North Growth U.S. Equity Fund
1997 ANNUAL REPORT

Market Review

1997 was a very worthwhile year with the Fund gaining 29.1% in Canadian funds. We were successful in timing the sales of many of our long-term holdings that had appreciated significantly. On balance our new purchases have worked out well and seem to be in earlier phases of their uptrends.

We held more cash than normal in the second half of 1997. The rationale for this strategy was presented in the 1997 semi-annual report. As it turned out, our cash position held back the performance of the Fund slightly. Ironically, our strongest performance was experienced during a period of a strongly rising market during which we held cash. In other words, our successful selection overcame the drag of our cash reserve. Unfortunately, we would have done even better relatively if we had just stuck with stock selection.

The Fund's strong relative performance from the beginning of July through mid-October was significantly influenced by the fact that small-cap and mid-cap stocks were rallying during that period. Conversely, these groups underperformed the market during the last two months of the year and our cash position, while helpful, did not prevent us from underperforming the S&P 500 during that period.

By mid-October the market collapse in Asia was affecting the US markets. Small-cap and mid-cap stocks that are less dependent on foreign business did well during the initial stages of the US sell-off. Later, the atmosphere of concern about the outlook for Asian markets caused foreign money to flow into large-cap, well-known US companies as safe havens. This belief was coincidentally adopted by US investors. The fact that 4th quarter earnings of large US international companies did not suffer an immediate impact from the turmoil in Asia helped relieve earlier concerns, and by mid-January, 1998, the US market clearly entered into a new rally. One of the contributing factors to this advance was the somewhat perverse fact that the collapse of the Asian economies reduced inflationary pressures worldwide. This has been beneficial to the US and European operations of large international companies. Having said this, however, we might not have seen the full impact of the Asian crisis on the US market.

1998 outlook and Essay on the Nature of Market Cycles

It's getting a bit boring, but again we must point out that slow to modest GDP growth, low inflation rates, and low interest rates provide a powerful background for a rising stock market. One of the best features of this set of circumstances is that excesses in the economy do not develop and the boom bust type of economic cycle is avoided. Higher valuations for stocks as represented by their P/E ratios are also justified because lower interest rates directly affect the "discounted dividends stream" model that is used to determine the theoretical value of stocks. Finally, lower interest rates are good for business in general.

Stocks are currently selling at the high end of historical P/E ranges. As we have pointed out, the current economic background in the US does justify higher than average P/E multiples. However, valuations can get excessive and certainly should not be expected to expand indefinitely. Most likely when the background factors become less favourable excessive valuation levels will contract. Another scenario for a multiple contraction could be simply a reaction to excessive investor enthusiasm. While there has been a great deal of interest in equities over the past two years, the market mood in general does not appear to be dangerously euphoric yet. Nevertheless, the market will eventually break down into a bear market.

Bear markets tend to move faster than bull markets and become more emotional as stocks decline. Investors (and analysts) start looking for the "problems" that are causing the decline and that had not been anticipated. On a strictly psychological level this doubt "pops the greed bubble" and the prevailing emotion turns to fear. Fear distracts from the objectivity of the analysis process. In many cases operating problems are exaggerated or even invented. Stock prices overreact and, in general, valuations are even more irrational than the excessively optimistic valuations of a bull market. The bear market is an unpleasant time that presents rewarding opportunities for good stock selection.

From a practical point of view we do not know when the next bear market will start.

The early stages of the following bull market will be met by general investor scepticism. Fortunately, we have a history of being in the optimistic camp early in a bull market. It is a time when it pays to aggressively pursue high potential growth stocks and it is nice to know that the odds greatly favour being constructive and rejecting the majority opinion that will still be negative at that time. We find it much easier to identify the bottom of the bear market and the beginnings of a new bull market than identifying the top of a bull market.

Again the bottom of a bear market is not a fun time emotionally.

When we start into a new bull market we will be nervously optimistic since it won't be easy to justify being positive based on the prevailing news at that time. Bear markets that are related to economic downturns end not at the beginning of an economic recovery, but right in the middle of the economic downturn. This is a historical observation, which of course can only be verified after the fact.

If the above seems vague or like bafflegab we can assure you that it is, in fact, a very good description. It also might reinforce why we have come to the conclusion that stock selection is much more important than market timing.

Stock Selection

After saying so much about the market cycle we feel that a short reiteration of our stock selection philosophy is in order:

We like to think of our stock evaluation style as growth at a reasonable price. Equally important to our style is the emphasis that we put on trying to identify significant long-term growth potential.

There are many significant nuances to our main investment style as just stated:

- We prefer companies that have demonstrated the ability to grow in the past.
- We like to invest with managements that rate well, based on how they have planned and achieved growth and how they have handled periods of adversity.
- We compare return on equity both absolutely and relative to a company's industry. This also gives insight into a company's ability to grow through internally generated funds.
- We do an evaluation of the likelihood of positive earnings surprises against widely held expectations.
- We make a judgment, which is critical in our opinion, but which academics dismiss completely, of the likelihood of a company's current management policies providing superior growth in the future.
- There are also many more factors that have to be weighed and prioritized. It is a complex process that probably works better on an intuitive level than by means of a formalized formula.

Outlook for 1998

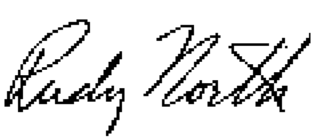
The outlook for 1998 is for fairly wide swings in the market. We will be concentrating on moving out of our past winners when we feel they have become overpriced. This was our strategy for much of 1997. We will also put much of our efforts into identifying high potential stocks for the longer term. Many of these stocks will not be expected to do particularly well during a market correction. For this reason they will be kept down to token positions. We will stay on top of these stocks with the view of making them large positions when we feel the timing is right.

Currently we feel it is the stage of the market when it is appropriate to have an above normal amount of the Fund invested in stocks that are good value and whose fundamentals are currently good but which do not have the high long-term growth potential that we normally strive for. These stocks should allow us to participate in the remainder of this bull market without making the Fund too vulnerable during a correction. They will provide a source of funds when we decide that it is time to increase the weighting in our "pilot holdings" of high potential stocks.

Many of the high potential stocks that we are prospecting are also small-cap or mid-cap stocks. As we have stated many times before, these two groups have been under-performing relative to large-cap stocks. Small-cap and mid-cap stocks go through extended periods of under- or out-performing large-cap stocks. Based on historical observations, they are prime candidates for superior performance early in a new bull market.

Stock selection will continue to be our main strategy in seeking superior performance in 1998. It is going to be an interesting and challenging year.

Yours truly,



Rudy North
President & Director

Performance Results

Dear Unitholder:

On December 31, 1997, the net asset value of the North Growth US Equity Fund was $20.17 Canadian per unit, before the payment of a stock dividend. This represents a 29.1% gain during 1997.

The annual stock dividend paid at the end of the year was $4.42 per unit. This payout reflects the income and realized capital gains that will be allocated to each unitholder by way of their 1997 T3 tax form from the Fund.

Performance Comparisons*

	Annual Results				
	1997	**1996**	**1995**	**1994**	**1993**
U.S. Special Equity Fund $Cdn	29.1%	29.5%	25.0%	0.4%	15.1%
U.S. Special Equity Fund $U.S.	**23.7%**	**28.9%**	**28.5%**	**-5.4%**	**10.8%**
S&P 500 $U.S.	33.1%	22.7%	37.1%	1.3%	9.9%
S&P Midcap $U.S.	32.0%	19.1%	30.7%	-3.6%	13.8%
Russell 2000 $U.S.	22.1%	16.4%	27.4%	-1.8%	18.9%
NASDAQ Composite $U.S.	22.1%	23.0%	40.8%	-3.2%	14.8%

* Including income in all cases.

Source: Bloomberg, "Total Return Analysis" as of April 1, 1998
Salomon Smith Barney Inc.

Average Annual Compound Rate of Return as of Dec 31/97

	1 Year	**2 Years**	**3 Years**	**4 Years**	**5 Years**
North Growth US Equity Fund	29.1%	29.3%	27.9%	20.4%	19.3%

Performance Since Inception-October 13, 1992 – December 31, 1997 22.4%

Portfolio Valuation - December 31, 1997 (as a %)

Basic Industries	
Mississippi Chemical (GRO)	1.75
Northwest Pipe Co. (NWPX)	3.77
Total	**5.52**
Consumer Cyclical	
Jones Apparel Group, Inc. (JNY)	0.08
Kellwood Co. (KWD)	2.73
Tommy Hilfiger Corp. (TOM)	2.23
Total	**5.04**
Consumer Durables	
O'Sullivan Industries (OSU)	0.92
Total	**0.92**
Consumer Non-Durables	
Barrett Business Services (BBSI)	2.95
Total	**2.95**
Capital Goods	
Greenbrier Cos. Inc. (GBX)	3.11
Owosso Corp. (OWOS)	2.09
Precision Castparts (PCP)	3.32
Xerox Corp. (XRX)	3.02
Total	**11.54**
Credit Cyclical	
Clayton Homes, Inc. (CMH)	2.98
Total	**2.98**
Technology	
Adobe Systems (ADBE)	0.88
Amerilink Corp. (ALNK)	1.41
Digital Equipment Corp. (DEC)	2.49
EMC Corp. (EMC)	0.10
Hewlett-Packard (HWP)	0.23
Intel Corp. Common (INTC)	0.26
LSI Logic (LSI)	0.18
Microsoft Corp. (MSFT)	0.38
Nextel Communications (NXTL)	5.17
Omnipoint Corp. (OMPT)	0.27
SBS Technologies Inc. (SBSE)	1.88
Texas Instruments Inc. (TXN)	0.20
Total	**13.45**
Energy	
Chesapeake Energy Corp. (CHK)	1.70
Costilla Energy (COSE)	1.44
Diamond Offshore Drilling (DO)	3.55
Total	**6.69**

Portfolio Valuation - December 31, 1997 (as a %)

Healthcare	
Integrated Health (IHS)	1.14
Sierra Healthcare (SIE)	2.23
Wellpoint Health Networks (WLP)	2.10
Total	**5.47**
Media/Entertainment	
Carnival Corp (CCL)	2.45
Comcast Corp. Cl A (CMCSK)	4.16
Cox Communications (COX)	1.58
Total	**8.19**
Retail	
APS Holdings (APSI)	0.55
Claire's Stores (CLE)	1.18
CompUSA Inc. (CPU)	5.49
Costco Companies (COST)	2.11
Dress Barn Inc. (DBRN)	2.93
Fred Meyer Inc. (FMY)	0.67
Inacom Corp. (ICO)	2.89
Michaels Stores Inc. (MIKE)	1.17
Pier 1 Imports Inc. (PIR)	1.35
Total	**18.34**
Transportation	
Alaska Air Group (ALK)	1.07
AMR Corp. (AMR)	3.60
Greyhound Lines Inc. (BUS)	1.88
Mesa Airlines Inc. (MESA)	3.12
Total	**9.67**
Total Equities	**90.75**
Cash and Short Term Notes	**9.25**
TOTAL ASSETS	**100.00%**