FRIEDBERG MERCANTILE GROUP LTD.

Second Quarter Report 2006

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Dear Investor,

It gives me great pleasure to present to you the financial report of the Friedberg Group of Funds for the quarter ended June 30, 2006.

Our two flagships, the Friedberg Global Macro Hedge Fund Ltd. and the Friedberg Global Macro Hedge Fund, turned in a fair performance for the quarter, gaining 2.6% and 2.8% and bringing year-to-date results to +3.8% and +3.6% respectively. Among the various strategies, special mention should be made of the currency program, which returned between +16.6% and +17.1%, the commodity futures program, +7.75%, and the long utilities position, +3.38%. Modest gains were recorded by the fixed income program, ranging from +1.1% to +1.4%, and by the market neutral equity program, which gained between +1.2% and +1.3%. Finally, a loss of 6.2% on allocated capital was posted by our miscellaneous equity position. These numbers do not represent their contributions to the global macro funds, which depend on allocation. All around, the excellent results of the leveraged strategies lifted the mediocre money market-like results of the rest of the portfolio, giving us continued confidence that the mix is well suited for the increasingly difficult environment we foresee for the months ahead.

I begin our discussion with the fixed income strategy, now representing approximately 50% of the Global Macro funds. No significant changes have been made to these portfolios, the great bulk of which remain invested in U.S. government TIPS, approximately 10% in short-term U.S. Treasuries and approximately 5% in Seabridge Gold Inc. (see inside pages for an exact breakdown of holdings). The latter position was cut back by approximately 43.7%, taking advantage of its continuous surge in price. In effect, during the quarter Seabridge advanced 32.8% against a rise of only 5% in bullion prices. A 5% allocation to gold and/or gold shares has been a continuous feature of our fixed income funds over the years. The shares, which closed the quarter at C$13.05 and which we initially acquired for the fixed income funds at less than C$3.00, have been steady contributors to the returns of these funds. In our opinion, they have done no more, however, than compensate these portfolios for the inadequacies of measuring the ongoing loss of purchasing power. For the quarter, the shares of Seabridge Gold Inc. contributed an inordinately large 220 to 250 basis points to the fixed income portfolios.

As economic activity decelerates and profit margins shrink, we expect *real* interest rates to resume their long-term decline. Other factors will also contribute to this decline. Among the most important are greater variability and risk in global equity markets and safe-haven preferences of investors trying to escape a volatile political/military environment. And then there is monetary policy. Increasingly, the Federal Reserve will find itself on the horns of a dilemma. On the one hand, a slowing economy demands low *real* rates, while on the other hand, creeping inflation demands higher rates. We have little doubt that inflation will accelerate as labor attempts to claw back some of the extraordinary gains made by business in recent years and to compensate for well entrenched surges in energy and land prices. The extraordinarily beneficial surges in productivity and globalization cannot be counted on to continue shielding the U.S. and the world economy from what has been an overly permissive monetary policy over the past 15 years. Inexorably, excess liquidity will begin to make itself felt. Because of this stagflation predicament, the Fed is sure to react much too slowly.

The implications for bond investors are clear: as inflation rates move from expected to unexpected rates, nominal bonds will suffer and inflation-linked bonds will gain. Break-evens will rise from today's unrealistic levels (275 bps for long bonds) and term premiums will rise, reflecting growing uncertainty. The slow erosion of nominal bonds — markets react with a lag to unexpected surges in inflation — will help real rates fall. TIPS should produce good results in months and years to come. As we discussed last quarter, we moved 10 percentage points from fixed income to a diversified portfolio of U.S. utility stocks yielding anywhere from 4% to 5.5% and expected to grow by 1% to 3% per annum. This too is a move away from nominal bonds and, unlike the premise of an inflation-linked bond, a bet on managerial ability, industry consolidation and some economic growth. Results are expected to be more variable than, and only distantly correlated to, TIPS, though similar overall in the long run.

Mid-way through the quarter, we lost our footing in our currency trading, doing what we should not be doing — namely, trading U.S. dollar crosses. Fortunately, we regained our footing in the closing weeks as we spotted some unusually interesting opportunities in little-noticed crosses. The long Aussie/short Kiwi cross, which has been on our books for more than five months, again contributed meaningfully to the program. Storm clouds are gathering over New Zealand. An overheated and overleveraged economy is meeting the steel of an inflation-fighting central bank and the increasingly damaging anti-growth policies of its long-running Labor government. An unsustainably huge current account deficit (7.9% of GDP) will now be redressed by a painful recession; capital flows will hit the economy and the currency hard. In the meantime, Australia is a model economy (in relative terms, of course). Its steady growth is aided by falling tax rates and generally sensible pro-growth policies, a vigilant central bank (though one wishes that it were a little more so) and still-favorable terms of trade. The cross should continue to gain.

The sliding Turkish lira, which we exited, profitably and fortunately, during last quarter, prompted an aggressive reaction from the central bank. As juicy positive rates were restored, we moved in again on the long side, while protecting our emerging market flank via a short position in Polish zloty. With the favorable environment for emerging markets coming to an end, we scoured the world for the Sick Man and met him in Eastern Europe, with the Hungarian forint. Here too we preferred the cross over the outright position (against dollars) for fear of getting ourselves into an unnecessary bet on short-term U.S. dollar movements. Hence, we sold forint against euros. Finally, we went for what looks like a World Cup play, and bought Brazil against Mexico, betting that Brazil's high interest rates and solid fiscal policy would stand it in (relatively) good stead while oil-cursed Mexico would continue to live off the fat of the land, unable to carry out vitally necessary reforms and condemned to see oil output collapse in coming years for lack of foreign capital and know-how. All these trades have, so far, been profitable and have turned an earlier loss for the quarter into a respectable gain.

Our futures activity started out the quarter with a bang but ended on a much more subdued note. The severe correction of bullion prices forced us to cut back the long position somewhat. Nevertheless, gold, by way of futures, still represents the second largest outright position in the futures allocation and, with a nominal value of $27,724,000, represents as much as 14.75% of the Global Macro funds. We were bothered by gold's high correlation to worldwide equities markets. There is little doubt that some degree of divergence will be critical in coming weeks if we are to see new highs. During the quarter we initiated a short position in Nasdaq and Kospi futures as we believe that we have entered a bear market in equities. We continue to trade copper and crude oil around bear spreads; from time to time we unbalance part of these spreads towards a long exposure to take advantage of bull runs, as we did recently with crude oil. With the persistence of institutional inflows into commodity markets, the negative roll should re-assert itself. In the meantime, commodity markets retain some upside bias.

The long/short market-neutral portfolios continue to put in a steady but undramatic performance. We upped gross leverage on average to compensate for low dispersion; towards the end of the quarter, gross leverage stood at 1.86x. We plan on increasing it to more than 2.0x in the coming quarter. The long/short ratio is continuously adjusted to maintain market neutrality; it began the quarter at 48.5/51.5 and now stands at 46/54, close to its maximum boundary of 42/58. In adjusting this ratio, we take absolutely no views on market direction. The short side features a number of interesting themes: housing, oil tankers, newspapers and banks with heavy emphasis on mortgage lending. The long position is slightly less concentrated in themes, though we still note exposure to defense, waste management, electric utilities and oil refineries. The exhibits on the inside pages provide more details. A year-to-date return of 4.3% to 4.6%, or 8.6% to 9.2% annualized, exceeds our near-term expectations. Such results imply in simplistic terms that we beat the benchmarks by 450 basis points on each side. This would be quite a feat under any conditions but especially so now, when the market appears to be relatively well priced given current conditions. Five-year annualized returns of 7.7% to 8.7% confirm this observation.

Our miscellaneous global equities position, still less than 5% of the Global Macro funds, features principally a long position in German equities via a NYSE closed end fund that trades at a discount, long positions in Japanese real estate stocks, a significant long position in gold mining companies (representing 1.5% of the funds' overall assets) and a long position in a Chilean power company. It also contains a portfolio of stocks against which we have written call options. Turnover, other than replacing expired options, is minimal. This portfolio will need to mature further before it can show decent returns.

We would like you to know that we have further written down the value of our Sphinx investment and it is now carried in the books at 20% of its last NAV. The write-down reduced our quarterly results by 46 bps.

We are pleased with current returns, but not to the point of being complacent. Asset markets and global economies appear to have entered a new phase, one that will be characterized by less-easy money. The markets' degree of vulnerability under conditions of extreme stress has not, as yet, been tested; how they will react is anyone's guess. All we can say at this point is that our portfolios are designed to take some of these anticipated guesses in stride. At least, we hope so.

Thanking you for your continued confidence,

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 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

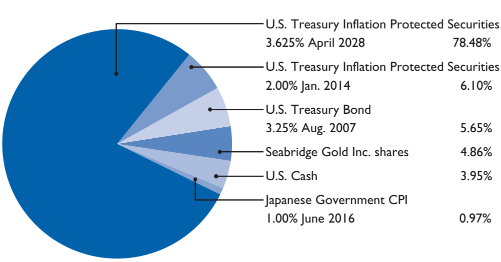
PERFORMANCE[1] as of June 30, 2006

	NAV	Quarter	Year over Year[3]	Two Years[3]	Three Years[3]	Five Years[3]
Friedberg Foreign Bond Fund[2]	16.51	-3.21%	-1.80%	3.00%	4.85%	7.86%
Friedberg Total Return Fixed Income Fund Ltd.	1,939.26	1.11%	3.58%	9.93%	8.81%	13.01%
Friedberg Total Return Fixed Income Fund L.P.	205.37	1.44%	5.27%	11.07%	9.36%	13.84%
Benchmark[4]		N.A.	-2.43%	0.87%	0.49%	2.75%

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

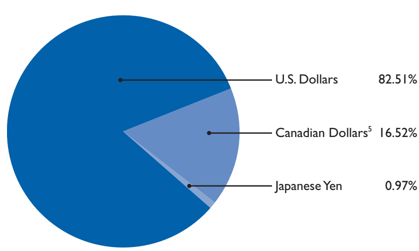
Portfolio Allocation



Weighted average yield to maturity	2.66%*
Weighted average current yield	2.93%*

*Assumes zero inflation.

Currency Exposure

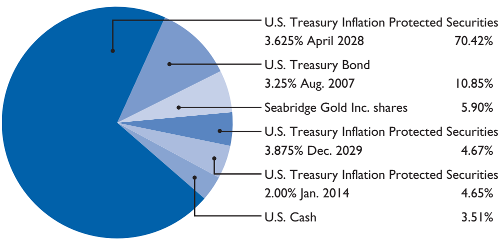


[5]Delta of $C put option sold

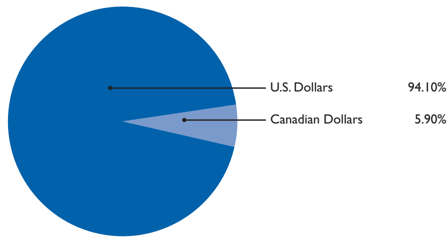
Adjusted modified duration		5.65
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	95.14%
	Unrated	4.86%

FRIEDBERG TOTAL RETURN FIXED INCOME FUND LTD.

Portfolio Allocation



Currency Exposure



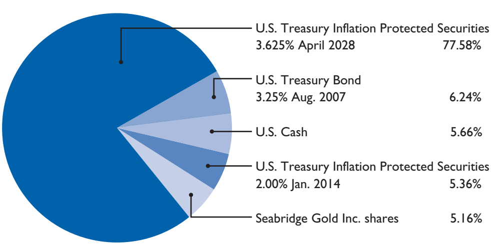
Weighted average yield to maturity	2.77%*
Weighted average current yield	2.94%*

*Assumes zero inflation.

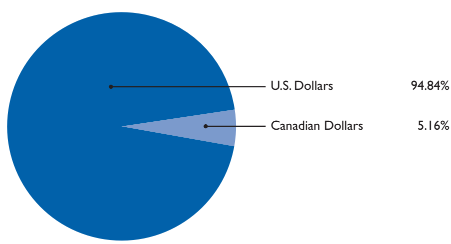
Adjusted modified duration		5.36
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	94.10%
	Unrated	5.90%

FRIEDBERG TOTAL RETURN FIXED INCOME FUND L.P.

Portfolio Allocation



Currency Exposure



Weighted average yield to maturity	2.72%*
Weighted average current yield	2.99%*

*Assumes zero inflation.

Adjusted modified duration		5.53
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	94.84%
	Unrated	5.16%

FRIEDBERG EQUITY HEDGE FUND LTD.
FRIEDBERG EQUITY HEDGE FUND

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 June 30, 2006

	NAV	Quarter	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Equity Hedge Fund	22.79	1.24%	6.49%	14.06%	7.67%
Friedberg Equity Hedge Fund Ltd.	2,670.02	1.28%	6.91%	13.58%	8.68%
CSFB/Tremont Equity Market Neutral Index		N.A.	11.66%	7.86%	7.34%

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

INVESTMENT ALLOCATION[3]

	31-Mar-06	30-Apr-06	31-May-06	30-Jun-06
LONGS	48.50%	42.99%	46.17%	45.96%
SHORTS	51.50%	57.01%	53.83%	54.04%
TOTAL GROSS LEVERAGE	1.94 x	2.30 x	2.02 x	1.86 x

LARGEST SECTORS (LONGS)[3]

Electric Utilities	8.24%
Oil & Gas Refining & Marketing	3.70%
Aerospace & Defense	3.42%

LARGEST SECTORS (SHORTS)[3]

Oil & Gas Storage & Trans.	8.73%
Publishing	7.10%
Homebuilding	6.62%

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

LARGEST LONG POSITIONS

Valero Energy
International Paper Co.
Raytheon Co.
S&P 500 index
GATX Corp.
Syngenta AG
NICE Systems Ltd.
Pioneer Natural Resources Co.
Firstenergy Corp.
Waste Connections Inc.

LARGEST SHORT POSITIONS

Flagstar Bancorp Inc.
Dime Community Bancshares
Fifth Third Bancorp
First Bancorp Puerto Rico
Tribune Co.
Boston Scientific Corp.
Overseas Shipholding Group
Eli Lilly & Co.
Frontline Ltd.
New York Times Co.

BEST QUARTERLY PERFORMANCE

LONGS		SHORTS	
CSX Corp.	17.79%	NVR Inc.	33.52%
Valero Energy Corp.	11.27%	RadioShack Corp.	27.20%
Firstenergy Corp.	10.86%	Boston Scientific Corp.	26.94%

WORST QUARTERLY PERFORMANCE

LONGS		SHORTS	
American Science & Engineering Inc.	-44.43%	US Airways Group	-26.35%
Novel Inc.	-21.74%	Overseas Shipholding Group	-21.63%
Oceaneering International Inc.	-19.98%	Comcast Corp.	-18.95%

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 June 30, 2006

	NAV	Quarter	Year over Year[3]	Three Years[3]	Five Years[3]
Friedberg Currency Fund[2]	13.54	11.90%	1.70%	10.27%	-8.78%
The First Mercantile Currency Fund	11.64	11.39%	6.95%	11.44%	-7.84%
Friedberg Currency Fund II Ltd.	1,016.83	14.92%	10.44%	14.56%	-2.53%
Friedberg Forex L.P.	14.63	16.57%	9.98%	18.93%	-5.18%
Barclay Currency Traders Index		N.A.	0.53%	1.28%	3.16%

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

OPEN POSITIONS - June 30, 2006

Long Euro Currency / Short Hungarian Forint	3.27
Long Brazilian Real / Short Mexican Peso	1.39
Long Turkish Lira / Short Polish Zloty	0.97
Long Australian Dollar / Short New Zealand Dollar	2.43
Short Canadian Dollar Puts	0.02
	Leverage
gross leverage at June 30, 2006	8.07 x
maximum gross leverage during quarter	8.26 x

ACTIVITY REPORT - Second Quarter 2006

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Long Euro Currency / Short Hungarian Forint	13.29	56.51
Long Australian Dollar / Short New Zealand Dollar	6.10	25.97
Long Brazilian Real / Short Mexican Peso	2.11	8.96
Long Turkish Lira / Short Polish Zloty	1.15	4.87
Long Canadian Dollar	0.87	3.69

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Long Japanese Yen	-2.04	39.68
Long Euro Currency	-1.57	30.62
Long Japanese Yen / Short Euro Currency	-0.71	13.83
Long Singapore Dollar / Short Euro Currency	-0.49	9.46
Long Czech Koruna / Short Euro Currency	-0.33	6.41

DIVERSIFIED TRADING PROGRAM

FRIEDBERG DIVERSIFIED FUND

Speculative trading of commodity, interest rate, and stock index futures, over-the-counter forwards and options markets.

PERFORMANCE[1] as of June 30, 2006

	NAV	Quarter	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Diversified Fund	28.07	5.46%	219.69%	66.54%	34.17%
CSFB/Tremont Managed Futures Index		N.A.	9.52%	3.68%	8.70%

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

OPEN POSITIONS - June 30, 2006

Strategy I

	Leverage
Long Gold	0.91
Short Mini Nasdaq Futures	1.40
Long distant / Short nearby Copper	3.03
Short Sugar	0.40
Long distant / Short nearby Crude Oil	6.09
Short Kospi Index Futures	0.32
gross leverage at June 30, 2006	12.16 x
maximum gross leverage during quarter	24.71 x

Strategy II

	Leverage
Long Corn	0.23
Long Cocoa	0.20
Short Wheat	0.14
gross leverage at June 30, 2006	0.57 x
maximum gross leverage during quarter	1.20 x

ACTIVITY REPORT - Second Quarter 2006

Strategy I

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Short Mini Nasdaq Futures	0.96	81.59
Long Gold / Short Euro Currency	2.27	18.41

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Long Cocoa	1.53	47.25
Long Corn	1.36	41.81
Short Wheat	0.35	10.94

Strategy II

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Long distant / Short nearby Copper	-11.82	38.23
Long distant / Short nearby Crude Oil	-8.52	27.55
Long / Short Sugar	-7.22	23.34
Long Eurodollar / Long U.S. Treasury Bonds/ Short U.S. Ten Year Notes	-2.32	7.51
Short Korean Kospi Index Futures	-1.04	3.37

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Short Soybeans	-0.47	100.00

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 June 30, 2006

	NAV	Quarterly	Year over Year[2]	Three Years[2]	Five Years[3]
Friedberg Global-Macro Hedge Fund Ltd.	1,762.01	2.59%	12.61%	9.60%	14.53%
Friedberg Global-Macro Hedge Fund	18.19	2.77%	19.81%	13.95%	13.63%
CSFB/Tremont Hedge Fund Index		N.A.	14.46%	10.61%	8.95%

[1]Net of fees
[2]Compounded annual rate of return through May 2006
[3]Since inception. Friedberg Global Macro Hedge Ltd. since May 2002, Friedberg Global Macro Hedge Fund since November 2001.

Allocation of the Friedberg Global-Macro Hedge Fund Ltd. as of June 30, 2006 is as follows:

FUND	CURRENT ALLOCATION	TARGET
Fixed Income Fund Ltd.	50.035%	50.00%
Equity Hedge Fund Ltd.	13.756%	14.00%
Currency Fund II Ltd.	17.005%	15.00%
Futures	3.290%	5.15%
Equities, Special Opportunities, Option Writing Program	4.817%	5.00%
Utilities	10.517%	10.00%
Refco SPhinX Managed Futures Index Fund Ltd.[4]	0.307%	0.00%
Cash	0.273%	0.85%
	100.00%	100.00%

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

FRIEDBERG FUTURES FUND

The Futures Fund combines the Currency and Diversified programs in approximately equal weights. Please refer to our earlier graphs and tables regarding these programs.

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