

**FRIEDBERG ASSET ALLOCATION FUND LTD.**

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2011 AND 2010

**Rothstein Kass**

# FRIEDBERG ASSET ALLOCATION FUND LTD.

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# Rothstein Kass

## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of  
Friedberg Asset Allocation Fund Ltd.

We have audited the accompanying statements of assets and liabilities of Friedberg Asset Allocation Fund Ltd. (the "Fund"), including the condensed schedules of investments, as of December 31, 2011 and 2010, and the related statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Friedberg Asset Allocation Fund Ltd. as of December 31, 2011 and 2010, and the results of its operations, changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Rothstein, Kass & Company (Cayman)*

Grand Cayman, Cayman Islands  
May 15, 2012

# FRIEDBERG ASSET ALLOCATION FUND LTD.

## STATEMENTS OF ASSETS AND LIABILITIES

(Expressed in United States Dollars)

December 31,	2011	2010
<b>Assets</b>		
Investments in securities, at fair value (cost \$76,369,849 and \$47,980,637 in 2011 and 2010, respectively)	\$ 74,352,747	\$ 47,703,208
Cash	9,569,952	11,696,344
Due from brokers	4,870,714	4,746,928
Derivative contracts, at fair value	470,148	6,449,750
Interest receivable	286,191	110,906
Total assets	<u>89,549,752</u>	<u>70,707,136</u>
<b>Liabilities</b>		
Accrued expenses	89,351	52,970
Management fee payable	74,282	58,500
Incentive fee payable	71,137	326,494
Advance subscriptions	-	164,500
Derivative contracts, at fair value	-	68,245
Total liabilities	<u>234,770</u>	<u>670,709</u>
<b>Net assets</b>	<u>\$ 89,314,982</u>	<u>\$ 70,036,427</u>
<b>Number of shares outstanding</b>		
Class A	<u>63,179.85</u>	<u>54,752.11</u>
<b>Net asset value per share</b>		
Class A	<u>\$ 1,413.66</u>	<u>\$ 1,279.15</u>

# FRIEDBERG ASSET ALLOCATION FUND LTD.

## STATEMENTS OF OPERATIONS

(Expressed in United States Dollars)

Years Ended December 31,	2011	2010
<b>Investment income</b>		
Interest (net of withholding taxes of \$25,313 in 2011)	\$ 506,632	\$ 138,454
Dividends (net of U.S. withholding taxes of \$194,413 and \$11,347 in 2011 and 2010, respectively)	713,410	45,574
Total investment income	<u>1,220,042</u>	<u>184,028</u>
<b>Expenses</b>		
Incentive fee	1,337,797	1,132,324
Management fee	823,694	454,845
Administrative fee	120,000	125,352
Professional fees and other	51,861	46,070
Total expenses	<u>2,333,352</u>	<u>1,758,591</u>
<b>Net investment income (loss)</b>	<u>(1,113,310)</u>	<u>(1,574,563)</u>
<b>Realized and unrealized gain (loss) on investments</b>		
Net realized gain (loss) on securities	752,526	791,208
Net change in unrealized appreciation or depreciation on securities	(1,792,185)	(484,927)
Net realized gain (loss) from derivative contracts	16,096,491	2,931,278
Net change in unrealized appreciation or depreciation on derivative contracts	(5,911,357)	5,229,839
<b>Net gain (loss) on investments</b>	<u>9,145,475</u>	<u>8,467,398</u>
<b>Net change in net assets resulting from operations</b>	<u>\$ 8,032,165</u>	<u>\$ 6,892,835</u>

# FRIEDBERG ASSET ALLOCATION FUND LTD.

## STATEMENTS OF CHANGES IN NET ASSETS

(Expressed in United States Dollars)

Years Ended December 31,	2011	2010
<b>Operations</b>		
Net investment income (loss)	\$ (1,113,310)	\$ (1,574,563)
Net realized gain (loss) on securities	752,526	791,208
Net change in unrealized appreciation or depreciation on securities	(1,792,185)	(484,927)
Net realized gain (loss) from derivative contracts	16,096,491	2,931,278
Net change in unrealized appreciation or depreciation on derivative contracts	(5,911,357)	5,229,839
<b>Net change in net assets resulting from operations</b>	<b>8,032,165</b>	<b>6,892,835</b>
<b>Capital share transactions</b>		
Issuance of shares	16,277,496	33,026,622
Redemption of shares	(5,031,106)	(11,351)
<b>Net change in net assets resulting from capital share transactions</b>	<b>11,246,390</b>	<b>33,015,271</b>
<b>Net change in net assets</b>	<b>19,278,555</b>	<b>39,908,106</b>
<b>Net assets, beginning of year</b>	<b>70,036,427</b>	<b>30,128,321</b>
<b>Net assets, end of year</b>	<b>\$ 89,314,982</b>	<b>\$ 70,036,427</b>

# FRIEDBERG ASSET ALLOCATION FUND LTD.

## STATEMENTS OF CASH FLOWS

(Expressed in United States Dollars)

Years Ended December 31,	2011	2010
<b>Cash flows from operating activities</b>		
Net change in net assets resulting from operations	\$ 8,032,165	\$ 6,892,835
Adjustments to reconcile net change in net assets resulting from operations to net cash used in operating activities:		
Net realized (gain) loss on securities	(752,526)	(791,208)
Net change in unrealized appreciation or depreciation on securities	1,792,185	484,927
Changes in operating assets and liabilities:		
Purchases of investments in securities	(79,853,632)	(46,553,736)
Proceeds from sales of investments in securities	52,164,434	24,094,751
Due from brokers	(123,786)	(3,446,252)
Derivative contracts, at fair value	5,979,602	(5,262,842)
Interest receivable	(175,285)	(72,731)
Accrued expenses	36,381	810
Management fee payable	15,782	33,533
Incentive fee payable	(255,357)	147,626
Derivative contracts, at fair value	(68,245)	33,003
<b>Net cash used in operating activities</b>	<b>(13,208,282)</b>	<b>(24,439,284)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of shares, net of change in advance subscriptions	16,112,996	32,959,755
Payments for redemption of shares	(5,031,106)	(11,351)
<b>Net cash provided by financing activities</b>	<b>11,081,890</b>	<b>32,948,404</b>
<b>Net change in cash</b>	<b>(2,126,392)</b>	<b>8,509,120</b>
<b>Cash, beginning of year</b>	<b>11,696,344</b>	<b>3,187,224</b>
<b>Cash, end of year</b>	<b>\$ 9,569,952</b>	<b>\$ 11,696,344</b>

# FRIEDBERG ASSET ALLOCATION FUND LTD.

## CONDENSED SCHEDULES OF INVESTMENTS

(Expressed in United States Dollars)

December 31, 2011

	Number of Shares or Principal Amount	Percentage of Net Assets	Fair Value
<b>Investments in securities, at fair value</b>			
<b>Exchange-traded funds</b>			
<b>United States</b>			
Gold			
Market Vectors JR Gold Miners	501,000	13.9 %	\$ 12,374,700
Biotechnology		1.1	991,325
<b>Total exchange-traded funds</b> (cost \$17,851,905)		15.0	13,366,025
<b>Marketable securities</b>			
<b>United States</b>			
Pharmaceuticals			
		6.5	5,767,368
Internet			
		2.2	2,002,290
<b>Total United States</b> (cost \$7,280,578)		8.7	7,769,658
<b>Ireland</b>			
Bank of Ireland (cost \$4,272,073)		4.9	4,410,370
<b>Czech Republic</b>			
Electricity & Heat			
		1.0	899,885
Telecommunications			
		0.4	321,646
<b>Total Czech Republic</b> (cost \$1,602,148)		1.4	1,221,531
<b>Germany</b>			
Kommerzial Bank AS (cost \$399,872)		0.3	271,111
<b>Total marketable securities</b> (cost \$13,554,671)		15.3	13,672,670
<b>Government bonds</b>			
<b>United States</b>			
U.S. Treasury Note, 0.5% due November 30, 2012	\$ 15,000,000	16.8	15,048,045
U.S. Treasury Bill, due March 8, 2012	\$ 15,000,000	16.8	14,999,400
U.S. Treasury Inflation-Protection Securities, 2.125% due February 15, 2040	\$ 9,500,000	15.0	13,356,558
<b>Total government bonds</b> (cost \$40,655,569)		48.6	43,404,003
<b>Corporate bonds</b>			
<b>Ireland</b>			
Bank of Ireland (cost \$4,307,704)	\$ 4,100,000	4.4	3,910,049
<b>Total investments in securities, at fair value</b> (cost \$76,369,849)		83.3 %	\$ 74,352,747

See accompanying notes to financial statements.

# FRIEDBERG ASSET ALLOCATION FUND LTD.

## CONDENSED SCHEDULES OF INVESTMENTS (CONTINUED)

(Expressed in United States Dollars)

December 31, 2011

	Percentage of Net Assets	Fair Value
<b>Derivative contracts, assets, at fair value</b>		
<b>Futures</b>		
<b>United States</b>		
Interest Rate	0.4 %	\$ 330,398
<b>Europe</b>		
Currency	0.1	139,750
<b>Total derivative contracts, assets, at fair value</b>	<b>0.5 %</b>	<b>\$ 470,148</b>

# FRIEDBERG ASSET ALLOCATION FUND LTD.

## CONDENSED SCHEDULES OF INVESTMENTS (CONTINUED)

(Expressed in United States Dollars)

December 31, 2010

	Expiration Date	Number of Contracts or Principal Amount	Percentage of Net Assets	Fair Value
<b>Investments in securities, at fair value</b>				
<b>Exchange-traded funds</b>				
<b>United States</b>				
Home Construction			1.4 %	\$ 988,500
Insurance			1.4	955,266
Biotechnology			1.3	887,490
Home Building			1.1	827,765
<b>Total exchange-traded funds</b> (cost \$3,279,300)			<b>5.2</b>	<b>3,659,021</b>
<b>Government bonds</b>				
<b>United States</b>				
U.S. Treasury Bill, due March 10, 2011		\$ 15,000,000	21.4	14,996,835
U.S. Treasury Note, 1.125% due December 15, 2011		\$ 15,000,000	21.6	15,112,500
U.S. Treasury Inflation-Protection Securities, 2.125% due February 15, 2040		\$ 12,950,000	19.9	13,934,852
<b>Total government bonds</b> (cost \$44,701,337)			<b>62.9</b>	<b>44,044,187</b>
<b>Total investments in securities, at fair value</b> (cost \$47,980,637)			<b>68.1 %</b>	<b>\$ 47,703,208</b>
<b>Derivative contracts, assets, at fair value</b>				
<b>Futures</b>				
<b>United States</b>				
Commodity				
CMX Gold	June 2011	123	0.9 %	\$ 661,720
CMX Gold	December 2011	150	8.2	5,712,000
Other			0.1	76,030
<b>Total derivative contracts, assets, at fair value</b>			<b>9.2 %</b>	<b>\$ 6,449,750</b>
<b>Derivative contracts, liabilities, at fair value</b>				
<b>Futures</b>				
<b>United Kingdom</b>				
Interest Rate			0.1 %	\$ 39,536
Index			0.0	28,709
<b>Total derivative contracts, liabilities, at fair value</b>			<b>0.1 %</b>	<b>\$ 68,245</b>

See accompanying notes to financial statements.

# FRIEDBERG ASSET ALLOCATION FUND LTD.

## NOTES TO FINANCIAL STATEMENTS

(Expressed in United States Dollars)

### 1. Nature of operations and summary of significant accounting policies

#### *Nature of Operations*

Friedberg Asset Allocation Fund Ltd. (the "Fund") is an open-ended private investment company which was formed under the laws of the Cayman Islands on April 27, 2009 and commenced operations on June 23, 2009. The Fund was organized for the purpose of trading and investing in securities. Pursuant to an investment advisory agreement, Friedberg Mercantile Group Ltd. ("FMG") is the Investment Advisor (the "Investment Advisor") to the Fund. FCMI Financial Services (Cayman) Ltd., an affiliate of FMG, is the Manager (the "Manager") of the Fund. Refer to the Fund's offering memorandum for more information.

#### *Objective*

The Fund is a multi-strategy fund whose investment objective is to seek significant total investment returns, consisting of a combination of interest income, dividend income, currency gains and capital appreciation by investing in the following five discrete groups of investments: (i) equity securities; (ii) fixed income securities; (iii) commodity forwards and futures contracts and options thereon, and other over-the-counter traded derivative instruments; (iv) equity and fixed income securities of real estate companies; and (v) cash and cash equivalents ("Money Instruments"). The underlying value of the Fund's aggregate positions in derivatives entered into for non-hedging purposes (determined as of the time of acquiring a position in a derivative) will not exceed the value of the Fund's holdings of Money Instruments.

#### *Basis of Presentation*

The financial statements are expressed in United States dollars and have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as detailed in the Financial Accounting Standards Board's Accounting Standards Codification.

These financial statements were approved by management and available for issuance on May 15, 2012. Subsequent events have been evaluated through this date.

#### *Fair Value - Definition and Hierarchy*

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. The Fund's positions are normally priced at approximately 4:00 P.M. Eastern Time.

In determining fair value, the Fund uses various valuation approaches. A fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs are to be used when available. The fair value hierarchy is categorized into three levels based on the inputs as follows:

*Level 1* - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access.

*Level 2* - Valuation based on inputs, other than quoted prices included in Level 1, that are observable either directly or indirectly.

*Level 3* - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

# FRIEDBERG ASSET ALLOCATION FUND LTD.

## NOTES TO FINANCIAL STATEMENTS

(Expressed in United States Dollars)

### 1. Nature of operations and summary of significant accounting policies (continued)

#### *Fair Value - Definition and Hierarchy (continued)*

Fair value is a market-based measure, based on assumptions of prices and inputs considered from the perspective of a market participant that are current as of the measurement date, rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Fund's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date.

The availability of valuation techniques and observable inputs can vary from investment to investment and are affected by a wide variety of factors, including the type of investment, whether the investment is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the investments existed. Accordingly, the degree of judgment exercised by the Fund in determining fair value is greatest for investments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement.

#### *Fair Value – Valuation Techniques and Inputs*

##### Investments in Securities

The Fund values investments in securities that are freely tradable and are listed on a national securities exchange or reported on the NASDAQ national market at their last reported sales price as of the valuation date.

To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized in Level 1 of the fair value hierarchy. Securities traded on inactive markets or valued by reference to similar instruments are generally categorized in Level 2 of the fair value hierarchy.

##### Derivative Contracts

The Fund records its derivative activities at fair value. Gains and losses from derivative contracts are included in net realized gain (loss) from derivative contracts and net change in unrealized appreciation or depreciation on derivative contracts in the statements of operations. Derivative contracts include forward, futures and option contracts related to interest rates, foreign currencies, credit standing of reference entities, and equity prices or commodity prices.

##### *Forward Contracts*

Forward contracts are traded on the OTC market. The fair value of forward contracts are valued using observable inputs, such as currency exchange rates or commodity prices, applied to notional amounts stated in the applicable contracts. Forward contracts are generally categorized in Level 2 of the fair value hierarchy.

# FRIEDBERG ASSET ALLOCATION FUND LTD.

## NOTES TO FINANCIAL STATEMENTS

(Expressed in United States Dollars)

### 1. Nature of operations and summary of significant accounting policies (continued)

*Fair Value – Valuation Techniques and Inputs (continued)*

#### Derivative Contracts (continued)

##### *Futures Contracts*

Futures contracts which are listed on major securities exchanges are valued at their last reported sales price as of the valuation date. Listed futures contracts are generally classified in Level 1 of the fair value hierarchy.

##### *Option Contracts*

Options which are listed on major securities exchanges are valued at their last reported sales price as of the valuation date or based on the midpoint of the bid/ask spread at the close of business. Depending on the frequency of trading, listed options are generally classified in Levels 1 or 2 of the fair value hierarchy.

#### Government Bonds

The fair value of sovereign government bonds is generally based on quoted prices in active markets. When quoted prices are not available, fair value is determined based on a valuation model that uses inputs that include interest rate yield curves, cross-currency basis index spreads, and sovereign credit spreads similar to the bond in terms of issuer, maturity and seniority. Sovereign government bonds are generally categorized in Levels 1 or 2 of the fair value hierarchy.

#### Corporate Bonds

The fair value of corporate bonds is estimated using recently executed transactions, market price quotations (where observable), bond spreads, or credit default swap spreads. The spread data used is for the same maturity as the bond. If the spread data does not reference the issuer, then data that references a comparable issuer is used. When observable price quotations are not available, fair value is determined based on cash flow models using yield curves, bond or single name credit default swap spreads, and recovery rates based on collateral values as key inputs. Corporate bonds are generally categorized in Levels 1 or 2 of the fair value hierarchy. In instances where significant inputs are unobservable, they are categorized in Level 3 of the fair value hierarchy.

#### *Translation of Foreign Currency*

Assets and liabilities denominated in foreign currencies are translated into United States dollar amounts at the year-end exchange rates. Transactions denominated in foreign currencies, including purchases and sales of investments, and income and expenses, are translated into United States dollar amounts on the transaction date. Adjustments arising from foreign currency transactions are reflected in the statements of operations.

The Fund does not isolate that portion of the results of operations arising from the effect of changes in foreign exchange rates on investments from fluctuations arising from changes in market prices of investments held. Such fluctuations are included in net gain (loss) on investments in the statements of operations.

#### *Investment Transactions and Related Investment Income*

Investment transactions are accounted for on a trade-date basis. Dividends are recorded on the ex-dividend date and interest is recognized on the accrual basis.

# FRIEDBERG ASSET ALLOCATION FUND LTD.

## NOTES TO FINANCIAL STATEMENTS

*(Expressed in United States Dollars)*

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### 1. Nature of operations and summary of significant accounting policies (continued)

#### *Offsetting of Amounts Related to Certain Contracts*

The Fund has elected not to offset fair value amounts recognized for cash collateral receivables and payables against fair value amounts recognized for net derivative positions executed with the same counterparty under the same master netting arrangement. At December 31, 2011 and 2010, the Fund had cash collateral receivables of \$0 and \$50,154, respectively, with derivative counterparties under the same master netting arrangement.

#### *Income Taxes*

Under the laws of the Cayman Islands, the Fund is generally not subject to income taxes. However, certain U.S. dividend income and interest income may be subject to a maximum 30% withholding tax. Further, certain non-United States dividend income may be subject to a tax at prevailing treaty or standard withholding rates with the applicable country or local jurisdiction. The Fund is subject to income tax examinations by major taxing authorities for all tax years since its inception.

In accordance with GAAP, the Fund is required to determine whether its tax positions are more likely than not to be sustained upon examination by the applicable taxing authority, based on the technical merits of the position. The tax benefit recognized is measured as the largest amount of benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant taxing authorities. Based on its analysis, the Fund has determined that it has not incurred any liability for unrecognized tax benefits as of December 31, 2011. The Fund does not expect that its assessment regarding unrecognized tax benefits will materially change over the next twelve months. However, the Fund's conclusions may be subject to review and adjustment at a later date based on factors including, but not limited to, the nexus of income among various tax jurisdictions, compliance with U.S. federal and foreign tax laws, and changes in the administrative practices and precedents of the relevant taxing authorities.

#### *Use of Estimates*

The preparation of financial statements in conformity with GAAP requires the Fund's management to make estimates and assumptions that affect the amounts disclosed in the financial statements. Actual results could differ from those estimates.

#### *Valuation of Fund Shares*

The shares of the Fund are issued at their net asset value on their issue date and are redeemable at the option of the holder at the net asset value on their date of redemption, less a predetermined redemption charge. Net asset value is determined for purchases and redemptions on the last business day of every month and also on the first business day of every week. The net asset value per share is determined by dividing the total net asset value by the total number of shares then outstanding.

#### *Reclassification*

Certain 2010 amounts have been reclassified to conform to the 2011 presentation.

# FRIEDBERG ASSET ALLOCATION FUND LTD.

## NOTES TO FINANCIAL STATEMENTS

(Expressed in United States Dollars)

### 2. Fair value measurements

The Fund's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy as described in the Fund's significant accounting policies in Note 1. The following table presents information about the Fund's assets measured at fair value as of December 31, 2011 (in thousands):

December 31, 2011	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets (at fair value)</b>				
<b>Investments in securities</b>				
Exchange-traded funds	\$ 13,366	\$ -	\$ -	\$ 13,366
Marketable securities	13,673	-	-	13,673
Government bonds	43,404	-	-	43,404
Corporate bonds	3,910	-	-	3,910
<b>Total investments in securities</b>	<u>74,353</u>	<u>-</u>	<u>-</u>	<u>74,353</u>
<b>Derivative contracts</b>				
Futures contracts	470	-	-	470
	<u>\$ 74,823</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,823</u>

The following table presents information about the Fund's assets and liabilities measured at fair value as of December 31, 2010 (in thousands):

December 31, 2010	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets (at fair value)</b>				
<b>Investments in securities</b>				
Exchange-traded funds	\$ 3,659	\$ -	\$ -	\$ 3,659
Government bonds	44,044	-	-	44,044
<b>Total investments in securities</b>	<u>47,703</u>	<u>-</u>	<u>-</u>	<u>47,703</u>
<b>Derivative contracts</b>				
Futures contracts	6,450	-	-	6,450
	<u>\$ 54,153</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,153</u>
<b>Liabilities (at fair value)</b>				
<b>Derivative contracts</b>				
Futures contracts	\$ 68	\$ -	\$ -	\$ 68

During the years ended December 31, 2011 and 2010, the Fund did not have any significant transfers between any of the levels of the fair value hierarchy.

# FRIEDBERG ASSET ALLOCATION FUND LTD.

## NOTES TO FINANCIAL STATEMENTS

*(Expressed in United States Dollars)*

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### 3. Due from brokers

In the normal course of business, substantially all of the Fund's securities transactions, money balances and security positions are transacted with JPMorgan Chase Bank & Co., the Fund's broker. Fully paid securities are deposited in custody with CIBC Mellon Global Security Services Company. The Fund is subject to credit risk to the extent any broker with which it conducts business is unable to fulfill contractual obligations on its behalf. The Fund's management monitors the financial condition of such brokers and does not anticipate any losses from these counterparties.

### 4. Derivative contracts

In the normal course of business, the Fund utilizes derivative contracts in connection with its proprietary trading activities. Investments in derivative contracts are subject to additional risks that can result in a loss of all or part of an investment. The Fund's derivative activities and exposure to derivative contracts are classified by the following primary underlying risks: interest rate, credit, foreign currency exchange rate, commodity price, and equity price risks. In addition to its primary underlying risks, the Fund is also subject to additional counterparty risk due to inability of its counterparties to meet the terms of their contracts.

#### *Forward Contracts*

The Fund enters into forward contracts to hedge itself against foreign currency exchange rate risk for its foreign currency denominated assets and liabilities due to adverse foreign currency fluctuations against the U.S. dollar.

Forward currency transactions are contracts or agreements for delayed delivery of specific currencies in which the seller agrees to make delivery at a specified future date of specified currencies. Risks associated with forward currency and commodity contracts are the inability of counterparties to meet the terms of their respective contracts and movements in fair value and exchange rates.

#### *Futures Contracts*

The Fund is subject to equity and commodity price risk, interest rate risk, and foreign currency exchange rate risk in the normal course of pursuing its investment objectives. The Fund may use futures contracts to gain exposure to, or hedge against, changes in the value of equities and commodities, interest rates or foreign currencies. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

The purchase and sale of futures contracts requires margin deposits with a Futures Commission Merchant ("FCM") equal to a certain percentage of the contract amount. Subsequent payments (variation margin) are made or received by the Fund each day, depending on the daily fluctuations in the value of the contract. The Fund recognizes a gain or loss equal to the daily variation margin. Futures contracts may reduce the Fund's exposure to counterparty risk since futures contracts are exchange-traded; and the exchange's clearinghouse, as the counterparty to all exchange-traded futures, guarantees the futures against default.

The Commodity Exchange Act requires an FCM to segregate all customer transactions and assets from the FCM's proprietary activities. A customer's cash and other equity deposited with an FCM are considered commingled with all other customer funds subject to the FCM's segregation requirements. In the event of an FCM's insolvency, recovery may be limited to the Fund's pro rata share of segregated customer funds available. It is possible that the recovery amount could be less than the total of cash and other equity deposited.

# FRIEDBERG ASSET ALLOCATION FUND LTD.

## NOTES TO FINANCIAL STATEMENTS

(Expressed in United States Dollars)

### 4. Derivative contracts (continued)

#### Options

The Fund is subject to equity and commodity price risk, and foreign currency exchange rate risk in the normal course of pursuing its investment objectives. The Fund may enter into options to speculate on the price movements of the financial instrument, commodity, or currency underlying the option, or for use as an economic hedge against certain equity positions held in the Fund's portfolio holdings. Option contracts purchased give the Fund the right, but not the obligation, to buy or sell within a limited time, a financial instrument, commodity or currency at a contracted price that may also be settled in cash, based on differentials between specified indices or prices.

Options written obligate the Fund to buy or sell within a limited time, a financial instrument, commodity or currency at a contracted price that may also be settled in cash, based on differentials between specified indices or prices. When the Fund writes an option, an amount equal to the premium received by the Fund is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Options written by the Fund may expose the Fund to market risk of an unfavorable change in the financial instrument underlying the written option.

For some OTC options, the Fund is exposed to counterparty risk from the potential that a seller of an option contract does not sell or purchase the underlying asset as agreed under the terms of the option contract. The maximum risk of loss from counterparty risk to the Fund is the fair value of the contracts and the premiums paid to purchase its open option contracts. In these instances, the Fund considers the credit risk of the intermediary counterparty to its option transactions in evaluating potential credit risk.

#### Volume of Derivative Activities

At December 31, 2011 and 2010, respectively, the volume of the Fund's derivative activities based on their notional amounts and number of contracts, categorized by primary underlying risk, are as follows:

(notional amounts in thousands)

December 31, 2011	Long exposure		Short exposure	
	Notional amounts	Number of contracts	Notional amounts	Number of contracts
<b>Primary underlying risk</b>				
<b>Interest rate</b>				
Futures contracts	\$ 43,665	333	\$ -	-
<b>Foreign currency exchange rate</b>				
Futures contracts	-	-	4,209	26
	<u>\$ 43,665</u>	<u>333</u>	<u>\$ 4,209</u>	<u>26</u>

# FRIEDBERG ASSET ALLOCATION FUND LTD.

## NOTES TO FINANCIAL STATEMENTS

(Expressed in United States Dollars)

### 4. Derivative contracts (continued)

Volume of Derivative Activities (continued)

(notional amounts in thousands)

December 31, 2010	Long exposure		Short exposure	
	Notional amounts	Number of contracts	Notional amounts	Number of contracts
<b>Primary underlying risk</b>				
<b>Commodity price</b>				
Futures contracts	\$ 42,554	312	\$ -	-
<b>Interest rate</b>				
Futures contracts	6,876	41	-	-
<b>Equity</b>				
Futures contracts	3,013	13	-	-
	<u>\$ 52,443</u>	<u>366</u>	<u>\$ -</u>	<u>-</u>

Impact of Derivatives on the Statements of Assets and Liabilities and Statements of Operations

The following table identifies the fair value amounts of derivative instruments included in the statements of assets and liabilities as derivative contracts, categorized by primary underlying risk, at December 31, 2011 and 2010, respectively. Balances are presented on a gross basis, prior to the application of the impact of counterparty and collateral netting. Total derivative assets and liabilities are adjusted on an aggregate basis to take into consideration the effects of master netting arrangements and have been reduced by the application of cash collateral receivables and payables with its counterparties. The following table also identifies the net gain and loss amounts included in the statements of operations as net realized gain (loss) from derivative contracts and net change in unrealized appreciation or depreciation on derivatives, categorized by primary underlying risk, for the years ended December 31, 2011 and 2010.

(in thousands)

December 31, 2011

Primary underlying risk	Derivative assets	Derivative liabilities	Amount of gain (loss)
<b>Commodity price</b>			
Futures contracts	\$ -	\$ -	\$ 16,293
Options	-	-	(198)
<b>Foreign currency exchange rate</b>			
Futures contracts	140	-	140
<b>Interest rate</b>			
Futures contracts	330	-	(5,546)
<b>Equity</b>			
Futures contracts	-	-	(504)
<b>Total</b>	<u>\$ 470</u>	<u>\$ -</u>	<u>\$ 10,185</u>

# FRIEDBERG ASSET ALLOCATION FUND LTD.

## NOTES TO FINANCIAL STATEMENTS

(Expressed in United States Dollars)

### 4. Derivative contracts (continued)

*Impact of Derivatives on the Statements of Assets and Liabilities and Statements of Operations (continued)*

(in thousands)

December 31, 2010

<u>Primary underlying risk</u>	<u>Derivative assets</u>	<u>Derivative liabilities</u>	<u>Amount of gain (loss)</u>
<b>Foreign currency exchange rate</b>			
Forward contracts	\$ -	\$ -	\$ 14
<b>Commodity price</b>			
Futures contracts	6,450	-	7,252
<b>Interest rate</b>			
Futures contracts	-	39	315
<b>Equity</b>			
Futures contracts	-	29	580
<b>Total</b>	<u>\$ 6,450</u>	<u>\$ 68</u>	<u>\$ 8,161</u>

### 5. Concentration of credit risk

In the normal course of business, the Fund maintains its cash balances in financial institutions, which at times may exceed federally insured limits. The Fund is subject to credit risk to the extent any financial institution with which it conducts business is unable to fulfill contractual obligations on its behalf. Management monitors the financial condition of such financial institutions and does not anticipate any losses from these counterparties.

### 6. Capital share transactions

As of December 31, 2011, there were 100 non-participating, voting and non-redeemable shares issued from the Fund to the Manager, which are not reflected in the Fund's share capital. These shares were issued at a nominal value, and do not participate in the income, distributions, or net asset value upon redemption or liquidation of the Fund.

Authorized share capital of the Fund comprises of 4,999,900 non-voting participating redeemable shares of \$.01 par value each. The Fund issued shares during the year at the net asset value per share on the date of issuance. On redemption of the Class A shares, a redemption charge of .375% of the aggregate net asset value per share of the shares redeemed is retained by the Fund.

# FRIEDBERG ASSET ALLOCATION FUND LTD.

## NOTES TO FINANCIAL STATEMENTS

(Expressed in United States Dollars)

### 6. Capital share transactions (continued)

Transactions in capital shares during the year, and the shares outstanding and the net asset value (“NAV”) per share as of December 31, 2011 and 2010, for each class and series of shares are as follows:

	<u>2011</u>	<u>2010</u>
Shares outstanding, beginning of year	54,752.11	27,355.88
Shares issued	12,108.25	27,405.95
Shares redeemed	<u>(3,680.51)</u>	<u>(9.72)</u>
Shares outstanding, end of year	<u>63,179.85</u>	<u>54,752.11</u>
Proceeds from issuance of shares	<u>\$ 16,277,496</u>	<u>\$ 33,026,622</u>
Payments for redemption of shares	<u>\$ 5,031,106</u>	<u>\$ 11,351</u>
Ending net assets	<u>\$ 89,314,982</u>	<u>\$ 70,036,427</u>
Net asset value per share, end of year	<u>\$ 1,413.66</u>	<u>\$ 1,279.15</u>

Shareholders have redemption rights which contain certain restrictions with respect to rights of redemption of shares as specified in the offering memorandum.

Advance subscriptions represents amounts owed to shareholder for cash received prior to the effective date of such subscriptions.

### 7. Related party transactions

The Investment Advisor is entitled to a management fee, calculated and payable monthly in arrears, at the rate of 1/12 of 1% per month (1% per annum) of the month-end Net Asset Value of the Fund.

The Fund pays to the Investment Advisor a quarterly incentive fee equal to 15% of the net appreciation in the net asset value of the Fund (adjusted for any issuance and redemption of shares), provided, however, that an incentive fee will not be payable if the net asset value of the Fund, (adjusted for any issuance and redemption of shares) is not higher than the net asset value of the Fund on the last time the incentive fee was payable and the net realized and unrealized appreciation (adjusted for any issuance and redemption of shares) does not exceed an annualized rate of return equal to the yield on the 2 Year U.S. Treasury Note (the “Hurdle Rate”). The Hurdle Rate for each calendar year will be the rate quoted on the first day of business in a calendar year.

The incentive fee is calculated with respect to the Fund as a whole. Accordingly, under certain circumstances, an incentive fee may be paid to the Investment Advisor before a shareholder recovers its entire pro rata share of previously incurred net depreciation and a shareholder’s actual pro rata interest in an incentive fee may be greater or less than 15% of the net appreciation in the net asset value per share of the shares held by such investor.

# FRIEDBERG ASSET ALLOCATION FUND LTD.

## NOTES TO FINANCIAL STATEMENTS

(Expressed in United States Dollars)

### 8. Administrative fee

Cayman National Fund Services Ltd. (the "Sub-Administrator") performs certain administrative and clerical services on behalf of the Fund. At December 31, 2011 and 2010, cash balances in the amount of approximately \$16,000 and \$174,000, respectively, are held by an affiliate of the Sub-Administrator.

### 9. Financial highlights

Financial highlights for the years ended December 31, 2011 and 2010 are as follows:

	<b>2011</b>	<b>2010</b>
	<b>Class A Shares</b>	<b>Class A Shares</b>
	<b>Series 1</b>	<b>Series 1</b>
Per share operating performance		
Net asset value, beginning of year	\$ 1,279.15	\$ 1,101.35
Income (loss) from investment operations:		
Net investment income (loss)	3.76	(9.86)
Incentive fee	(22.40)	(29.21)
Net gain (loss) on investments	153.15	216.87
Total from investment operations	134.51	177.80
Net asset value, end of year	\$ 1,413.66	\$ 1,279.15
Total return		
Total return before incentive fee	12.3 %	18.8 %
Incentive fee	(1.8)	(2.7)
Total return after incentive fee	10.5 %	16.1 %
Ratio to average net assets		
Expenses other than incentive fee	1.3 %	1.3 %
Incentive fee	1.6	2.4
Total expenses	2.9 %	3.7
Net investment income (loss)	(1.4) %	(3.2) %

Financial highlights are calculated for each permanent, non-managing class or series of common shares. An individual shareholder's return and ratios may vary based on the timing of capital share transactions.

### 10. Subsequent events

From January 1, 2012 through May 15, 2012, the Fund accepted additional subscriptions of approximately \$5,727,000 and had additional redemptions of approximately \$189,000.