

Russian Federation First Mercantile Fund Limited

Audited Consolidated Financial Statements

For the year ended 31 March 2013

Russian Federation First Mercantile Fund Limited

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Russian Federation First Mercantile Fund Limited Management and Administration

Registered Office	Apex Fund Services Ltd. 20 Reid Street Williams House PO Box 2460 HM JX Hamilton HM 11 Bermuda
Company Secretary	Apex Fund Services Ltd. 20 Reid Street Williams House PO Box 2460 HM JX Hamilton HM 11 Bermuda
Directors	John Bohan James Keyes Vladimir Khrulev
Investment Advisor & Manager	AP Asset Management Limited Canon's Court 22 Victoria Street Hamilton HM 12 Bermuda
Administrator	Apex Fund Services Ltd 20 Reid Street Williams House PO Box 2460 HM JX Hamilton HM 11 Bermuda
Prime Broker and Custodian	Credit Suisse (UK) Ltd Five Cabot Square London, E14 4QR United Kingdom
Auditors	Grant Thornton 3 rd Floor, Exchange House 54 - 58 Athol Street Douglas Isle of Man IM1 1JD

Russian Federation First Mercantile Fund Limited

Directors' Report

The directors present the annual report and the audited financial statements of the Fund for the year ended 31 March 2013. Russian Federation First Mercantile Fund Limited (the "Fund"), formerly First Mercantile Emerging Russia Fund Limited, was incorporated in Guernsey, Channel Islands, on November 4, 1997 and redomiciled in Bermuda on July 10, 2000. The Fund is an open-ended mutual fund company and can therefore issue, redeem and reissue its own shares at prices based on their net asset value.

Principal activity

The principal investment objective of the Fund is to achieve long-term capital appreciation by investing in securities and other instruments issued by companies or other entities established in, or which have their primary business in one or more countries or regions of the former Soviet Union (the "Russian Federation"). The Fund's portfolio consists of shares of major Russian companies which are traded regularly and less liquid or illiquid second and third-tier companies that AP Asset Management Limited (the "Advisor") believes are undervalued relative to other companies in the region. The Fund will, therefore, invest in both quoted and unquoted equity and debt securities. Debt securities in which the Fund invests may not be rated.

Listing

The shares of the fund are listed on the Bermuda Stock Exchange.

Results and dividends

The loss for the year amounted to US\$ 9,150,882 (2012 - Loss US\$ 12,863,759) which has been taken to the reserves. The directors do not propose the payment of a dividend (2012 - Nil).

Directors

The directors of the Company during the year and thereafter were: -

John Bohan
Hennadiy Lopatyn'skyy (resigned on 31 December 2013)
James Michael Keyes
Vladimir Khrulev

None of the directors held any interest in the share capital of the company.

Administrator

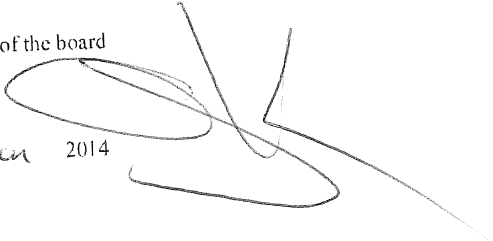
The Directors appointed Apex Fund Services Ltd to act as administrators to the fund with effect from 01 August 2001.

Auditor

The Auditors, Grant Thornton, were appointed as auditors during the year under section 89 of the Bermuda Companies Act 1981.

On behalf of the board

5 MARCH 2014



Russian Federation First Mercantile Fund Limited

Statement of Directors' Responsibilities in respect of the Directors' Report and the Financial Statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

The directors have elected to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS's").

In preparing those financial statements it is the directors' responsibility to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Fund will continue in business; and
- prepare financial statements which give a true and fair view of the state of affairs of the Fund and of the profit or loss of the Fund for that period.

The directors confirm that they have complied with the above in preparing the financial statements.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund. They are also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant information of which the Fund's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

By order of the Board



Director

5 MARCH 2014

Independent Auditor's Report to the members of **Russian Federation First Mercantile Fund Limited**

We have audited the consolidated financial statements of Russian Federation First Mercantile Fund Limited for the year ended 31 March 2013 which comprise of the condensed geographic portfolio of investments, the consolidated statement of financial position as of 31 March 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in net assets attributable to holders of ordinary shares, the cash flow statement and a summary of significant accounting policies and other explanatory notes for the year then ended. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

This report is made solely to the Fund's members, as a body, in accordance with our engagement with them. Our audit work has been undertaken so that we might state to the Fund's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement as set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion, the financial statements give a true and fair view, in accordance with International Financial Reporting Standards as adopted by the European Union of the state of the Fund's affairs as at 31 March 2013 and of its loss for the year then ended.

Grant Thornton Limited

Chartered Accountants
Third Floor
Exchange House
54/58 Athol Street
Douglas
ISLE OF MAN
IM1 1JD

20 March 2014

Date

Russian Federation First Mercantile Fund Limited

Condensed Geographical Portfolio of Investments

As At 31 March 2013

<u>Description</u>	<u>No. of Shares</u>	<u>Cost US\$</u>	<u>Fair Value US\$</u>	<u>% of Net Assets</u>
Held by Russian Federation First Mercantile Fund Ltd.				
Common Equities				
Acron JSC ADR	170,310	476,868	672,725	1.39%
Aurado Energy Inc	1,100,000	143,000	-	0.00%
Chagala Group Ltd. GDR	308,715	2,156,896	379,719	0.78%
Gazprom ADR REG S	743,000	14,504,919	6,348,935	13.07%
Kazmunaigas	85,000	1,452,740	1,610,750	3.32%
Kyiv Donbas Development Group	125,000	410,638	-	0.00%
LSR Group OJSC REG GDR	80,000	905,337	344,400	0.71%
Lukoil Holdings - ADR	200,000	10,065,176	12,870,000	26.50%
Mirland Development Corp	40,000	452,376	72,936	0.15%
Rosneft ADR	840,000	6,840,862	6,405,000	13.19%
Sistema Hals - GDR	250,000	2,180,350	106,250	0.22%
Ukrproduct Group Ltd	35,000	13,564	7,047	0.01%
XXI Century Investments Ltd.	194,350	1,928,483	8,121	0.02%
AFK Sistema RegS	3,230,000	4,195,950	2,099,500	4.32%
Bashneft-CLS	20,000	495,000	1,100,000	2.27%
Sberbank	745,000	5,441,104	9,528,550	19.62%
TNK BP Holding	4,500,000	8,381,195	5,400,000	11.12%
Zapsibgazprom OAO Pref	1,788,261	73,875	179	0.00%
Total investment in securities		60,118,333	46,954,112	96.69%

The notes on pages 12 to 26 form an integral part of these financial statements.

Russian Federation First Mercantile Fund Limited

Condensed Geographical Portfolio of Investments

As At 31 March 2012

<u>Description</u>	<u>No. of Shares</u>	<u>Cost US\$</u>	<u>Fair Value US\$</u>	<u>% of Net Assets</u>
Held by Russian Federation First Mercantile Fund Ltd.				
Common Equities				
Acron JSC ADR	170,310	476,868	715,302	1.17%
Aurado Energy Inc.	1,100,000	143,000	-	0.00%
Chagala Group Ltd. GDR	308,715	2,156,896	740,916	1.21%
Gazprom ADR REG S	743,000	14,504,919	9,064,600	14.85%
Kazmunaigas	85,000	1,452,740	1,722,100	2.82%
Kyiv Donbas Development Group	125,000	410,638	13,992	0.02%
LSR Group OJSC REG GDR	80,000	905,337	470,400	0.77%
Lukoil Holdings - ADR	218,000	10,971,042	13,112,700	21.47%
Mirland Development Corp	40,000	452,376	105,541	0.17%
RGI International Ltd	212,851	2,031,248	383,132	0.63%
Rosneft ADR	840,000	6,840,862	5,947,200	9.74%
Sistema Hals - GDR	250,000	2,180,350	125,000	0.20%
Ukrproduct Group Ltd.	35,000	13,564	6,716	0.01%
XXI Century Investments Ltd.	194,350	1,928,483	16,316	0.03%
AFK Sistema RegS	3,965,000	5,150,757	2,379,000	3.90%
Bashneft-CLS	20,000	495,000	1,140,000	1.87%
Sberbank	835,000	6,098,419	10,721,400	17.56%
TNK BP Holding	4,840,000	9,014,441	14,762,000	24.13%
Zapsibgazprom OAO Pref	1,788,261	73,875	179	0.00%
Total investment in securities		65,300,815	61,426,494	100.60%

The notes on pages 12 to 26 form an integral part of these financial statements.

Russian Federation First Mercantile Fund Limited

Statement of Comprehensive Income for the year ended 31 March 2013

	Note	2013 US\$	2012 US\$
Revenue			
Dividend Income		3,291,858	2,189,617
Net changes in fair value on financial assets and liabilities at fair value through profit or loss	4	(10,783,367)	(13,526,529)
Total investment expense		(7,491,509)	(11,336,912)
Expenses			
Management fees	8	862,235	1,054,253
Performance fees	8	-	35,850
Administration fees	6	143,992	144,388
Audit fees		33,408	54,545
Directors' fees	5	5,722	8,359
Custodian, security transaction & safekeeping fees	7	153,746	162,083
General Expenses		39,093	46,942
Other Expenses		19,249	20,130
Total operating expenses		1,257,445	1,526,550
Operating loss		(8,748,954)	(12,863,462)
Finance costs			
Interest payable		(265)	(297)
Interest receivable	2(f)	351	-
Loss before taxation		(8,748,868)	(12,863,759)
Taxation		(402,014)	-
Decrease in net assets attributable to holders of ordinary shares from operations		(9,150,882)	(12,863,759)

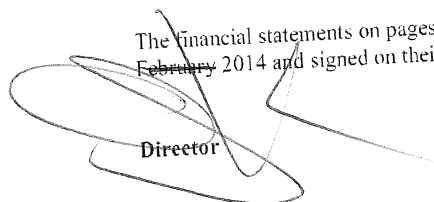
All items in the above statement of comprehensive income relate to continuing operations.

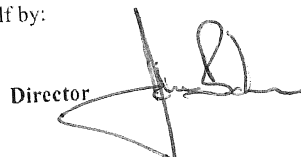
The notes on pages 12 to 26 form an integral part of these financial statements

Russian Federation First Mercantile Fund Limited
Statement of Financial Position as at 31 March 2013

	Note	2013 US\$	As restated 2012 US\$
Current Assets		2,109,406	541,807
Cash at bank and broker		46,954,112	61,426,494
Financial assets held at fair value through profit or loss	9	24,726	16,234
Debtors and other receivables	10&15	-	2,049
Unrealised gain on forward exchange contracts			
Total assets		49,088,244	61,986,584
Equity	13	100	100
Common shares			
Current Liabilities	10&15	4,739	-
Unrealised loss on forward exchange contracts	12	196,701	281,295
Redemptions payable	12	-	70,000
Subscriptions in advance	11	326,532	574,208
Accrued expenses			
Total equity and liabilities (excluding net assets attributable to holders of ordinary shares)		528,072	925,603
Net assets attributable to holders of ordinary shares	13	48,560,172	61,060,981
Unit-holder Capital	13	894	943
Share Capital		(21,742,677)	(18,392,800)
Share Premium		71,284,359	81,482,395
Accumulated Reserves			
Total Unit-holder Capital		49,542,576	63,090,538
Adjustment from Mid-market prices to Bid prices		(982,404)	(2,029,557)
Total adjusted Unit-holder Capital	13	48,560,172	61,060,981

The financial statements on pages 5 to 26 were approved and authorised for issue by the Directors on 5 MARCH February 2014 and signed on their behalf by:


 Director


 Director

The notes on pages 12 to 26 form an integral part of these financial statements.

Russian Federation First Mercantile Fund Limited
Statement of Changes in Net Assets Attributable to Holders of
Ordinary Shares for the year ended 31 March 2013

	2013 US\$	2012 US\$
From operations		
Net investment income	1,632,485	662,770
Net realised (loss)/gain on sale of securities	(1,086,857)	1,194,030
Net realised loss on forward exchange contracts	(385,656)	(151,771)
Net change unrealised loss on securities	(9,289,901)	(14,561,578)
Net change in unrealised loss on forward exchange contracts	(20,953)	(7,210)
Net decrease in net assets resulting from operations	(9,150,882)	(12,863,759)
From capital transactions (Note 13)		
Proceeds from sale of class A redeemable preference shares	-	-
Proceeds from sale of class A Euro redeemable preference shares	-	-
Proceeds from sale of class C redeemable preference shares	-	-
Proceeds from sale of class D redeemable preference shares	-	-
Proceeds from sale of class E redeemable preference shares	2,041,638	2,822,655
Proceeds from sale of class E Euro redeemable preference shares	2,657,712	912,885
Payments on redemption of Class A redeemable preference shares	(2,857,106)	(5,805,597)
Payments on redemption of Class A Euro redeemable preference shares	(272,577)	(513,311)
Payments on redemption of Class B redeemable preference shares	(55,926)	-
Payments on redemption of Class C redeemable preference shares	(1,290,805)	(2,926,624)
Payments on redemption of Class D redeemable preference shares	(150,000)	-
Payments on redemption of Class E redeemable preference shares	(958,463)	(1,695,120)
Payments on redemption of Class E Euro redeemable preference shares	(2,464,400)	(215,606)
Net (decrease) in net assets resulting from capital transactions	(3,349,927)	(7,420,718)
Net (decrease) in net assets attributable to redeemable preference shares	(12,500,809)	(20,284,477)
Net assets attributable to redeemable preference shares at the beginning of the year	61,060,981	81,345,458
Net Assets attributable to redeemable preference at the end of the year	48,560,172	61,060,981

The notes on pages 12 to 26 form an integral part of these financial statements.

Russian Federation First Mercantile Fund Limited
Statement of Changes in Net Assets Attributable to Holders of
Ordinary Shares for the year ended 31 March 2013

	Number of Shares	Total US\$
Net assets attributable to holders of redeemable participating preference shares at 1 April 2011	1,029,072	81,345,458
Proceeds from shares issued	164,476	3,735,540
Redemption of shares	(250,068)	(11,156,258)
Decrease in net assets attributable to holders of redeemable participating preference shares from operations		(12,863,759)
Net assets attributable to holders of redeemable participating preference shares at 31 March 2012	943,480	61,060,981
Net assets attributable to holders of redeemable participating preference shares at 1 April 2012	943,480	61,060,981
Proceeds from shares issued	206,659	4,699,350
Redemption of shares	(256,281)	(8,049,277)
Decrease in net assets attributable to holders of redeemable participating preference shares from operations		(9,150,882)
Net assets attributable to holders of redeemable participating preference shares at 31 March 2013	893,858	48,560,172

The notes on pages 12 to 26 form an integral part of these financial statements.

Russian Federation First Mercantile Fund Limited

Cash Flow Statement for the year ended 31 March 2013

	2013 US\$	2012 US\$
Cash flows from operating activities		
Decrease in net assets attributable to holders of ordinary shares from operations	(9,150,882)	(12,863,759)
Net decrease in investments and derivatives	14,479,170	20,788,777
Net decrease in creditors and other payables	(140,046)	(1,473,470)
Net (increase)/decrease in debtors and other receivables	(8,492)	1,204,332
Net (decrease)/increase in due to investment manager	(262,224)	75,377
Net cash inflow from operating activities	4,917,526	7,731,257
Cash flows from financing activities		
Proceeds from issue of ordinary shares	4,699,350	3,735,540
Redemption of ordinary shares	(8,049,277)	(11,156,258)
Net cash outflow from financing activities	(3,349,927)	(7,420,718)
Net increase in cash and cash equivalents	1,567,599	310,539
Cash and cash equivalents brought forward	541,807	231,268
Cash and cash equivalents carried forward	2,109,406	541,807
Cash and cash equivalents consist of:		
Cash at bank and broker	2,109,406	541,807
Net cash and cash equivalents	2,109,406	541,807
Operating cash flows include		
Dividends received	3,291,858	2,189,617

The notes on pages 12 to 26 form an integral part of these financial statements

Russian Federation First Mercantile Fund Limited

Notes to the Financial Statements for the year ended 31 March 2013

1 General Information

Russian Federation First Mercantile Fund Limited (the "Fund"), formerly First Mercantile Emerging Russia Fund Limited, was incorporated in Guernsey, Channel Islands, on November 4, 1997 and redomiciled in Bermuda on July 10, 2000. The Fund is an open-ended mutual fund company and can therefore issue, redeem and reissue its own shares at prices based on their net asset value.

On April 27, 2001, the shareholders of the Fund resolved to amalgamate with The Russian Federation Fund Limited ("RFF"). Pursuant to an amalgamation agreement dated April 30, 2001, the amalgamation became effective on May 1, 2001. The Fund was the surviving legal entity as a result of the amalgamation and thus assumed the assets and liabilities of RFF and its subsidiary, CER Investments Limited, in exchange for shares in the amalgamated entity on a one-for-one basis.

The principal investment objective of the Fund is to achieve long-term capital appreciation. By investing in securities and other instruments issued by companies or other entities established in, or which have their primary business in one or more countries or regions of the former Soviet Union (the "Russian Federation"). The Fund's portfolio consists of shares of major Russian companies which are traded regularly and less liquid or illiquid second and third-tier companies that AP Asset Management Limited ("the Advisor") believes are undervalued relative to other companies in the region. The Fund will, therefore invest in both quoted and unquoted equity and debt securities. Debt securities in which the Fund invests may not be rated.

2 Principal accounting policies

The principal accounting policies which have been applied are set out below. These financial statements were prepared in accordance with and comply with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

The functional currency of the Fund is US Dollars reflecting the fact that the Fund invests principally in US Dollars denominated assets, and all of the subscriptions and redemptions are in US Dollar. The presentation currency is US Dollars.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

(a) Consolidation

The consolidated financial statements include the results of the Fund and its wholly-owned subsidiary, CER Investments Limited. All intercompany transactions and balances have been eliminated on consolidation.

(b) Financial assets and financial liabilities

(i) Classification

The Company classifies its financial assets and financial liabilities in the following categories: at fair value through profit or loss, loans and receivables or financial liabilities measured at amortised cost. The classification depends on the purpose for which the financial assets and financial liabilities were acquired. The directors determine the classification of its financial assets and financial liabilities at initial recognition.

Russian Federation First Mercantile Fund Limited

Notes to the Financial Statements for the year ended 31 March 2013

2 Principal accounting policies (continued)

(i) Classification (continued)

The Fund classifies its investments in debt and equity securities and derivatives as financial assets or financial liabilities at fair value through profit or loss. These financial assets and financial liabilities are classified as held for trading.

Financial assets and financial liabilities held for trading are those acquired or incurred principally for the purposes of selling or repurchasing in the short term. Derivatives are also classified as financial assets or financial liabilities held for trading. The Fund does not classify any derivatives as hedges in a hedging relationship.

Loans and receivables and financial liabilities measured at amortised cost are non-derivative financial assets or financial liabilities with fixed or determinable payments that are not quoted in an active market.

The Fund's loans and receivables comprise cash at bank and broker, due from broker and debtors and other receivables. Financial liabilities measured at amortised cost comprise of accrued expenses.

(ii) Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the statements of financial position date. The Fund values its investments at mid-market price for the purpose of valuation and reporting of NAVs in accordance with the Fund's valuation policy. The Fund has valued its investments at bid prices for the purpose of presentation in the financial statements. A portion of the securities owned by the Fund are traded on Russian exchanges. Reduced secondary market liquidity may mean that market quotations may only be available from a limited number of sources and may not represent firm bids for actual sales. This may affect the Fund's ability to obtain accurate market quotations for the purposes of valuing its portfolio and calculating its net asset value.

(iii) Measurement

Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed in the statement of comprehensive income. Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the financial assets and financial liabilities at fair value through profit or loss are included in the statement of comprehensive income in the period in which they arise. Interest income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income within interest income using the effective interest method. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income within dividend income.

(iv) Forward currency contracts

The Fund purchases forward foreign exchange contracts in amounts approximating the net assets attributable to the Euro class of redeemable preference shares to manage its exposure against changes in the US Dollar/Euro exchange rate. Forward foreign exchange contracts are recorded at their fair value at the reporting date. The unrealised 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 unrealised gain or loss at the reporting date is included in the consolidated statement of financial position. Realised and unrealised changes in the fair value of the contracts are included in the consolidated statement of comprehensive income in the period in which the change occurs and are attributed entirely to the Euro class of redeemable preference shares (Notes 2 and 13).

Russian Federation First Mercantile Fund Limited

Notes to the Financial Statements for the year ended 31 March 2013

2 Principal accounting policies (continued)

(c) Allocation of profits and losses

The profit or loss of the Fund for each week, before management and performance fees and excluding realised and unrealised gains and losses on forward foreign exchange contracts used for hedging (Note 15) is allocated at the end of each week to the US Dollar and Euro class of redeemable preference shares (Note 13). All of the realised and unrealised gains and losses on forward foreign exchange contracts are allocated to the Euro redeemable preference shares. Management and performance fees are calculated separately for each class of redeemable preference shares (Note 8).

(d) Investment and Interest income

Dividend income is recorded on an accruals basis and is disclosed gross of withholding taxes. Withholding taxes are disclosed as a separate line item in the statement of comprehensive income. Interest income is accounted for on the accruals basis of accounting. Interest income and expenses are recognised on a time proportionate basis using the effective interest method.

(e) Cash at bank and broker

Cash at bank and broker comprises cash balances held at banks and money lodged at the prime broker to support derivative trading and shorts.

(f) 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 US source dividends.

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

As at the date of approval of these consolidated financial statements, the potential tax liability (if any) pertaining to the year under review has not been quantified. Based on the circumstances of the Fund, management does not anticipate any significant tax impact on the Fund's consolidated financial statements for the reasons stated above.

(g) Accrued expenses

Accrued expenses are recognised initially at fair value and subsequently stated at amortised cost using the effective interest method.

Russian Federation First Mercantile Fund Limited

Notes to the Financial Statements for the year ended 31 March 2013

2 Principal accounting policies (continued)

(h) Translation of foreign currencies

The Fund has adopted the US Dollar as its functional currency as the majority of the Fund's investments are denominated in US Dollars. The Fund's presentation currency is US Dollars. Monetary assets and liabilities denominated in foreign currencies are translated into US Dollars at exchange rates in effect at the date of the statement of financial position. Realised and unrealised gains and losses on foreign currency transactions are charged or credited to the statement of comprehensive income as foreign currency gains and losses except where they relate to investments where such amounts are included within net gain or loss on financial assets and liabilities at fair value through profit or loss. The cost of investments, and income and expenses are translated into US Dollars based on exchange rates on the date of the transaction.

(i) Adoption of new and revised IFRS's

In the current year, the Fund has adopted all the new and revised International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (IASB) that are relevant to its operations and effective for accounting periods beginning on or after April 1, 2012. The adoption of these new and revised IFRSs did not result in substantial changes to the Fund's accounting policies and amounts reported for the current year and prior years.

The Fund has not applied the new IFRSs that have been issued but are not yet effective. The impact of the application of the new standards and amendments has not yet been fully assessed by the fund.

3 Critical accounting estimates and judgements

Critical accounting estimates and assumptions

The directors make estimates and assumptions concerning future accounting periods. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amount of assets and liabilities within the next financial year are outlined below.

Fair value of derivative financial instruments

The Fund may, from time to time, hold financial instruments that are not quoted in active markets, such as over the counter derivatives. Fair values of such instruments are determined by using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by experienced personnel at the Investment Manager, independent of the party that created them. Models are calibrated by back-testing to actual transactions to ensure that inputs are reliable.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty); volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

All the Fund's financial assets and financial liabilities are held for the purpose of being traded.

Functional currency

The Board of Directors considers the US Dollar the currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The US Dollar is the currency in which the Fund measures its performance and reports its results, as well as the currency in which it receives subscriptions for its investors.

Russian Federation First Mercantile Fund Limited

Notes to the Financial Statements for the year ended 31 March 2013

4 Net changes in fair value on financial assets and liabilities at fair value through profit or loss

	2013 US\$	2012 US\$
Net realised (loss)/gain on sale of securities	(1,086,857)	1,194,030
Net change unrealised loss on securities	(9,289,901)	(14,561,578)
Net realised loss on forward exchange contracts	(385,656)	(151,771)
Unrealised loss on foreign Currency forward transactions	(20,953)	(7,210)
Net changes in fair value on financial assets and liabilities at fair value through profit or loss	(10,783,367)	(13,526,529)

5 Directors' fees

	2013 US\$	2012 US\$
Charge for the year	5,722	8,359

6 Administration fee

Apex Fund Services Limited (the "Administrator") acts as the administrator, registrar and transfer agent for the Fund. For services provided, the fund pays fees at the higher of \$11,000 per month or fifteen basis points of the Fund's net assets per annum. For the year ended March 31, 2013, administration fees were \$143,992 (2012 - \$144,388), of which \$22,801 (2012 - \$35,998) was payable at March 31, 2013, and is included in accounts payable and accrued expenses in the consolidated statement of financial position.

7 Custodian fees, Security transaction and safekeeping fees

Credit Suisse (UK) Ltd has been appointed as the custodian of assets held directly in the Russian Federation. Fees for custody services are charged on a sliding scale of 0.025% to 0.115% per annum based on the market value of the custodial investments.

	2013 US\$	2012 US\$
Charge for the year	153,746	162,083

8 Management & Performance fees and load fees

Management fees

The Advisor receives a management fee at a rate of 2.0% per annum of net assets attributable to each of Class A, A Euro, B, C, E and E Euro redeemable preference shares of the Fund and 0.5% per annum of the net assets attributable to Class D redeemable preference share of the Fund. The management fee is calculated weekly and payable quarterly. For the year ended March 31, 2013, the fee was \$ 862,235 (2012 - \$1,054,253) of which \$212,357 (2012 - \$474,581) was payable at March 31, 2013.

Russian Federation First Mercantile Fund Limited

Notes to the Financial Statements for the year ended 31 March 2013

8 Management & Performance fees and load fees (continued)

Performance fees

The Advisor also receives a performance fee equal to 20% of the net profits attributable to each class of redeemable preference share except for Class D. The performance fee is calculated weekly and payable quarterly. Net Profits are defined as the cumulative profits for the fiscal year before the performance fee, after deduction of all transaction costs, management fees, expenses over the amount that would have been earned in that fiscal year had the assets of the Fund been invested at a rate of 8% per annum. Net profits include both realised and unrealised gains less losses on investments. If the net profit for a week is negative, it will be carried forward ("carry forward losses"). No performance fee will be payable until the net profits in subsequent week(s) exceed carry forward losses and the performance 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 becomes payable. Once earned, the performance fees will be retained by the Advisor regardless of the Fund's future results.

For the year ended March 31, 2013 the performance fees were \$Nil (2012 - \$35,850) of which \$Nil was outstanding at March 31, 2013 (2012 - \$Nil)

Load fees

The Advisor may charge load fees of up to 5% of the amount subscribed. When charged, these load fees will reduce the amount available to the shareholders for the purchase of redeemable preference shares in the Fund. As at March 31, 2013, \$46,515 (2012 - \$14,590) of load fees were included within accounts payable and accrued expenses.

9 Debtors and other receivables

	2013 US\$	2012 US\$
Other debtors and prepayments	24,726	16,234
Total	24,726	16,234

10 Unrealised (Loss)/Gain on forward Exchange Contracts

	2013 US\$	2012 US\$
(Loss)/Gain on open forward foreign exchange contract	(4,739)	2,049
Total	(4,739)	2,049

Russian Federation First Mercantile Fund Limited

Notes to the Financial Statements for the year ended 31 March 2013

11 Accrued expenses

	2013 US\$	2012 US\$
Audit fees	17,587	33,500
Administration fee	22,801	35,998
Directors' expenses	345	1,840
Management & performance fee	212,357	474,581
Other creditors and accruals	73,442	28,289
Total	326,532	574,208

12 Other Payables

	2013 US\$	2012 US\$
Subscription in advance	-	70,000
Redemptions payable	196,701	281,295
Total	196,701	351,295

13 Share capital

The Fund has an authorized share capital of \$12,000 divided into 100 Common Shares of par value US\$1.00 each and 11,900,000 participating, redeemable preference shares (the "Shares") of par value US\$0.001 each. The Common Shares are non-participating shares that are entitled to one vote per share. The Common Shares have been issued to the Investment Manager but no amount has been called or paid. 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 that has been paid up upon a winding up or distribution of capital.

Each of the redeemable preference shares carries no preferential or pre-emptive rights upon the issue of new redeemable preference shares. Redeemable preference shares may be purchased and redeemed on a Dealing Day, which is every Monday that is a business day. Shares may be purchased at the net asset value per share calculated at the immediately preceding Valuation Day, which is generally the business day immediately preceding the Dealing Day. Shares may be redeemed with 5 business day's written notice at their net asset value per share, subject to certain restrictions

The Fund has issued seven classes of participating redeemable preference shares at March 31, 2013 (2012 - seven). Effective December 31, 2008 Class A redeemable preference shares and Class A Euro redeemable preference shares (non-voting) were closed for subscriptions into the Fund and Class E and Class E Euro redeemable preference shares (non-voting) were issued from December 1, 2008. Class B redeemable preference shares (voting) were created by the transfer of the existing shares of the Fund upon amalgamation (Note 1), Class C redeemable preference shares (voting) were created by the transfer of RFF Class A redeemable preference shares, and Class D redeemable preference shares (voting) were created by the transfer of RFF Class B redeemable preference shares into the Fund. Class A Euro redeemable preference shares were issued from January 1, 2005. Classes A, A Euro, B, C, D, E and E Euro redeemable preference shares all participate in profits in proportion to their net asset value.

Russian Federation First Mercantile Fund Limited

Notes to the Financial Statements for the year ended 31 March 2013

13 Share capital (continued)

The net asset value per share of each class of redeemable preference shares as at March 31, 2013 is as follows:

Class	No of shares	NAV per Share US\$	NAV of shares at 31 March US\$
2013			
Class A	256,608	48.43	12,426,604
Class A Euro	51,407	17.20	884,202
Class B	52,979	29.47	1,561,139
Class C	159,216	93.29	14,853,956
Class D	83,852	177.03	14,844,699
Class E	279,684	17.02	4,759,582
Class E Euro	10,112	21.00	212,394
	893,858		49,542,576
Adjustment from mid-market prices to bid prices (Note 2(b)(ii))			(982,404)
			48,560,172
Class A Euro		€13.42	€689,760
Class E Euro		€16.39	€165,687

The net asset value per share of each class of redeemable preference shares as at March 31, 2012 is as follows:

Class	No of shares	NAV per Share US\$	NAV of shares at 31 March US\$
2012			
Class A	311,378	57.30	17,840,709
Class A Euro	65,634	22.74	1,492,359
Class B	54,779	34.86	1,909,834
Class C	172,246	110.38	19,012,784
Class D	84,639	206.35	17,465,080
Class E	223,611	20.14	4,502,425
Class E Euro	31,193	27.81	867,347
	943,480		63,090,538
Adjustment from mid-market prices to bid prices (Note 2(b)(ii))			(2,029,557)
			61,060,981
Class A Euro		€17.06	€1,119,589
Class E Euro		€24.82	€650,367

Russian Federation First Mercantile Fund Limited

Notes to the Financial Statements for the year ended 31 March 2013

13 Share capital (continued)

Details of the number of shares of each class issued and redeemed by the Fund for the year ended March 31, 2013 are as follows:

Class	Opening No of shares	No. of shares issued	No. of shares redeemed	Closing No of shares
Class A	311,378	-	(54,770)	256,608
Class A Euro	65,634	-	(14,227)	51,407
Class B	54,779	-	(1,800)	52,979
Class C	172,246	-	(13,030)	159,216
Class D	84,639	-	(787)	83,852
Class E	223,611	109,716	(53,643)	279,684
Class E Euro	31,193	96,943	(118,024)	10,112
	<hr/>	<hr/>	<hr/>	<hr/>
	943,480	206,659	(256,281)	893,858

Details of the number of shares of each class issued and redeemed by the Fund for the year ended March 31, 2012 are as follows:

Class	Opening No of shares	No. of shares issued	No. of shares redeemed	Closing No of shares
Class A	415,747	-	(104,369)	311,378
Class A Euro	87,726	-	(22,092)	65,634
Class B	54,779	-	-	54,779
Class C	198,890	-	(26,644)	172,246
Class D	84,639	-	-	84,639
Class E	177,569	135,868	(89,826)	223,611
Class E Euro	9,722	28,608	(7,137)	31,193
	<hr/>	<hr/>	<hr/>	<hr/>
	1,029,072	164,476	(250,068)	943,480

14 Related parties

The Company and the Investment Manager are related by virtue of the existence of the material contract for the provision of investment management and related services.

The Directors have not entered into any contract for the provision of any other professional services to the company.

For the year ended March 31, 2013, the management fee was \$862,235 (2012 - \$1,054,253) of which \$212,357 (2012 - \$474,581) was payable at March 31, 2013.

For the year ended March 31, 2013 the performance fees was \$Nil (2012 - \$35,850) of which \$Nil was outstanding at March 31, 2013 (2012 - \$Nil).

For the year ended March 31, 2013 administration fees totalling \$143,992 (2012: \$144,388) were payable during the year, of which \$22,801 (2012: \$35,998) was outstanding at the year end.

Russian Federation First Mercantile Fund Limited

Notes to the Financial Statements for the year ended 31 March 2013

15 Financial instruments and risk exposure

(a) Russian business environment

The Fund invests in companies which are mainly located in the Russian Federation. The Russian Federation continues to experience significant political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the applicable governments, together with legal, regulatory and political developments, which are beyond the Fund's control. Consequently, operations in the Russian Federation involve risks, which do not typically exist in other markets. Such risks include, but are not limited to, the Fund's investments in companies in the Russian Federation which may prove difficult to sell in times of forced liquidity, risks involved estimating the valuation of the underlying businesses, potential adverse changes to the legal, regulatory and taxation environments that could adversely affect the underlying businesses, currency fluctuations, change in interest rates, institutional, settlement and custodial risks, and other risks generally associated with investing in emerging markets.

(b) Interest rate risk

Interest rate risk arises when a fund invests in interest-bearing financial instruments. The Fund does not hold securities which are sensitive to interest rates and does not hold, in the course of normal business, significant balances of cash and cash equivalents.

(c) Credit risk

Credit risk arises from the potential inability of counterparties to perform under the terms of the contract. The Fund has cash and cash equivalents, derivative transactions and securities held with a major bank with a long term credit rating of A2 issued by Moody's.

The Fund's subsidiary had cash and cash equivalents held with a major bank with a long term credit rating of A2 issued by Moody's. The Fund's Subsidiary had custodial relationships for securities traded on the local Russian exchange, with financial institutions in Russia (see Note 7). Long term credit ratings issued by Moody's for these institutions are Aa3. Local custody services remain undeveloped and although the Advisor endeavours to put in place controls mechanisms, there is a transaction, settlement and custody risk of dealing in regional securities. The maximum amount of credit exposure is represented by the carrying amounts of the securities listed on the consolidated schedule of investments.

Bankruptcy or insolvency of the bank or custodians may cause the Fund's rights to be delayed with respect to the cash and cash equivalents and securities held in the custodial relationship. The Advisor monitors the credit quality and financial position of the bank and custodians and should it decline significantly, the Advisor 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 exposed to the market risk of the securities and derivative financial instruments held. The Fund's risk is limited to the fair value of the investment in securities.

At March 31, 2013, 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 \$2,347,706 (2012 - \$3,071,325); 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.

Russian Federation First Mercantile Fund Limited

Notes to the Financial Statements for the year ended 31 March 2013

15 Financial instruments and risk exposure (continued)

(e) Currency risk

The Fund may invest in financial instruments denominated in currencies other than 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. The Fund's investment portfolio is comprised of securities that are American Depository Receipts ("ADRs") and Global Depository Receipts ("GDRs") which trade in United States dollars and British pounds sterling. Furthermore, the value of the rouble may impact the US dollar value of these securities.

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.

The amounts in the below 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 in to 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.

Class	Monetary Assets	Monetary Liabilities	Net Assets attributable to Non USD denominated Share Classes	Forward contracts	FX Net Exposure
	US\$	US\$	US\$	US\$	US\$
March 31, 2013					
EUR	1,068	(8,329)	(1,096,596)	1,176,963	73,106
GBP	-	-	-	-	-
	<u>1,068</u>	<u>(8,329)</u>	<u>(1,096,596)</u>	<u>1,176,963</u>	<u>73,106</u>
March 31, 2012					
EUR	12,862	-	(2,359,706)	2,374,059	27,215
GBP	282,492	-	-	-	282,492
	<u>295,354</u>	<u>-</u>	<u>(2,359,706)</u>	<u>2,374,059</u>	<u>309,707</u>

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 consolidated statement of comprehensive income. 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 consolidated Statement of comprehensive income, but are allocated specifically to the non-USD denominated share classes to which the hedging activities, and resultant gains and losses, relate.

Russian Federation First Mercantile Fund Limited

Notes to the Financial Statements for the year ended 31 March 2013

15 Financial instruments and risk exposure (continued)

(e) Currency risk (continued)

At March 31, 2013 the Fund had the following open forward exchange contract:

Currency to be sold	Currency to be bought	Contract due date	Fair Value
USD 1,176,973	EUR 914,443	April 3, 2013	(USD 4,739)

At March 31, 2012 the Fund had the following open forward exchange contract:

Currency to be sold	Currency to be bought	Contract due date	Fair Value
USD 2,374,059	EUR 1,782,260	April 3, 2012	USD 2,049

(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 13.

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

(g) Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. A portion of the securities owned by the Fund are traded on Russian exchanges and may be subject to reduced secondary market liquidity and market quotations may only be available from a limited number of sources and may not represent firm bids for actual sales. As a result, the Fund may not be able to quickly liquidate its securities at their stated fair value in order to meet its liquidity requirements. The Fund's portfolio consists primarily of ADR's and GDR's which are traded on a primary exchange. The Fund's exposure to liquidity risk is managed by the Advisor.

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

Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

At 31 March 2013	Less than 1 month US\$	1-3 Months US\$	3-12 Months US\$	No Stated maturity US\$
Financial liabilities at fair value through profit or loss	-	-	-	-
Redemption payable	196,701	-	-	-
Subscriptions in advance	-	-	-	-
Accrued expenses	326,532	-	-	-
Ordinary shares	-	48,560,172	-	-
Total financial liabilities	523,233	48,560,172	-	-

Russian Federation First Mercantile Fund Limited

Notes to the Financial Statements for the year ended 31 March 2013

15 Financial instruments and risk exposure (continued)

(g) Liquidity risk (continued)

At 31 March 2012	Less than 1 month US\$	1-3 Months US\$	3-12 Months US\$	No Stated maturity US\$
Financial liabilities at fair value through profit or loss	-	-	-	-
Redemption payable	281,295	-	-	-
Subscriptions in advance	70,000	-	-	-
Accrued expenses	574,208	-	-	-
Ordinary shares	-	61,060,981	-	-
Total financial liabilities	925,503	61,060,981	-	-

(h) Financial Instruments: Disclosures:

(i) Fair value estimation

The Fund adopted the amendment to IFRS 7, effective 1 January 2009. This requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Directors. The Directors consider observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following tables analyse within the fair value hierarchy the Company's financial assets at fair value through profit and loss measured at fair value at 31 March 2013. All assets are classified as Level 1 on the basis that they are traded on highly liquid markets:

Russian Federation First Mercantile Fund Limited

Notes to the Financial Statements for the year ended 31 March 2013

15 Financial instruments and risk exposure (continued)

h) Financial Instruments - Disclosures (continued)

As at March 31, 2013	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
Common Equities	46,954,112	-	-	46,954,112
Total investments	46,954,112	-	-	46,954,112
Unrealised loss on forward exchange contracts	-	(4,739)	-	(4,739)

A breakdown of the level one asset's are summarized below.

Financial assets and liabilities at fair value through profit or loss - held for trading:

Investment securities – equities	US\$46,954,112
Total financial assets and liabilities	US\$46,954,112

As at March 31, 2012	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
Common Equities	61,426,494	-	-	61,426,494
Total investments	61,426,494	-	-	61,426,494
Unrealised gain on forward exchange contracts	-	2,049	-	2,049

A breakdown of the level one asset's are summarized below.

Financial assets and liabilities at fair value through profit or loss - held for trading:

Investment securities – equities	US\$61,426,494
Total financial assets and liabilities	US\$61,426,494

Russian Federation First Mercantile Fund Limited

Notes to the Financial Statements for the year ended 31 March 2013

15 Financial instruments and risk exposure (continued)

(h) Financial Instruments - Disclosures (continued)

Financial assets and financial liabilities at fair value through profit or loss, whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities. The Company does not adjust the quoted price for these instruments.

There were no movements of financial assets and financial liabilities at fair value through profit loss between levels 1 and 2 during the current or prior year.

16 Post balance sheet events & subsequent events

For the period from March 31, 2013 to December 25, 2013, there have been net redemptions of \$5,025,301. On the August 19, 2013 three new share classes were launched, Class F GBP, Class F Euro and Class F USD resulting in subscriptions \$124,518, \$29,085 and \$70,910 respectively. There are no other post balance sheet events.

17 Ultimate controlling party

AP Asset Management Limited (the Investment Advisor) is the ultimate controlling party.

18 Prior year adjustment

In the prior year a fundamental error was identified in respect of the calculation and subsequent disclosure of the Unit-holder capital. This resulted in an adjustment to correct the balances disclosed in the previous year.

In accordance with International Accounting Standard 8, "Accounting Policies, Changes in Accounting Estimates and Errors", the prior year figures have been restated to account for the cumulative effect of this required change. The net effect of this change has been disclosed below; however there was ultimately no effect on the net assets of the fund as a result of this adjustment.

	2010	2011	2012	Total net effect
	£	£	£	£
(Decrease) in share capital	(1,276,949)	(1,028,043)	(942,537)	(3,247,529)
(Decrease) in share premium	(1,151)	(930)	(853)	(2,934)
Increase in Accumulated Reserves	1,278,100	1,028,973	943,390	3,250,463