FMG RUSSIA FUND LTD.

Financial Statements
(With Auditors' Report Thereon)

March 31, 2010 and 2009

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AUDITORS' REPORT

To the Directors and Shareholders of
FMG Russia Fund Ltd.

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of FMG Russia Fund Ltd. (the "Fund") as at March 31, 2010 and the statements of operations, changes in net assets and cash flows 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.

Except as explained in the following paragraph, 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.

As explained in Note 8, the financial statements include an investment in an underlying investment company with a fair value of $1,648,398 (63.51% of net assets) at March 31, 2010, whose fair value has been estimated by the Manager in the absence of readily ascertainable fair values. We have obtained explanations from the Manager to support the estimation of the fair value and have reviewed the underlying documentation made available to us. In our opinion, the explanations obtained and information reviewed are not sufficient to be able to provide a reliable estimate of the fair value of the underlying investment company throughout the year and as at March 31, 2010. Accordingly, we were not able to determine whether any adjustments are necessary to the fair value of the investment as at March 31, 2010, or to the net increase in net assets resulting from operations or to net assets attributable to redeemable preference shares in determining the net decrease in net assets from capital share transactions during the year then ended. As further explained in Note 8, there was another investment in an underlying investment company held during the year whose fair value had been estimated by the Manager in the absence of readily ascertainable fair values. We have obtained explanations from the Manager to support the estimation of the fair value and have reviewed the underlying documentation made available to us. In our opinion, the explanations obtained and information reviewed were not sufficient to be able to provide a reliable estimate of the fair value of the investment throughout a portion of the year. Accordingly, we were not able to determine whether any adjustments were necessary to the fair value of the investment through the year or to net assets attributable to redeemable preference shares in determining the net decrease in net assets from capital share transactions during the year then ended.

In our opinion, except for the effect of adjustments, if any, related to the valuation of the investments described in the preceding paragraph, the financial statements referred to above present fairly in all material respects the financial position of FMG Russia Fund Ltd. as at March 31, 2010 and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in Bermuda and Canada.

As explained in Note 8, the financial statements include investments in two underlying investment companies with a combined fair value of $3,020,364 (15.19% of net assets) at March 31, 2009, whose fair value has been estimated by the Manager in the absence of readily ascertainable fair values. We obtained explanations from the Manager to support the estimation of these fair values and have reviewed the underlying documentation made available to us. In our opinion, the explanations obtained and information reviewed were not sufficient to be able to provide a reliable estimate of the fair values of the underlying investment companies as at March 31, 2009. Accordingly, we were not able to determine whether any adjustments were necessary to the fair values of the investments as at March 31, 2009, or to the net decrease in net assets from operations or to the net decrease in net assets from capital share transactions during the year then ended.

KPMG

Chartered Accountants
Hamilton, Bermuda
October 6, 2010

FMG RUSSIA FUND LTD.

Statement of Assets and Liabilities

March 31, 2010
(Expressed in United States Dollars)

		2010		2009
Assets				
Investments in other investment companies, equities and managed accounts (cost - $34,175,783; 2009 - $37,285,798) (See Schedule of Investments) (Notes 5, 8, 9 and 10)	$	27,332,785	$	14,868,894
Cash and cash equivalents (Note 5)		3,331,094		5,027,357
Unrealized gains on forward foreign exchange contracts (Notes 5, 8 and 9)		-		97,947
Rebate income receivable		11,844		8,993
Other assets		9,414		13,197
Total assets		30,685,137		20,016,388
Liabilities				
Subscription received in advance		10,000		-
Redemptions payable (Note 6)		27,653,753		18,322
Management and incentive fees payable (Note 3)		136,603		70,620
Unrealized losses on forward foreign exchange contracts (Notes 5, 8 and 9)		59,657		-
Administration fees payable (Note 4)		15,870		12,720
Audit fees payable		21,000		20,000
Accounts payable and accrued expenses (Note 3)		192,770		11,005
Total liabilities		28,089,653		132,667
Net assets		2,595,484		19,883,721
Less: attributable to 100 common shares (Note 6)		(100)		(100)
Net assets attributable to redeemable preference shares (Note 6)	$	2,595,384	$	19,883,621
Net assets attributable to 12,250 (2009 - 16,791) US Dollar Class A redeemable preference shares	$	603,815	$	539,128
Net asset value per US Dollar Class A redeemable preference share	$	49.29	$	32.10
Net assets attributable to 589 (2009 - nil) US Dollar Class A09 redeemable preference shares	$	74,738	$	-
Net asset value per US Dollar Class A09 redeemable preference share	$	126.93	$	-

See accompanying notes to financial statements

FMG RUSSIA FUND LTD.

Statement of Assets and Liabilities (continued)

March 31, 2010
(Expressed in United States Dollars)

		2010		2009
Net assets attributable to 62,424 (2009 - 5,173,545) US Dollar Class B redeemable preference shares	$	322,109	$	17,405,511
Net asset value per US Dollar Class B redeemable preference share	$	5.16	$	3.36
Net assets attributable to 6,045 (2009 - nil) US Dollar Class B09 redeemable preference shares	$	72,664	$	-
Net asset value per US Dollar Class B09 redeemable preference share	$	12.02	$	-
Net assets of $213,775 (2009 - $224,637) attributable to 4,088 (2009 - 6,703) Euro Class A redeemable preference shares	€	154,358	€	169,078
Net asset value per Euro Class A redeemable preference share	€	37.76	€	25.22
Net assets of $369,219 (2009 - $3,837) attributable to 1,774 (2009 - 27) Euro Class A09 redeemable preference shares	€	266,596	€	2,888
Net asset value per Euro Class A09 redeemable preference share	€	150.28	€	108.07
Net assets of $248,719 (2009 - $1,710,508) attributable to 55,600 (2009 - 598,812) Euro Class B redeemable preference shares	€	179,589	€	1,287,452
Net asset value per Euro Class B redeemable preference share	€	3.23	€	2.15
Net assets of $690,345 (2009 - $nil) attributable to 34,520 (2009 - nil) Euro Class B09 redeemable preference shares	€	499,466	€	-
Net asset value per Euro Class B09 redeemable preference share	€	14.44	€	-

See accompanying notes to financial statements

Signed on behalf of the Board

____ Director

____ Director

FMG RUSSIA FUND LTD.

Schedule of Investments

March 31, 2010
(Expressed in United States Dollars)

Investments in securities		Cost		Fair Value	% of Net Assets	Redemption Frequency
Other Investment Companies						
Central Asia Opportunity Fund Class A Series 1/08 (Note 8)	$	5,000,000	$	596,365	22.98%	Suspended
Diamond Age Russia Fund Limited – Series February 28, 2009		892,709		2,558,547	98.57%	Weekly
Diamond Age Russia Fund Limited – Designated Investment Shares Series		213,982		152,826	5.89%	Illiquid
Hudson River Russia Fund Limited – Class C Series 04/2006 (Note 8)		5,000,000		1,648,398	63.51%	Suspended
Russian Federation First Mercantile Fund Class A USD (Note 10)		14,046,326		12,542,680	483.25%	Weekly
Total investments in other investment companies		25,153,017		17,498,816	674.20%	
Long Equities						
Market Vectors Russia ETF		2,977,946		3,091,500	119.11%	
DB x-Tracker MSCI Russia Capped Index ETF		6,044,820		6,742,469	259.78%	
Total investments in long equities		9,022,766		9,833,969	378.89%	
Total investments in other investment companies and long equities	$	34,175,783	$	27,332,785	1,053.09%	

See accompanying notes to financial statements

FMG RUSSIA FUND LTD.

Schedule of Investments

March 31, 2009
(Expressed in United States Dollars)

Investments in securities	Cost	Fair Value	% of Net Assets	Redemption Frequency
Other Investment Companies				
Artradis Russian Opportunities Fund Participating Voting Shares	$ 2,941,505	$ 1,612,814	8.11%	Monthly
Central Asia Opportunity Fund Class A Series 1/08 (Note 8)	5,000,000	1,166,380	5.87%	Suspended
Diamond Age Russia Fund Limited – Series February 28, 2009	3,017,257	1,312,875	6.60%	Monthly
Hudson River Russia Fund Limited – Class C Series 04/2006 (Note 8)	5,000,000	1,853,984	9.33%	Suspended
Russian Federation First Mercantile Fund Class A USD (Note 10)	14,046,326	6,399,049	32.18%	Weekly
Total investments in other investment companies	30,005,088	12,345,102	62.09%	
Managed Accounts				
Blue Chip Managed Account (Credit Suisse)	7,280,710	2,523,792	12.69%	
Total investments held in managed accounts	7,280,710	2,523,792	12.69%	
Total investments in other investment companies and managed accounts	$ 37,285,798	$ 14,868,894	74.78%	

At March 31, 2009, holdings in the Managed Accounts were comprised as follows:

Long equities	$ 2,523,792	12.69%

At March 31, 2009, the following equity securities represented more than 5% of the Fund's net asset value:

Gazprom OAO Sponsored ADR	$ 1,150,519	5.79%
Lukoil ADR	$ 1,373,273	6.90%

Cash and cash equivalents include $334,344 of cash held in managed accounts.

See accompanying notes to financial statements

FMG RUSSIA FUND LTD.

Statement of Operations

Year ended March 31, 2010
(Expressed in United States Dollars)

	2010	2009
Investment income		
Interest income	$ 26	$ 11,690
Dividend income	72,170	159,035
Rebate income (Note 10)	20,006	65,260
Total income	92,202	235,985
Expenses		
Management fees (Note 3)	402,244	739,536
Incentive fees (Note 3)	115,007	717,684
Administration fees (Note 4)	61,373	84,921
Bank charges	1,624	2,114
Audit fees	20,217	34,500
Directors and secretarial fees	13,750	17,846
Custodian fees (Note 5)	15,213	11,201
Bermuda company fees	3,345	3,151
Miscellaneous	18,135	20,505
Total expenses	650,908	1,631,458
Net investment loss	(558,706)	(1,395,473)
Net realized and unrealized gains and losses on investments		
Net realized losses on sale of investments	(4,361,253)	(12,876,067)
Net realized losses on forward foreign exchange contracts	(236,770)	(443,671)
Net change in unrealized losses on investments	15,573,906	(33,364,017)
Net change in unrealized gains and losses on forward foreign exchange contracts	(157,604)	28,833
Net realized and unrealized gains and losses on investments	10,818,279	(46,654,922)
Net increase (decrease) in net assets resulting from operations	$ 10,259,573	$ (48,050,395)

See accompanying notes to financial statements

FMG RUSSIA FUND LTD.

Statement of Changes in Net Assets

Year ended March 31, 2010
(Expressed in United States Dollars)

	2010	2009
From operations		
Net investment loss	$ (558,706)	$ (1,395,473)
Net realized losses on sale of investments	(4,361,253)	(12,876,067)
Net realized losses on forward foreign exchange contracts	(236,770)	(443,671)
Net change in unrealized losses on investments	15,573,906	(33,364,017)
Net change in unrealized gains and losses on forward foreign exchange contracts	(157,604)	28,833
Net increase (decrease) in net assets resulting from operations	10,259,573	(48,050,395)
From capital share transactions		
Proceeds from issue of nil (2009 - 8,205) US Dollar Class A redeemable preference shares	-	624,038
Proceeds from issue of 685 (2009 - nil) US Dollar Class A09 redeemable preference shares	76,285	-
Proceeds from issue of nil (2009 - 2,470,621) US Dollar Class B redeemable preference shares	-	12,681,285
Proceeds from issue of 176,045 (2009 - nil) US Dollar Class B09 redeemable preference shares	1,763,419	-
Proceeds from issue of 570 (2009 - 4,427) EUR Class A redeemable preference shares	23,527	584,017
Proceeds from issue of 1,774 (2009 - 27) EUR Class A09 redeemable preference shares	344,397	3,421
Proceeds from issue of nil (2009 - 526,756) EUR Class B redeemable preference shares	-	1,979,952
Proceeds from issue of 173,032 (2009 - nil) EUR Class B09 redeemable preference shares	3,018,123	-
Payment on redemption of 4,541 (2009 - 6,472) US Dollar Class A redeemable preference shares	(191,501)	(312,962)
Payment on redemption of 96 (2009 - nil) US Dollar Class A09 redeemable preference shares	(11,935)	-
Payment on redemption of 5,111,121 (2009 - 3,129,958) US Dollar Class B redeemable preference shares	(25,315,065)	(27,507,072)
Payment on redemption of 170,000 (2009 - nil) US Dollar Class B09 redeemable preference shares	(2,043,400)	-
Payment on redemption of 3,185 (2009 - 2,100) EUR Class A redeemable preference shares	(143,003)	(280,263)
Payment on redemption of 27 (2009 - nil) EUR Class A09 redeemable preference shares	(4,351)	-
Payment on redemption of 543,212 (2009 - 4,061) EUR Class B redeemable preference shares	(2,360,298)	(13,146)
Payment on redemption of 138,512 (2009 - nil) EUR Class B09 redeemable preference shares	(2,704,008)	-
Net decrease in net assets from capital share transactions	(27,547,810)	(12,240,730)
Net decrease in net assets attributable to redeemable preference shares	(17,288,237)	(60,291,125)
Net assets attributable to redeemable preference shares at the beginning of year	19,883,621	80,174,746
Net assets attributable to redeemable preference shares at end of year	$ 2,595,384	$ 19,883,621

See accompanying notes to financial statements

FMG RUSSIA FUND LTD.

Statement of Cash Flows

Year ended March 31, 2010
(Expressed in United States Dollars)

		2010		2009
Cash flows from operating activities:				
Net increase (decrease) in net assets from operations	$	10,259,573	$	(48,050,395)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash (used in) provided by operating activities:				
Change in assets and liabilities:				
Net change in investments and derivative financial statements		(12,306,287)		65,158,126
Rebate income receivable		(2,851)		17,570
Other assets		3,783		5,289
Management fees and incentive fees payable		65,983		(237,471)
Administration fees payable		3,150		(18,757)
Audit fees payable		1,000		3,000
Accounts payable and accrued expenses		181,765		(48,816)
Net cash (used in) provided by operating activities		(1,793,884)		16,828,546
Cash flows from financing activities				
Proceeds from issue of redeemable preference shares		5,235,751		15,592,223
Payments on redemptions of redeemable preference shares		(5,138,130)		(28,095,121)
Net cash provided by (used in) financing activities		97,621		(12,502,898)
Net (decrease) increase in cash and cash equivalents		(1,696,263)		4,325,648
Cash and cash equivalents at beginning of year		5,027,357		701,709
Cash and cash equivalents at end of year	$	3,331,094	$	5,027,357
Supplementary cash flow information				
Interest paid	$	264	$	467

See accompanying notes to financial statements

1. Operations

FMG Russia Fund Ltd. (the "Fund") was incorporated in Bermuda on September 20, 2006 as an open-ended investment fund, empowered by its bye-laws to issue, redeem and reissue its own shares at prices based on their net asset value. The Fund commenced operations on October 1, 2006.

The Fund invests in other investment companies, limited partnerships and managed accounts managed by fund managers with a focus on Russia and the Commonwealth of Independent States (CIS).

2. Significant accounting policies

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

(a) Investment transactions and valuation

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

The Fund may allocate its assets to an advisor by retaining the advisor to manage a managed account for the Fund rather than investing in the advisor's investment vehicle. Unlike an investment in a fund, the Fund will not receive shares or any other form of title, but will simply rank as a creditor of the advisor. There will be no investment capable of being held by the Fund's custodian on behalf of the Fund and the Fund's custodian will not be involved in providing custody for the assets held in the managed account. The advisor for the managed account will make separate custody arrangements for the investments held therein. Any loss arising as a result of an investment in a managed account will be borne by the shareholders.

The investment in the equity securities within the managed accounts and those held directly are accounted for on a trade date basis. The securities held directly and within the managed accounts that are traded on a national securities exchange are valued at the last reported bid price if held long and last reported ask price if held short. The interest income, dividend income and realized gains and losses arising from the managed account are included in the relevant line items in the statement of operations. Cash attributable to the managed accounts is included within cash and cash equivalents in the statement of assets and liabilities.

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

(b) Forward foreign exchange contracts

The Fund purchases forward foreign exchange contracts in amounts approximating the net assets attributable to the Euro classes of preference shares to manage the Fund's exposure to changes in the US Dollar/Euro exchange rates for those shareholders. The unrealized gain or loss on open forward foreign exchange contracts on each valuation date is the difference between the contract date exchange rate and the forward exchange rate at the valuation date, as reported by published sources, applied to the face amount of the contract. Realized and unrealized changes in the fair value of the forward foreign exchange contracts are included in the statement of operations in the period in which the change occurs and are attributed entirely to the classes of shares to which the individual contract relates (See Notes 2(c) and 9(e)).

(c) Allocation of profits and losses

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

(d) Foreign currency transactions

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

(e) Interest income and expense

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

(f) Rebate income

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

(g) Cash and cash equivalents

Cash and cash equivalents include deposits and money market funds held with an original maturity date of ninety days or less.

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

(h) Use of estimates

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

(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 and incentive fees**

Management fees

The Fund pays FMG Fund Managers Limited (the "Manager") a management fee at a rate of 2% per annum of the net assets attributable to the Class A Shares of the Fund and 1.5% per annum of the net assets attributable to the Class B Shares of the Fund, calculated on a monthly basis and payable quarterly. For the year ended March 31, 2010, the management fee was $402,244 (2009 - $735,697), of which $111,466 (2009 - $70,620) was payable at March 31, 2010.

The Fund also pays fees to the managers of managed accounts. For the year ended March 31, 2010, the Fund incurred such management fees of $nil (2009 - $3,839), of which $nil (2009 - $nil) was outstanding at March 31, 2010.

Incentive fees

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

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

Incentive fees (continued)

The Class B Shares also pay to the Manager an incentive fee of 10% of the net profits attributable to the Class B Shares, calculated monthly and payable quarterly. Net profits are defined as the amount by which cumulative profits attributable to the Class B Shares, before the incentive fee but after deduction of all transaction costs, management fees and expenses, exceeds a hurdle rate equal to the amount that would have been earned in that fiscal period had the assets of the Fund been invested at the USD 12-month LIBOR rate at the beginning of the fiscal period. Net profits include both realized and unrealized gains less losses on investments. If the net profit for a month is negative, it will be carried forward ("carry forward losses"). No incentive fee will be payable until the net profits in subsequent month(s) exceed carry forward losses, and the hurdle as discussed above, together with any cumulative actual losses incurred in previous fiscal year, 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, 2010 the incentive fee was $115,007 (2009 - $717,684) of which $25,137 (2009 - $nil) was payable at March 31, 2010.

The Manager may charge a sales charge of up to 5% of the amount subscribed. When charged, these load fees will reduce the amount available to shareholders for the purchase of shares in the Fund. As at March 31, 2010, $27,276 (2009 - $7,388) of load fees payable were included within accounts payable and accrued expenses.

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

4. **Administration fees**

Apex Fund Services Limited (the "Administrator") acts as the administrator, registrar and transfer agent for the Fund. For administration services provided, the Fund pays fees at the higher of $2,000 per month for net assets up to $10 million and $3,000 per month for net assets exceeding $10 million, or 15 basis points of the Fund's average net assets. Effective December 1, 2008, the minimum fee was increased to $3,000 per month for net assets up to $10 million and $4,000 per month for net assets exceeding $10 million. For the year ended March 31, 2010, administration fees were $61,373 (2009 - $84,921), of which $15,870 (2009 - $12,720) was payable at March 31, 2010.

The Administrator also charges a disbursement fee of 10% of the monthly administration, registrar and transfer agency fees.

One of the directors of the Fund is also the Managing Director of the Administrator.

5. **Custodian fees**

Effective August 14, 2009, Credit Suisse AG (the "Custodian") was appointed as custodian to the Fund. Fees for custody services are charged at 7 basis points per annum of the value of the net assets of the Fund under custody subject to an annual minimum of CHF 5,500. In addition, a set up fee of US$ 1,500 will be payable together with all reasonable disbursement and out-of-pocket expenses. Prior to August 14, 2009, HSBC Institutional Trust Services (Bermuda) Limited was the custodian for the Fund. Fees for custody services provided prior to August 14, 2009 were charged at the higher of $3,000 per annum or five basis points of the gross asset value of investments held in custody (calculated monthly). In addition, custody transaction fees were chargeable on individual transactions on a sliding scale, depending on the market and type of security.

5. **Custodian fees** (continued)

Effective August 25, 2009 the Fund granted the Custodian a right of lien against all currency accounts and investments in other investment companies held by the Custodian on the Fund's behalf. The purpose of the right of lien is to secure any and all claims of the Custodian against the Fund arising from any current or future agreements or contracts as well as claims on other legal grounds resulting from business operations with the Fund.

6. **Share capital**

The authorized share capital of the Fund is $11,000 which is divided into 100 common shares of $1.00 par value each and 10,900,000 non-voting redeemable preference shares (the "Shares"), issued in US Dollars and Euro with a par value of $0.001 each. Redeemable preference shares are issued as Class A and Class A09 shares (collectively the "Class A Shares") and Class B and Class B09 shares (collectively the "Class B Shares"). Effective February 2, 2009 Class A09 and Class B09 shares were offered for sale. Effective March 2, 2009, the existing Class A and Class B Shares were closed for new subscriptions, except in situations where approved by the Board of Directors and Manager.

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 those common shares upon a winding-up or distribution of capital. The common shares are entitled to one vote per share at a general meeting. All the common shares are owned by the Manager. Each of the redeemable preference shares carries no preferential or pre-emptive rights upon the issue of new shares and has no voting rights at general meetings of the Fund.

Shares may be purchased and redeemed on a Dealing Day, which is generally the first business day of each calendar month. Shares may be purchased at the net asset value per share calculated at the immediately preceding Valuation Day, generally the last business day of the preceding month. Class A and B shares may be redeemed with 10 and 20 business days written notice, respectively, at their net asset value per share, subject to certain restrictions as described in the prospectus.

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

At March 31, 2010, redemptions payable include $23,090,552 and $4,558,614 payable to FMG Rising 3 Fund Ltd. and FMG (EU) Russia Hedge Fund, respectfully. FMG Rising 3 Fund Ltd. and FMG (EU) Russia Hedge Fund are managed by the same Manager as the Fund.

At March 31, 2009, the Manager owned 2.92% of the Class A shares, FMG Rising 3 Fund Ltd. owned 94.29% of the Class B US Dollar shares and 11.72% of the Class B Euro Shares of the Fund, FMG Combo Fund Ltd., which is also managed by the Manager, owned 3.25% of the Class B US Dollar shares of the Fund and FMG (EU) Russia Hedge Fund owned 78.77% of the Class B Euro Shares.

7. Taxation

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

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

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

8. Fair value of financial instruments

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

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

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

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

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

	Level 1	Level 2	Level 3	Total
Investments in long equities	$ 9,833,969	$ -	$ -	$ 9,833,969
Investments in other investment companies	-	15,101,227	2,397,589	17,498,816
Total investments	$ 9,833,969	$ 15,101,227	$ 2,397,589	$ 27,332,785
Derivative liabilities		$ (59,657)		$ (59,657)

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

During the year ended March 31, 2010, the reconciliation of the change in investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

	Investments in other investment companies
Beginning balance	$ 3,020,364
Purchases	213,982
Change in unrealized depreciation	(836,757)
Ending balance	$ 2,397,589
Total change in unrealized depreciation during the year for investments held at March 31, 2010	$ (836,757)

For investments in other investment companies, the Manager has estimated fair values by using the reported net asset value per share as provided by the administrators of the investment companies, if available, or bid prices and recent comparable sales activity to arrive at fair value. The Fund has not identified any other reasonable possible alternatives for valuing its Level 3 financial instruments.

Investment in Hudson River Russia Fund Limited

The Fund has an investment in Hudson River Fund Ltd. ("Hudson River") which has an estimated fair value of $1,648,398 (2009 - $1,853,984) at March 31, 2010, representing 63.51% (2009 - 9.33%) of the net asset value of the Fund at that date.

While the investment manager of Hudson River has continued to provide that fund's net asset value on a monthly basis, since October 2008 the investment manager has not permitted investors to redeem out of the fund at those reported net asset values. The Manager of the Fund has estimated the fair value of the Fund's investment in Hudson River at March 31, 2010 and 2009 by applying a discount to the reported net asset value to reflect the lack of liquidity of the Fund's investment, and to reflect the type and location of the underlying investments held. Hudson River was partially sold subsequent to March 31, 2010, as described in Note 11.

Investments in Central Asia Opportunity Fund

The Fund has an investment in Central Asia Opportunity Fund ("Central Asia") which has an estimated fair value of $596,365 (2009 - $1,116,380) at March 31, 2010, representing 22.98% (2009 - 5.87%) of the net asset value of the Fund at that date.

The investment manager of Central Asia suspended the calculation of net asset values in October 2008 and no official net asset value has been published since that date. The Manager of the Fund has estimated the fair value of the Fund's investment in Central Asia since October 2008 based upon information about Central Asia's investment portfolio provided by its investment manager, the lack of liquidity of those investments, and the overall movements in the investment markets where Central Asia's investments are located in the period October 2008 to March 31, 2010. Central Asia was sold subsequent to March 31, 2010, as described in Note 11.

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

The valuations carried for Hudson River at March 31, 2010 and for Hudson River and Central Asia at March 31, 2009 are based on estimates made by the Fund's manager. There is a significant amount of uncertainty as to the fair value of these investments at those date dues to the Fund's inability to redeem its investment and due to the illiquid nature of the underlying investments held. There could be significant differences between the realizable values of the investments upon their eventual sale and the fair value amounts estimated by the Fund's Manager at March 31, 2010 and 2009, and such differences could be material to the Fund's financial statements.

9. **Financial instruments and risk management**

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

The Fund invests in companies located in Russia and CIS through investments in other investment companies, equities or managed accounts. These economies continue 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 these economies are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments, which are beyond the Fund's control. Consequently, operations in these economies 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 Russia and CIS 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, changes in interest rates, institutional, settlement and custodial risks, and other risks generally associated with investing in immature emerging markets.

(a) Liquidity risk

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

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

The schedule of investments summarizes the redemption frequencies of the Fund's investments in other investment companies at March 31, 2010. The information has been obtained by the Manager from the offering memoranda or similar information provided by the manager of the underlying investment company.

The liabilities of the Fund are comprised of accrued expenses and redemptions payable and these fall due within 3 months of the date of the statement of assets and liabilities.

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

(b) Interest rate risk

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

(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 financial instruments and investments held in the custody of a major bank with a long term credit rating of Aa2 issued by Moody's. As the Fund invests in other investment companies, the Fund is exposed to the credit risk of each of those underlying investment companies. The maximum amount of credit exposure is represented by the carrying amounts of the investments listed on the schedule of investments.

Bankruptcy or insolvency of a bank may cause the Fund's rights to be delayed with respect to the cash and cash equivalents and investments held in the custodial relationship. The Manager monitors the credit quality and financial position of the custodian 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 security prices will affect the fair value of the financial instruments held by the Fund.

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

At March 31, 2010, if the price of the investments increased by 5%, this would have increased the net assets attributable to holders of redeemable preference shares by $1,366,639 (2009 - $743,445); an equal change in the opposite direction would have decreased the net assets attributable to holders of redeemable preference shares by an equal but opposite amount.

(e) Currency risk

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

9. **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 FX contracts	Net Exposure
March 31, 2010					
EUR	$ 2,018,046	$ -	$ (1,522,058)	$ 6,029,286	$6,525,274
March 31, 2009					
EUR	$ 103	$ -	$ -	$ -	$ 103
EUR	-	(6,743)	(1,938,982)	1,651,143	(294,582)
	$ 103	$ (6,743)	$ (1,938,982)	$ 1,651,143	$ (294,479)

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

At March 31, 2010, had the US Dollar strengthened by 5% in relation to the Euro, there would be an approximate net impact of $(326,264) (2009 - $(14,724)) on the statement of operations and net assets of the Fund arising from the change in the carrying value of monetary assets, net of the effect of hedging instruments. A 5% weakening of the US Dollar against the Euro would have resulted in an approximate equal but opposite effect.

Actual results may differ from this sensitivity analysis and the difference could be material to the financial statements.

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

(e) Currency risk (continued)

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

	Currency to be sold		Currency to be bought	Contract due date		Fair value
USD	6,029,286	EUR	4,419,001	April 7, 2010	$	(59,657)
Unrealized loss on open forward foreign exchange contract					$	(59,657)

At March 31, 2009, the Fund had the following open forward foreign exchange contracts:

	Currency to be sold		Currency to be bought	Contract due date		Fair value
USD	1,651,143	EUR	1,316,491	April 2, 2009	$	97,947
Unrealized gain on open forward foreign exchange contract					$	97,947

(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 9(a).

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

10. **Related party transactions**

At March 31, 2010, investments with a total value of $12,542,680 (2009 - $6,399,049) are in other investment companies which are also managed by the Manager. During the year ended March 31, 2010, the Fund received fee rebates amounting to $11,844 (2009 - $65,260) in relation to management and incentive fees charged by those other investment companies.

11. **Subsequent events**

Subsequent to March 31, 2010, 747 shares out of 2,458 shares held in Hudson River were sold for proceeds of $1,000,636. The entire investment in Central Asia was sold for proceeds of $596,365.

For the period from March 31, 2010 to August 31, 2010 there have been net redemptions in the US Dollar Class A Shares of $67,673, the US Dollar Class A09 shares of $19,014, the US Dollar Class B Shares of $9,999, the Euro Class A Shares of $72,835, the Euro Class A09 Shares of $214,832, and the Euro Class B09 shares of $325,661.

Subsequent to March 31, 2010, the investment strategy of the Fund was achieved by investing directly into FMG (EU) Russia Fund Ltd., a sub-fund of FMG Funds SICAV Ltd. which is a regulated Malta entity managed by FMG Malta Ltd.

11. **Subsequent events** (continued)

Effective April 1, 2010, the redemption notice period changed from being 10 and 20 business days written notice for Class A and Class B shares respectively, to providing notice by at least the 20^{th} day of the month prior to the Dealing Day.