

FRIEDBERG ASSET ALLOCATION FUND LTD.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2009

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 statement of assets and liabilities of Friedberg Asset Allocation Fund Ltd. (the "Fund"), including the condensed schedule of investments, as of December 31, 2009, and the related statements of operations, changes in net assets and cash flows for the period June 23, 2009 (Commencement of Operations) through December 31, 2009. 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, 2009, and the results of its operations, changes in its net assets and its cash flows for the period June 23, 2009 (Commencement of Operations) through December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

Rothstein, Kass & Company (Cayman)

Grand Cayman, Cayman Islands
May 14, 2010

FRIEDBERG ASSET ALLOCATION FUND LTD.

STATEMENT OF ASSETS AND LIABILITIES

(Expressed in United States Dollars)

December 31, 2009

Assets

Investments in securities, at fair value (cost \$24,698,149)	\$	24,937,942
Cash		3,187,224
Due from broker		1,300,676
Derivative contracts, at fair value		1,186,908
Interest receivable		38,175
Total assets		<u>30,650,925</u>

Liabilities

Advance subscriptions		231,367
Incentive fee payable		178,868
Accrued expenses		52,160
Derivative contracts, at fair value		35,242
Management fee payable		24,967
Total liabilities		<u>522,604</u>

Net assets	\$	<u>30,128,321</u>
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FRIEDBERG ASSET ALLOCATION FUND LTD.

STATEMENT OF OPERATIONS

(Expressed in United States Dollars)

For the Period June 23, 2009 (Commencement of Operations) through December 31, 2009

Investment income

Interest	\$	69,294
Dividends (net of U.S. withholding taxes of \$7,376)		<u>17,210</u>
Total investment income		<u>86,504</u>

Expenses

Incentive fee		250,698
Management fee		109,564
Administrative fee		62,667
Professional fees and other		<u>30,350</u>
Total expenses		<u>453,279</u>

Net investment income (loss) (366,775)

Realized and unrealized gain (loss) on investments

Net realized gain (loss) on securities		(31,378)
Net change in unrealized appreciation or depreciation on securities		239,793
Net gain (loss) from derivative contracts		511,179
Net change in unrealized appreciation or depreciation on derivative contracts		<u>1,151,666</u>

Net gain (loss) on investments 1,871,260

Net change in net assets resulting from operations \$ 1,504,485

FRIEDBERG ASSET ALLOCATION FUND LTD.

STATEMENT OF CHANGES IN NET ASSETS

(Expressed in United States Dollars)

For the Period June 23, 2009 (Commencement of Operations) through December 31, 2009

Operations

Net investment income (loss)	\$	(366,775)
Net realized gain (loss) on securities		(31,378)
Net change in unrealized appreciation or depreciation on securities		239,793
Net gain (loss) from derivative contracts		511,179
Net change in unrealized appreciation or depreciation on derivative contracts		<u>1,151,666</u>

Net change in net assets resulting from operations 1,504,485

Capital share transactions

Issuance of shares		<u>28,623,836</u>
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Net change in net assets 30,128,321

Net assets, beginning of period -

Net assets, end of period \$ 30,128,321

FRIEDBERG ASSET ALLOCATION FUND LTD.

STATEMENT OF CASH FLOWS

(Expressed in United States Dollars)

For the Period June 23, 2009 (Commencement of Operations) through December 31, 2009

Cash flows from operating activities

Net change in net assets resulting from operations	\$	1,504,485
Adjustments to reconcile net change in net assets resulting from operations to net cash used in operating activities:		
Net realized (gain) loss on securities		31,378
Net change in unrealized appreciation or depreciation on securities		(239,793)
Changes in operating assets and liabilities:		
Purchases of investments in securities, at fair value		(26,838,887)
Proceeds from sales of investments in securities, at fair value		2,109,360
Due from broker		(1,300,676)
Derivative contracts, at fair value		(1,186,908)
Interest receivable		(38,175)
Incentive fee payable		178,868
Accrued expenses		52,160
Derivative contracts, at fair value		35,242
Management fee payable		24,967

Net cash used in operating activities (25,667,979)

Cash flows from financing activities

Proceeds from issuance of shares, net of change in advance subscriptions		<u>28,855,203</u>
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Net cash provided by financing activities 28,855,203

Net change in cash 3,187,224

Cash, beginning of period -

Cash, end of period \$ 3,187,224

Supplemental disclosure of noncash financing activities

Contribution of securities, at fair value (cost basis of \$3,862,575)	\$	<u>3,862,575</u>
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FRIEDBERG ASSET ALLOCATION FUND LTD.

CONDENSED SCHEDULE OF INVESTMENTS

(Expressed in United States Dollars)

December 31, 2009

	Number of Shares or Principal Amount	Percentage of Net Assets	Fair Value
Investments in securities, at fair value			
Common stocks			
United States			
Exchange traded funds			
SPDR KBW Insurance ETF	44,000	5.1 %	\$ 1,527,240
iShares Nasdaq Biotechnology Index Fund	18,600	5.1	1,522,038
Other		11.7	3,544,048
Total common stocks (cost \$6,455,466)		21.9	6,593,326
Debt securities			
United States			
Government			
U.S. Treasury Bill due March 18, 2010	\$ 12,000,000	39.8	11,998,908
U.S. Treasury Inflation-Protection Securities 3.625% due April 15, 2028	\$ 3,851,000	21.1	6,345,708
Total debt securities (cost \$18,242,683)		60.9	18,344,616
Total investments in securities, at fair value (cost \$24,698,149)		82.8 %	\$ 24,937,942
Derivative contracts, at fair value			
Futures			
Commodity		3.9 %	\$ 1,186,908
Derivative contracts, at fair value			
Currency forwards			
Other currency		(0.1) %	\$ (35,242)

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").

These financial statements were approved by management and available for issuance on May 14, 2010. Subsequent events have been evaluated through this date.

Valuation of Investments in Securities at Fair Value - Definition and Hierarchy

In accordance with GAAP, 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. In accordance with GAAP, 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 be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Fund. Unobservable inputs reflect the Fund's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. 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. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

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)

Valuation of Investments in Securities at Fair Value - Definition and Hierarchy (continued)

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

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

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors including, the type of security, whether the security is new and not yet established in the marketplace, 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. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. 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 securities existed. Accordingly, the degree of judgment exercised by the Fund in determining fair value is greatest for securities 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, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls, is determined based on the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant 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 Fund uses prices and inputs that are current as of the measurement date, including periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

Valuation Techniques

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 sales price as of the last business day of the year.

Derivative Contracts

The Fund records its derivative activities at fair value. Gains and losses from derivative contracts are included in net gain (loss) from derivative contracts and net change in unrealized appreciation or depreciation on derivative contracts in the statement of operations. Derivative contracts include forward, future and option contracts related to foreign currencies or commodity prices.

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)

Valuation Techniques (continued)

Derivative Contracts (continued)

Depending on the underlying security and the terms of the transaction, the fair value of certain derivatives may be able to be modeled using a series of techniques, including closed-form analytic formula (such as the Black-Scholes option-pricing model), simulation models, or a combination thereof. Pricing models take into account the contract terms (including maturity) as well as multiple inputs, including, where applicable, time value, implied volatility, equity prices, interest rate yield curves, prepayment spreads, interest rates, loss severities, credit risks, credit curves, default rates and currency rates. Certain pricing models do not entail material subjectivity as the methodologies employed include pricing inputs that are observed from actively quoted markets. In the case of more established derivative contracts, the pricing models used by the Fund are widely accepted by marketplace participants. Derivative contracts, such as options and futures, which are listed on a national securities exchange or reported on the NASDAQ national market, are generally categorized in Level 1 of the fair value hierarchy. OTC derivatives contracts, such as forwards, which may be valued using models, are generally categorized in Level 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 country credit spreads similar to the bond in terms of issuer, maturity and seniority. Sovereign government bonds are generally categorized in Level 1 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 statement 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 statement 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)

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, 2009, the Fund had cash collateral receivables \$200,009 with derivative counterparties under the same master netting arrangement. The cash collateral amount is included in due from broker in the statement of assets and liabilities.

Income Taxes

Under the laws of the Cayman Islands, the Fund is not subject to income taxes. Accordingly, no provision for income taxes has been made in the accompanying financial statements. However, certain United States dividend income and interest income may be subject to a 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.

In accordance with GAAP, the Fund is required to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The Fund is subject to income tax examinations by major taxing authorities for all tax years since inception. 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. De-recognition of a tax benefit previously recognized results in the Fund recording a tax liability that reduces net assets. This policy has been applied to all existing tax positions upon the Fund's initial adoption for the period ended December 31, 2009. Based on its analysis, the Fund has determined that the adoption of this policy did not have a material impact on the Fund's financial statements upon adoption. However, the Fund's conclusions regarding this policy may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analyses of and changes to tax laws, regulations and interpretations thereof. The Fund recognizes interest and penalties accrued related to unrecognized tax benefits in income tax fees payable, if assessed. No interest expense or penalties have been recognized as of and for the period ended December 31, 2009.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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.

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 and liabilities measured at fair value as of December 31, 2009 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets (at fair value)				
Investments in securities				
Common stocks	\$ 6,593	\$ -	\$ -	\$ 6,593
Debt securities	18,345	-	-	18,345
Total investments in securities	<u>24,938</u>	<u>-</u>	<u>-</u>	<u>24,938</u>
Derivative contracts				
Future contracts	1,187	-	-	1,187
Total derivative contracts	<u>1,187</u>	<u>-</u>	<u>-</u>	<u>1,187</u>
	<u>\$ 26,125</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,125</u>
Liabilities (at fair value)				
Derivative contracts				
Forward contracts	\$ -	\$ 35	\$ -	\$ 35

3. Due from broker

Amounts due from broker may be restricted to the extent that they serve as deposits for securities sold short.

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. 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: foreign currency exchange rate and commodity 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.

FRIEDBERG ASSET ALLOCATION FUND LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in United States Dollars)

4. Derivative contracts (continued)

Forward Contracts

The Fund enters into forward contracts for hedging purposes or to change the currency exposure of a particular security.

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 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 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"). Subsequent payments (variation margin) are made or received by the Fund each day, depending on the daily fluctuations in the value of the contract, and are recorded as unrealized gains or losses by the Fund. 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.

Options

The Fund is subject to equity and commodity price 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 underlying the option, or for use as an economic hedge against certain equity positions held in the Fund's portfolio holdings. Option contracts 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. Options written by the Fund may expose the Fund to market risk of an unfavorable change in the financial instrument underlying the written option.

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

FRIEDBERG ASSET ALLOCATION FUND LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in United States Dollars)

4. Derivative contracts (continued)

Options (continued)

counterparty risk to the Fund is the fair value of the contracts and the premiums paid to purchase its open option contracts. 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, 2009, the volume of the Fund's derivative activities based on their notional amounts^(a) and number of contracts, categorized by primary underlying risk, are as follows:

(notional amounts in thousands)

<u>Primary underlying risk</u>	<u>Long exposure</u>		<u>Short exposure</u>	
	<u>Notional amounts</u>	<u>Number of contracts</u>	<u>Notional amounts</u>	<u>Number of contracts</u>
Foreign currency exchange rate				
Forward contracts	\$ 803	2	\$ -	-
Commodity price				
Futures contracts	16,892	150	659	6
	<u>\$ 17,695</u>	<u>152</u>	<u>\$ 659</u>	<u>6</u>

(a) Notional amounts are presented net of identical offsetting derivative contracts.

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

The following table identifies the fair value amounts of derivative instruments included in the statement of assets and liabilities as derivative contracts, categorized by primary underlying risk, at December 31, 2009. 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 statement of operations as net gain (loss) from derivative contracts and net change in unrealized appreciation or depreciation on derivatives, categorized by primary underlying risk, for the period ended December 31, 2009.

(in thousands)

<u>Primary underlying risk</u>	<u>Derivative assets</u>	<u>Derivative liabilities</u>	<u>Amount of gain (loss)</u>
Foreign currency exchange rate			
Forward contracts	\$ -	\$ 35	\$ (35)
Commodity price			
Futures contracts	1,187	-	1,663
Options	-	-	35
	<u>1,187</u>	<u>-</u>	<u>1,698</u>
Total	<u>\$ 1,187</u>	<u>\$ 35</u>	<u>\$ 1,663</u>

FRIEDBERG ASSET ALLOCATION FUND LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in United States Dollars)

5. Securities sold short

The Fund is subject to certain inherent risks arising from its investing activities of selling securities short. The ultimate cost to the Fund to acquire these securities may exceed the liability reflected in these financial statements.

6. 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.

7. Capital share transactions

As of December 31, 2009, 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, 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.

Transactions in capital shares during the period, and the shares outstanding and the net asset value ("NAV") per share as of December 31, 2009, for each class and series of shares are as follows:

	<u>Class A</u>
Shares outstanding, beginning of period	-
Shares issued	27,355.88
Shares redeemed	-
Shares outstanding, end of period	<u>27,355.88</u>
Proceeds from issuance of shares	<u>\$ 28,623,836</u>
Net asset value per share, end of period	<u>\$ 1,101.35</u>

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

FRIEDBERG ASSET ALLOCATION FUND LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in United States Dollars)

8. Related party transactions

The Investment Advisor is entitled to a management fee, calculated and payable monthly in arrears equal to 1/12 of 1% per month (1% per annum) of the month-end net asset value of the Fund determined as of the last business day of each month.

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.

9. Administrative fee

Cayman National Fund Services Ltd. (the "Sub-Administrator") performs certain administrative and clerical services on behalf of the Fund. At December 31, 2009, cash balances in the amount of approximately \$230,000 were held by an affiliate of the Sub-Administrator.

FRIEDBERG ASSET ALLOCATION FUND LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in United States Dollars)

10. Financial highlights

Financial highlights for the period June 23, 2009 (Commencement of Operations) through December 31, 2009 are as follows:

	<u>Class A Shares</u>
Per share operating performance	
Net asset value, beginning of period	\$ 1,000.00
Income (loss) from investment operations:	
Net investment income (loss)	(24.71)
Net gain (loss) on investments	126.06
Total from investment operations	101.35
Net asset value, end of period	\$ 1,101.35
Total return	
Total return before incentive fee	11.0 %
Incentive fee	(0.9)
Total return after incentive fee	10.1 %
Ratio to average net assets	
Expenses other than incentive fee	1.9 %
Incentive fee	1.3
Total expenses	3.2 %
Net investment income (loss)	(2.4) %

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.

The ratios, excluding nonrecurring expenses and the incentive fee, have been annualized.

11. Subsequent events

From January 1, 2010 through May 14, 2010, the Fund accepted additional subscriptions of approximately \$7,370,000 (of which approximately \$231,000 is included in advanced subscriptions) and had no redemptions.