

FRIEDBERG
MERCANTILE
GROUP LTD.

Third
QUARTER
REPORT
2006



Third QUARTER REPORT 2006

Dear Investor,

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

Our two multi-strategy hedge funds, the Friedberg Global-Macro Hedge Fund Ltd. and the Friedberg Global-Macro Hedge Fund, turned a modest gain for the quarter, +1.37% and +0.93% respectively. On the surface, the results appear to point to a relatively calm investment climate. In fact, this was not the case; the results gloss over a very uneven performance of the underlying strategies.

Much to my disappointment, the currency program was down 15.7% to 17.6%, bringing down the gains for the year to date to between a minuscule 0.5% and 2.8%. Also disappointing, the equity hedge program was down 2.6% to 3.5% for the quarter, which reduced year-to-date gains to between 0.6% and 1.9%. The small allocation to an opportunistic equities strategy, which includes option writing, broke even for all practical purposes, while the utilities allocation, now upped to 15% of the hedge funds' capital, contributed 46 basis points overall returns.

In the winning column, the fixed-income program showed gains of 5.0% to 5.2%, finally putting the program on the plus side for the year to date (2.4% to 2.7%) and the diversified trading program returned 27.9%, bringing year-to-date gains to 67.9%. In spite of the Global-Macro Hedge Funds' modest allocation to this last program, it contributed a significant 140 basis points to quarterly performance.

The most disappointing aspect of the losses in our currency trading during the quarter is the fact that I am not sure I would have done much differently, knowing what I know now. I am referring to the long Aussie/short Kiwi position, which turned from a solid gain to a sad loss. The New Zealand economy proved (temporarily?) far more resilient to the Reserve Bank's tightening grip than what I, and the Bank, had expected. The consumer, coming off a long speculative spree, was expected to retrench and help narrow a current account deficit that stood at a record 10%-plus of GDP. This deficit was thought not to be sustainable.

It did not happen. Short-term capital continued to flow in, attracted by the highest interest rates in the industrialized world, and the economy was kept afloat, if only barely. The Australian economy, on the other hand, continues to perform well but its interest rate levels do not quite match New Zealand's. The cross, which we entered at 1.10, first rose to 1.2445 and then retreated to 1.1210. Influenced by risk control considerations rather than by the merits of the trade, I liquidated the position and chose to stand aside for some time to reassess the situation. I am convinced that New Zealand stands at the edge of a severe economic adjustment, one that will require its currency to depreciate at least 15% to 20%.

The other loss-making currency trade that surprised us was a perfectly reasonable long euro/short Hungarian cross, put on in response to Hungary's enormous fiscal problems. We had thought that the negative carry and risk were small enough to warrant the trade, but we were mistaken. The

same kind of optimism that exists for emerging countries, a direct product of easy money and credit conditions worldwide, helped support the forint through this fiscal and political crisis. Emergency budgetary measures were announced — piling more taxes on an already overtaxed economy — but no meaningful reform was undertaken. The fiscal drag on the economy is certain to force a major overhaul of spending programs and a significant currency depreciation in the not-too-distant future. We have maintained the long Brazil/short Mexico trade for reasons explained in previous communications; it showed a minor loss for the quarter, but the trade has now righted itself and we plan to stay with it a bit longer.

The “exotic crosses” niche has served us well over the past three years and allowed us to escape the losses seen in the major crosses. Is it over? I don’t know the answer yet but one thing is certain: henceforth, it will take an absolutely compelling case for me to buck a carry trade when global interest rates are barely positive. Perhaps the only lesson to be learned from these two failed trades is that global conditions have become immensely important even when one concentrates solely on minor crosses. Be that as it may, it is worth noting that, given the present allocation, the currency setback cost the Global-Macro Hedge Funds as much as 250 basis points in the current quarter.

No changes in the fixed-income portfolio occurred during the quarter. Our TIPS position improved substantially as real rates eased. Towards the end of the quarter, breakevens narrowed and caused TIPS to lag nominal bonds by a small margin. Most, if not all, of this decline in breakevens can be attributed to the fall in crude oil prices and its expected impact on CPI through lower gasoline prices.

In our opinion, TIPS remain cheap and will continue to be a core holding. Over the longer term, inflationary concerns persist as a result of rising unit labor costs; breakevens on longer maturities should expand once again. Moreover, we expect that lower returns on capital in coming months and years will continue to press real rates lower. At the same time, and in view of uncertain equity returns (that is, low equity premiums), retirement and pension funds increasingly will move to own inflation-linked securities in order to match their long-term liabilities.

As noted earlier, we reduced our hedge funds’ exposure to fixed income and moved a further 5% of their assets into utilities. The case for owning them has been made here for the past six months and so there is no need to repeat it. The increased exposure to these hybrid securities — part fixed income and part equity — is an attempt to take on a bit more risk in the hope of achieving slightly higher returns and does not in any way represent a vote of nonconfidence on the prospects for fixed income.

Our futures trading continues to do extremely well. On an attribution basis, the largest gains were made in our old and favorite play, long distant/short nearby crude oil futures. While geopolitical tensions have ostensibly added a substantial premium to the market — some think it may be as high as \$20/barrel — overproduction has had a predictable effect on the term structure of futures. Backwardation has all but vanished from positions as far out as August ’08 and contangoes are widening for nearby positions. Excess capacity is now at a comfortable 3 million barrels/day. Slackening demand — especially in East Asia, where consumers are having to face market prices for the first time in years — substitution, and the ramping up of production outside of Opec should keep the market amply supplied until the day a military event closes the Straits of Hormuz and/or Gulf production begins to sputter (the Simmons effect). For similar reasons, bear spreads in copper have continued to be profitable.

Long positions in gold were liquidated during the quarter at a slight loss from June 30th but at a substantial overall profit from inception. Although fundamentals remained highly constructive, the market appeared technically overbought and in need of further consolidation in the area of

\$550 to 600/oz. New long positions were undertaken in wheat and S&P futures. Wheat stocks in terms of days of consumption have been reduced to the lowest levels in a generation and the situation has been aggravated by poor crops in many of the major producing areas. A substantial rise in prices will be needed to allocate meager supplies. The position is already showing significant profits, having been put on at approximately \$4.16/bu. Our views on the stock market turned bullish, in particular for the large market caps in the major industrialized countries. Valuations have become more reasonable in recent years (earnings up, stock prices unchanged in many years), liquidity has become desirable since the May emerging market earthquake, a fair amount of bearishness has crept in (witness the new high in the short interest ratio) and the Fed is on pause — the right recipe for an extended bull run. This position, already profitable at quarter end, has since become even more so. The hedge funds have pressed this position to the practical limits of their futures allocation. As a result, the S&P 500 position is now equal to 75% of the Global-Macro Hedge Funds' capital.

The market neutral equity strategy gave back most of the gains achieved in the year to date. My preliminary assessment is that both the long side and the short side suffered from an unconscious drift and ended up containing just too many positions. I reason that the larger the portfolios, the higher the probability of merely replicating the index. If both long and short positions do as well as the index, the returns will converge towards zero; a slight outperformance of, say, 100 basis points, will yield a total return of only 200 basis points. As a result, I have moved to prune the portfolio; henceforth there will be a lower cap number of longs and shorts. The bets will be more concentrated and performance should become more volatile if not more profitable.

There were practically no changes made to the miscellaneous 5% allocation to an opportunistic equity strategy, with one exception: we added a short position in an index designed to parallel the Argentine Merval. The favorable global conditions that we mentioned earlier have given Buenos Aires some breathing room to put sound economic policies into place. Instead, the government continues to implement statist and confiscatory policies. One particularly egregious example is the way the government tackles rising inflation by imposing old-fashioned price controls. These controls misallocate resources and severely affect profit margins without getting at the root of the problem.

In sum, it is perhaps a truism to say that the world continues to be an interesting place, delicately balanced and not kind to those who commit even small errors. The necessary ingredient for successful trading is the ability to be introspective and honest with oneself, but most of all, to be able to retain humility in the face of success. Just when one thinks to have mastered certain markets, as we thought we had in the currency area, the markets come back to teach otherwise.

We hope that the new quarter, which has begun on a very positive note, will bring very positive returns.

Thanking you for your continued confidence,



Albert D. Friedberg

FRIEDBERG
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All statements made herein, while not guaranteed, are based on information considered reliable and are believed by us to be accurate. Futures and options trading is speculative and involves risk of loss. Past trading results are not indicative of future profits.

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

PERFORMANCE¹ as of September 30, 2006

	NAV	Quarter	Year over Year ³	Two Years ³	Three Years ³	Five Years ³
Friedberg Foreign Bond Fund ²	18.66	4.95%	3.70%	5.29%	8.37%	9.27%
Friedberg Total Return Fixed Income Fund Ltd.	2,039.44	5.17%	8.87%	11.06%	13.88%	15.12%
Friedberg Total Return Fixed Income Fund L.P.	216.14	5.24%	10.62%	12.47%	14.33%	16.03%
Benchmark ⁴		N.A.	3.42%	5.59%	7.65%	8.41%

¹Net of fees

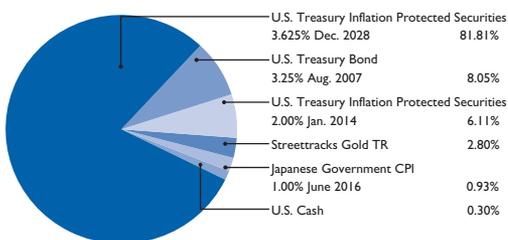
²Priced in Canadian Dollars

³Compounded annual rate of return through August 2006

⁴70% Merrill Lynch Broad Market Index (Bloomberg GBMI), 30% Global High Yield and Emerging Markets Plus Index (Bloomberg HAOO)

FRIEDBERG FOREIGN BOND FUND

Portfolio Allocation

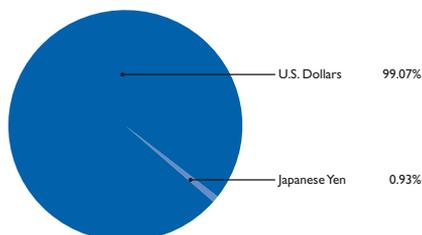


Weighted average yield to maturity
Weighted average current yield

2.38%*
2.81%*

*Assumes zero inflation.

Currency Exposure



Adjusted modified duration
Approximate overall credit rating

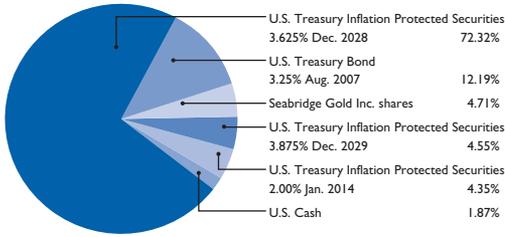
5.84
AAA

Bond rating breakdown:
AAA
Unrated

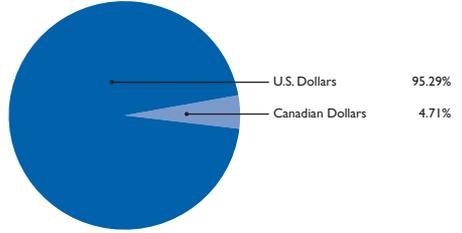
97.20%
2.80%

FRIEDBERG TOTAL RETURN FIXED INCOME FUND LTD.

Portfolio Allocation



Currency Exposure



Weighted average yield to maturity 2.51%*
Weighted average current yield 2.85%*

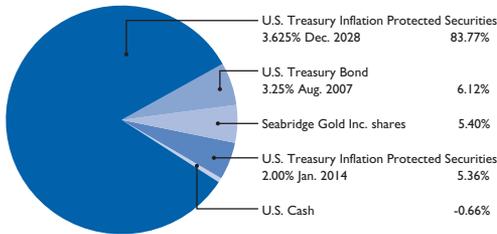
Adjusted modified duration 5.43
Approximate overall credit rating AAA

Bond rating breakdown: AAA 95.29%
Unrated 4.71%

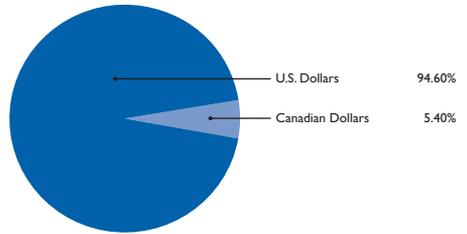
*Assumes zero inflation.

FRIEDBERG TOTAL RETURN FIXED INCOME FUND L.P.

Portfolio Allocation



Currency Exposure



Weighted average yield to maturity 2.24%*
Weighted average current yield 2.73%*

Adjusted modified duration 5.91
Approximate overall credit rating AAA

Bond rating breakdown: AAA 94.60%
Unrated 5.40%

*Assumes zero inflation.

EQUITY HEDGE FUNDS

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.

PERFORMANCE¹ as of September 30, 2006

	NAV	Quarter	Year over Year ²	Three Years ²	Five Years ²
Friedberg Equity Hedge Fund	21.99	-3.51%	-0.41%	13.84%	4.01%
Friedberg Equity Hedge Fund Ltd.	2,599.43	-2.64%	0.90%	13.41%	5.24%
CSFB/Tremont Equity Market Neutral Index		N.A.	12.15%	8.09%	7.41%

¹Net of fees

²Compounded annual rate of return through August 2006

INVESTMENT ALLOCATION³

	30-Jun-06	31-Jul-06	31-Aug-06	30-Sep-06
LONGS	45.96%	47.80%	50.06%	54.07%
SHORTS	54.04%	52.20%	49.94%	45.93%
TOTAL GROSS LEVERAGE	1.86 x	1.94 x	1.55 x	1.84 x

LARGEST SECTORS (LONGS)³

Electric Utilities	10.04%
Aerospace & Defense	5.08%
Environmental & Facilities Services	3.44%

LARGEST SECTORS (SHORTS)³

Technology Large Cap	14.97%
Publishing	4.38%
Internet Software & Services	4.25%

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

LARGEST LONG POSITIONS

GATX Corp.
International Paper Co.
Raytheon Co.
Aqua America Inc.
CSX Corp.
Valero Energy
Service Corp. International
Jo-Ann Stores Inc.
Atmel Corp.
Syngenta AG

LARGEST SHORT POSITIONS

Nasdaq 100 futures
Ebay Inc.
Jabil Circuit Inc.
Amazon.Com Inc.
Yahoo! Inc.
Boston Scientific Corp.
First Bancorp Puerto Rico
Gannett Co.
Viacom Inc. class B
Flagstar Bancorp Inc.

BEST QUARTERLY PERFORMANCE

	LONGS
Embarq Corp.	18.00%
Compuware Corp.	16.27%
Windstream Corp.	14.70%

	SHORTS
The Mills Corp.	35.39%
Jetblue Airways Corp.	23.89%
Yahoo! Inc.	19.28%

WORST QUARTERLY PERFORMANCE

	LONGS
Molecular Devices Corp.	-39.50%
Oceaneering Intl. Inc.	-32.82%
Valero Energy Corp.	-22.62%

	SHORTS
Cott Corp.	-30.69%
Radioshack Corp.	-29.41%
First Bancorp Puerto Rico	-18.92%

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.

PERFORMANCE¹ as of September 30, 2006

	NAV	Quarter	Year over Year ³	Three Years ³	Five Years ³
Friedberg Currency Fund ²	11.33	-16.32%	14.92%	14.04%	-6.52%
The First Mercantile Currency Fund ²	10.03	-13.83%	13.08%	13.39%	-6.43%
Friedberg Currency Fund II Ltd.	857.56	-15.66%	18.08%	17.39%	0.16%
Friedberg Forex L.P.	12.10	-17.29%	18.99%	20.91%	-2.68%
Barclay Currency Traders Index		N.A.	-0.23%	2.52%	3.43%

¹Net of fees

²Priced in Canadian Dollars

³Compounded annual rate of return through August 2006

OPEN POSITIONS - September 30, 2006

Long British Pound / Short Euro Currency	3.95
Long Brazilian Real / Short Mexican Peso	3.01

Leverage

gross leverage at September 30, 2006	6.97 x
maximum gross leverage during quarter	9.24 x

ACTIVITY REPORT - Third Quarter 2006

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Long Turkish Lira / Short Polish Zloty	3.22	100.00
LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Long Australian Dollar / Short New Zealand Dollar	-11.22	52.07
Long Euro Currency / Short Hungarian Forint	-6.61	30.68
Long British Pound / Short Euro Currency	-1.25	5.78
Long Turkish Lira / Short Hungarian Forint	-1.06	4.93
Long Euro Currency	-0.94	4.34
Long Brazilian Real / Short Mexican Peso	-0.27	1.27
Long Canadian Dollar	-0.20	0.93

DIVERSIFIED TRADING PROGRAM

FRIEDBERG DIVERSIFIED FUND

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

PERFORMANCE¹ as of September 30, 2006

	NAV	Quarter	Year over Year ²	Three Years ²	Five Years ²
Friedberg Diversified Fund	35.91	27.93%	109.14%	89.43%	33.43%
CSFB/Tremont Managed Futures Index		N.A.	1.95%	3.96%	7.63%

¹Net of fees

²Compounded annual rate of return through August 2006

OPEN POSITIONS - September 30, 2006

Strategy I		Strategy II	
	Leverage		Leverage
Long Distant / Short Nearby Crude Oil	6.72	Long Corn	0.33
Long Distant / Short Nearby Copper	2.47	Long Distant / Short Nearby Wheat	0.75
Long Mini S&P	1.76	gross leverage at September 30, 2006	1.08 x
Long Wheat	0.97	maximum gross leverage during quarter	1.19 x
Long LIFFE Coffee	0.11		
gross leverage at September 30, 2006	12.03 x		
maximum gross leverage during quarter	12.86 x		

ACTIVITY REPORT - Third Quarter 2006

Strategy I

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
Long Distant / Short Nearby Crude Oil	15.99	50.10
Long Wheat	6.88	21.56
Long / Short U.S. Equity Index Futures	5.25	16.45
Long Distant / Short Nearby Copper	3.80	11.90
LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Short Kospi Index Futures	-1.54	46.94
Short Sugar	-1.10	33.57
Long Gold	-0.61	18.65
Long LIFFE Coffee	-0.03	0.84

Strategy II

PROFITABLE TRANSACTIONS	profit as percentage of beginning equity	percentage of total profits
LOSING TRANSACTIONS	loss as percentage of beginning equity	percentage of total losses
Long Cocoa	-1.00	39.80
Long Corn	-0.79	31.63
Short Wheat	-0.72	28.56

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.

PERFORMANCE¹ as of September 30, 2006

	NAV	Quarterly	Year over Year ²	Three Years ²	Five Years ³
Friedberg Global-Macro Hedge Fund Ltd.	1,786.20	1.37%	12.30%	14.28%	13.08%
Friedberg Global-Macro Hedge Fund	18.36	0.93%	15.27%	18.22%	12.43%
CSFB/Tremont Hedge Fund Index		N.A.	11.01%	10.38%	8.86%

¹Net of fees

²Compounded annual rate of return through August 2006

³Since 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 September 30, 2006 is as follows:

FUND	CURRENT ALLOCATION	TARGET
Fixed Income Fund Ltd.	50.07%	50.00%
Equity Hedge Fund Ltd.	12.00%	10.00%
Currency Fund II Ltd.	13.12%	15.00%
Futures	5.93%	5.15%
Equities, Special Opportunities, Option Writing Program	4.70%	5.00%
Utilities	13.43%	14.50%
Refco SPhinX Managed Futures Index Fund Ltd. ⁴	0.28%	0.00%
Cash	0.47%	0.35%
	<u>100.00%</u>	<u>100.00%</u>

⁴Refco 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.

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

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