FRIEDBERG MERCANTILE GROUP LTD.

Third 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 September 30, 2007.

The tumultuous events of July and August, which we correctly anticipated as far back as last December, had a strong positive impact on the third-quarter results of our two Global Macro Hedge funds. The Global Macro Hedge Fund (Canada) and the Global Macro Hedge Fund Ltd. (Cayman) registered gains of 11.9% and 11.6% for the quarter, turning year-to-date losses into gains of 6.1% and 7.3%, respectively. The important year-over-year yardstick turned solidly positive too, showing gains of 9.2% and 13.9%. With the exception of the utilities allocation, all our strategies contributed to these gains.

While we are gratified with the results, we are less than gratified with what the results should or could have been, we are uneasy with our present stance, and we are thoroughly surprised by the way markets have behaved since the fateful days of August.

Let me explain. We had anticipated for almost a year an end to the long and frothy credit cycle. As a result, we expected credit to tighten, spreads to widen, economic activity to first slow and then contract, profits to decline, and equity and commodity prices to fall. Lending force to the imminence of this forecast was what we (and many more) saw as a collision of explosive housing finance with ever looser lending standards against a continuing fall in house prices in the U.S. By early 2007, the latter had begun to look far more serious than any real estate downturn since WWII. Similar excesses were taking place in the corporate sector, though here, the obvious catalyst for their demise — lower profits and cash flow — was still not in sight. Compounding the problem were the esoteric forms that this credit took (CDOs, CLOs, etc.), the opacity of the transactions, the inability to understand these products sufficiently to mark them to market, the funding gaps and vulnerabilities of specially designed bank conduits, and so on. All this is by now well known.

Markets, especially equity markets, believe that most credit losses have been exposed and that the U.S. economy remains strong, supported by exports to rapidly growing emerging markets. We are not convinced. For one thing, we believe that only *some* credit losses have been acknowledged. We feel that there are far more to come and that they are being covered by the very opacity of derivative markets. More important, while markets reacted positively to the easing moves of the main central banks around the world and the possibility that one or more financial institutions might suddenly collapse has begun to recede, a gnawing question, in our view, remains: what effect will the continuing fall in house prices have on consumer sentiment, not only in the U.S. but also in Spain, Ireland, France, the UK and, soon, other main centres? A small shift in consumer spending — a rise in the savings rate of even 2% or 3% — can bring about a severe recession. The bulls point to a decoupling of economic activity around the world and count on this fact to help sustain global growth. But how much longer can the G7 count on an Asian boom, particularly in China and India, a boom fed by an explosive growth in money supply, a boom standing almost literally on proverbial feet of clay?

Note that small but persistent steps are being taken to tighten money and credit conditions in these countries as asset and consumer price inflation run out of control. While the efforts thus far have been ineffective against an avalanche of foreign exchange inflows, a more radical solution is certain to be found. Before long, the door to these inflows will be shut — for example, via a currency float — and then the boom will come to a painful end (see below for a longer discussion on this fascinating topic). Given the integration of these economies with the rest of the world, a sharp slowdown in Asia would aggravate the consumer-led recessions of the rest of the world. Instead of benign decoupling, we would then be likely to witness a late-stage, synchronized, global recession.

Our belief that the economy would unravel exactly as we had expected prevented us from accepting extraordinary gains in the summer. We allowed put options that we had bought for mere cents to rise into dollars and then return back to cents; we allowed spreads on credit swaps to more than triple and then give back a good part of the gains. Our credit swaps experience compounded our angst. We struggled to get a grip on swap prices for which screens were showing one price and dealers quite another, where recovery rates changed without rhyme or reason, where the swap yield curve became inverted because of lack of interest, and where dealers were always finding some convenient pretext to explain why our particular swap was correctly underpriced while other, related ones, were firmly bid. Our frustration was heightened when the Fed caved in to effectively bail out the strung-out investment bankers. (Fortunately, we had partially prepared ourselves for such an eventuality, having hedged the portfolio with a long position of Fed Funds contracts. That trade yielded one of the best individual gains for the quarter.) The ever more paternalistic Fed ruined our hopes of making a veritable killing. Our animus was further buffeted when the disclosure of heavy credit losses in some of our favorite short stocks was followed by these stocks mounting huge rallies! What could be more irrational, we thought, as the mark to market blew another hole in our side. So, dear partner, you can see that behind those magnificent quarterly results lies hidden a tale of bewilderment and frustration. I now turn to some of the details.

Our fixed-income portfolios gained from 3.2% to 5.2%, aided principally by some well timed trading turns in long-dated Treasuries and by the soaring price of Seabridge Gold, which, as you recall, was chosen to provide the bond portfolio with a small inflation hedge. As in the past, we have been forced to reduce this position in recent weeks to bring it under the self-imposed limit of 5% of assets. (The Canadian fixed-income portfolio was forced by regulatory fiat to divest itself of Seabridge and instead benefited from its exposure to Streettracks Gold, a highly liquid gold ETF traded on the NYSE.)

At the end of the quarter, the portfolio was invested in short-dated Treasuries and was wholly in U.S. dollars. We have no particular view regarding long-term interest rates. At the same time, the slope of the yield curve is too flat to encourage us to move out beyond two to five years. We have considered currency diversification but feel that currency volatility is too steep at this time for long-term, conservative, bond investors. Moreover, the U.S. dollar finds itself at the low end of a 40-year range, hardly a prudent time to consider a massive switch out of greenbacks.

Of some interest are recent developments in the corporate area. Since this summer, we have witnessed what promises to be a change in trend in corporate spreads. The widening has come in fits and starts and is still not fully confirmed but the trend is promising. More substantial opportunities are sure to arise once default rates for high-yield securities rise above 400 basis points. We are patient.

Our global opportunities allocation gained 32.0% and contributed approximately 465 basis points to the hedge funds. Gains were recorded in our credit default swaps (CDS), split almost equally between purchases of protection on corporates and Venezuela. Though we have been giving back some of these gains since early September, the pace of the deterioration has slowed down significantly in recent days. In our opinion, the dramatic correction from the panic lows of August is ending. At the same time, the CDS market is becoming a little more discriminating. We have been pruning this portfolio to eliminate less liquid positions and companies that, on renewed consideration, appear able to weather the continuing crisis in good shape.

In this quarter we have increased our already substantial put positions in certain financial companies. These include Ambac Financial Group Inc., Mbia Inc., Washington Mutual Inc., Countrywide Financial Corp., MGIC Investment Corp., Capital One Financial Corp. and Sovereign Bancorp Inc. Most of the put positions were funded by granting calls. Some of these calls have come into the money as a result of the sharp recovery that took place in late September. Regardless of whether or not the U.S. can skirt an immediate recession, these financial companies in our opinion are certain to suffer devastating book losses. Going forward, we expect to see their operating businesses shrink considerably. We have also taken a stab at participating in the ongoing housing debacles in Spain and Ireland by shorting outright Banco Popular Espanol S.A., Fomento de Construcciones y Contratas S.A. and Bank of Ireland. Our long position in China H shares has performed spectacularly well, even as their 50% discount persists vis-à-vis the exact same shares that trade in Shanghai. Recent moves by Beijing in the direction of liberalizing currency controls should narrow the discount, and, in the extreme — a free float — eliminate any discount. Rounding out this section are two profitable positions — long a Chilean power company and short a group of six Argentinean companies.

The second largest contribution to the hedge funds (290 basis points) came from our market-neutral equity allocation. The strategy returned a spectacular 10.2% for the quarter, at a time when the S&P 500 returned a slim 0.90%. Interestingly, the gains were due entirely to the short side portfolio — in a big way. Shorts returned 14.6% while longs lost 3.7%. The long-to-short ratio averaged around 51/49 and leverage remained moderate, rising to only 2x in the second half of September. Conditions were ideal. Sharp divergences in sectoral activity provided excellent trading opportunities: retail, newspapers, REITS, and financiers, continued to be heavily affected by the slowing economy and by sector-specific factors, while defense and a smattering of other niche companies (CME Group Inc., Syngenta AG-ADR, Aqua America Inc.) put on strong performances. The uneven and slow spread of the ongoing economic slowdown opens a window of new, potentially profitable, opportunities. On account of this outlook, we recently raised the Cayman hedge fund's allocation to this strategy to 40%. (The Canadian hedge fund's allocation is capped at 18% by an outmoded and illogical regulation, which we are trying to appeal.)

Turnover in our futures trading allocation was heavy, but results were disappointing in light of the many missed opportunities. Nevertheless, we managed to break a string of losing quarters and contribute 135 basis points to the hedge funds' performance. The lion's share of the gain is attributable to the long position in Fed Funds discussed above. We found a low-risk entry point and pressed the position to a size that came to represent a meaningful hedge to the funds' other bearish bets. Had the Fed not moved to lower Funds on September 18 or through November — that is, if Funds had remained at 5.25% — the November Funds' position would have retreated and the funds would have lost 0.50% of their equity. We considered this an acceptable hedging cost.

Our currency program gained 13.45% for the quarter and contributed 124 basis points to the hedge funds. Unfortunately, we have not been able to erase year-to-date losses, which now stand at 4.9%. Gains came primarily from long positions in Chinese yuan, South Korean won, Japanese yen, and Singapore dollars acquired via relatively cheap calls. Most of the losses came from bets that the carry trades would unravel, in particular the Brazilian real and the long Euro/Huf cross. While some of these latter trades showed interesting initial gains, these quickly dissipated after the intervention of the Fed and the ECB.

The so-called carry trades appear to be much sturdier and less speculative than they did at first. Only solid fundamentals are likely to dislodge them on a more permanent basis. Such, I believe, is the case of the New Zealand dollar. Sharp rate increases have managed to slow down the New Zealand economy, which continues to expand on the inertia of a powerful rise in terms of trade. Still, volatile commodity prices are a weak reed on which to base economic growth. Economic activity has begun to falter and, just as important, inflation has begun to ease. It won't be long before interest rates begin a long decline. A weakening currency will play havoc with the country's heavy private foreign debt; defaults will soar. We estimate that the Kiwi is overvalued by about 25%. The classic carry trades, long Kiwi/short yen and long Kiwi/short Aussie, will be unwound, not because of increased risk aversion but because of old-fashioned fundamentals. We have built up a fair-sized position in Aussie/Kiwi and expect to ride it to a hefty gain.

Another exciting trade is a long position in Chinese yuan, acquired via call options. These one-year options are struck at forwards that reflect a 5.5%, and more recently, 6.8%, yearly appreciation against U.S. dollars. This forward premium reflects in turn the historical appreciation to date, that is, from the time Beijing began to allow for a measured appreciation in 2005. The premiums do not reflect the realities on the ground, where trade surpluses pile up at an ever accelerating pace. Moreover, by tying itself to the weak dollar, the Bank of China has in effect engineered a trade-weighted depreciation. This has now become unacceptable to the European community. China, however, has shown sufficient political strength to stand up to the U.S. (and now to the European community). One cannot, or should not, build a bullish case for the yuan on these considerations. The real case for a revaluation (and here we mean a clean float, not a higher peg as discussed below) is that China's enormous trade-related and speculative currency inflows cannot be sterilized economically. As a result, broad money supply and credit continue to rise at an unsustainable rate of 17% to 19% per annum, driving asset prices into the stratosphere. The Chinese stock market has now turned into the greatest speculative game and most spectacular boom in human history. Everyone knows that the end must come but thinks that there is still time to play the market. When the game of musical chairs ends, tens of millions of Chinese investors (not to mention tens of millions of affluent westerners) will have lost their savings, with unimagined socio-political consequences. Thirty years of economic and political progress are likely to be reversed, perhaps for generations.

This is reason enough to put an immediate end to the game. The only certain way of doing so is to rein in money and credit, and the only effective way to do that is to stop all currency intervention. A re-peg, even one implying a 50% upward valuation, would only stoke speculation and further accelerate the inflow of foreign currency. A float, on the other hand, by removing the reliable and almost infinite supply of yuan, would increase uncertainty. After a sharp but brief revaluation, the currency would begin to settle down to a more realistic level, perhaps 25% to 30% higher than it is now. Inflows would end overnight, the monetary base would stabilize, growth in money supply would come to a halt, interest rates would rise, and speculation would end. Can there be a cheaper and more rewarding opportunity anywhere?

The days, weeks and months ahead carry, to our way of thinking, more uncertainty than we have seen anytime in recent history. Will the central banks' easing gambit work? Will consumers lose their nerve, put away their wallets, and hit us with a rise in the savings rate that will make the recessions of the past 30 years look like a picnic? Will decoupling prove to be no more than a wishful thought? Will China succeed in halting its runaway asset inflation and will the aftermath of the boom cause a worldwide crash? Will the U.S. and its allies hit Iran to disable its nuclear program? And if they do, will they succeed or will they get us into a wider war, with unthinkable consequences for oil, gold, and commodities in general? And what about the other loose cannons, Russia, North Korea and Pakistan? I believe that we are on the cusp of once-in-a-lifetime events and that markets are totally unaware of the risks. Optionality continues to be dirt cheap.

And now for the billion-dollar question, the question that every hedge fund worth its salt must ask: How does one score big on once-in-a-lifetime events without losing too much on failed bets?

Thanking you for your trust,

Albert D. Friedberg

FRIEDBERG
MERCANTILE
GROUP LTD.

CONTENTS

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

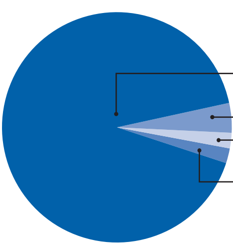
PERFORMANCE[1] as of September 30, 2007

	NAV	Quarter	Year over Year[3]	Two Years[3]	Three Years[3]	Five Years[3]
Friedberg Foreign Bond Fund[2]	15.76	-3.50%	-4.00%	-0.22%	2.10%	5.01%
Friedberg Total Return Fixed Income Fund Ltd.	2,177.01	5.20%	4.00%	1.98%	8.65%	11.73%
Friedberg Total Return Fixed Income Fund L.P.	229.69	5.21%	3.18%	6.84%	9.29%	12.33%
Benchmark[4]		N.A.	6.02%	4.71%	5.73%	8.61%

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

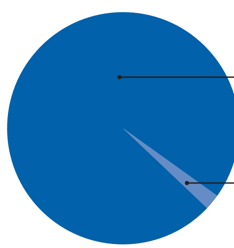
Portfolio Allocation



U.S. Treasury Bonds 2.625% May 2008	91.56%
Streettracks Gold TR	4.17%
Japanese Government CPI 1.00% June 2016	2.18%
U.S. Cash	2.09%

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

Currency Exposure

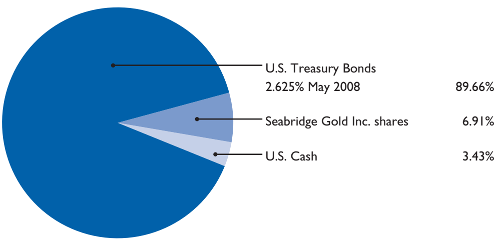


U.S. Dollars	97.82%
Japanese Yen	2.18%

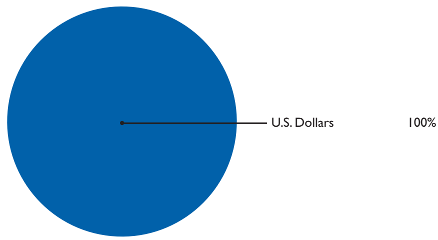
Adjusted modified duration		1.34
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	95.83%
	Unrated	4.17%

FRIEDBERG TOTAL RETURN FIXED INCOME FUND LTD.

Portfolio Allocation



Currency Exposure

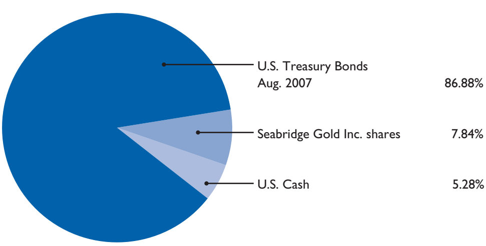


Weighted average yield to maturity	4.63%
Weighted average current yield	3.16%

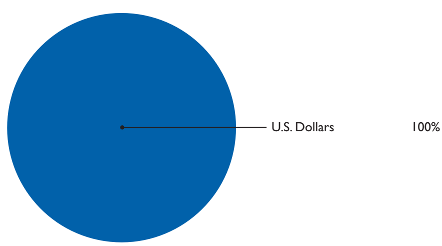
Adjusted modified duration		1.31
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	93.09%
	Unrated	6.91%

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%

Adjusted modified duration		1.25
Approximate overall credit rating		AAA
Bond rating breakdown:	AAA	92.13%
	Unrated	7.87%

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 September 30, 2007

	NAV	Quarter	Year over Year[3]	Three Years[3]	Five Years[3]
Friedberg Currency Fund[2]	10.18	7.61%	-9.11%	10.47%	9.71%
The First Mercantile Currency Fund[2]	10.72	11.78%	2.39%	12.36%	12.35%
Friedberg Currency Fund II Ltd.	883.82	15.60%	-2.21%	17.26%	14.96%
Friedberg Forex L.P.	12.76	16.32%	-0.82%	18.49%	15.64%
Barclay Currency Traders Index		N.A.	1.89%	2.32%	2.85%

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

OPEN POSITIONS - September 30, 2007

	times dedicated capital
Long Australian Dollar / Short Canadian Dollar	1.96
Long Euro Currency / Short Japanese Yen	0.94
Short Japanese Yen	0.44
Net Options Package	11.95
total gross leverage at September 30, 2007	15.29 x
maximum gross leverage during quarter	16.47 x

ACTIVITY REPORT - Third Quarter 2007

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Net Option Package	12.05	54.50
Long Japanese Yen	6.83	30.89
Long Euro Currency / Short Japanese Yen	1.27	5.76
Long Japanese Yen / Short Euro Currency	1.15	5.22
Long Australian Dollar / Short Canadian Dollar	0.41	1.85
Short Singapore Dollar	0.39	1.78

LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Short Brazilian Real	-3.63	69.29
Long Euro Currency / Short Hungarian Foring	-1.03	19.64
Short Australian Dollar	-0.58	11.06

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 September 30, 2007

	NAV	Quarterly	Year over Year[2]	Three Years[2]	Five Years[2]
Friedberg Global-Macro Hedge Fund Ltd.	2,034.83	11.63%	14.81%	14.63%	12.08%
Friedberg Global-Macro Hedge Fund	10.92	11.66%	N.A.	N.A.	N.A.
CSFB/Tremont Hedge Fund Index		N.A.	13.37%	11.85%	11.15%

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

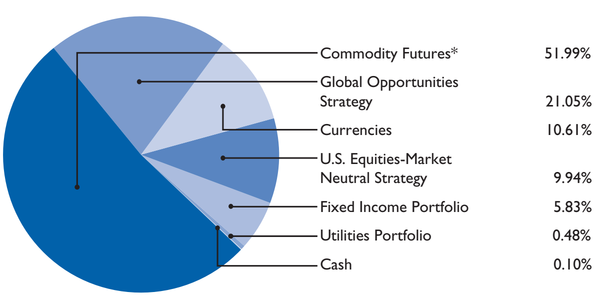
Capital allocation of the Friedberg Global-Macro Hedge Fund Ltd. as of September 30, 2007 is as follows:

FUND	**CURRENT ALLOCATION**	**TARGET**
Fixed Income Fund Ltd.	36.68%	30.50%
U.S. Equities-Market Neutral Strategy	29.10%	40.00%
Currency Fund II Ltd.	8.27%	9.00%
Futures	5.66%	5.15%
Global Opportunities	16.64%	12.35%
Utilities	3.01%	3.00%
Refco SPhinX Managed Futures Index Fund Ltd.[3]	0.19%	0.00%
Cash	0.45%	0.00%
	100.00%	100.00%

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

GLOBAL-MACRO HEDGE FUND LTD. (CAYMAN)

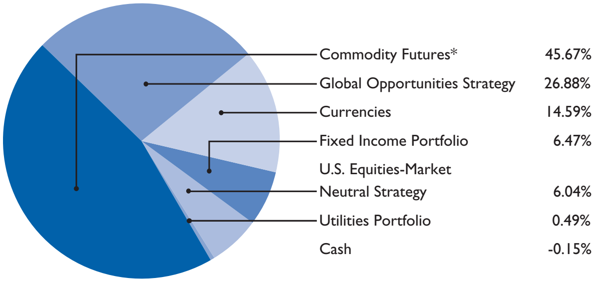
Breakdown by Total Gross Exposure



Total Leverage: 6.29x*

GLOBAL-MACRO HEDGE FUND (CANADA)

Breakdown by Total Gross Exposure



Total Leverage: 6.55x*

*The leverage ratio is skewed by a large long position in Fed Funds contracts. In the text of the shareholder's letter, we explain the rationale for taking this position. Effectively, we viewed this position as an option on future Fed Funds changes and treated it as such. Therefore, leverage may not adequately reflect portfolio risk. Without this position, the fund's overall leverage ratio stood at 3.2x

LIQUIDATED 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%

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