,324,694)

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**FMG RISING 3 FUND LTD.**

## Statement of Changes in Net Assets (continued)

Year ended March 31, 2011  
(Expressed in United States Dollars)

	<u>2011</u>	<u>2010</u>
<b>From capital share transactions (continued)</b>		
Payment on redemption of 44,661 (2010 - nil) US Dollar Class B09 redeemable preference shares	(662,439)	-
Payment on redemption of 6,488 (2010 - 9,827) Euro Class A redeemable preference shares	(917,353)	(1,400,695)
Payment on redemption of 2,754 (2010 - 1,138) Euro Class A 09 redeemable preference shares	(514,483)	(227,372)
Payment on redemption of 93,918 (2010 - 183,583) Euro Class B redeemable preference shares	(1,427,247)	(3,178,756)
Payment on redemption of 10,317 (2010 - 299,856) Euro Class B 09 redeemable preference shares	(224,247)	(5,840,880)
Payment on redemption of 8,082 (2010 - 2,363) GBP Class A redeemable preference shares	(1,421,188)	(369,291)
Payment on redemption of 2,032 (2010 - 436) GBP Class A 09 redeemable preference shares	(448,856)	(102,402)
Payment on redemption of 480 (2010 - 508) GBP Class B redeemable preference shares	(39,072)	(40,259)
Payment on redemption of 17,877 (2010 - 14,355) GBP Class B 09 redeemable preference shares	(272,769)	(262,013)
Payment on redemption of 2,878 (2010 - 4,103) NOK Class A redeemable preference shares	(547,427)	(777,327)
Payment on redemption of 133 (2010 - 157) NOK Class A 09 redeemable preference shares	(32,730)	(38,403)
Payment on redemption of 4,594 (2010 - 795) NOK Class B redeemable preference shares	(1,143,008)	(189,480)
Payment on redemption of nil (2010 - 33) NOK Class B 09 redeemable preference shares	<u>-</u>	<u>(5,774)</u>
Net decrease in net assets from capital share transactions	<u>(28,273,280)</u>	<u>(13,149,989)</u>
<b>Net (decrease) increase in net assets attributable to redeemable preference shares</b>	<b>(26,417,524)</b>	<b>22,529,287</b>
<b>Net assets attributable to redeemable preference shares at the beginning of year</b>	<b>80,007,744</b>	<b>57,478,457</b>
<b>Net assets attributable to redeemable preference shares at the end of year</b>	<b>\$ 53,590,220</b>	<b>\$ 80,007,744</b>

*See accompanying notes to financial statements*

**FMG RISING 3 FUND LTD.**

## Statement of Cash Flows

Year ended March 31, 2011

*(Expressed in United States Dollars)*

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	<u>2011</u>	<u>2010</u>
<b>Cash flows from operating activities:</b>		
Net increase in net assets from operations	\$ 1,855,756	\$ 35,679,276
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Change in assets and liabilities:		
Net change in investments and derivatives	19,979,950	(31,677,414)
Rebate income receivable	187,182	(194,651)
Other assets	(7,091)	76,474
Management and incentive fees payable	(121,921)	139,448
Administration fees payable	(14,906)	15,371
Accounts payable and accrued expenses	<u>(55,026)</u>	<u>13,069</u>
Net cash provided by operating activities	<u>21,823,944</u>	<u>4,051,573</u>
<b>Cash flows from financing activities</b>		
Proceeds from issue of redeemable preference shares	2,989,372	15,416,846
Payments on redemptions of redeemable preference shares	<u>(27,198,189)</u>	<u>(21,668,598)</u>
Net cash used in financing activities	<u>(24,208,817)</u>	<u>(6,251,752)</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(2,384,873)</u>	<u>(2,200,179)</u>
<b>Cash and cash equivalents at beginning of year</b>	<u>4,887,166</u>	<u>7,087,345</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 2,502,293</u>	<u>\$ 4,887,166</u>
<b>Supplementary cash flow information</b>		
Interest paid	<u>\$ 8,928</u>	<u>\$ 4,303</u>

**Non-cash operating and financing activities**

During the year ended March 31, 2011, investments with a fair market value of \$6,789,367 were transferred in-kind to settle redemption payments (see Note 9).

*See accompanying notes to financial statements*

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## FMG RISING 3 FUND LTD.

### Notes to Financial Statements

March 31, 2011

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#### 1. Operations

FMG Rising 3 Fund Ltd. (the “Fund”) was incorporated in Bermuda on February 23, 2001 as an open-ended investment fund, empowered by its by-laws to issue, redeem and reissue its own shares at prices based on their net asset value. The Fund was initially called FMG Diversified Technology Hedge Fund Ltd. and changed its name to FMG Rising 3 Fund Ltd. on November 5, 2003. The Fund changed its investment strategy with effect from November 1, 2003 and the capital invested through FMG Diversified Technology Fund Ltd. was returned to investors at that date.

The Fund invests with independent investment managers in countries outside of North America and Western Europe. The Fund’s assets are invested in other investment companies which have holdings in securities which may be listed or unlisted, rated or unrated, in China, India and Russia.

#### 2. Significant accounting policies

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in Bermuda and Canada. The following are the significant accounting policies adopted by the Fund:

##### (a) Investment transactions and valuation

Investments are categorized as held for trading in accordance with CICA Section 3855, *Financial Instruments – Recognition and Measurement* (“Section 3855”) and therefore are recorded at fair value. Investments in other investment companies and limited partnerships are recorded on the effective date of the subscription or contribution, respectively, and are valued at their net asset value as reported by the administrators of the other investment companies and limited partnerships. Where net asset values are not reported on a timely basis, the Manager (Note 3) may estimate the net asset value based on information provided by the other investment companies and limited partnerships. The other investment companies and limited partnerships in which the Fund invests generally value securities traded on a national securities exchange or reported on a national market and securities traded in the over-the-counter market at the last reported bid price if held long and the last reported ask price if sold short on the valuation day. Realized gains or losses on sale of investments are determined on an average cost basis. Realized gains and losses and the net change in unrealized gains and losses are included in the statement of operations.

##### (b) Forward foreign exchange contracts

The Fund purchases forward foreign exchange contracts in amounts approximating the net assets attributable to the Euro, GBP and NOK classes of redeemable preference shares to manage its exposure against changes in the US Dollar/Euro, US Dollar/GBP and US Dollar/NOK exchange rates. Forward foreign exchange contracts are recorded at fair value at the reporting date. The unrealized gain or loss on open forward foreign exchange contracts on each valuation date is the difference between the contract exchange rate and the forward exchange rate at the valuation date, as reported by published sources, applied to the face amount of the contract. The unrealized gain or loss at the reporting date is included in the statement of assets and liabilities. Realized and unrealized changes in the fair value of the contracts are included in the statement of operations in the period in which the change occurs and are attributed entirely to the classes of redeemable preference shares to which the individual contracts relate (Notes 2(c) and 10(e)).

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## FMG RISING 3 FUND LTD.

### Notes to Financial Statements

March 31, 2011

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#### 2. Significant accounting policies (continued)

##### *(c) Allocation of profits and losses*

The profit or loss of the Fund for each month, excluding realized and unrealized gains and losses on forward foreign exchange contracts used for hedging (Notes 2(b) and 10(c)) and before management and incentive fees, is allocated at the end of each month between the US Dollar, Euro, GBP and NOK classes of redeemable preference shares (Note 6). The amount is allocated in proportion to the relative net assets of each class of redeemable preference shares on the first day of the month after adding subscriptions and deducting redemptions effective that day. All of the realized and unrealized gains and losses on forward foreign exchange contracts used for hedging are allocated to the related class of redeemable preference shares. Management and incentive fees are calculated separately for each class of redeemable preference shares (Note 3).

##### *(d) Foreign currency transactions*

Foreign currency balances that are monetary items, have been translated into US dollars at the rate of exchange prevailing on the valuation date. Foreign currency transactions have been translated at the rate in effect at the date of the transaction. Any realized or unrealized exchange adjustments are included in the related caption in the statement of operations.

##### *(e) Interest income and expense*

Interest income and expense are recognized on the accrual basis of accounting.

##### *(f) Rebate income*

The Fund receives rebates of part of the management and incentive fees charged on those investments in other investment companies that are also managed by the Manager (Notes 3 and 10). If the amount and timing of such receipts can be estimated, they are accrued; otherwise, rebate income is recorded on a cash basis.

##### *(g) Cash and cash equivalents*

Cash and cash equivalents include cash and money market funds held on a short term basis.

##### *(h) Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

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## FMG RISING 3 FUND LTD.

Notes to Financial Statements

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### 3. Management and incentive fees

#### (a) Management fees

The Fund pays FMG Fund Managers Limited (the “Manager”) a management fee at a rate of 2.0% per annum of the net assets attributable to the Class A redeemable preference shares of the Fund and 1.5% per annum of the net assets attributable to the Class B redeemable preference shares of the Fund, calculated on a monthly basis and payable quarterly. For the year ended March 31, 2011, the management fee was \$1,213,271 (2010 - \$1,398,866), of which \$269,491 (2010 - \$380,820) was payable at March 31, 2011.

#### (b) Incentive fees

The Class A redeemable preference shares also pay a quarterly incentive fee equal to 20% of the Net Profits of the Fund, if any, during each calendar quarter (each a “Performance Period”), accrued with respect to each Class A redeemable preference share of the Fund. The Net Profits are computed in a manner consistent with the principles applicable to the computation of the net assets of the Fund. If a share has a loss chargeable to it during any Performance Period and during a subsequent Performance Period there is a profit allocable to such Class A redeemable preference share there will be no incentive fee payable with respect to such Class A redeemable preference share until the amount of the net loss previously allocated to such share has been recouped. Incentive fees are only paid when the net asset value of the Class A redeemable preference shares increases above a previously established “high water mark” net asset value for those Class A redeemable preference shares. In the event of either a redemption being made at a date other than the end of a Performance Period or the Management Agreement is terminated at any time prior to the last day of a Performance Period, the incentive fee will be computed as though the termination date or Redemption Date, as applicable, was the last day of such Performance Period. Once paid, the incentive fee will be retained by the Manager regardless of the Fund’s future results.

The Class B redeemable preference shares also pay to the Manager an incentive fee of 10% of Net Profits attributable to the Class B redeemable preference shares, calculated monthly and payable quarterly. Net profits are defined as the cumulative profits attributable to each Class B redeemable preference shares, before the incentive fee but after deduction of all transaction costs, management fees and expenses exceeds a hurdle rate equal to the amount that would have been earned in that fiscal period had the assets of the Fund been invested at the USD 12-month LIBOR rate at the beginning of the fiscal period. Net profits include both realized and unrealized gains less losses on investments. If net profit for a month is negative, it will be carried forward (“carry forward losses”) and offset against net profit in the subsequent month(s). No incentive fee will be payable until net profits in subsequent month(s) exceed carry forward losses and the hurdle as discussed above, together with any cumulative actual losses incurred in previous fiscal years, adjusted for redemptions. However, the net profit amount, upon which performance fees are calculated is not offset by actual losses incurred in previous fiscal years at the time the performance fee is calculated. Once earned, the incentive fee will be retained by the Manager regardless of the Fund’s future results.

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## FMG RISING 3 FUND LTD.

### Notes to Financial Statements

March 31, 2011

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#### 3. **Management and incentive fees** (continued)

##### *(b) Incentive fees (continued)*

For the year ended March 31, 2011 the incentive fee was \$55,626 (2010 - \$212,007), of which \$nil (2010 - \$10,592) was payable at March 31, 2011.

The Fund is charged management and incentive fees by the Manager as described above on its net assets. However, some of the other investment companies and limited partnerships in which the Fund invests are also managed by the Manager. To ensure that the Fund is not double charged for such management and incentive fees, the Manager rebates to the Fund its proportionate share of such fees. Management and incentive fees rebated to the Fund during the year amounted to \$1,281,436 (2010 - \$1,687,723) of which \$204,064 (2010 - \$391,246) is receivable at March 31, 2011.

##### *(c) Load fees*

The Manager may charge load fees of up to 5% of the amount subscribed. When charged, these load fees will reduce the amount available to shareholders for the purchase of redeemable preference shares in the Fund. At March 31, 2011, \$5,960 (2010 - \$47,200) of load fees payable were included within accounts payable and accrued expenses.

One of the directors of the Fund is also a director of the Manager.

#### 4. **Administration fees**

Apex Fund Services Limited (the "Administrator") acts as the administrator, registrar and transfer agent for the Fund. For administration services provided, the Fund pays fees at the higher of \$3,000 per month for net assets up to \$10 million and \$4,000 per month for net assets exceeding \$10 million or 15 basis points of the net assets per annum.

Effective April 1, 2010, the minimum fee was reduced to the greater of \$2,500 per month for net assets up to \$10 million and \$3,500 per month for net assets exceeding \$10 million or 15 basis points of the net assets per annum. For the year ended March 31, 2011, administration fees were \$138,156 (2010 - \$156,623) of which \$28,184 (2010 - \$43,090) was payable at March 31, 2011.

One of the directors of the Fund is also a director of the Administrator.

#### 5. **Custodian fees**

Effective August 14, 2009, Credit Suisse AG (the "Custodian") was appointed as custodian to the Fund. Fees for custody services are charged at 7 basis points per annum of the value of the net assets of the Fund under custody subject to an annual minimum of CHF 5,500. In addition, the Custodian is entitled to receive reimbursement for all reasonable disbursements and out-of-pocket expenses.

Effective August 26, 2009 the Fund granted the Custodian a right of lien against all currency accounts and investments in other investment companies held by the Custodian on the Fund's behalf. The purpose of the right of lien is to secure any and all claims of the Custodian against the Fund arising from any current or future agreements or contracts as well as claims on other legal grounds resulting from business operations with the Fund.

Effective January 3, 2011, fees for custody services are charged at 0.075% per annum of the value of the net assets of the Fund under custody subject to less than \$500 million and 0.065% per annum of the value of the net assets of the Fund under custody subject in excess of \$500 million.

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## FMG RISING 3 FUND LTD.

Notes to Financial Statements

March 31, 2011

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### 6. Share capital

The authorized share capital of the Fund is \$11,000, which is divided into 100 common shares of par value \$1 each and 10,900,000 redeemable preference shares (the "Shares"), issued in US dollars, Euro, British Pounds and Norwegian Kroner as Class A and Class B shares with a par value \$0.001 each.

The holder of the common shares is not entitled to receive dividends, may not redeem their holding and is only entitled to be repaid the par value of the common shares upon a winding up or distribution of capital.

The common shares are entitled to one vote per share at a general meeting. All the common shares are held by the Manager (Note 3).

Each of the Shares carries no preferential or pre-emptive rights upon the issue of new redeemable preference shares and has no voting rights at general meetings of the Fund.

Effective February 1, 2009 Class A 09, Class A EUR 09 and Class A GBP 09 Shares were offered for sale. Effective March 1, 2009, Class A, Class A EUR and Class A GBP Shares were closed to additional subscriptions. Class A 09, Class A EUR 09 and Class A GBP 09 Shares have identical rights to the Class A, Class A EUR and Class A GBP Shares.

Shares may be purchased and redeemed on a Dealing Day, which is generally the first business day of each calendar month. Shares may be purchased at the net asset value per share calculated at the immediately preceding Valuation Day, generally the last business day of the preceding month. Class A and B Shares may be redeemed provided the Administrator receives written notice by at least the 20<sup>th</sup> day of the month prior to the Dealing Day.

If on any Valuation Day, any shareholder wishes to redeem Shares totaling more than 5% of the issued capital of the Fund or several shareholders wish to redeem Shares totaling more than 15% of the issued capital of the Fund, the Directors may defer redemption of such Shares, and the calculation of the redemption price, to a subsequent Dealing Day being not later than the fifth Dealing Day following receipt of the application for redemption. In such cases, suspended subscription and redemption requests shall be carried out on the basis of the next net asset value.

At March 31, 2010, redemptions payable include \$6,310,051 payable to FMG (EU) Rising 3 Fund, a fund managed by the same Manager as the Fund.

### 7. Fair value of financial instruments

The methods used to determine the fair value of investments in other investment companies, managed accounts and unrealized gains and losses on forward foreign exchange contracts are described in Note 2(a) and Note 2(b). The fair value of the Fund's other financial assets and financial liabilities approximate their carrying amount due to their short term nature.

CICA 3862 establishes a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. The hierarchy of inputs is summarized below:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
  - Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
  - Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).
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**FMG RISING 3 FUND LTD.**

Notes to Financial Statements

March 31, 2011

**7. Fair value of financial instruments (continued)**

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

The following is a summary of the inputs used as of March 31, 2011 and 2010 in valuing the Fund's investments and derivatives carried at fair values:

<u>2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments in other investment companies	\$ —	\$ 56,657,378	\$ —	\$ 56,657,378
Total investments	\$ —	\$ 56,657,378	\$ —	\$ 56,657,378
Derivative assets		\$ 162,537		\$ 162,537
Derivative liabilities		\$ (64,547)		\$ (64,547)
<u>2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments in other investment companies	\$ —	\$ 83,530,963	\$ —	\$ 83,530,963
Total investments	\$ —	\$ 83,530,963	\$ —	\$ 83,530,963
Derivative assets		\$ 182,406		\$ 182,406
Derivative liabilities		\$ (188,684)		\$ (188,684)

**8. Taxation**

Under current Bermuda laws, the Fund is not required to pay any taxes in Bermuda on either income or capital gains. The Fund has received an undertaking from the Minister of Finance in Bermuda exempting it from any such taxes at least until the year 2016.

It is management's belief that the Fund is not engaged in a United States trade or business and will not be subject to United States income or withholding taxes in respect of the profits and losses of the Fund other than the 30% withholding tax on U.S. source dividends.

As a result, management has made no provision for income taxes in these financial statements.

## FMG RISING 3 FUND LTD.

### Notes to Financial Statements

March 31, 2011

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#### 9. **Related party transactions**

At March 31, 2011, a shareholder related to the Manager holds 13.604 shares of class B NOK in FMG Rising 3 Fund Ltd.

At March 31, 2011, the Fund's investments with a total value of \$56,657,378 (2010 - \$83,530,963) are in other investment companies which are also managed by the Manager.

On April 1, 2010 certain investments of the Fund were transferred to FMG (EU) Rising 3 Fund Ltd. at their fair value of \$6,789,367. In exchange for these assets the Fund received shares in FMG (EU) Rising 3 Fund Ltd. for the same value.

#### 10. **Financial instruments and risk management**

The Fund's investment activities expose it to a variety of financial risks. The schedule of investments presents the investments held by the Fund as at the end of the year.

The other investment companies in which the Fund invests hold investments in companies that are mainly focused on investments located in Russia, China and India. These countries are experiencing significant political and economic change which has affected, and may continue to affect, the activities of enterprises operating in those environments. The prospects for future economic stability in these countries are largely dependent upon the effectiveness of economic measures undertaken by their governments, together with legal, regulatory and political developments, which are beyond the Fund's control. Consequently, operations in these emerging markets involve risks which do not typically exist in other markets. Such risks include, but are not limited to, holding investments which may prove difficult to sell in times of forced liquidity, risks involved in estimating the value of the underlying businesses, potential adverse changes to the legal, regulatory and taxation environments that could adversely affect the underlying business, currency fluctuations, change in interest rates, institutional, settlement and custodial risks, and other risks generally associated with investing in emerging markets.

##### *(a) Liquidity risk*

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's investments in other investment companies and limited partnerships are not traded in an organized public market. As a result, the Fund may not be able to quickly liquidate its investments at their stated fair value in order to meet its liquidity requirements, including redemption requests from its shareholders. The Fund's exposure to liquidity risk is managed by the Manager.

The Schedule of Investments summarizes the redemption frequencies of the Fund's investments in other investment companies at March 31, 2011.

At March 31, 2011, there was no redemption restriction for any of the investment funds held by the Fund.

The liabilities of the Fund are comprised of redemptions payable, accounts payable and accrued expenses and these fall due within 3 months of the balance sheet date.

##### *(b) Interest rate risk*

Interest rate risk arises when a fund invests in interest-bearing financial instruments. The Fund does not hold investments which are sensitive to interest rates but is indirectly exposed to the interest rate risk of the investments held by the investment companies in which the Fund invests.

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## FMG RISING 3 FUND LTD.

Notes to Financial Statements

March 31, 2011

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### 10. Financial instruments and risk management (continued)

#### (c) Credit risk

Credit risk arises from the potential inability of counterparties to perform under the terms of the related contract. The Fund has cash and cash equivalents, derivative financial instruments and investments held in the custody of a major bank with a long term credit rating of Aa2 issued by Moody's. As the Fund invests in other investment companies and limited partnerships, the Fund is exposed to the credit risk of each of those underlying funds. The amount of credit exposure to those underlying funds is represented by the carrying amounts of the investments listed on the schedule of investments.

Bankruptcy or insolvency of the bank may cause the Fund's rights to be delayed with respect to the cash and cash equivalents and investments held in the custodial relationship. The Manager monitors the credit quality and financial position of the bank and should it decline significantly, the Manager will move cash holdings and custodial relationships to another institution.

#### (d) Market risk

Market risk is the risk that the changes in interest rates, foreign exchange rates or securities prices will affect the fair value of the financial instruments held by the Fund.

The Fund is indirectly exposed to the market risk of the investments held by the other investment companies in which the Fund invests. Some of those other investment companies may deal or trade derivative financial instruments as their principal investment activity or use these instruments as part of their investment strategy. This may result in market risk to those other investment companies in excess of the amount invested in these securities. However, the Fund's risk is limited to the net asset value of its investments in those other investment companies.

At March 31, 2011, if the price of the investments increased by 5%, this would have increased the net assets resulting from operations and the net assets attributable to holders of redeemable preference shares by \$2,832,769 (2010 - \$4,176,548); an equal change in the opposite direction would have decreased the net assets resulting from operations and the net assets attributable to holders of redeemable preference shares by an equal amount. Actual results will differ from this sensitivity analysis and the differences could be material.

#### (e) Currency risk

The Fund may invest in other investment companies and limited partnerships and enter into transactions denominated in currencies other than the US dollar. Consequently, the Fund is exposed to risks that the exchange rate of the US dollar relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Fund's assets or liabilities denominated in currencies other than the US dollar.

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**FMG RISING 3 FUND LTD.**

Notes to Financial Statements

March 31, 2011

10. **Financial instruments and risk management** (continued)

(e) *Currency risk* (continued)

The following table sets out the Fund's total exposure to foreign currency risk split between monetary assets and liabilities, net assets attributable to non-USD denominated share classes, forward foreign exchange contracts and the resulting net exposure to foreign currencies:

	<u>Monetary Assets</u>	<u>Monetary Liabilities</u>	<u>Net assets attributable to non-USD denominated share classes</u>	<u>Forward FX Contracts</u>	<u>Net Exposure</u>
March 31, 2011					
GBP	\$ —	\$ —	\$ (4,666,564)	\$ 4,858,977	\$ 192,413
EUR	—	—	(9,822,445)	9,701,948	(120,497)
NOK	—	—	(2,525,301)	2,651,437	126,136
	<u>—</u>	<u>—</u>	<u>(17,014,310)</u>	<u>17,212,362</u>	<u>198,052</u>
	<u>—</u>	<u>—</u>	<u>(17,014,310)</u>	<u>17,212,362</u>	<u>198,052</u>
	<u>Monetary Assets</u>	<u>Monetary Liabilities</u>	<u>Net assets attributable to non-USD denominated share classes</u>	<u>Forward FX Contracts</u>	<u>Net Exposure</u>
March 31, 2010					
GBP	\$ —	\$ (33,673)	\$ (6,190,969)	\$ 5,728,077	\$ (496,565)
EUR	12,522,854	—	—	(11,988,315)	534,539
EUR	—	(7,195,068)	(12,462,217)	18,810,885	(846,400)
NOK	—	(133,721)	(3,990,872)	3,538,460	(586,133)
	<u>12,522,854</u>	<u>(7,342,462)</u>	<u>(22,644,058)</u>	<u>16,089,107</u>	<u>(1,394,559)</u>
	<u>12,522,854</u>	<u>(7,342,462)</u>	<u>(22,644,058)</u>	<u>16,089,107</u>	<u>(1,394,559)</u>

The amounts in the above table are based on the carrying value of monetary assets and liabilities, net assets attributable to non-USD denominated share classes and the underlying notional amounts of forward foreign exchange contracts.

Forward foreign exchange contracts are entered into by the Fund to hedge exposure to monetary assets and liabilities denominated in currencies other than USD and to hedge the exposure of certain share classes denominated in currencies other than USD.

**FMG RISING 3 FUND LTD.**

Notes to Financial Statements

March 31, 2011

**10. Financial instruments and risk management (continued)***(e) Currency risk (continued)*

The gains and losses on forward foreign exchange contracts entered into for the purpose of hedging the exposure to monetary assets and liabilities are recorded in gains and losses on forward foreign exchange contracts in the statement of operations. The gains and losses on contracts entered into for the purpose of hedging the exposure of share classes denominated in currencies other than USD are also recorded in gains and losses on forward foreign exchange contracts in the statement of operations, but are allocated specifically to the non-USD denominated share classes to which the hedging activities, and resultant gains and losses, relate.

At March 31, 2011, had the US Dollar strengthened by 5% in relation to the above currencies, there would be an approximate net impact of \$nil (2010: \$(26,727)) on the statement of operations and net assets of the Fund arising from the change in the carrying value of monetary assets, net of the effect of hedging instruments. There would also be an approximate net impact of \$(9,903) (2010: 96,455) on the statement of operations and on the net assets attributable to the hedged non-USD denominated share classes. A 5% weakening of the US Dollar against the above currencies would have resulted in an approximate equal but opposite effect. Actual results will differ from this sensitivity analysis and the difference could be material to the financial statements.

At March 31, 2011, the Fund had the following open forward foreign exchange contracts:

Currency to be <u>bought</u>	Currency to be <u>sold</u>	Contract due <u>date</u>	<u>Fair value</u>
EUR 6,955,300	USD 9,701,948	April 4, 2011	\$ 145,018
NOK 14,784,411	USD 2,651,437	April 4, 2011	17,519
GBP 2,988,301	USD 4,858,977	April 4, 2011	<u>(64,547)</u>
Net unrealized gain on open forward foreign exchange contracts			\$ <u>97,990</u>

At March 31, 2010, the Fund had the following open forward foreign exchange contracts:

Currency to be <u>bought</u>	Currency to be <u>sold</u>	Contract due <u>date</u>	<u>Fair value</u>
EUR 13,786,928	USD 18,810,885	April 7, 2010	\$ (186,123)
USD 11,988,315	EUR 8,776,219	April 7, 2010	132,520
NOK 21,009,603	USD 3,538,460	April 7, 2010	(2,561)
GBP 3,808,056	USD 5,728,077	April 7, 2010	<u>49,886</u>
Net unrealized loss on open forward foreign exchange contracts			\$ <u>(6,278)</u>

*(f) Capital management*

The Fund's objectives in managing the redeemable preference shares are to ensure a stable base to maximize returns to all investors, and to manage liquidity risk arising from redemptions. The Fund's management of the liquidity risk arising from redeemable preference shares is discussed in Note 10(a).

The Fund is not subject to any externally imposed capital requirements.

**FMG RISING 3 FUND LTD.**

Notes to Financial Statements

March 31, 2011

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11. **Subsequent events**

For the period from April 1, 2011 to October 31, 2011 there have been net redemptions of \$8,009,409.

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