FRIEDBERG MERCANTILE GROUP LTD.

Fourth Quarter Report

2011

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Fourth Quarter Report 2011

It gives me great pleasure to report to you on the financial activities of our hedge funds for the quarter and year ended December 31, 2011.

While our flagship fund, the Global-Macro Hedge Fund Ltd., posted a disappointing 8.8% loss for the quarter, it managed nonetheless to maintain a solid 40.9% gain for the year. Dampening these outstanding results somewhat was the fact that the fund experienced volatility that was higher than usual and higher than desirable. As I explained in our last communication to you, this is to be attributed partly to the markets' own historically high volatility and partly to our greater use of leverage. I will not go over the same points I made at that time but I will try to explain why we came to use a greater amount of leverage and why the use of greater leverage may or may not persist.

To a considerable extent, we have abandoned the rigorous scheme that we created for ourselves in the past, which required us to allocate capital to five well defined strategies/assets: currencies, commodity futures, a market-neutral equity program, fixed income and global opportunities. Instead, we now place much greater emphasis on the last named pocket, primarily at the expense of the fixed-income allocation.

This strategic drift can be attributed to the changing economic conditions of the past four to five years. Given our macro orientation, we found that all the great market surprises and opportunities, since at least the end of 2006, either lay outside our main allocations or deserved a greater play than our limited allocations allowed. Such was the case with the collapse of bank shares in 2007-2008 and again in 2011, with the little advertised but highly significant move to negative real interest rates (which admittedly could have been taken advantage of in the fixed-income pocket but only to a modest extent) and with the extraordinary rise in gold bullion (which, again, could have been taken advantage of in the commodities section but only to a limited extent, given the allocation we had given to commodity futures).

In retrospect, we can confirm that the outsized gains of 40%-plus in both 2008 and 2011 could have been achieved only by deviating from the original model, by drifting away from the allocation decisions made in calmer days. And that is exactly how we felt back in 2007. Effectively, we did away with our fixed-income pocket (once representing as much as 60% of the fund's allocation and, note well, once limiting overall leverage by virtue of the fact that it was an unleveraged allocation) and moved the chips to the area of greater potential and opportunity. This schematic drift implied much greater leverage and much greater volatility.

So much for the past. Should the old scheme be put back together? That is, should we anchor the fund once again with an unleveraged fixed-income allocation and pull back from our highly leveraged global opportunities exposure? The answer is yes if we suddenly fear that we no longer command an edge in macro forecasting — that is, if we no longer enjoy what we have liked to call the element of surprise, an element that tends to yield extraordinary gains. Yes again, if we are no longer willing to put up with outsized volatility and the attendant risk of large losses. And finally yes, if the economic climate normalizes — that is, if de-leveraging leads to more solid private sector balance sheets, sounder government finances, pro-growth economic policies and more disciplined monetary policies, as we experienced during the post-war period (until 1970) or through the 1990s. Under contrary conditions, however, the answer would be no.

While I am afraid that the economic climate may never again achieve the normalcy of, say, the post-war period and thereby continue to tempt us to bet on dramatic outcomes, the first two conditions may still return us to a more subdued *modus operandi*. This is a discussion that has been raging at our weekly risk committee meetings and is likely to result in a decision before the end of the new quarter. In short, schematic drift is the explanation for the greater leverage and the greater volatility.

What were our great successes for the year? Almost half the fund's net gains came from a bet on real interest rates, implemented primarily via TIPS but also via nominal Treasuries. While many observers understood that the Fed would manage to lower rates as advertised, few understood the true implications, namely that real rates would drop towards zero and, in fact, into negative territory, because of the persistence and stubbornness of inflation. The Fed managed to achieve negative interest rates by anchoring its daily lending rate near zero, thus providing the fodder for a highly profitable carry trade. By favorably looking on these speculative maneuvers, the Fed may have actually found a way to reduce the real value of Treasury debt over time. (Woe to the day that inflation rears its ugly head and forces the Fed to reverse itself! Who will then bail out the entire banking system?)

One half again of the fund's net gains came from gains in foreign stock markets, specifically, short positions in Indian stocks and Brazilian and European bank stocks. At the time we put on these short positions, there were few who expected these markets to decline. As it happened, they declined anywhere from 20% to 30%.

To round up this brief survey of the year's most significant gains, we should mention that more than a quarter of the net gains for the year came from holding a long position in gold bullion (mostly via futures). Gold came to represent anywhere from 50% to 70% of capital for the time that we held the position. Our exit from gold in late August, mostly at prices north of $1,850/ounce, was as satisfying as our previous entry. Sentiment had become lopsidedly bullish and the European crisis foreshadowed a potential credit deflation, two elements that suggested caution and the possibility of a large correction.

The disadvantage of exiting a long-term bull market, however, is that it forces one to pick a re-entry point and in such a bull market, arguments for timely re-entry are not so easily conjured. The old trading adage never to disturb a long position in a bull market, regardless of the possibility of short-term turns, is a constant curse to the smart-aleck investor.

At the same time, we had a number of losses, though most of them were modest in relation to the overall net gain. Our inflation bet, carried out via commodity futures and managed by an outside and very experienced CTA, produced a loss slightly larger than 3% of capital. Commodity prices peaked early in the second quarter and never looked back. A similar loss occurred in our short Fed Funds position, a "hedge" put on to protect us from a sudden and unexpected policy reversal and an end to the easy money party. Last, our bet that Australian equities would also swan did not pay off, nor did our forex activities (mostly bets on a U.S.-dollar recovery, which came only very late in the year). Each accounted for losses equal to approximately 2% of capital.

The unleveraged Asset Allocation Fund Ltd. performed well beyond our expectations in this difficult environment, gaining 0.6% for the quarter and 10.5% for the year, results accomplished with a minimal degree of volatility. There was only one significant (more than 5%) change in allocation during the year and that related to our exit from the long gold bullion position late in the third quarter of the year. This position was partially replaced with a long position in gold mining shares, via the Market Vectors Junior Gold Miners ETF (an unfortunate move, in retrospect) and a further increase in holdings of 10-year U.S. Treasuries. At year-end, fixed income (TIPS and nominal Treasuries) represented 70% of the portfolio, U.S. and foreign equities 16% and the gold mining ETF another 14%.

Resolution of the European crisis is simple. Over-indebted nations must either grow their way out of debt — an almost impossible task in a stagnating world economy — or they must default, as Greece is now in the process of doing. More austerity and more debt will not do. Banks, over-exposed to these over-indebted nations, must either dispose of their questionable assets and raise fresh capital or close their doors. Higher capital ratios, as mandated by the Basel doctors, have a perverse effect on banks' solvency, acting as an incentive to concentrate their portfolios further in sovereign debt since it carries no capital hit. To close the tragic circle, banks are now rushing to adopt highly creative accounting gimmicks, in the process ignoring true and time-tested banking canons.

In an attempt to gain time for the austerity programs to show results and, at the same time, to help banks meet their immediate obligations, the normally conservative ECB has expanded its balance sheets in recent months by many multiples of what it has been accustomed to. But this is counterproductive: new long-term loans, offered by the ECB at concessionary rates in an effort to stay these banks' existence, tempt banks into getting ever deeper into the sovereign morass. The steepening of the yield curve of Spanish and Italian debt indicates that this has, in fact, happened. At the same time, by accepting ever more questionable collateral, these types of refinancings weaken the central bank's balance sheet, transmitting to it the diseased state of its clients. In this deathly dance, solvent governments are forced to recapitalize the ECB and they in turn catch the disease.

It should be obvious that these huge injections of liquidity by themselves do not address the underlying causes of the present economic crisis. In fact, if banks fully intermediate these increases in base money, broad money supply and inflation will begin to accelerate and the resultant higher rates will deepen the economic contraction. The best that the ECB can hope for is that base money remains trapped at the central bank, in which case insolvent banks will enjoy a surfeit of liquidity for a little while. This will give the ECB, its bosses and markets around the world a few more months of relief. This relief will surely be shattered when any one of the debtors gains the gall to defy the creditors, demands an end to austerity and repudiates a good part of the debt.

For now, our basic stance remains unchanged. We believe that the world is still closer to credit deflation and deepening economic contraction than it is to resumption of credit, an economic recovery and accelerating inflation. While the U.S. economy shows signs of recovery (probably a result of the huge monetary stimulus), the recovery is unconvincing if only because it is based on stagnating real income and a very low savings rate. It is therefore vulnerable to a global recession. Our positions reflect this belief: we remain short equities in India, Brazil, China, Russia (Gazprom) and Australia and long U.S. equities as a partial hedge against these short positions. We are short oil: new extraction techniques (shale fracking), new conventional discoveries, record-low natural gas prices, the ongoing rationalization of fuel usage and weak economic activity, in addition to what we may expect in new technological breakthroughs for replacing fossil fuels, should bring a relatively quick end to the longest bull market in history. Last, we remain long U.S. Treasuries, TIPS and nominal bonds, in line with our belief that a credit deflation is a reasonable expectation.

Having said that, our level of confidence that a credit deflation will occur in the very near future has eroded in recent weeks as we have seen the extent to which governments are willing to sacrifice long-term solvency and the huge increases in the balance sheets of the world's largest central banks. Timing is of the essence, of course, and a delay of even six months in the scenario we are projecting could prove extremely costly. Sentiment on equities and commodities, on the other hand, has turned quite bullish over the past four weeks and, as contrarians, we offer that this is perhaps the most reliable indication that a setback of the kind described earlier could occur in the near future after all.

Thanking you for your continued trust,

Albert D. Friedberg

FRIEDBERG MERCANTILE GROUP LTD.

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All statements made herein, while not guaranteed, are based on information considered reliable and are believed by us to be accurate. Futures and options trading is speculative and involves risk of loss. Past trading results are not indicative of future profits.

FRIEDBERG GLOBAL-MACRO HEDGE FUND LTD.
FRIEDBERG GLOBAL-MACRO HEDGE FUND

A single manager multi-strategy fund.
Allocations are reviewed periodically.

PERFORMANCE[1] as of December 31, 2011

	NAV	Quarterly	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Global-Macro Hedge Fund Ltd.	5,954.85	-8.77%	26.37%	25.99%	24.72%
Friedberg Global-Macro Hedge Fund	35.24[3]	-8.80%	23.96%	28.55%	27.11%
CSFB/Tremont Hedge Fund Index		N.A.	5.30%	8.71%	3.58%

[1]Net of fees
[2]Compounded annual rate of return through November 2011
[3]NAV adjusted to reflect distributions reinvested in the fund

Capital allocation of the Friedberg Global-Macro Hedge Fund Ltd. as of December 31, 2011 is as follows:

FUND	**CURRENT ALLOCATION**	**TARGET**
Fixed Income	6.23%	15.00%
U.S. Equities – Market Neutral Strategy	15.57%	15.00%
Currency Program	8.13%	8.00%
Global Opportunities	66.30%	62.00%
Cash	3.77%	0.00%
	100.00%	100.00%

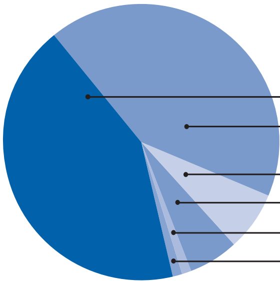
FRIEDBERG GLOBAL-MACRO HEDGE FUND LTD.

Monthly Performance (%) Net of Fees

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	-10.28%	7.67%	-0.71%	9.53%	-5.06%	-3.23%	15.96%	16.22%	18.62%	-21.76%	11.47%	4.60%	40.84%
2010	2.99%	0.36%	-7.34%	3.76%	13.22%	4.75%	-13.76%	6.95%	9.11%	1.69%	-1.61%	-6.16%	11.36%
2009	-5.85%	-3.88%	3.65%	-7.15%	14.90%	-7.85%	9.47%	1.97%	5.02%	-2.21%	9.56%	-3.34%	12.02%
2008	7.37%	9.57%	-1.04%	-6.48%	4.51%	8.58%	-0.24%	-6.85%	4.18%	-5.96%	5.85%	19.06%	41.77%
2007	-1.01%	1.07%	-3.44%	-1.28%	-0.80%	1.57%	10.06%	2.80%	-1.33%	5.89%	7.91%	2.82%	26.04%
2006	1.94%	1.06%	-1.81%	2.07%	-0.75%	1.27%	2.04%	-0.09%	-0.56%	3.10%	2.43%	0.54%	11.70%
2005	1.05%	0.84%	-1.13%	1.31%	1.06%	2.47%	0.08%	0.95%	2.75%	-1.38%	2.56%	2.14%	13.35%
2004	4.03%	3.44%	1.36%	-7.84%	-0.39%	0.27%	1.02%	1.90%	1.45%	1.67%	2.76%	3.24%	13.07%
2003	3.10%	3.06%	-4.58%	-1.15%	9.26%	-3.77%	-8.04%	2.91%	5.49%	1.69%	1.49%	1.10%	9.76%
2002	-1.46%	2.04%	-2.22%	4.41%	5.41%	6.16%	-2.42%	4.45%	2.80%	-6.70%	3.30%	7.57%	21.18%
2001										0.00%	0.00%	-0.40%	-0.40%

Past Performance is not indicative of future results

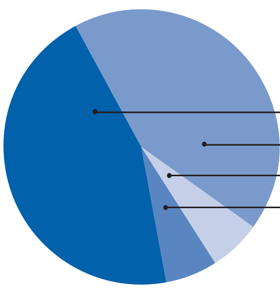
GLOBAL-MACRO HEDGE FUND LTD. (CAYMAN)
Breakdown by Total Gross Exposure



Global Opportunities	43%
Commodity Futures	42%
U.S. Equities-Market Neutral	7%
Currencies	6%
Fixed Income	1%
Cash	1%

Total Exposure per dollar of capital: 6.06x

GLOBAL-MACRO HEDGE FUND (CANADA)
Breakdown by Total Gross Exposure



Commodity Futures	45%
Global Opportunities	43%
Currencies	6%
U.S. Equities-Market Neutral	6%
Fixed Income	0%
Cash	0%

Total Exposure per dollar of capital: 6.11x

U.S. EQUITIES – MARKET NEUTRAL STRATEGY

An equity strategy that seeks absolute returns through the judicious selection of long and short positions while maintaining a market neutral posture.

PERFORMANCE as of December 31, 2011

	NAV (notional)	Quarter
U.S. Equities – Market Neutral Strategy of the Global-Macro Hedge Fund	1,411.34	18.05%

INVESTMENT ALLOCATION

	30-Sep-11	31-Oct-11	30-Nov-11	31-Dec-11
LONGS	55.38%	55.95%	50.95%	54.77%
SHORTS	44.62%	44.05%	49.05%	45.23%
TOTAL GROSS LEVERAGE	2.29x	2.50x	3.13x	2.64x

LARGEST SECTORS (LONGS)

Utilities	11.92%
Aerospace & Defense	11.31%
Internet Software & Services	7.58%

LARGEST SECTORS (SHORTS)

Household Appliances	6.46%
Oil & Gas Exploration & Production	6.19%
Steel	5.63%

LARGEST LONG POSITIONS

Utilities Sector SPDR
Google Inc.
News Corp. B
United Technologies Corp.
International Business Machines Corp.

LARGEST SHORT POSITIONS

Whirlpool Corp.
Chesapeake Energy Corp.
United States Steel Corp.
Molycorp Inc.
Green Mountain Coffee Roasters

BEST QUARTERLY PERFORMANCE

	LONGS
Google Inc.	25.41%
News Corp. B	16.54%
Utilities Sector SPDR	7.02%

	SHORTS
First Solar Inc.	29.80%
Molycorp Inc.	27.05%
Green Mountain Coffee Roasters	25.79%

WORST QUARTERLY PERFORMANCE

	LONGS
Watson Pharmaceuticals Inc.	-11.59%
BE Aerospace Inc.	-10.98%
Regeneron Pharmaceuticals	-4.76%

	SHORTS
MBIA INC.	-59.42%
United States Steel Corp.	-20.22%
Apple Inc.	-6.46%

FRIEDBERG ASSET ALLOCATION FUND LTD.
FRIEDBERG ASSET ALLOCATION FUND

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. Allocations are reviewed periodically.

Modest risk: Absolute return.

PERFORMANCE[1] as of December 31, 2011

	NAV	Quarterly	Year over Year[2]	Two Years[2]
Friedberg Asset Allocation Fund Ltd.	1,413.66	0.61%	13.23%	12.11%
Friedberg Asset Allocation Fund	14.91[3]	0.88%	12.43%	12.12%
CSFB/Tremont Hedge Fund Index		N.A.	5.30%	4.57%

[1]Net of fees
[2]Compounded annual rate of return through November 2011
[3]NAV adjusted to reflect distributions reinvested in the fund

Capital allocation of the Friedberg Asset Allocation Fund Ltd. as of December 31, 2011 is as follows:

INVESTMENT			**CURRENT ALLOCATION**	**TARGET**
FIXED INCOME			34.70%	35.00%
	U.S. TIPS	*19.64%*		
	U.S. Notes	*0.37%*		
EQUITIES			16.41%	16.00%
	U.S. Equities	*9.81%*		
	Foreign Equities	*6.59%*		
U.S. MONEY MARKET			35.06%	34.00%
		35.06%		
GOLD MINING SHARES			13.84%	15.00%
	Market Vectors Jr. Gold Miners ETF	*13.84%*		
			100.00%	100.00%

FRIEDBERG ASSET ALLOCATION FUND LTD.

Monthly Performance (%) Net of Fees

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	**-4.11%**	**4.18%**	**1.11%**	**5.56%**	**-1.67%**	**-1.98%**	**4.65%**	**5.15%**	**-2.82%**	**3.31%**	**-1.05%**	**-1.58%**	**10.53%**
2010	**-0.27%**	**0.99%**	**0.56%**	**3.47%**	**1.10%**	**0.99%**	**-2.23%**	**3.36%**	**3.91%**	**2.57%**	**-0.06%**	**0.83%**	**16.13%**
2009						**0.38%**	**2.62%**	**0.09%**	**2.91%**	**0.53%**	**7.15%**	**-3.63%**	**10.14%**

Past Performance is not indicative of future results

CURRENCY FUNDS

FRIEDBERG CURRENCY FUND

Speculative trading in currency futures instruments, currency forwards and options.

PERFORMANCE[1] as of December 31, 2011

	NAV	Quarter	Year over Year[3]	Three Years[3]	Five Years[3]
Friedberg Currency Fund[2]	14.06	-10.04%	-15.48%	2.38%	2.49%
Barclay Currency Traders Index		N.A.	2.73%	2.35%	2.60%

[1]Net of fees
[2]Priced in Canadian Dollars
[3]Compounded annual rate of return through November 2011

OPEN POSITIONS – December 31, 2011

	times dedicated capital
Short British Pound	2.17
Short Brazilian Real Futures	0.84
Short New Zealand Dollar	0.78
Short Australia Dollar	0.73
total gross leverage at December 31, 2007	4.52 x
maximum gross leverage during quarter	6.18 x

ACTIVITY REPORT – Fourth Quarter 2011

PROFITABLE TRANSACTIONS	profit as percentage of average equity	percentage of total profits
Short British Pound	0.01	100.0

LOSING TRANSACTIONS	profit as percentage of average equity	percentage of total losses
Short Australian Dollar	(4.62)	49.75
Short Brazilian Real	(2.57)	27.63
Short New Zealand Dollar	(2.10)	22.62

CLOSED FUNDS

Fund	Inception Date	Inception NAV	Liquidation Date	Liquidation NAV	Size of Fund at Liquidation	Annual % Rate of Return
Friedberg Diversified Fund	13-Sep-96	10.00	31-Oct-06	48.43	$4,642,228	16.90%
Friedberg Global Opportunities Fund Ltd.	13-May-97	1000.00	28-Feb-05	501.89	$5,700,000	-8.46%
Friedberg Equity Hedge Fund L.P.	15-Feb-98	10.00	31-Oct-06	22.12	$6,784,836	9.50%
Friedberg International Securities Fund	31-Mar-98	10.00	30-Nov-05	11.49	$4,500,000	1.83%
Friedberg Futures Fund	8-May-98	10.00	31-Oct-06	19.59	$1,126,409	8.10%
Friedberg Global Macro Hedge Fund L.P.	31-May-02	10.00	31-Oct-06	19.00	$30,691,202	15.64%
Friedberg Equity Hedge Fund Ltd.	16-Oct-96	1000.00	30-Apr-07	2951.78	$31,540,284	10.81%
Friedberg Currency Fund II Ltd.	6-Mar-97	1000.00	30-Jun-08	1019.23	$35,599,879	0.17%
Friedberg Total Return Fixed Income Fund Ltd.	2-Oct-96	1000.00	31-Jul-09	2155.93	$94,686,020	6.17%
First Mercantile Currency Fund	7-Sep-85	10.00	30-Dec-09	8.29	$848,443	
Friedberg Foreign Bond Fund	19-Aug-96	10.00	30-Jul-10	9.84	$13,336,465	6.91%
Friedberg Total Return Fixed Income Fund L.P.	19-Feb-97	100.00	28-Dec-11	325.47	$11,776,462	8.27%
Friedberg Forex L.P.	13-Jun-91	10.00	28-Dec-11	11.78	$2,558,382	2.66%

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