FRIEDBERG MERCANTILE GROUP LTD.

Second Quarter Report 2007

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Dear Investor,

I am pleased to report to you on the financial activities of the Friedberg Group of Funds for the quarter ended June 30, 2007.

For the second quarter running, results have been negative, a matter of great concern to us, though, I must say not entirely surprising. The global macro hedge funds were down 0.5% (Cayman) and 1.6% (Canada). Year to date, the former is down 3.9% and the latter 5%. The longer-term picture remains more heartening, with the Friedberg Global-Macro Hedge Fund Ltd. showing a positive return of 3.4% year over year. (The Canadian fund began only at the end of October 2006.)

Convinced that we are in the early stages of a general liquidity contraction, we pressed our position in credit default swaps (CDS) and increased our put option portfolio. Understandably, these activities represent a heavy charge to the fund, given the cost to carry protection and the erosion of premiums over time. Still, our losses cannot be attributed to this area; in fact, as we shall see, these activities yielded positive returns despite their negative carry. Where we suffered losses was once again in the realm of currencies and commodities, and the source of these losses was precisely our negative vision of liquidity. This vision caused us to act timidly and inconsistently, to vacillate too often, to refuse to join or to stay in some of the well defined trends and even to go against trend if only for extremely brief periods, always fearful that a severe credit accident would trigger a heavy bout of liquidation.

Let me be more specific. Our commodity forays yielded a net loss of approximately 42%, which, in turn, represented a loss of 2.2% to the fund based on a 5% allocation. Trading in copper continued to take a toll, though the position was gradually reduced throughout the quarter; the short position was covered on the way up and a light long position was liquidated on the way down, typifying our lack of clear vision with regard to the direction of economic growth. Similarly, a mistimed short position in zinc caused us to cover at the worst possible time and just prior to a significant setback. These two items accounted for more than 70% of the losses and represented an object lesson in weak-kneed trading.

Copper spreads continue to point to ample supplies (as they have all through the most recent dramatic rise from the lows), which dovetails well with our negative view of liquidity and its impact on economic growth, yet the price of copper has yet to show any weakness. It appears that economic activity in the Far East and in other emerging areas is more than making up for weakness in the U.S. economy. Outright exposure has been eliminated and we are left with only a small bear spread. A profitable long position in corn turned into a loss after a totally unexpected crop report showed a huge increase in plantings and forecasts for a bountiful harvest. Nonetheless, we believe that the market's reaction was exaggerated; hot, dry weather and excellent weekly export sales should underpin this market for the next few weeks.

Rounding out the quarter's loss-making activity is a still-open short position in stock index futures and an already realized loss in gold. The latter continues to act perversely in relation to global excess liquidity and U.S.-dollar weakness, while the former has so far totally ignored the downward inflection in LBO activity and the rise in credit spreads.

Bear spreads in crude oil have continued to contribute positively, although in recent days spreads have tightened across the curve, prompting us to begin closing out these positions and to eye the long side. I am confident that at some point trading in commodity futures will once again make positive contributions, as it did all of last year. To participate gainfully, we will first need, of course, to reconcile our views of the coming crunch in liquidity with the still ongoing feast in liquidity. A confident stance is the hallmark of success in these markets.

Very much the same happened in the currency space, although here, thankfully, losses were less significant. The drawdown for the quarter, measured in U.S. dollars, averaged just less than 10%, and for the year to date, 17.8%. The negative contribution to the fund was in the order of 1%. Details can be found in the exhibits.

We have built up a sizeable option position, taking advantage of extremely low implied volatility quotes. Via one-year calls (now with 10 to 11 months left), we are long Chinese yuan, South Korean won and Singapore dollars, all purchased at premiums ranging from 1% to 1.5% over their forward rates. I believe that it is only a matter of time before some of these Asian countries float their currencies to stem the torrid inflow of dollars. Unchecked intervention has caused China's broad money (M3) to grow in excess of 19%. Falling demand for money, linked with savings withdrawals, is aggravating this excessive monetary growth, further fueling bubble conditions in the stock market. Moreover, there are increasing signs that this speculative mentality has spread to real estate and that consumer prices are accelerating. A clean float could see the yuan rise more than 20% in value and have a dramatic impact on our result. Much the same can be said of the won and the Singapore dollar. We are also long Japanese yen, bucking the carry trade, via forwards and relatively cheap call options. Valuation estimates — corporate profitability, export surplus, purchasing power calculations — point to a dramatically undervalued currency. The undervaluation is accentuated with every passing day in view of Japan's relative deflation vis-à-vis the rest of the world. Option costs have eaten into our results but we expect these calls to be significantly profitable in coming quarters.

Our fixed-income position recovered well during the quarter, registering gains ranging from 2.4% to 2.7%. The funds were invested in short-term U.S. Treasuries, but towards the end of the quarter we lengthened duration synthetically by buying 10-year Treasury note futures. Most of the income funds' gains came from our long position in Seabridge. The stock advanced 40.3% during the quarter, which forced us to dispose of some of these holdings to bring the position back to 5%. A temporary and partial shift to short-term sterling and Aussie paper (via forwards) was unfortunately prematurely terminated — a sign of weak conviction — costing the fixed-income funds about 90 basis points (around 25 basis points for the hedge funds). Duration is estimated at less than three years. We are non-committal about the pure interest rate outlook, though we believe that credit-quality problems carry bullish implications for Treasuries. We liquidated a little more than half of our utility stocks, a substitute for fixed-income instruments, to nail down some profits. Dividend yields have become less attractive and relative performance has begun to suffer, although longer-term prospects remain positive. We transferred the proceeds back to the fixed-income side of the ledger, awaiting a better buying opportunity.

We have used the global opportunities pocket to build an aggressive position in what we expect to be a major event. We refer to the inevitability of a serious liquidity contraction/credit crunch in the U.S. that is likely to have wide global repercussions. The mad rush to lend and earn interest rates higher than those offered on risk-free securities reached every corner of the credit market, where little or no consideration was given to the ever present possibility of default. Mindless of the capitalist system's inherent capacity to compete away excess returns and weed out the economically weak, credit spreads tightened across the board to levels not seen for a generation. Sometime at the end of last year and beginning of this one, we began to feel that the credit market would adjust even in the absence of a classic central-bank-induced credit crunch — that it would collapse under its own weight, as it were. This adjustment process has begun. As is natural, the weakest credit sector has been the first to succumb, in this case, sub prime mortgages.

There are many who believe that the sub prime crisis will not transfer to other sectors of the credit market, and that there will be no contagion. Those who adhere to this view seemingly know little of the enormously complex interconnections that exist between all sectors of the credit market. For example, there are hedge funds that specialize in sub prime mortgages; these will certainly close down with enormous losses as we have already begun to see. There are other hedge funds, however, that own many different types of credit, ostensibly unrelated to sub prime. As their results suffer (because of their sub prime exposure), these funds will experience growing redemptions from unitholders. These redemptions in turn will force them to liquidate credits and, surprise!, the easiest credits to unload in a rush will be the better ones, perhaps alt-1 mortgages, junk bonds or even emerging country debt. Selling pressure on these more liquid securities will inevitably set off a chain reaction. The quantity of weak credit issued over the past few years boggles the mind. Over $1 trillion of high-risk, high-yield debt was issued in the first half of this year alone, 70% more than in the comparable period last year. A CCC rating was assigned to 26.5% of new debt this year, compared with "only" 15% in 2006. The rating services characterize such debt as "high default risk."

Much of this is known and need not be repeated. Wall Street is clearly aware of the enormity of the problem but maintains its faith in the Fed and reckons with a new, Bernanke, put. One should keep in mind, however, that present conditions are immensely different from the conditions at the time of the famous Greenspan put in 1987. The principal difference lies in the area of the speculation. Liquid markets adjust almost instantly to new conditions; transparency and new equilibrium levels attract new buyers quickly. That is what happened in 1987. The credit market of 2007 is anything but transparent and anything but liquid. Wide bid-ask spreads can create huge and discontinuous price gaps; equilibrium will not be reached for weeks or months. Failures will spread. On top of this, the force and speed of the chain reaction is likely to surprise the Fed itself. It would not be unreasonable for the Fed to move slowly at first, given the lack of historical precedent for this type of crisis. Not since the dark days of the Great Depression have we found conditions as ripe for a run on financial institutions as we find today. And we know today that the Fed misunderstood that crisis, so much so that it allowed bank runs to destroy one third of the money supply. It is not that they did not want to help; they just misunderstood the force of the storm.

What can one do to take advantage of this type of scenario? One can buy credit protection via credit default swaps, but this has its limitations. One needs to ask whether his counterparties will be in a condition to pay. Investment banks have issued guarantees on swaps that are well in excess of their capital (and even their capitalization). Failures of some clients could easily endanger these institutions. In short, counterparty risks can negate part or all of even successful bets. Put options on financial institutions are relatively free of counterparty risk but more expensive than credit defaults. Moreover, takeovers of ailing institutions can abort a steep decline and reduce potential profits. Both put options and CDS have a negative carry cost; putting on too many of them, and mistiming the operation, can cost the fund dearly. As you can see, dear partner, even if we were right on and successfully predicted the coming credit event, it might not be as profitable as we had hoped.

We have chosen what we consider a relatively balanced course. We have purchased protection on Venezuela, which we consider the riskiest of all emerging market debt, as well as on a number of financial companies, for a notional value equal to 181% of the hedge funds' capital. This commits us to a maximum payment of about 17% of the fund's present capital over the next 10 years. This makes the highly unlikely assumption that the entire portfolio retains credit integrity and the funds choose to pay the spreads until maturity. We conservatively estimate that the funds' maximum loss exposure to these 10-year swaps equals, in present value, something in the order of 11% to 12%. The upside is a multiple of this 11% to 12%. We are still studying ways to cope with counterparty risk. During the quarter, these positions made some interesting gains and contributed approximately 270 basis points to the hedge funds' return.

We also purchased a portfolio of mostly out-of-the-money put options on financial companies and other leveraged entities. The downside of this operation, naturally, is the erosion of the time premium. While not material, the option cost is another drag on performance. Of course, should the event we foresee materialize, the payoff would be substantial. A long position in China H shares trading at a 48% discount to the equivalent A shares, a long position in shares of the Chilean power company Enersis and a short position in six Argentinean companies essentially round out this section of the hedge funds' portfolio. In all, their net contribution to the funds during the quarter was close to zero.

The portion allocated to a market neutral equity strategy continued to perform well, returning 2.3% for the quarter, and given the raised allocation, provided approximately 60 to 63 basis points to the hedge funds. Year to date, this strategy has returned 10.5%. We should note in passing that this exceeds the returns of the major stock market indices despite the fact that the portfolio contains, on average, an equal amount of shorts and longs. The more concentrated stance — keeping the portfolio to less than 50 names — has served us well. On the other hand, reduced leverage, running around 2.15x to 2.20x, has dampened returns somewhat. Better opportunities seem to be presenting themselves on the short side than we have seen for quite some time. This should allow us to raise leverage to a more normal 2.5x to 2.6x in coming quarters.

Thrifts and mortgage finance as well as home builders and a trimmed position in newspapers continue to feature on the short side of our ledger, while aerospace/defense, environmental services and a reduced position in utilities constitute the largest industry groups on the long side. An assortment of interesting situations, selected on an individual basis, makes up at this time as much as 55%. We are satisfied with the raised allocation to this strategy, 30% of equity in the Cayman hedge fund and 18% of equity in the Canadian fund, which, in light of regulatory technicalities, appears to represent an absolute ceiling.

In sum, the hedge funds are well positioned for a major credit crisis. The flip side of this posture is the loss of opportunity to participate in the "party" and the loss that comes from making bets on certain commodity and currency trends without the degree of confidence that is a prerequisite of successful trades. For the majority of investors who already benefit from these spectacular bull markets in other ways, our stance should not be upsetting. For the minority, like our family accounts, that prefer to concentrate their trading capital in our hedge funds, I say, be patient — our day will come.

Thanking you for your 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.

FIXED INCOME FUNDS

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

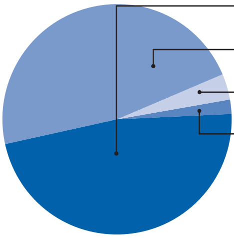
PERFORMANCE[1] as of June 30, 2007

	NAV	Quarter	Year over Year[3]	Two Years[3]	Three Years[3]	Five Years[3]
Friedberg Foreign Bond Fund[2]		-7.67%	0.06%	-0.88%	2.01%	6.61%
Friedberg Total Return Fixed Income Fund Ltd.	2,069.44	2.73%	5.60%	4.59%	8.47%	12.69%
Friedberg Total Return Fixed Income Fund L.P.	218.32	2.37%	5.49%	5.38%	9.18%	13.45%
Benchmark[4]		N.A.	6.40%	4.09%	5.72%	6.44%

[1]Net of fees
[2]Priced in Canadian Dollars
[3]Compounded annual rate of return through May 2007
[4]70% Merrill Lynch Broad Market Index (Bloomberg GBMI), 30% Global High Yield and Emerging Markets Plus Index (Bloomberg HAOO)

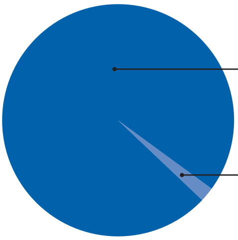
FRIEDBERG FOREIGN BOND FUND

Portfolio Allocation



U.S. Treasury Bonds Aug. 2027	47.31%
U.S. Treasury Bonds 4.75% May 2014*	47.52%
Streettracks Gold TR	3.65%
Japanese Government CPI 1.00% June 2016	2.03%
U.S. Cash	-0.51%

Currency Exposure



U.S. Dollars	97.97%
Japanese Yen	2.03%

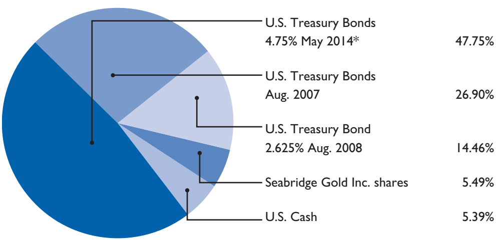
Weighted average yield to maturity	4.55%
Weighted average current yield	3.09%

*via derivatives

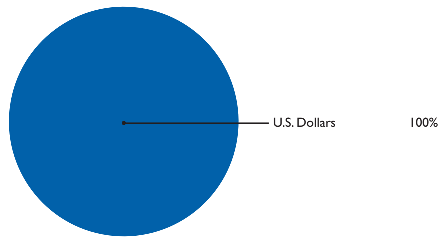
Adjusted modified duration		1.34
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	97.52%
	Unrated	2.48%

FRIEDBERG TOTAL RETURN FIXED INCOME FUND LTD.

Portfolio Allocation



Currency Exposure



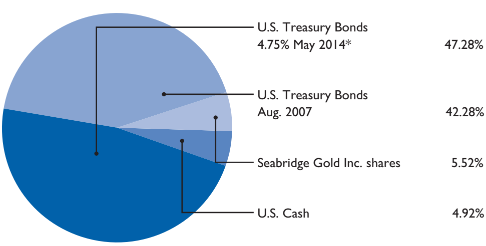
Weighted average yield to maturity	4.63%
Weighted average current yield	3.16%

*via derivatives

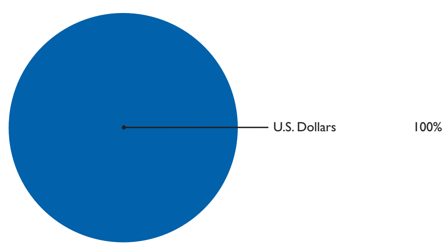
Adjusted modified duration		1.31
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	96.28%
	Unrated	3.72%

FRIEDBERG TOTAL RETURN FIXED INCOME FUND L.P.

Portfolio Allocation



Currency Exposure



Weighted average yield to maturity	4.60%
Weighted average current yield	3.22%

*via derivatives

Adjusted modified duration		1.25
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	96.26%
	Unrated	3.74%

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 June 30, 2007

	NAV	Quarter	Year over Year[3]	Three Years[3]	Five Years[3]
Friedberg Currency Fund[2]	9.46	-18.24%	-13.19%	3.51%	7.80%
The First Mercantile Currency Fund[2]	9.59	-6.53%	-5.43%	7.31%	9.76%
Friedberg Currency Fund II Ltd.	764.58	-9.92%	-8.99%	10.31%	13.13%
Friedberg Forex L.P.	10.97	-9.86%	-7.36%	11.65%	11.89%
Barclay Currency Traders Index		N.A.	0.69%	1.19%	3.63%

[1]Net of fees
[2]Priced in Canadian Dollars
[3]Compounded annual rate of return through May 2007

OPEN POSITIONS - June 30, 2007

	times dedicated capital
Long Japanese Yen	1.04 x
Net Options Package	3.98 x
total gross leverage at June 30, 2007	5.02 x
maximum gross leverage during quarter	6.86 x

ACTIVITY REPORT - Second Quarter 2007

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Long Australian Dollar	0.69	97.52
Long Japanese Yen	0.02	2.48

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Long / Short Euro Currency	-5.99	53.74
Net Options Package	-2.57	23.03
Long Euro Currency / Long Japanese Yen / Short Czech Koruna	-2.35	21.08
Short Canadian Dollar	-0.24	2.16

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, 2007

	NAV	Quarterly	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Global-Macro Hedge Fund Ltd.	1,822.77	-0.53%	3.15%	10.60%	10.74%
Friedberg Global-Macro Hedge Fund	9.78	-1.61%	N.A.	N.A.	N.A.
CSFB/Tremont Hedge Fund Index		N.A.	15.43%	12.20%	11.01%

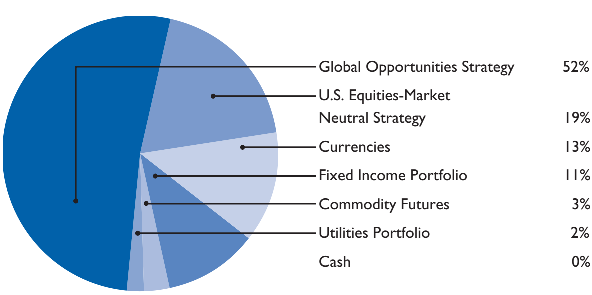
[1]Net of fees
[2]Compounded annual rate of return through May 2007

Capital allocation of the Friedberg Global-Macro Hedge Fund Ltd. as of June 30, 2007 is as follows:

FUND	CURRENT ALLOCATION	TARGET
Fixed Income Fund Ltd.	36.81%	37.00%
U.S. Equities-Market Neutral Strategy	30.41%	30.00%
Currency Fund II Ltd.	8.49%	9.00%
Futures	3.30%	5.15%
Global Opportunities	14.38%	12.35%
Utilities	6.20%	6.50%
Refco SPhinX Managed Futures Index Fund Ltd.[3]	0.23%	0.00%
Cash	0.19%	0.00%
	100.00%	100.00%

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

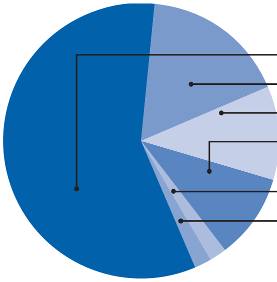
GLOBAL-MACRO HEDGE FUND LTD. (CAYMAN)
Breakdown by Total Gross Exposure



Total Leverage: 3.46 x

GLOBAL-MACRO HEDGE FUND (CANADA)

Breakdown by Total Gross Exposure



Total Leverage: 3.98 x

LIQUIDATED FUNDS

Fund	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 Equity Hedge Fund Ltd.	16-Oct-96	1000.00	31-Apr-07	2951.78	$31,540,284	10.81%

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