RUSSIAN FEDERATION FIRST MERCANTILE FUND LTD.

Consolidated Financial Statements
(With Auditors' Report Thereon)

March 31, 2009 and 2008

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
Internet www.kpmg.bm

AUDITORS' REPORT

To the Board of Directors and Shareholders of
Russian Federation First Mercantile Fund Ltd.

We have audited the accompanying consolidated statement of assets and liabilities, including the consolidated schedule of investments, of Russian Federation First Mercantile Fund Ltd. as at March 31, 2009, and the consolidated statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Russian Federation First Mercantile Fund Ltd. as at March 31, 2009, and the results of its operations and changes in its net assets for the year then ended in conformity with accounting principles generally accepted in Bermuda and Canada.

KPMG

Chartered Accountants
Hamilton, Bermuda
September 23, 2009

RUSSIAN FEDERATION FIRST MERCANTILE FUND LTD.

Consolidated Statement of Assets and Liabilities

March 31, 2009
(Expressed in U.S. Dollars)

	2009	2008
Assets		
Investments in securities, at fair value		
(cost - \$80,234,060; 2008 - \$91,936,177) (Note 2(b))	\$ 32,915,592	\$ 120,084,367
Unrealized gain on forward foreign exchange contracts (Note 10)	–	116,409
Cash and cash equivalents	164,172	2,482,405
Other assets	14,016	12,074
Total assets	33,093,780	122,695,255
Liabilities		
Redemptions payable	59,330	11,013
Subscriptions received in advance	45,000	68,016
Management fees payable (Note 3)	134,576	579,886
Performance fees payable (Note 3)	6,691	–
Accounts payable and accrued expenses	78,202	127,843
Total liabilities	323,799	786,758
Net assets attributable to redeemable preference shares	\$ 32,769,981	\$ 121,908,497
Net assets attributable to redeemable preference shares based on mid-market prices (Note 7)	\$ 34,444,773	
Adjustment from mid-market prices to bid prices	\$ 1,674,792	

See accompanying notes to consolidated financial statements.

Signed on behalf of the Board

______________________________ Director

______________________________ Director

RUSSIAN FEDERATION FIRST MERCANTILE FUND LTD.

Consolidated Schedule of Investments

March 31, 2009
(Expressed in U.S. Dollars)

Description	No. of Shares	Cost	Fair Value	% of Net Assets
Held by Russian Federation First Mercantile Fund Ltd.				
Common Equities				
Acron JSC ADR	350,000	$ 1,281,350	$ 490,000	1.50%
Aurado Energy Inc.	1,100,000	143,000	–	0.00%
Bank of Georgia GDR	12,848	231,031	30,193	0.09%
Chagala Group Ltd. GDR	232,815	1,929,196	209,533	0.64%
Gazprom ADR	457,300	18,018,450	6,790,905	20.72%
Kazakhgold Group Ltd.GDR	30,680	777,863	205,249	0.63%
Kazvedka Dobycha GDR	50,000	628,750	744,500	2.27%
KDD Group NV	100,000	395,500	7,149	0.02%
LSR Group OJSC GDR	27,500	398,750	22,000	0.07%
LUKOIL Holding ADR	292,000	14,695,157	10,906,200	33.28%
MECHEL ADR	20,000	400,000	84,200	0.26%
Mirland Development Corp plc	40,000	452,376	27,454	0.08%
JMC MMC Norilsk Nickel ADR	276,087	4,448,387	1,656,522	5.05%
RGI International Ltd	184,851	1,987,148	44,364	0.14%
Rosneft Oil Company GDR	658,000	3,741,540	2,822,820	8.61%
Sistema Hals GDR	200,000	2,111,600	90,000	0.27%
Tatneft GDR	10,000	348,795	460,500	1.41%
XXI Century Investments Public Ltd.	166,000	1,921,616	30,858	0.09%
Total common equities held by Russian Federation First Mercantile Fund Ltd.		53,910,509	24,622,447	75.14%
Held by CER Investments Limited (Note 2(a))				
Common Equities				
Murmansk Trawl Fleet	62,925	1,595,048	314,688	0.96%
Sistema JSFC	5,000,000	6,856,935	1,000,000	3.05%
Sberbank	4,863,000	8,760,399	2,966,430	9.05%
TNK BP Holding	4,833,500	9,024,901	4,011,805	12.24%
Zapsibgazprom OAO Pref	2,088,261	86,268	209	0.00%
Northwest Telecom Pref	76	–	13	0.00%
Total common equities held by CER Investments Limited		26,323,551	8,293,145	25.30%
Total investment in securities		$ 80,234,060	$ 32,915,592	100.44%

See accompanying notes to consolidated financial statements.

RUSSIAN FEDERATION FIRST MERCANTILE FUND LTD.

Consolidated Statement of Operations

Year ended March 31, 2009
(Expressed in U.S. Dollars)

	2009	2008
Income		
Dividend income, net of withholding taxes of $201,444 (2008 - $236,637)	$ 1,279,656	$ 1,753,481
Interest income	73,788	471,264
Other income	–	33,643
Total income	1,353,444	2,258,388
Expenses		
Management fees (Note 3)	1,336,020	2,420,080
Performance fees (Note 3)	3,373,801	3,479,724
Administration fees (Note 4)	168,504	243,465
Custodian, security transaction and safekeeping fees (Note 5)	118,019	117,588
Directors' fees	13,290	20,183
Professional fees	98,948	40,401
General expenses	27,287	21,860
Total expenses	5,135,869	6,343,301
Net investment loss	(3,782,425)	(4,084,913)
Realized and unrealized gains and losses on investments		
Net realized (loss) gain on sale of securities	(1,831,392)	23,045,099
Net realized (loss) gain on forward foreign exchange contracts	(963,580)	1,046,032
Net change in unrealized gains and losses on securities	(75,466,658)	(10,229,548)
Net change in unrealized gains and losses on forward foreign exchange contracts	(116,409)	125,714
Net realized and unrealized gains and losses on investments	(78,378,039)	13,987,297
Net (decrease) increase in net assets resulting from operations	$ (82,160,464)	$ 9,902,384

See accompanying notes to consolidated financial statements.

RUSSIAN FEDERATION FIRST MERCANTILE FUND LTD.

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2009
(Expressed in U.S. Dollars)

	2009	2008
From operations		
Net investment loss	$ (3,782,425)	$ (4,084,913)
Net realized (loss) gain on sale of securities	(1,831,392)	23,045,099
Net realized (loss) gain on forward foreign exchange contracts	(963,580)	1,046,032
Net change in unrealized gains and losses on securities	(75,466,658)	(10,229,548)
Net change in unrealized gains and losses on forward foreign exchange contracts	(116,409)	125,714
Net (decrease) increase in net assets resulting from operations	(82,160,464)	9,902,384
From capital transactions (Note 7)		
Proceeds from sale of Class A redeemable preference shares	4,496,789	8,072,263
Proceeds from sale of Class A Euro redeemable preference shares	883,836	4,283,033
Proceeds from sale of Class C redeemable preference shares	129,062	244,364
Proceeds from sale of Class D redeemable preference shares	1,070,400	1,222,301
Proceeds from sale of Class E redeemable preference shares	200,652	–
Proceeds from sale of Class E Euro redeemable preference shares	56,921	–
Payments on redemption of Class A redeemable preference shares	(10,567,935)	(17,377,440)
Payments on redemption of Class A Euro redeemable preference shares	(1,666,705)	(3,791,827)
Payments on redemption of Class B redeemable preference shares	(20,501)	(8,562)
Payments on redemption of Class C redeemable preference shares	(1,445,061)	(12,287,236)
Payments on redemption of Class D redeemable preference shares	(94,475)	(400,533)
Payments on redemption of Class E redeemable preference shares	(21,035)	–
Net decrease in net assets resulting from capital transactions	(6,978,052)	(20,043,637)
Net decrease in net assets attributable to redeemable preference shares	(89,138,516)	(10,141,253)
Net assets attributable to redeemable preference shares at the beginning of the year	121,908,497	132,049,750
Net assets attributable to redeemable preference shares at the end of the year	$ 32,769,981	$ 121,908,497

See accompanying notes to consolidated financial statements.

1. **Operations**

Russian Federation First Mercantile Fund Ltd. (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 principle 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 FM 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. A proportion of the Fund's securities are purchased and sold by the Fund's wholly-owned trading subsidiary, CER Investments Limited (“CER”), a Cyprus company; however, the Fund also purchases and holds securities directly.

2. **Significant accounting policies**

The accompanying consolidated 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) 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.

The subsidiary’s financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) in order to comply with statutory requirements in Cyprus. Under IFRS, investments in securities are valued at their bid prices. Prior to adoption of Section 3855, as part of the consolidation, the value of CER’s securities have been adjusted to mid-market prices to conform with the Fund’s accounting policy.

(b) Investment transactions and valuation

The Fund adopted CICA Section 3855, Financial Instruments – Recognition and Measurement (“Section 3855”) effective April 1, 2008 on prospective basis without restatement of prior periods. Section 3855 requires, among other things, that the fair value of the financial instruments that are traded in active markets be measured based on the bid price for long positions and ask price for short positions. Prior to adoption of Section 3855 for financial reporting purposes, investments in securities traded on a national securities exchange or reported in a national market are valued at the mid-market price at the date of valuation. The Fund continues to value investments at mid-market price for the purpose of valuation and reporting of NAVs in accordance with the Fund’s valuation policy. The majority of the securities owned by the Fund’s subsidiary 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.

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

(b) Investments transactions and valuation (continued)

Investments in securities are recorded on the trade date. Realized gains or losses on the sale of securities are determined on the average cost basis. Realized gains and losses and unrealized gains and losses are included in the Consolidated Statement of Operations.

(c) Forward foreign exchange 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 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 Consolidated Statement of Assets and Liabilities. Realized and unrealized changes in the fair value of the contracts are included in the Consolidated Statement of Operations in the period in which the change occurs and are attributed entirely to the Euro class of redeemable preference shares (Notes 2(d) and 7).

(d) Allocation of profits and losses

The profit or loss of the Fund for each week, before management and performance fees and excluding realized and unrealized gains and losses on forward foreign exchange contracts used for hedging (Notes 2(c) and 10(e)), is allocated at the end of each week to the US Dollar and Euro class of redeemable preference shares (Note 7). All of the realized and unrealized gains and losses on forward foreign exchange contracts are allocated to the Euro redeemable preference shares. Management and incentive fees are calculated separately for each class of redeemable preference shares (Note 3).

(e) Statement of cash flows

A statement of cash flows has not been included in these consolidated financial statements as the Board of Directors believes that the required information is readily apparent from the information presented.

(f) Investment and interest income

Dividend income is recorded on a cash basis due to uncertainty of receipt and is disclosed net of withholding taxes. Interest income is accounted for on the accruals basis of accounting.

(g) Foreign currency translation

Foreign currency investments and balances that are monetary items, predominantly cash, 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 foreign exchange gain or loss is included in the Consolidated Statement of Operations.

(h) Use of estimates

The preparation of consolidated 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 consolidated 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.

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

(i) Changes in accounting policies

On April 1, 2008, the Fund adopted CICA Section 3862, Financial Instruments – Disclosures ("Section 3862") and CICA Section 3863, Financial Instruments – Presentation ("Section 3863"), replacing Section 3861. Section 3862 requires enhanced disclosure of the nature and extent of the risks arising from financial instruments and how the Fund manages those risks. Section 3863 carries forward unchanged the presentation requirements of Section 3861 with respect of financial instruments.

3. **Management, performance and load fees**

Management fees

The Advisor receives a management fee at a rate of 2.0% per annum of the 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 the Class D redeemable preference shares of the Fund. The management fee is calculated weekly and payable quarterly. For the year ended March 31, 2009, this fee was $1,336,020 (2008 - $2,420,080), of which $134,576 (2008 - $579,886) was payable at March 31, 2009.

Performance fees

The Advisor also receives a performance fee equal to 20% of the net profits attributable to each class of redeemable preference shares 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 realized and unrealized gains less losses on investments. If the net profit for a week is negative, it will be carried forward ("carry forward losses"). No incentive fee will be payable until the net profits in subsequent week(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 becomes payable. Once earned, the incentive fee will be retained by the Manager regardless of the Fund's future results.

For the year ended March 31, 2009, the performance fee was $3,373,801 (2008 - $3,479,724) of which $6,691 (2008 - $nil) was outstanding at March 31, 2009.

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, 2009, $8,418 (2008 - $52,334) of load fees were included within accounts payable and accrued expenses.

4. **Administration fees**

Apex Fund Services Ltd (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, 2009, administration fees were $168,504 (2008 - $243,465), of which $11,604 (2008 - $46,639) was payable at March 31, 2009 and is included in accounts payable and accrued expenses.

5. **Custodian fees**

Effective October 16, 2006, HSBC Institutional Trust Services (Bermuda) Limited (the "Custodian") became the custodian to the Fund for assets which are not directly held in the Russian Federation. Fees for custody services are charged at the higher of $3,000 per annum or five basis points of the gross asset value of custodied investments. In addition, custody transaction fees are chargeable on individual transactions on a sliding scale, depending on the market and type of security.

UBS Nominees (the "Co-Custodian") has been appointed as the Custodian of assets held directly in the Russian Federation. UBS Nominees is a wholly owned subsidiary of UBS AG, Switzerland. Fees for custody services are charged on a sliding scale of 0.025% to 0.115% per annum based on the market value of custodied investments. In addition to the Custodian and Co-Custodian, ING Bank (Euroasia) ZAO has been appointed (effective March 24, 2004) as an additional custodian for selected assets held by CER. Fees for custody services provided by ING Bank (Euroasia) ZAO are charged at a minimum of $200 per month on the first $250,000 and a sliding scale of 0.025% to 0.01667% per month there after, based on the market value of custodied investments.

6. **Related party transactions**

A director of the Fund is also a director of the Advisor and another director is a director of both the Advisor and the Administrator. One director is also a director of FMG Russia Fund Ltd, an investment fund that owns 36.95% (2008 - 31.66%) of the Class A redeemable preference shares of the Fund. One director of the Fund owns 0.62% (2008 - 0.79%) of the outstanding share capital of the Class D redeemable preference shares. The Advisor owns 0.38%, 83.31% and 3.18% (2008 - 0.33%, 81.79% and 4.07%) of the Class A, Class B and Class D redeemable preference shares, respectively.

7. **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 Advisor 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 days written notice at their net asset value per share, subject to certain restrictions.

7. **Share capital** (continued)

The Fund has issued seven classes of participating redeemable preference shares at March 31, 2009 (2008 - five). 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.

The net asset value per share of each class of redeemable preference shares as at March 31, 2009 is as follows:

Class	No. of shares		NAV per share		NAV of shares at March 31
2009					
Class A	696,934	$	23.16	$	16,142,808
Class A Euro	189,940		9.78		1,857,130
Class B	72,972		14.10		1,028,786
Class C	249,184		44.62		11,118,524
Class D	50,775		79.79		4,051,353
Class E	18,663		10.02		186,928
Class E Euro	4,429		13.38		59,244
	1,282,897			$	34,444,773
Class A Euro		€	7.39	€	1,403,832
Class E Euro		€	10.11	€	44,783

The net asset value per share of each class of redeemable preference shares as at March 31, 2008 is as follows:

Class	No. of shares		NAV per share		NAV of shares at March 31
Class A	822,424	$	74.79	$	61,509,090
Class A Euro	227,854		41.62		9,483,584
Class B	74,327		45.50		3,381,878
Class C	261,508		144.04		37,667,612
Class D	39,990		246.72		9,866,333
	1,426,103			$	121,908,497
Class A Euro		€	26.39	€	6,013,946

7. **Share capital** (continued)

Details of the number of shares of each class issued and redeemed by the Fund for the year ended March 31, 2009 are as follows:

Class	Opening No. of shares	No. of shares issued	No. of shares redeemed	Closing No. of shares
Class A	822,424	96,286	(221,776)	696,934
Class A Euro	227,854	26,034	(63,948)	189,940
Class B	74,327	–	(1,355)	72,972
Class C	261,508	894	(13,218)	249,184
Class D	39,990	11,126	(341)	50,775
Class E	–	21,172	(2,509)	18,663
Class E Euro	–	4,429	–	4,429
	1,426,103	159,941	(303,147)	1,282,897

Details of the number of shares of each class issued and redeemed by the Fund for the year ended March 31, 2008 are as follows:

Class	Opening No. of shares	No. of shares issued	No. of shares redeemed	Closing No. of shares
Class A	952,112	111,161	(240,849)	822,424
Class A Euro	217,153	111,241	(100,540)	227,854
Class B	74,527	–	(200)	74,327
Class C	343,312	1,706	(83,510)	261,508
Class D	36,579	5,037	(1,626)	39,990
	1,623,683	229,145	(426,725)	1,426,103

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 US source dividends.

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

8. **Taxation** (continued)

Investments in Russian securities are often made by the Fund's subsidiary, CER Investments Ltd. in order to take advantage of the tax treaty between Cyprus and Russia. In general terms the treaty provides that if CER is subject to taxation in Cyprus and does not have a place of business in Russia, then it will not be subject to Russian taxation. Legislation was introduced in Cyprus with effect from January 1, 2003 whereby gains from trading in investments will not be subject to taxation. Dividends will also be exempt from the 15% defense tax provided that: (i) there is at least a 1% participation in the overseas company paying the dividend; and (ii) the non-resident company must not engage more than 50% in activities which lead to passive income (non-trading income), or the foreign tax burden of the company paying the dividend is not substantially lower than the Cypriot Tax burden as of March 31, 2009.

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.

9. **Fair values of financial instruments**

The methods used to determine the fair value of investments in securities and the unrealized gain or loss on forward foreign exchange contracts are described in Notes 2(b) and 2(c). The fair values of the Fund's other assets and liabilities approximate their carrying amount due to their short term nature.

10. **Financial instruments and risk management**

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.

(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 majority of the securities owned by the Fund's subsidiary 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's subsidiary 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 Manager.

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.

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

(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 Aa3 issued by Moody's.

The Fund's subsidiary has cash and cash equivalents held with a major bank with a long term credit rating of Aa3 issued by Moody's. The Fund's Subsidiary has custodial relationships for securities traded on the local Russian exchange, with financial institutions in Russia (see note 5). Long term credit ratings issued by Moody's for these institutions are Aa2 (UBS Nominees) and Baaa1 (ING Bank (Euroasia) ZAO). Local custody services remain undeveloped and although the Manager endeavors to put in place controls mechanism, 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 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 Manager monitors the credit quality and financial position of the bank and custodians 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 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, 2009, 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 $1,645,780 (2008 - $6,004,218); 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 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 ADRs and GDRs which trade in United States dollars. Consequently, there is limited currency risk however the value of the ruble may impact the US dollar value of these securities.

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:

	Monetary Assets	Monetary Liabilities	Net assets attributable to Non-USD denominated Share Classes	Forward Contracts	FX Net Exposure
March 31, 2009					
EUR	$ –	$ –	$ (1,916,374)	$ –	$ (1,916,374)
	$ –	$ –	$ (1,916,374)	$ –	$ (1,916,374)
March 31, 2008					
EUR	$ –	$ –	$ (9,483,584)	$ 8,795,110	$ (688,474)
	$ –	$ –	$ (9,483,584)	$ 8,795,110	$ (688,474)

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 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.

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 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 consolidated 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, 2009, had the US Dollar strengthened by 5% in relation to the Euro, there would be an approximate net impact of $nil (2008: $nil) on the consolidated 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 $95,818 (2008: $34,423) on the consolidated 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 Euro 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, 2009, the Fund had no open forward foreign exchange contracts.

At March 31, 2008, the Fund had the following open forward foreign exchange contract:

Currency to be Sold		Currency to be Bought		Contract due Date	Fair Value
USD	8,795,110	EUR	5,650,932	April 1, 2008	$ 116,409
					$ 116,409