

FRIEDBERG
MERCANTILE
GROUP

THIRD
QUARTER
REPORT
2002



Third QUARTER REPORT 2002

Dear Investor,

It gives me great pleasure to present to you our third-quarter report.

Overall results continued to shine: the two all-encompassing Global–Macro Hedge Funds were up 3.9% and 4.8% for the quarter. This brings year-to-date gains to 8.1% for the Canadian fund, which began only May 31st, and 20.4% for the offshore fund. Both consist solely of Friedberg funds.

Disaggregating the Global–Macro Hedge Fund into its various components, however, reveals a rather irregular pattern of performance. Two programs suffered draw-downs: The currency funds were down as much as 16.6% and the market neutral Equity Hedge funds were down 1.9% to 2.3% (though still retaining a stellar result of 15.1% to 16.9% for the year to date). The rest of the programs ended in the plus column. In ascending order, the International Securities Fund was up 2.7% (11% year to date); the Canadian fixed-income vehicle, weighted down by its Canadian dollar exposure, was up 4.2% (19% for the year to date); the U.S. and offshore fixed-income funds were up 7% (capping an extraordinary gain of 23.6% for the year to date). Finally, the Diversified Fund and related program were up a stunning 40.5% for the quarter (36.9% for year to date), primarily by taking advantage, via futures markets, of the bear market in equities and the bull market in bonds.

But for one exception, our main themes remained practically unchanged from last quarter. The exception was our changing view of the U.S. dollar. Last quarter, we were of the opinion that the long expected downward adjustment was in the making, and bet successfully on that outcome. During this quarter, our view began to change. In a currency regime that prizes the least ugly duckling, the U.S. is, once again, the winner by default.

Apart from suffering from continued labor sclerosis, befuddled monetary thinking, a still-expanding welfare state and fiscal problems, Euroland also suffers from an inability, to put it kindly, to project any kind of political leadership in global affairs. We should also add that the proposed Euroland expansion will aggravate these problems since it is sure to increase dissent, welfarism and parochialism. Japan has as yet to deal effectively with its banking problem — although when it does it could become the new winner — and South East Asia is either too small, too dependent on U.S. exports or unable to implement deep economic and governance reforms. As a matter of fact, our currency basket, representing the largest economies and the most heavily traded currencies in the world, has weakened considerably against the U.S. dollar in recent weeks, a sign that leadership is once again devolving to the U.S.

Despite an historically wide current account deficit of 5% of GDP, the U.S. has had little difficulty funding the deficit: risk-free rates have collapsed (instead of the rise in rates so typical of funding problems) and equity markets have fallen, to produce rising yields, but at a slower pace than in Europe and Japan. There are two additional points to keep in mind about the U.S. dollar. A weak economy will narrow considerably the trade deficit and thus gain months or years before funding problems arise. A successful political/military outcome in Iraq (and possibly Iran) — in the best of cases, a new political order imposed by U.S. might — is likely to have a highly beneficial psychological impact on the U.S. dollar. Everything else being equal, political and military supremacy go hand in hand with a strong currency. For now, we remain long U.S. dollars in all our programs.

Credit concerns continue to mount, with spreads widening to record levels. We are staying put in our long Treasury Inflation Linked Securities, which continue to outperform all other type of securities. For a detailed look at what we expect of these bonds, please see our analysis entitled “No Brainer,” in the most recent *Friedberg Commodity and Currency Comments*.

Futures trading was in keeping with our longer-term views: a continuing bear market in stocks (well expressed by our investment group), a bull market in Treasuries (well expressed in turn in my allocation), and an upside bias for the energy, grain and precious metals complex. Trading conditions were trying even for the stoutest heart; volatility continued to increase during the quarter, surpassing historical levels for some sectors. The above-mentioned investment group continued to excel, gaining 42.3% (versus my 36.5%) on their allocated portion of the program, now at 40%. I monitor closely the investment process but give wide latitude to investment choices. I present below comments of the group’s unofficial chairman:

“Several themes dominated the financial markets in the third quarter. Our fund’s performance captured the essence of the most prominent trends, which expressed those themes.

“The air continued to leak out of the 1990s’ equity bubble in the third quarter. Shares of many once-proud, blue-chip companies are now penny stocks, struggling to keep their listings on the major exchanges. It is often tempting to believe that the indexes have fallen far enough. There are many stocks, however, whose valuations are still being measured by the yardsticks of the now defunct bull market. In addition, the bear market has given birth to a new generation of disenchanting investors, leaving mutual fund managers with less ammunition with which to maintain artificially high share prices. As such, we believe that the market will continue to drift lower until all excesses are drained and genuine value reappears. Our short S&P 500 position was responsible for 62% of the fund’s rather extraordinary 42% return in the quarter.

“Just-in-time inventory policies have caught up with commodity users. A series of bull markets inspired by a tight supply side created many opportunities. Drought conditions in the U.S. and abroad plagued most major crops. Our long positions in wheat, corn, and soybeans provided 26% of profits.

“An explosive bull market in cocoa contributed to the fund’s gains (6% of profits), but we left far too much money on the table. The market continued to soar after our departure. Finally, the gold market has benefited from the shift to alternative investments and we have managed to hold on to a moderately sized long position throughout the market’s volatility (6% of profits).”

Further increases in allocation are contemplated.

Gains in short and long equity positions were about evenly divided. Interestingly, our short side gained approximately 28% — eleven percentage points more than the decline in the S&P 500. This is a highly satisfactory result. On the other hand, our long positions lost more than 29.25%, disappointingly underperforming the index. I should note that a substantial portion of the long side replicated the Russell 2000, a small cap index that underperformed the large cap S&P 500 by almost 500 basis points. This and our use of leverage help explain most or all of our underperformance on the long side. Of course, it still begs the question of the use of a small cap index to balance our hedges. As an aside, we note that we are still finding good short opportunities but not so many good and liquid long ones. Could this be a sign of lower levels to come?

Rapidly shifting investment preferences in the small, medium, and large-cap universe and/or the value/growth dichotomy perforce increase portfolio rotation and trading costs. Reduced volatility, when it happens, will, in our opinion, make for better results. For a detailed

breakdown of exposure, long/short ratios, winners and losers, etc., please refer to the accompanying exhibits. We strive for maximum transparency. Should you have any suggestions on changes to the format that would help you to better understand what we do with your money, please do not hesitate to write or call us.

In the International Securities Fund, we continue to cling stubbornly to a short position in Japanese regional banks. This quarter, we lost almost 6% in this perennial play. Help is on the way: the new banking czar is a believer of “biting the bullet,” or so it seems. Japan may be coming close to resolving the greatest financial mess in modern history, anywhere. A realistic assessment of assets will show that all the Japanese banks are broke. Ultimately, some combination of bank equity losses, partial deposit losses and some official pay-off of smaller deposits will clean up the mess and restart the monetary engines. The distribution of losses is a political decision. Regardless, bank equity values will either be wiped out or heavily diluted. We plan to cover these positions at near-zero.

The Global–Macro Hedge Funds are running close to ideal allocation (see exhibit); we see no reason, for now, to change this allocation, though we are prepared to make opportunistic changes, when and if circumstances change.

The fourth quarter has historically proven the most difficult period of the year for our programs. The awareness of this phenomenon (are we superstitious? Well, maybe...) coupled with the string of prior quarterly successes has made us conscious of exercising great caution — but not too great, of course, lest we also lose our precious entrepreneurial spirit.

Thanking you for your continued trust and support,

A handwritten signature in dark ink, appearing to read 'A. Friedberg', written in a cursive style.

Albert D. Friedberg

FRIEDBERG
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FOREIGN BONDS

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FOREIGN BOND FUND

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: Beat Benchmark

PERFORMANCE as of September 30, 2002

	NAV	Quarter	Year over Year	Two Years ²	Three Years ²
Friedberg Foreign Bond Fund ¹	13.69	7.37%	16.12%	10.51%	8.36%
Friedberg Total Return Fixed Income Fund Ltd.	1,256.57	6.91%	24.03%	12.60%	9.06%
Friedberg Total Return Fixed Income Fund L.P.	128.79	6.98%	24.68%	14.02%	10.22%
Benchmark ³		2.19%	4.36%	5.31%	5.76%

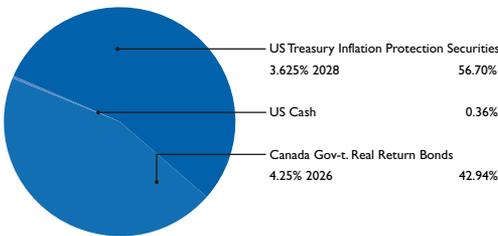
¹Priced in Canadian Dollars

²Compounded Annual Rate of Return

³70% Merrill Lynch Broad Market Index (Bloomberg GBMI), 30% Global High Yield and Emerging Markets Plus Index (Bloomberg HA00)

FRIEDBERG FOREIGN BOND FUND

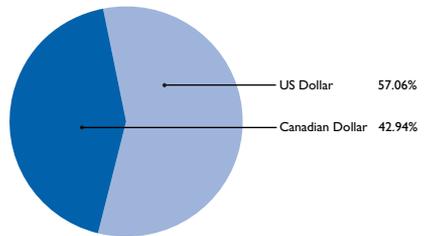
Portfolio Allocation



Weighted average yield to maturity 4.78%

Weighted average current yield 3.32%

Currency Exposure



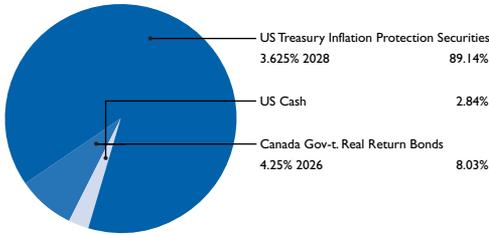
Adjusted modified duration 7.32

Approximate overall credit rating AAA

Bond rating breakdown: AAA 100.00%
Unrated 0.00%

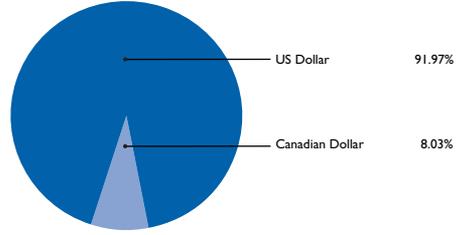
FRIEDBERG FIXED INCOME FUND L.P.

Portfolio Allocation



Weighted average yield to maturity 4.27%
 Weighted average current yield 3.10%

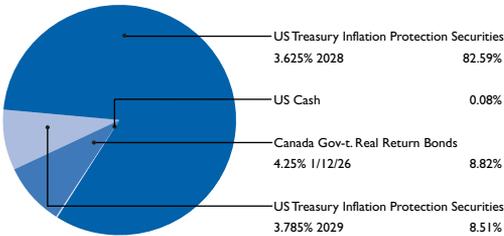
Currency Exposure



Adjusted modified duration 7.38
 Approximate overall credit rating AAA
 Bond rating breakdown: AAA 100.00%, Unrated 0.00%

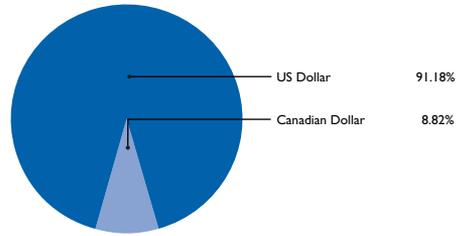
FRIEDBERG FIXED INCOME FUND LTD.

Portfolio Allocation



Weighted average yield to maturity 4.34%
 Weighted average current yield 3.14%

Currency Exposure



Adjusted modified duration 7.59
 Approximate overall credit rating AAA
 Bond rating breakdown: AAA 100.00%, Unrated 0.00%

EQUITY HEDGE PROGRAM

FRIEDBERG EQUITY HEDGE FUND LTD. FRIEDBERG EQUITY HEDGE FUND

A leveraged market neutral fund that balances long and short positions in an attempt to eliminate market risk.

PERFORMANCE¹ as of September 30, 2002

	NAV	Quarter	Year over Year	Three Years ²
Friedberg Equity-Hedge Fund Ltd.	2,127.81	-1.87%	2.93%	34.56%
Friedberg Equity-Hedge Fund	18.80	-2.29%	-0.27%	30.55%
HFRI Equity Hedge Fund Index (Onshore)	10,324.56	-4.60%	0.01%	7.55%

¹Net of fees

²Compounded annual rate of return

INVESTMENT ALLOCATION³

	30-Jun-02	31-Jul-02	31-Aug-02	30-Sep-02
LONGS	54.96%	51.81%	57.51%	53.29%
SHORTS	45.04%	48.19%	42.49%	46.71%
TOTAL GROSS LEVERAGE	2.33 x	2.595 x	3.01 x	2.00 x

LARGEST SECTORS (LONGS)³

Oil/Exploration & Production	9.68%
Energy-Electric Integrated	7.22%
Aerospace/Defence Equipment	7.02%

LARGEST SECTORS (SHORTS)³

Investment Banking/Brokers	10.81%
Biomedical/Genes/Therapeutics	8.98%
Computers	7.15%

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

LARGEST LONG POSITIONS

Russell 2000 Index futures
Sears Roebuck & Co.
Philadelphia Suburban Corp.
Southern Corp.
Patina Oil & Gas Corp.
XTO Energy Inc.
Entergy Corp.
Raytheon Corp.
Fresh Del Monte Produce Inc.
Devon Energy Corp.

LARGEST SHORT POSITIONS

Biovail Corp.
Morgan Stanley Dean Witter & Co.
Waddell & Reed Financial
Goldman Sachs Group Inc.
Stilwell Financial Inc.
American International Group
International Business Machines Corp.
Allergan Inc.
Eli Lilly & Co.
General Electric Co.

BEST QUARTERLY PERFORMANCE

LONGS	
Waste Connections Inc.	11.36%
Intertrust Technologies Corp.	6.59%
Patina Oil & Gas Corp.	6.22%

SHORTS	
Alcatel S.A.	67.23%
Great Atlantic & Pacific Tea Corp.	54.61%
Bombardier Inc.	47.20%

WORST QUARTERLY PERFORMANCE

LONGS	
Dusa Pharmaceuticals Inc.	-39.64%
Genesco Inc.	-43.33%
MTR Gaming Group Inc.	-44.85%

SHORTS	
Qwest Communications Intl.	0.00%
Wyeth	-0.63%
Ciena Corp.	-36.72%

CURRENCY PROGRAM

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

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

PERFORMANCE as of September 30, 2002

	NAV	Quarter	Year over Year	Three Years ²
Friedberg Currency Fund ¹	6.74	-12.69%	-62.20%	-29.68%
The First Mercantile Currency Fund	6.11	-10.28%	-60.17%	-27.55%
Friedberg Currency Fund II Ltd.	439.82	-11.74%	-53.34%	-25.97%
Friedberg Currency Fund Ltd.	501.17	-11.65%	-55.70%	-22.14%
Friedberg Forex L.P.	6.08	-16.37%	-61.13%	-29.73%
AssetSight CMI Currency Index	4,141.71	-0.88%	5.49%	0.93%

¹Priced in Canadian Dollars

²Compounded Annual Rate of Return

OPEN POSITIONS - September 30, 2002

	Leverage
Short Euro Currency	2.59
Short Swiss Franc	1.04
Long British Pound	1.03
Long U.S. Treasury Inflation Protection Securities	0.95
gross leverage at September 30, 2002	5.56 x
maximum gross leverage during quarter	5.56 x

ACTIVITY REPORT - Third Quarter 2002

	profit as percentage of beginning equity	percentage of total profits
PROFITABLE TRANSACTIONS		
Long U.S. Treasury Inflation Protection Securities	7.45	95.09
Long British Pound	0.39	4.91
	loss as percentage of beginning equity	percentage of total losses
LOSING TRANSACTIONS		
Euro Currency	(5.81)	31.55
Long Canadian Dollar	(3.00)	16.27
Short Polish Zloty	(1.87)	10.16
Long New Zealand Dollar	(1.62)	8.80
Long Australian Dollar	(1.37)	7.42
Short Swiss Franc	(1.32)	7.18
Long Czech Koruna	(1.22)	6.61
Long Swedish Krona	(1.07)	5.81

Long Japanese Yen	(0.88)	4.76
Long Norwegian Krone	(0.27)	1.45
Model account value June 30, 2002	31,185.94	
Model account value September 30, 2002	27,877.79	
Percentage gain (loss) in quarter:	-10.61%	

DIERSIFIED TRADING PROGRAM

FRIEDBERG DIERSIFIED FUND

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

PERFORMANCE as of September 30, 2002

	NAV	Quarter	Year over Year	Three Years ¹
Friedberg Diversified Fund	8.71	40.48%	-1.25%	-3.52%
CMI Total Return Diversified Index	108,173.19	1.15%	2.38%	6.79%

¹Compounded Annual Rate of Return

OPEN POSITIONS - September 30, 2002

	leverage
Long U.S. Treasury Inflation Protection Securities	1.09
Long Wheat	0.66
Short E-Mini S&P	0.57
Long Gold	0.30
Crude Oil	0.25
Short Mini Nasdaq	0.16

gross leverage at September 30, 2002	2.48 x
maximum gross leverage during quarter	8.62 x

ACTIVITY REPORT - Third Quarter 2002

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
U.S. Treasury Inflation Protection Securities	13.92	31.85
Equity Futures	13.66	31.25
Wheat	5.65	12.92
Natural Gas	5.14	11.77
Copper	1.69	3.88
Corn	1.44	3.30

Soybeans	1.02	2.34
Crude Oil	0.88	2.02
Cocoa	0.29	0.67
	loss as percentage	percentage
LOSING TRANSACTIONS	of beginning equity	of total losses
Gold	(1.82)	43.58
Five Year Notes	(1.55)	37.15
Coffee	(0.50)	11.91
Bean Oil	(0.31)	7.35

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.

FRIEDBERG INTERNATIONAL SECURITIES FUND

The fund seeks to capitalize on the rise and fall of local markets throughout the world by anticipating long term secular trends or by identifying, at an early stage, cyclical economic expansions and contractions of economies of selected countries. The fund uses leverage, and trades fixed income and equity index futures.

PERFORMANCE¹ as of September 30, 2002

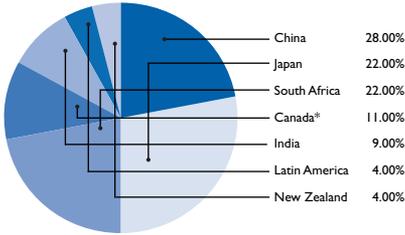
	NAV	Quarter	Year over Year	Three Years ²
Friedberg International Securities Fund	13.28	2.71%	2.08%	21.91%
HFRI Equity Hedge Index (Offshore)	—	-6.12%	-2.25%	6.98%

¹Net of fees

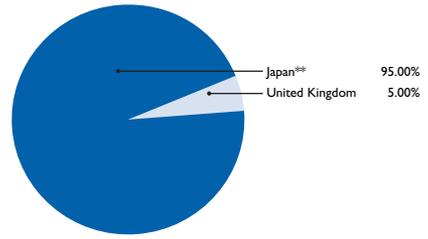
²Compounded Annual Rate of Return

EQUITIES EXPOSURE BY COUNTRY

LONG (% of total longs)



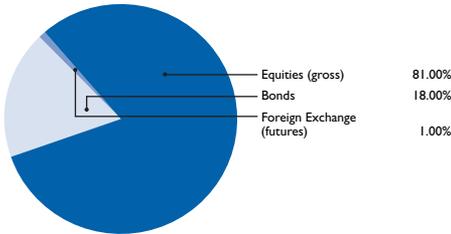
SHORT (% of total shorts)



*Oil and Gas shares

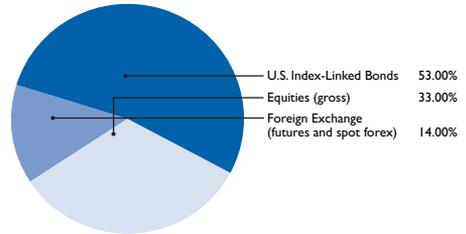
**Secondary Banks (hedged with JY futures)

BREAKDOWN BY INVESTED AMOUNTS*



*Based on margins used in each category

BREAKDOWN BY TOTAL GROSS EXPOSURE**



**Including notional values of derivatives

TOTAL GROSS LEVERAGE 2.33 x

POSITIONS LIQUIDATED DURING THE QTR.

- 1) Long Aruze Corp. (Japan)
- 2) Long McDonald's Japan (Japan)
- 3) Short Higo Bank (Japan)
- 4) Short Telecom Argentina (Argentina)

NEW POSITIONS ESTABLISHED DURING THE QTR.

- 1) Long Marubeni Corp. (Japan)
- 2) Short Shikoku Bank (Japan)

APPROXIMATE RETURN ON BEGINNING EQUITY BY MAJOR SECTORS (July 1 - September 30)²

U.S. Index-linked bonds	12.60%
Europe	1.19%
Miscellaneous	0.75%
Canada	-0.71%
Hong Kong	-1.82%
Latin America	-3.10%
Japan ³	-5.93%

²not time adjusted

³net exposure includes currency hedge

FRIEDBERG GLOBAL OPPORTUNITIES FUND LTD.

The Global Opportunities Fund comprises the Diversified Trading Program and the International Fund. Please refer to corresponding graphs and tables for these two programs.

PERFORMANCE¹ as of September 30, 2002

	NAV	Quarter	Year over Year	Three Years ²
Friedberg Global Opportunities Fund Ltd.	745.31	22.01%	-4.63%	2.57%

¹Net of fees

²Compounded Annual Rate of Return

FRIEDBERG GLOBAL-MACRO HEDGE FUND

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

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

PERFORMANCE as of September 30, 2002

	NAV	Quarterly	Year to Date
Friedberg Global-Macro Hedge Fund Ltd.	1,198.72	4.75%	20.35%
Friedberg Global-Macro Hedge Fund ¹	10.81	3.94%	8.10%
HFRI Macro Hedge Index (offshore)		4.37%	8.22%

Allocation of the Friedberg Global-Macro Hedge Fund Ltd. as of September 30, 2002 is as follows:

FUND	CURRENT ALLOCATION	TOTAL \$ VALUE
Fixed Income Fund Ltd.	64.55%	\$45,551,736.67
Equity Hedge Fund Ltd.	15.75%	\$11,114,833.50
Currency Fund Ltd.	9.11%	\$6,426,475.10
Currency Fund II Ltd.	0.01%	\$7,129.46
Global Opportunities Fund Ltd.	10.35%	\$7,303,418.71
Cash	0.24%	\$169,420.75
	<u>100.00%</u>	<u>\$70,573,014.19</u>

¹Fund inception June 1, 2002

FRIEDBERG SKILL-BASED MANAGERS FUND

The Fund is a multi-strategy fund-of-funds. The objective is to generate steady returns in all environments. Albert Friedberg and David Rothberg co-manage.

PERFORMANCE as of September 30, 2002

	NAV	Quarter	Year over Year	Two Years ¹
Friedberg Skilled-Based Managers Fund	11.84	0.00%	1.89%	6.22%

¹Compounded Annual Rate of Return

David Rothberg Comments:

Like cities north of the Gulf of Mexico during hurricane season, many absolute return strategies got rained on during the quarter. The hurricane at their periphery was, of course, the stock market. Its ragings brought the Hedge Fund Research (HFR) Weighted Composite Index of all funds down by 3.85%, and the HFR Fund of Funds Index down 0.97%.

During the quarter the Skill Based Managers Fund preserved equity, ending the quarter perfectly flat. Our portfolio at the end of the quarter was as follows:

STYLE	ALLOCATION
Domestic Long/Short Value	24%
International Long/Short Value	20%
Event Driven — Risk Arbitrage	15%
Convertible Arbitrage	20%
Managed Futures	10%
Cash	1%
U.S. Treasury 3.25% 2007	10%

Domestic Long/Short Value was, as expected, a bright spot. Good stock pickers find easy short sales. Although mostly long, our manager returned 8.6%, almost all of it earned from the short side. Our international long/short value manager was flat. He is fully hedged, but via the indices he uses as benchmarks, not individual stocks. Can there be a clearer demonstration of the famous adage: when the paddy wagon comes they take the good girls along with the bad?

Alas, yes. Event Driven strategies, especially those specializing in risk arbitrage, have suffered from a dearth of deals and a collapse in spreads. (Spreads have fallen as a result of competition amongst the arbitrage community for the few deals that are spun, and the collapse of the risk-free rate to record lows.) To compensate, prudent managers have lengthened the duration of the deals they invest in. Whereas in the heydays of '99 and 2000 they were buying deals they expected to close in three months, some are stretching their horizons out to nine months and even a year. Ours is restricting himself to deals wherein the acquiring companies having agreed to pay for targets in cash, not stock. You can't get more rock solid than that. The paddy wagon drivers don't care. The acquired company is still publicly traded isn't it? Therefore, sell, sell, sell. In the long run, these deals will pan out. Marked to market, though, he suffers and so do we.

As the stock market continues to plummet, sensitivity to credit has increased. Corporates rated B and BBB have been paying premiums in the neighborhood of 1,000 bps to Treasuries ever since July. This has made it tough on Convertible Arbitrage specialists. Ours, one of the most conservative, lost 0.5% June through September, ending a string of 44 consecutive winning quarters. Furthermore, new issuance has dried up, and those securities that are issued look less like traditional convertibles and more like preferred shares. Finally, there have been a number of issue specific blow-ups — the most noteworthy being El Paso energy — that show as well as anything how the investor's mood has bipolarized from euphoria to skepticism. It may have to decline to utter despair before Convertible Arb finds a normal footing.

Managed Futures, on the other hand, enjoyed the conditions. Trending markets in grains and metals allowed our sub-strategy to earn 7.64% during the quarter.

The logo for Friedberg Mercantile Group is enclosed in a blue double-line border with an octagonal shape. The text inside is in a blue, serif, all-caps font.

FRIEDBERG
MERCANTILE
GROUP

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