FRIEDBERG MERCANTILE GROUP LTD.

Fourth Quarter Report 2006

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Fourth Quarter Report 2006

Dear Investor,

It gives me great pleasure to present to you the financial report of the Friedberg Group of Funds for the fourth quarter and year ended December 31, 2006.

During the quarter, we liquidated the Global-Macro Hedge Fund (Canadian-based) and transferred most of its positions to a new fund, sold by prospectus and more flexibly structured as a trust, which we also named Global-Macro Hedge Fund. At its closing (October 31), the fund had returned 8.3% for the year to date and had achieved a 15.64% annualized return since inception (May 31, 2002). As a result, the following discussion will highlight the results only of the Global-Macro Hedge Fund Ltd. (Cayman). We will resume coverage of the Canadian fund beginning with the first quarter of 2007. At any rate, both hedge funds are managed in parallel fashion and, over the long run, results should coincide.

The Global-Macro Hedge Fund Ltd. surged 6.2% during the fourth quarter, bringing full-year results to 11.7% on the back of a strong performance from the leveraged strategies, commodities and financial futures and inter-bank currency trading. To these three strategies we allocated a maximum 20.25% of net assets. Yet, thanks to leverage, they represented 59% of assets at year-end. (In an effort to provide as much transparency as possible, we now provide a handy pie-chart at the back of our exhibits. This should be read in conjunction with the table outlining cash allocations and will offer a more precise picture of the fund's true leverage and risk exposure.)

I begin our discussion with the fixed income program. A disappointing fourth quarter, down 1.4% to 2.5%, left us with a meager yearly gain of 0.4% to 1.1%. The story was a simple one: long maturities of Treasuries fell as long-term interest rates rose. Aggravating this decline, break-evens for TIPS, our almost exclusive holding, also fell, reflecting a decline in long-term inflationary expectations. Most of this downward movement was occasioned by dropping quotes for petroleum products. We now expect this trend to continue for the near and medium term, and in fact believe that we might see a negative CPI for part or all of 2007, as we did in 1986, as a result of collapsing oil prices. On the other hand, labor costs continue to accelerate and cost push inflation will reassert itself once the one-time impact of falling energy prices is behind us. By the time you receive this letter, we may have taken some action to protect the portfolio from this short-medium term eventuality though this is not assured, since transaction costs must be weighed in the final decision. Toward the end of this letter I offer a scenario for the coming year — one that stands in sharp contrast to conventional wisdom — that validates the continued holding of long-term Treasuries. Our decision to move a targeted 15 percentage points from fixed income to a portfolio of utility shares paid off: the portfolio gained 6.2% and contributed 84 basis points to the overall fund.

The inter-bank currency strategy found firmer footing during this quarter and, as a result, recovered some of its third-quarter losses. For the quarter it was up 8.4% to 9.9% and for the year 9.3% to 12.7%. This marks the fourth consecutive yearly gain. During this period, the program has earned an annualized return of 21.40%. The five-year record is still marred by the tragic results of the winter of '01, caused by the unprecedented three-month closure of the Buenos Aires foreign exchange market and the devastating 41% devaluation of the Argentinian peso that followed its re-opening. My fervent wish continues to be to put those events behind us as we move into the fifth year. The best way to do that is to continue to earn steady returns and have the program recover the values that prevailed in the third quarter of 2001.

Exceptionally, we earned money on every trade. None of the positions were liquidated by the end of the quarter. The most profitable trade was the short position in the Canadian dollar. The trade was first put on in early November and, as we gained confidence in it, we pressed the position to two times leverage. The fundamentals behind the move are relatively simple: deteriorating terms of trade (fall in oil, metals prices) with negative impact on balance of trade and, more importantly, on capital flows. These come two ways, as long-term flows and as portfolio flows. Superimposed on this condition are negative interest differentials with the U.S., which lend support to portfolio outflows. Finally, a little appreciated fact: Canadian pension accounts and personal registered plans are overbought Canadian securities — understandable given the extraordinary performance of the resource sector in recent years — at a time when there are no longer restrictions on foreign investments. Once the rationale disappears for holding exclusively Canadian securities (it has already begun), persistent portfolio outflows will put a massive lid on the Canadian dollar.

The long Brazil/short Mexico trade was carried over from last quarter. After a disappointing start, the trade has moved in our favor. The short euro/sterling was put on during the quarter on the idea that the "carry" is safe since the UK is likely to require higher interest rates than the Eurozone for the foreseeable future. So far, it has proven profitable. Finally, we sold Euro/Swedish krona, betting that the new Swedish conservative government would follow through on its campaign pledge to privatize large chunks of the public sector and, in the process, attract foreign capital. Since the carry trade room is extremely crowded and the U.S. crosses space is a coin flip, we are increasingly forced to find "odd" trades. More of them are on the way.

We enjoyed another extraordinary quarter trading commodity and financial futures. Based on average equity, we achieved returns of 112%. This strategy contributed as much as 600 basis points to the Hedge Fund. The biggest gainer in this sector was the long position in stock index futures, where we tried to achieve an exposure equal to 70% of the fund via leveraged futures. This position was fully liquidated between December 20, 2006 and January 4, 2007. I believe that the fourth quarter of 2006 represented the blow-off phase of the 2002-2006 bull market, coinciding almost perfectly with the peaking of U.S. corporate profits as a percentage of GDP, if not in absolute terms. More on this below.

Short positions in copper and crude oil — bear spreads and outright trades — continued to contribute significantly to results, as they have for more than two years. These two commodities are not only collapsing under the weight of excess supplies but are leading the way for the entire commodity complex. Those who bet on commodities, mostly professional investors, will pay dearly for their naivete in coming months.

The market-neutral equity strategy (Friedberg Equity Hedge Fund Ltd., Cayman) achieved good results for the quarter (+2.8%) and modest gains for the year (4.7%). As we suspected, and discussed last quarter, the program contained too many positions. We have now reduced the total position below 50 stocks, a figure that has produced satisfactory results in the past. In the next quarter or two, we might want to experiment with a slightly lower total, fully expecting a rise in the program's volatility. As well, we increased leverage to maximize advantage, moving from 1.84x at September 30 to 2.47x at year-end.

Our global equities section has been trimmed to just a handful of positions, the largest being a short position in Mitsubishi UFJ Financial Group, Japan's largest commercial bank. Our rationale is a combination of macro and micro views. For one thing, deflation has not abated and is unlikely to end anytime soon in view of the meager growth of the monetary aggregates. In fact, it is likely to worsen if the BOJ follows through on raising rates next month. Second, lending margins remain razor thin and operating returns on equity continue to fall, conditions that hardly justify present valuations. We plan to allocate more cash to this strategy (see new allocations on the inside pages) with a view to making some large macro bets on a few emerging markets — from the short side, that is.

And now I would like to make a few comments on what I see for the period ahead. For a number of years I have stayed out of the forecasting derby, preferring to remain ahead of the crowd perhaps no more than three or four months at a time. This assumed no dramatic changes in underlying conditions; it was mostly a matter of choosing to change lanes on a fairly smooth road. As we all know, changing lanes is a difficult game and those who attempt it understand that only very occasionally do they gain an advantage. Changing lanes this year produced a respectable return of 11.7%, but staying the course in one single asset, the S&P 500, would have produced a 13.62% return. Not great driving. Still, over five years we have earned 13.42% annually while the S&P 500 has earned only 4.4% — and our standard deviation has been slightly lower, to boot (10.93% vs. 12.26%). It is only when you foresee changes in the road ahead that you can really make a mark. To give you greater insight into what I am proposing to do, I offer, reluctantly and with some trepidation, a forecast for the coming period. Here it is.

The period of easy money was allowed to run too long. Even when central banks around the world thought to put an end to it, they did so too gradually. By demurring they stoked the fires of speculation for another two years. This has led to a severe deterioration of balance sheets in the household sector. Just as fires eventually burn themselves out without the need of fire extinguishers, so too speculations burn themselves out without the need of tight money. It just takes longer. The great housing boom has come to an end in the U.S., thanks to that sector's extraordinary elasticity of supply. Around the world this may take a bit longer, but one can be sure that at some point supply will catch up with demand and the housing booms there will also come to an end. Other assets too, like equities and debt, will inevitably reach an upside exhaustion and then begin to fall on their own weight. The triggers may be any of a number of things. In an overbought market, a change in conditions, in whatever way, is sufficient to cause selling intentions to begin exceeding buying intentions.

A good trigger candidate, but not the only one, is corporate profits. Conditions are ripe for a significant squeeze in profit margins. The deflationary forces operating on commodities are having a direct impact on pricing power. At the same time, labor is attempting to regain its own pricing power, and by all indications, it is beginning to succeed. This is being aggravated by slowing gains in productivity. Businesses in North America and Europe are likely to be caught in a powerful vise that has the potential to crush profits for the period ahead. Countries that built up enormous reserves on the back of rising commodity prices and portfolio inflows associated with these gains in terms of trade will see their liquidity evaporate, quickly and suddenly. The massive and wasteful spending to which they have become accustomed will come to a sudden end, with important social and political ramifications. International liquidity will contract even if central banks continue on their moderate path of accommodation, or tightening, as they prefer to call it. The point is that speculations, long in the making, can come to an end by themselves. They burn themselves out.

Here is the problem. Going forward, central banks are likely to be powerless to contain the deflation of debt and assets, much as the BOJ was unable to reflate for more than fifteen years. The over-lent financial institutions could not channel liquidity into the economy, frozen as they were by continuous losses on their portfolios. The public was too busy rebuilding rundown liquid assets and savings generally. What is more, in typical fashion, central banks will be too slow in responding. Having been burned by easing too fast and having turned gradualism into a virtue, they will move much more slowly than they need to. Bureaucracies are no match for markets, and soon, these markets will smell blood. The carnage will be over by the time central banks begin to deliberate on the next move. The damage will have been done.

This scenario calls for a radical overhaul of present portfolios. Stocks and bonds rated below triple A are out. Commodities are out. Real estate is out. What is in is long-maturity Treasuries, preferably nominal ones and, for the daring, short positions in equities and commodities. Our hedge funds have slowly been moving in that direction; I hope to become more aggressive as the first quarter unfolds. Of course, this is easier said than done. The opportunity cost of staying in cash at 5% is obviously not high, but the risks of aggressive short selling *are* high. This must be done with an eye on the tape along with heightened sensitivity to news flow, rhetoric, technical indications, and consensus in general.

It may be a difficult stance to implement, but I believe that, in the end, it may well be worth it.

Thank you again for your confidence,

Albert D. Friedberg

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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 FOREIGN BOND FUND
FRIEDBERG TOTAL RETURN FIXED INCOME FUND LTD.
FRIEDBERG TOTAL RETURN FIXED INCOME FUND L.P.

The funds seek total investment return, consisting of a combination of interest income, currency gains, and capital appreciation, by investing in both investment grade and non-investment grade fixed income obligations denominated in a variety of currencies.

LOW RISK. Objective: Absolute Returns

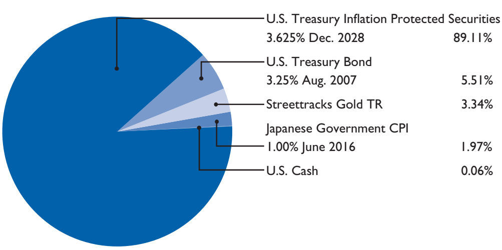
PERFORMANCE[1] as of December 31, 2006

	NAV	Quarter	Year over Year[3]	Two Years[3]	Three Years[3]	Five Years[3]
Friedberg Foreign Bond Fund[2]	19.05	2.04%	0.85%	6.16%	7.27%	9.45%
Friedberg Total Return Fixed Income Fund Ltd.	2,011.00	-1.39%	9.20%	10.00%	10.63%	15.29%
Friedberg Total Return Fixed Income Fund L.P.	212.95	-1.48%	10.49%	11.21%	11.29%	16.23%
Benchmark[4]		N.A.	10.31%	4.43%	6.84%	9.20%

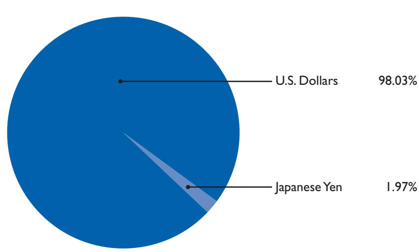
[1] Net of fees
[2] Priced in Canadian Dollars
[3] Compounded annual rate of return through November 2006
[4] 70% Merrill Lynch Broad Market Index (Bloomberg GBMI), 30% Global High Yield and Emerging Markets Plus Index (Bloomberg HAOO)

FRIEDBERG FOREIGN BOND FUND

Portfolio Allocation



Currency Exposure



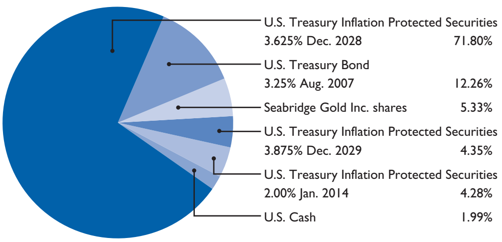
Weighted average yield to maturity	2.40%*
Weighted average current yield	2.88%*

*Assumes zero inflation.

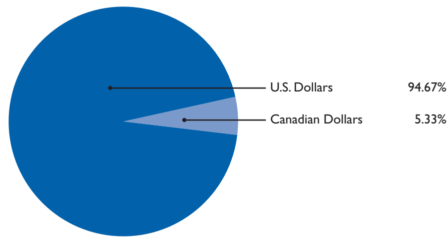
Adjusted modified duration		6.23
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	96.66%
	Unrated	3.34%

FRIEDBERG TOTAL RETURN FIXED INCOME FUND LTD.

Portfolio Allocation



Currency Exposure



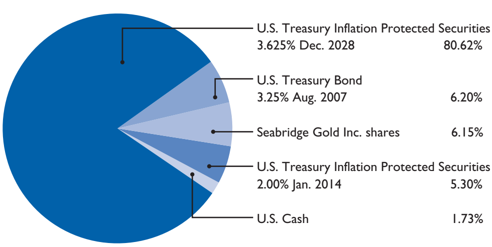
Weighted average yield to maturity	2.62%*
Weighted average current yield	2.89%*

*Assumes zero inflation.

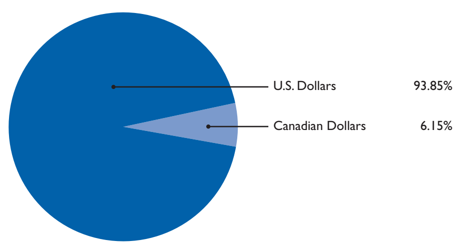
Adjusted modified duration		5.40
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	94.67%
	Unrated	5.33%

FRIEDBERG TOTAL RETURN FIXED INCOME FUND L.P.

Portfolio Allocation



Currency Exposure



Weighted average yield to maturity	2.43%*
Weighted average current yield	2.83%*

*Assumes zero inflation.

Adjusted modified duration		5.72
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	93.85%
	Unrated	6.15%

EQUITY HEDGE FUND

FRIEDBERG EQUITY HEDGE FUND LTD.

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

PERFORMANCE[1] as of December 31, 2006

	NAV	Quarter	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Equity Hedge Fund Ltd.	2,672.47	2.81%	5.74%	7.68%	7.81%
CSFB/Tremont Equity Market Neutral Index		N.A.	11.77%	7.91%	7.43%

[1]Net of fees
[2]Compounded annual rate of return through November 2006

INVESTMENT ALLOCATION[3]

	30-Sep-06	31-Oct-06	30-Nov-06	31-Dec-06
LONGS	54.07%	53.56%	54.38%	51.12%
SHORTS	45.93%	46.44%	45.62%	48.88%
TOTAL GROSS LEVERAGE	1.84 x	2.05 x	2.27 x	2.47 x

LARGEST SECTORS (LONGS)[3]

Electric Utilities	7.98%
Specialty Stores	4.15%
Aerospace & Defense	3.90%

LARGEST SECTORS (SHORTS)[3]

Industrials Large Cap	27.59%
Internet Software & Services	3.87%
Health Care Equipment	3.74%

[3]As percentage of total gross assets (based upon the Friedberg Equity Hedge Fund Ltd.)

LARGEST LONG POSITIONS

GATX Corp.
Raytheon Co.
Jo-Ann Stores Inc.
Oceaneering Intl. Inc.
International Paper Co.
Aqua America Inc.
Chicago Mercantile Exchange
Tesoro Corp.
Syngenta AG
WR Grace & Co.

LARGEST SHORT POSITIONS

S&P 500 futures
Walgreen Co.
Boston Scientific Corp.
Yahoo! Inc.
Unionbancal Corporation
Amazon.Com Inc.
Ebay Inc.
Flagstar Bancorp Inc.
Advanced Medical Optics
Biovail Corp.

BEST QUARTERLY PERFORMANCE

LONGS	
WR Grace & Co.	49.32%
Jo-Ann Stores Inc.	47.13%
Oceaneering Intl. Inc.	24.73%

SHORTS	
First Bancorp Puerto Rico	13.83%
Gannett Co.	0.71%
Flagstar Bancorp Inc.	-0.07%

WORST QUARTERLY PERFORMANCE

LONGS	
Checkfree Corp.	-2.81%
Orbital Sciences Corp.	-1.76%
Molecular Devices Corp.	-1.56%

SHORTS	
Biovail Corp.	-38.85%
Thomas Weisel Partners Group	-36.94%
NVR Inc.	-24.02%

CURRENCY FUNDS

FRIEDBERG CURRENCY FUND
THE FIRST MERCANTILE CURRENCY FUND
FRIEDBERG CURRENCY FUND II LTD.
FRIEDBERG FOREX L.P.

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

PERFORMANCE[1] as of December 31, 2006

	NAV	Quarter	Year over Year[3]	Three Years[3]	Five Years[3]
Friedberg Currency Fund[2]	12.96	14.39%	2.23%	18.72%	-6.43%
The First Mercantile Currency Fund[2]	10.92	8.87%	1.18%	14.75%	-6.56%
Friedberg Currency Fund II Ltd.	929.60	8.40%	1.20%	18.82%	0.51%
Friedberg Forex L.P.	13.26	9.59%	1.38%	23.66%	-3.14%
Barclay Currency Traders Index		N.A.	-1.93%	1.22%	4.06%

[1]Net of fees
[2]Priced in Canadian Dollars
[3]Compounded annual rate of return through November 2006

OPEN POSITIONS - December 31, 2006

Long Brazilian Real / Short Mexican Peso	2.80
Long British Pound / Long Swedish Kroner / Short Euro Currency	3.77
Short Canadian Dollar	2.04
Short Euro Currency call option	0.00
	Leverage
gross leverage at December 31, 2006	8.60 x
maximum gross leverage during quarter	9.72 x

ACTIVITY REPORT - Fourth Quarter 2006

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Short Canadian Dollar	5.93	59.81
Long British Pound / Long Swedish Krona / Short Euro Currency	1.74	17.59
Long Brazilian Real / Short Mexican Peso	1.45	14.58
Short Euro Call option	0.80	8.03

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses

FRIEDBERG GLOBAL-MACRO HEDGE FUNDS

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

A fund of (Friedberg) funds and strategies. Allocations are reviewed periodically.

PERFORMANCE[1] as of December 31, 2006

	NAV	Quarterly	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Global-Macro Hedge Fund Ltd.	1,896.63	6.18%	13.48%	12.92%	13.53%
Friedberg Global-Macro Hedge Fund	10.28	2.80%[3]	N.A.	N.A.	N.A.
CSFB/Tremont Hedge Fund Index		N.A.	13.62%	10.37%	9.69%

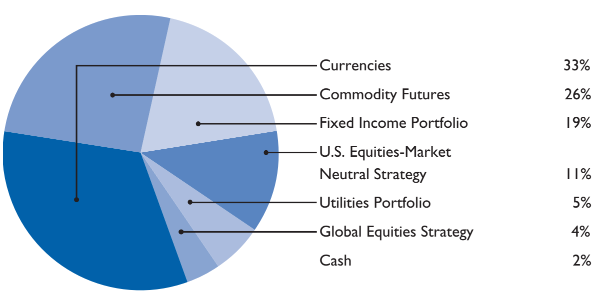
[1]Net of fees
[2]Compounded annual rate of return through November 2006
[3]Since inception November 2006

Allocation of the Friedberg Global-Macro Hedge Fund Ltd. as of December 31, 2006 is as follows:

FUND	CURRENT ALLOCATION	TARGET
Fixed Income Fund Ltd.	45.63%	46.00%
Equity Hedge Fund Ltd.	11.23%	10.00%
Currency Fund II Ltd.	13.13%	13.00%
Futures	5.15%	5.15%
Equities, Special Opportunities	4.59%	12.35%
Utilities	13.44%	13.50%
Refco SPhinX Managed Futures Index Fund Ltd.[3]	0.26%	0.00%
Cash	6.58%	0.00%
	100.00%	100.00%

[3]Refco SPhinX Managed Futures Index Fund Ltd., now in cash

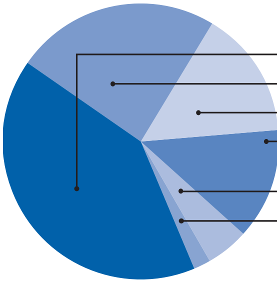
GLOBAL-MACRO HEDGE FUND LTD. (CAYMAN)
Breakdown by Total Gross Exposure



Total Leverage: 2.40

GLOBAL-MACRO HEDGE FUND (CANADA)

Breakdown by Total Gross Exposure



Total Leverage: 2.69

LIQUIDATED FUNDS

Funds	Inception Date	Inception N.A.V.	Liquidation Date	Liquidation N.A.V.	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
MERCANTILE
GROUP LTD.

FRIEDBERG MERCANTILE GROUP LTD.

BCE Place, 181 Bay Street, Suite 250
Toronto, Ontario M5J 2T3
Tel.: (416) 364-2700
Fax: (416) 364-0572
www.friedberg.ca
e-mail: funds@friedberg.ca