

GROWTH AT A
REASONABLE PRICE

2003 ANNUAL REPORT



NORTH
GROWTH MANAGEMENT LTD.

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PRESIDENT'S MESSAGE

DEAR UNITHOLDER,

I began the 2002 annual report with the statement, "Now is the time to buy common stocks"! We are very pleased that many of our unitholders did buy equities late in 2002 and throughout 2003. Our clients are proving to be intelligent long-term investors.

Apart from the upturn in the US equity markets and the many investment developments during 2003, North Growth Management had an eventful year that included adding two new products, developing an in-house system to support our own RRSP, doubling assets under management to over \$200 million, making some key personnel additions, not to mention significantly expanding our office space and beefing up our IT systems. With the exception of our core team members and investment philosophy, almost everything within the organization has changed.

In addition to the US Equity Fund and the Money Market Fund, we are pleased to offer a currency hedge product, a Canadian Equity Fund, and our own RRSP. The Currency Hedge Limited Partnership was launched on May 1st in response to ongoing concerns about the relative valuations of the Canadian and US dollars (see Rory North's essay of page 9). In May, we took over the management of the Watermark Partners Value Fund and renamed it the North Growth Canadian Equity Fund, quickly realigning the portfolio to reflect our "growth at a reasonable price" philosophy. By the end of the year, we had also completed the development of our own RRSP which we launched at the beginning of 2004. With these new products in place, North Growth Management is in a position to provide all of your core investment needs.

Despite all this activity, our main focus continued to be on the management of the Funds. In US dollars, the North Growth US Equity Fund rose 52.7%. There were only a few other times in my forty year career when I was associated with gains of this magnitude and all were achieved in the first 12 months of a new bull market.

As I have mentioned in previous reports, the portfolio management team has proven itself over the past few years. Rory North and Erica Lau have refined our fundamental company research methods and consistently applied our "growth at a reasonable price" investment philosophy with extraordinary success. This is documented by the strong relative performance of the US Fund since the beginning of 2000, 6 months after Rory took over the role of team leader. Rory and Erica are supported by two new team members, Cynthia Yen and Jamie Kozak, who are fitting in very well. I remain the investment philosopher, market historian and sounding board.



Back row (left to right): Jamie Kozak, Cynthia Yen, John Jackman, Rory North, Nicole Huk. Front row (left to right): Erica Lau, Rudy North, Caroline North.

Our core employees now have the added incentive of share ownership. In December of this year I gave up sole ownership of the company and offered shares to several of our key employees. I anticipate more such offering in the coming years.

Overall, 2003 was an exciting and productive year for North Growth Management. Throughout 2004, we will be working hard managing the portfolios and building depth into all aspects of the company. We endeavor to deliver our unitholders excellent investment results and financial advice. Come down and visit our newly expanded office space, your management team always welcomes the opportunity to get to know you better!

Yours truly,

Rudy North,
North Growth Management Ltd.

2003 PERFORMANCE REVIEW

THE NORTH GROWTH FAMILY OF FUNDS

North Growth US Equity Fund

The Fund performed exceptionally well during 2003, returning 52.7% for the year compared to 50.8% for the NASDAQ Composite, 47.3% for the Russell 2000, 35.6% for the S&P 400 Mid Cap and 28.7% for the S&P 500. The strength of the Canadian dollar reduced the Fund's return in Canadian dollars to 25.5%. The Canadian dollar gain for the S&P 500 was only 5.8%. The first year of a new bull market such as was experienced in 2003 is the best year of the cycle. Last year's strength relative to the S&P 500 is not a reasonable expectation for future years.

North Growth CDN Equity Fund

The North Growth Canadian Equity Fund came into existence on May 1, 2003 when North Growth Management took over the management of the fund formerly known as the Watermark Partners Value Fund. From May 1 to December 31, 2003, the Fund returned 22.8% versus 26.4% for the S&P TSX Composite Index. As the North Growth US Equity Fund constitutes just under 30% of the book value of the Fund, a relevant index to consider when evaluating the Fund's performance is a composite that represents a 70% weight of the S&P TSX and a 30% weight of the S&P 500 expressed in Canadian dollars. Since North Growth began managing the Fund until December 31, 2003, the 70/30 Composite Index was up 21.7%, lagging the Fund's performance by approximately 1%.

North Growth CDN Money Market Fund

The Fund's current yield ended 2003 at 2.48%, remaining relatively flat from the 2.52% current yield at the beginning of the year. Similarly, the Bank of Canada's overnight target rate at both the beginning and the end of 2003 was 2.75%. During the year, the Bank of Canada raised the overnight target rate twice in March and April by 0.25% each time to 3.25%, but subsequently lowered the overnight rate by a quarter percentage point in July and 0.25% again in September back down to 2.75% by year-end. Due to the relatively short average maturities within the Fund of 30 days or less, the direction of the Fund's current yield should continue to correspond with the direction in Canadian short-term interest rates going forward.

The Fund continues to invest in a well-diversified portfolio of Canadian money market securities, with an emphasis on higher credit ratings to avoid undue credit risk. The Fund's competitive 0.25% all-in-one management fee helped it outperform the average of the Globe & Mail's universe of Canadian Money Market Funds by 0.49% in 2003.

North Growth Currency Hedge Limited Partnership

After over a year in development, the North Growth Currency Hedge Limited Partnership was established on March 27, 2003. On May 1, 2003, after a one-month live test, the partnership was introduced to accredited investors with a minimum of \$250,000 invested in the North Growth US Equity Fund. This unique product was designed to eliminate most of the currency risk inherent in a Canadian's investment in US equities. Essentially, the partnership establishes a short US dollar position to offset the long US dollar position established with ownership of US equities.

The return for an individual partner is dependent on the exchange rate at the time they establish the hedge and the subsequent exchange rate movements. Due to the exceptional strength of the Canadian dollar during 2003, the partnership was highly profitable, generating approximately \$4.9 million in net income that was distributed to the limited partners on a pro-rata basis based on the amount hedged and the date the hedge was established.

MANAGEMENT FEES, BY ERICA LAU

North Growth Family of Funds	Management Fee *
US Equity	1.20%
Canadian Equity	1.25%
Canadian Money Market	0.25%
Currency Hedge Limited Partnership	0.50%

** The management fee for each of the Funds is all inclusive, meaning that North Growth Management, the Manager, absorbs all other expenses (e.g. accounting, legal) of the Fund.*

The fees that North Growth Management charges for its family of Funds, as set out in the table above, are among the lowest in the Canadian mutual fund industry. According to Morningstar Canada, the average management expense ratio (management fee and other fund expenses) for the US equity fund category is 2.46% - twice the comparable 1.2% fee of the North Growth US Equity Fund.

The difference of approximately 1.2% per annum has a significant impact on the long-term performance of an investment. To put this into perspective, consider a \$100,000 investment in an equity fund with an average annual return of 13% before fees over ten years. After fees of 2.5% each year, the net return to the investor would be 10.5%, and the initial \$100,000 investment would be worth \$271,408 at the end of the ten-year horizon. The same investment would net an average annual return of 11.75% if the fees were halved at 1.25%, and the initial \$100,000 investment would grow to \$303,721 after ten years - an additional \$32,313. Clearly, all else being equal, low fees meaningfully enhance investment results over the long run.

Aside from the all-inclusive management fee, there are no additional charges involved in investing in any North Growth Fund. Our Funds are all no-load, meaning that there is no purchase fee (front-end load) or redemption fee (back-end load). Furthermore, North Growth Management does not pay any trailer fees on the sale of its Funds. A common feature in the mutual fund industry, trailer fees are annual service commissions paid by mutual fund companies to sales representatives.

North Growth Management's mission is to achieve superior long-term results for our investors by focusing exclusively on the management of our Funds and assisting our clients with their overall investment programs. We believe that our objectives and our clients' objectives are facilitated by our competitive, simple and transparent fee structure.

PERFORMANCE RESULTS:

AN ASSESSMENT OF THE MANAGEMENT RECORD

Performance is the all important final word in assessing the value of an investment manager. Obviously we enjoy presenting this data. There is, however, a serious challenge when reviewing performance to put current short-term results and longer term performance into the correct perspective. The fact is that the different ways of presenting a record of performance all give different perspectives, all of which are relevant and should be considered.

Annual Performance Results

This data gives you insight into the typical annual variations in investment results. Annual results explain how the long-term results come about and will reveal whether a record is dependent largely on earlier results, or more recent results, or more ideally a balance of both.

NORTH GROWTH US EQUITY FUND

Calendar Year	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
North Growth US Equity Fund \$CDN	25.5%	-2.0%	12.9%	43.4%	7.2%	6.3%	29.1%	29.5%	25.0%	0.4%	15.1%
North Growth US Equity Fund \$US	52.7%	-1.1%	6.2%	38.0%	13.9%	-0.8%	23.7%	28.9%	28.5%	-5.4%	10.8%
S&P 500 \$US	28.7%	-22.1%	-11.9%	-9.1%	21.0%	28.6%	33.4%	23.0%	37.6%	1.3%	10.1%
S&P 400 Mid Cap \$US	35.6%	-14.5%	-0.6%	17.5%	14.7%	19.1%	32.2%	19.2%	30.9%	-3.6%	13.9%
Russell 2000 \$US*	47.3%	-20.5%	2.6%	-2.9%	21.4%	-2.2%	22.2%	16.6%	26.2%	-3.2%	17.0%
NASDAQ Composite \$US*	50.8%	-31.3%	-20.8%	-39.2%	86.1%	40.2%	22.2%	23.0%	41.0%	-3.2%	14.8%

Source: Bloomberg "Total Return Analysis"

*Price appreciation only for Russell 2000 between 1993 and 1995, and for NASDAQ in 1993 and 1994

NAVPS: Dec 31, 2003:
\$23.32 CDN
\$17.98 US

NORTH GROWTH CDN EQUITY FUND

Calendar Year	2003	2002	2001
North Growth CDN Equity Fund \$CDN	17.0%	-6.9%	13.0%
S&P TSX \$CDN	26.7%	-12.4%	-12.6%
70% TSX/30%S&P 500 \$CDN	20.2%	-15.6%	-10.7%
North Growth US Equity Fund \$CDN	25.5%	-2.0%	12.9%
S&P 500 \$CDN	5.8%	-22.8%	-6.4%

NAVPS: Dec 31, 2003:
\$12.51 CDN

PERFORMANCE RESULTS, CONT...

Average Annual Compound Rate of Return

It is virtually impossible to correctly judge any longer term average rate of performance from looking at a series of annual results. One needs to have some sense of average annual compound rates of return in order to make financial planning decisions and for comparing alternative investments.

The Average Annual Compound Rates of Return Table shows average annual results over the complete range of years of the Fund's existence. This data should help you get a feel for what results from holding the Fund for longer periods of time. The obvious conclusion is that the average annual rate of return becomes less volatile as the holding period is extended. Nevertheless, these historical results still cannot guarantee similar results in the future.

NORTH GROWTH US EQUITY FUND

	1 yr	2 yrs	3 yrs	4 yrs	5 yrs	6 yrs	7 yrs	8 yrs	9 yrs	10 yrs
North Growth US Equity Fund \$CDN	25.5%	10.9%	11.6%	18.8%	16.4%	14.6%	16.6%	18.1%	18.9%	16.9%
North Growth US Equity Fund \$US	52.7%	22.9%	17.1%	22.0%	20.3%	16.5%	17.5%	18.9%	19.9%	17.1%

Annualized Performance since Inception (Oct. 13/92 - Dec 31/03)

18.2% CDN
17.7% US

NORTH GROWTH CDN EQUITY FUND

	1 yr	2 yrs	3 yrs	Since NGM takeover*
North Growth CDN Equity Fund \$CDN	17.0%	4.4%	7.2%	22.8%

* (May 1, 2003)

Annualized Performance (Sept 1/00 - Dec 31/03)

7.3% CDN

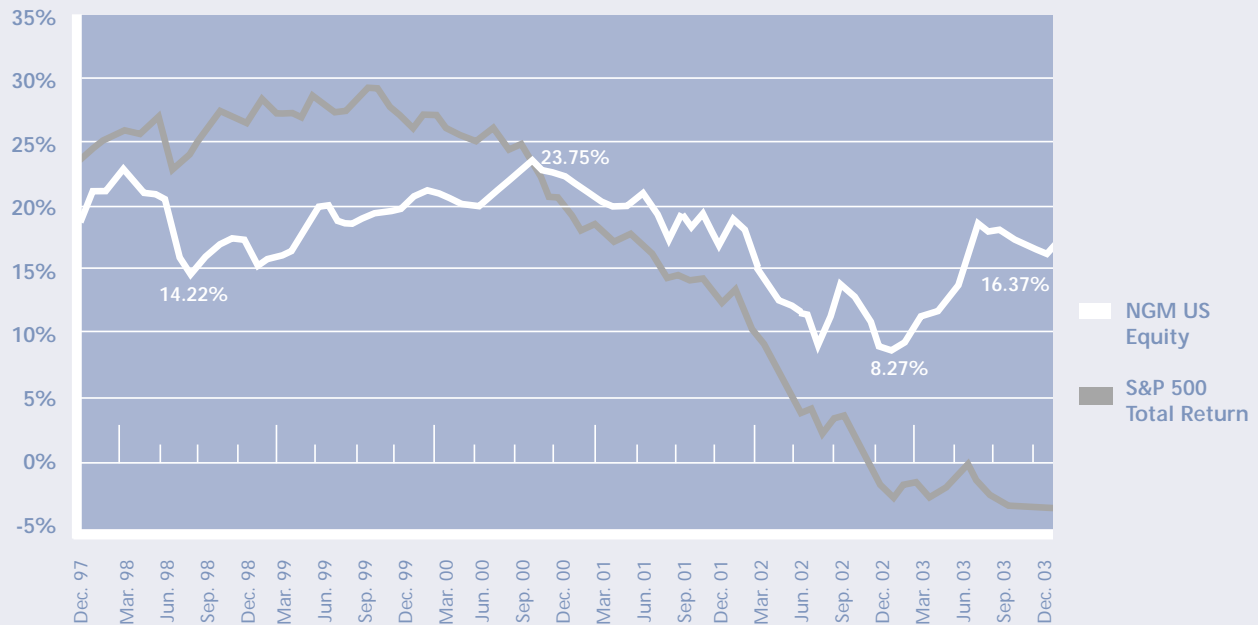
PERFORMANCE RESULTS, CONT...

Running Five-Year Results: The Best Long-Term Perspective of a Fund's Performance

We feel this is the measure that gives the best long-term perspective of a Fund's performance. It presents longer term results in a way which is neither overly influenced by long past periods of good performance nor overly influenced by current results (end date sensitivity). The running 5-year average return chart effectively achieves this desired balance. By providing every month end 5-year holding period this presentation gives a complete record of the range of performance that has been typical of the Fund.

RUNNING 5-YEAR AVERAGE ANNUAL RETURNS (\$CDN)

The complete record of every month-end 5-year holding period during the Fund's existence



REASONABLE EXPECTATIONS

The record of the 20th century clearly established that equities are the best asset class available to investors interested in achieving long-term growth of capital. Obviously past performance is no guarantee of future results. However, in every decade with the exception of the 1930s equities in the US outperformed fixed income securities. Based on the record, it seems reasonable to expect 9 – 12% per annum total return from equities. A rough rule of thumb: over extended time periods equities produce roughly twice the return of long-term bonds.

Over the shorter term, equity results are more volatile than fixed income results. Human nature seems to dictate that the most recent past experience will influence emotions and decisions more than long-term observations.

Despite the fact that virtually all serious investors accept the fact that equities are the best investments for achieving long-term growth, the fear of a short-term setback tends to discourage people from investing after a period of

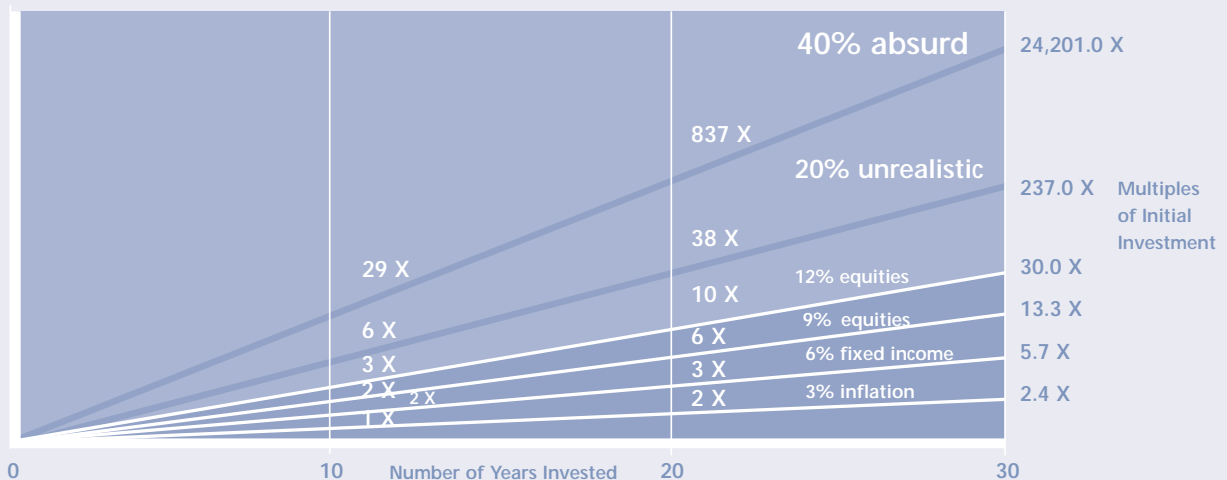
REASONABLE EXPECTATIONS, CONT...

declining markets. This is completely opposite to rational action if equities are the best long-term asset class. Conversely, even though most serious investors will usually not admit to expecting more than 9 – 12% annual compound rates over the long-term, after a number of positive years for equity markets, some of these same people will chase the market leaders at that time hoping to get in on this much higher growth even though these stocks may be grossly overextended. At the top of equity bull markets even pension fund committees stop worrying so much about the short-term volatility of equities and allow the equity portion of their portfolios to reach their highest levels. This is not just caused by stock appreciation; in those years new purchases of equities reach record levels.

All of this is so obviously wrong that it should not be tolerated by any intelligent, rational investor. Mature people learn to suppress all sorts of counterproductive behaviour that could be attributed to basic traits of human nature. Why not extend this to investing?

The following chart gives a good insight into what constitutes “Reasonable Expectations” and should help as a guide for long-term investment planning.

LONG-TERM AVERAGE ANNUAL COMPOUNDED RATES OF RETURN



If one is interested in long-term results to provide for retirement or some legacy project, 30 years is a reasonable time horizon to use for planning purposes. 3% is a fairly good long-term assumption for inflation. The 13.3 fold increase that would be obtained with a 9% growth rate from equities is really very good relative to the 2.4 fold increase from short-term fixed income or even the 5.7 fold increase from long-term fixed income. It is probably safe to say that nobody can save enough to provide for an adequate retirement at GIC type rates. One might be able to reach one’s goals with long-term fixed income returns, especially over the past 22 years which has been the greatest bull market in bonds for a century – an observation which should provoke some serious thought at this time.

On a more encouraging note, as illustrated in the chart, a 12% long-term return from equities is not an unreasonable expectation for a well managed equity portfolio. The 30 fold increase this brings over a 30 year period should be attractive to realistic investors. Even over 10 and 20 years the respective increase of 3 and

REASONABLE EXPECTATIONS, CONT...

10 fold should be more than enough to overcome the short-term anxiety that can be caused by a bear market in stocks. Of course, these results assume the regular reoccurrence of market corrections.

It is not uncommon for good money managers to have five year periods of 20% average annual compound growth from time to time. However, when one considers that 20% compounded for 30 years would result in a 237 fold increase compared to a 2.4 fold increase assuming a 3% rate of growth for inflation, it should be obvious that a long-term average annual compounded return of 20% is not a reasonable expectation.

For a final reality check, consider what a 40% rate of return would accumulate over the long-term: compounded for 30 years a 40% rate of return would result in a 24,201 fold increase in capital! This just doesn't happen.

This exercise is not meant to be a complete guide to reasonable financial planning, but it should help keep you focused on what is reasonable and provide you with a solid basis from which to start developing a rational plan. It is bound to generate many questions and we are happy to meet with you to help formulate a plan that gives sufficient consideration to historic investment realities.

CURRENCY RISK, BY RORY NORTH

North Growth Management Ltd. first published a currency risk commentary section in its 2001 annual report (published February 2002). At that time most economic commentators seemed convinced that the Canadian dollar was headed for 50 cents and a good number of our clients seemed to agree with them. We presented our dissenting opinion that the Canadian dollar was likely undervalued versus the US dollar and that our clients must consider this risk when investing in US equities. At the same time we also stated that we believed US equity markets were an ideal place for active equity investors such as ourselves. We re-emphasized this position in our 2002 annual report (published February 2003) and suggested that Canadian investors in US Equities should explore ways to hedge away the currency risk. On May 1, 2003, after a year of development and with the Canadian dollar having already rallied from its 62 cent low and then trading at just over 70 cents, North Growth Management introduced its proprietary currency hedge overlay product, the North Growth Currency Hedge Limited Partnership, to North Growth US Equity Fund unitholders.

As it turned out, one of the most significant financial market stories for 2003 was the rapid depreciation of the US dollar. During 2003, the Canadian dollar appreciated approximately 21% versus the US dollar to close at 77.13 cents US per Canadian dollar. Also during the year, the euro appreciated over 26% and the Japanese yen was up by approximately 11%. A trade-weighted measure showed the US dollar to have depreciated by approximately 9%. The trade-weighted dollar depreciated less primarily due to the impact from the Mexican peso which actually depreciated versus the US dollar and the Chinese yuan which stayed pretty much flat as it is pegged to the US dollar.

The key points of our original argument that the Canadian dollar was likely undervalued versus the US dollar were the strong current account surplus in Canada versus the large current account deficit in the US, the federal government surpluses in Canada versus federal deficits in the US, and anecdotal evidence that suggested that goods were cheaper on a currency-adjusted basis in Canada than in the US (ie.: purchasing power parity did not exist between Canada and the US).

CURRENCY RISK, CONT...

In hindsight, it appears that one additional factor should have been noted. From 1996 to 2000, short-term Canadian interest rates were lower than short-term US interest rates, generating greater demand for US dollars and helping to create the overvaluation of the US dollar. From early 2001 to mid-2002, both US and Canadian short-term rates were cut dramatically. Canadian short-term rates bottomed in January 2002, and at this point short-term Canadian interest rates versus US rates had moved to a 50 basis point premium. Canadian rates were subsequently incrementally increased to reach 3.5% in April 2003 while US rates fell further, causing the Canadian dollar interest rate premium to expand to 225 basis points. It now seems highly unlikely that it is just coincidence that the Canadian dollar hit its ultimate lows in mid January 2002. A more logical conclusion is that the swing from a Canadian dollar interest rate discount to an interest rate premium was an important contributor to the recent strength in the Canadian dollar.

The large US federal budget deficit has been attracting a lot of attention recently. With an improving global economy and the possibility of renewed spending restraint from the US government, we believe we are likely to see significant improvement in this statistic over the next few years. The strong global economy and the significant depreciation in the US dollar should also ultimately result in a meaningful decrease in the US trade deficit.

Anecdotally, there is evidence that the current US/CDN exchange rate has swung to a level where some goods may again be cheaper on a currency-adjusted basis in the US than in Canada. A recent *Globe and Mail* article talked about Canadian auto dealers looking at measures to stop the importation of US cars to Canada – the inverse of the story we referred to in February of 2002. Recently, *Intrawest* cited lower US skier visits to its Whistler Mountain Resort and highlighted the stronger Canadian dollar as a reason for this decline.

Furthermore, the Canadian dollar short term interest rate premium has shrunk by 50 basis points to 175. This spread is likely to decrease further in the near-term as the Bank of Canada has an easing bias in place while the US Federal Reserve seems to be preparing the market for an increase in short term rates – although not imminently.

With the 22% plus adjustment to the exchange rate from the Canadian dollar's trough level behind us, North Growth Management advised clients who had established a currency hedge position through our Limited Partnership product to reduce their hedge level from 90% to under 50% on October 23, 2003. A 50% hedged position is about as non-committal as you can get. In the near term we think the US/CDN exchange rate is likely to continue to be extremely volatile but largely directionless.

Volatility in exchange rates will always be a factor in international or cross border investing and should be considered by investors when making such investment decisions. It is our opinion that as long as the exchange rate at your entry point is close to fair value, rate movements should not be a significant contributor to your long-term investment results. We concur with estimates of fair value for the US/Canadian exchange rate at somewhere between 75 and 80 cents US per Canadian dollar.

The North Growth Currency Hedge Limited Partnership is a simple way to reduce the exposure to currency movements for investors in the North Growth US Equity Fund. It is a unique product available only to investors with a minimum of \$250,000 invested in the US Fund and who are eligible to purchase under the accredited investor rules. The Limited Partnership is a very effective product, but as we no longer believe the Canadian dollar is substantially undervalued we are not convinced that the additional cost of establishing a hedge is worth the risk reduction achieved.

ECONOMIC REVIEW AND OUTLOOK FOR 2004

Review of Past Economic Commentary

As always, we must go on record to state that company specific fundamental analysis and stock selection are much greater contributors to our long-term performance than any grand strategy based on economic analysis. On the other hand, we would feel irresponsible and a bit directionless if we did not have a good understanding of the economic environment. We feel that experience and an objective historical perspective is essential in arriving at useful economic observations. A quick review of recent past consensus economic commentary illustrates the need to be on the lookout for what is merely emotional reaction to short-term developments.

At the top of the economic cycle when sober economic analysis could be very useful in identifying dangers for investors, the prevailing economic scenarios that are put forward typically try to rationalize why rapid growth will continue. The top of the 1990s economic expansion was an extreme example of this tendency. There was much talk about the new economy, productivity gains without end and even a few claims that there was no longer any reason for economic downturns. Countering that type of commentary made the job of writing economic reports quite interesting and worthwhile. Even after many economic measures had turned down, a severe recession in manufacturing had developed, and the booming high tech industry had turned into a bust, the mainstream economic commentary remained overly optimistic and in denial of an economic downturn!

This carried on until the late in the summer of 2001 when concern about the economy became the dominant theme of economic commentary and equity markets were reflecting this with a precipitous decline that reached a climax with the 9/11 crisis. You will remember that by October 2001 the consensus was that after almost two years of declining markets and a crisis causing a near panic selling climax, it was time to be “sophisticated”, buy the market leaders of the past cycle (which were grossly over-priced by all past precedents) and hope for a continuation of a ‘90s type bull market.

The economic slowdown and accompanying bear market had not yet killed the excessive optimism of the ‘90s. Throughout 2000 and 2001 both general economic data and weakening company developments were given strangely optimistic spins. This emotional overview suppressed objective observation of economic data. When the renewed enthusiasm for the equities markets that arose shortly after 9/11 failed to follow through in 2002, both market and economic commentary turned negative and stayed that way throughout the year.

The reality was that during 2002 most economic measures were either showing signs of bottoming or were in the early stages of recovery. The bottom of the bear market occurred on October 9, 2002. More than anything else, the Federal Reserve rate cuts during 2001 and into 2002 and the expressed resolve to keep rates low were doing their job. It was the classic scenario for an economic recovery and the beginning of a new bull market.

We felt it would be useful to present this rather superficial review of the years leading up to 2003 to emphasize our view that the opinions which have been expressed as economic commentary over the recent past have tended to be little more than a rationalization of the prevailing stock market mood. A major turning point at the top of the last cycle was missed and a classic case for a new cycle was explained away or ignored in favour of dwelling belatedly on the problems of the downturn.

ECONOMIC REVIEW AND OUTLOOK FOR 2004, CONT...

Outlook 2004

There is no longer any valid debate as to whether or not the economy is in a sustainable recovery – it is! As for the stock market, the levels of over-optimism that should be taken as a warning sign just don't exist.

Earnings for the 4th quarter of 2003 have now been reported. The average increase for the quarter on a year-over-year basis was well over 20%. Moreover, two thirds of companies have reported earnings that were above expectations. Investor reaction to these excellent earnings has been subdued. This happens in healthy bull markets. For its part, management has generally remained cautious in its guidance on future earnings even when all aspects of current business are positive. Any admission of a possible problem causes an immediate negative market response.

As 2004 progresses, more and more people will become comfortable that the economy is on sound ground and that the outlook for earnings is for continued growth. During the “middle period” of the cycle consensus will be essentially correct. It will be a mistake to interpret this more positive outlook as a danger sign.

As we have mentioned in a recent monthly report, we have been very out of sync with the consensus opinions for the past few years. While this position has served us well, we do not make a point of being contrarian just for the sake of being contrarian. We currently agree with the opinions of many Wall Street forecasters even though we believe they are still underestimating the potential of the current earnings cycle.

The major economic factors that turned the economy around starting in 2002 (low interest rates, expanding money supply and stimulative fiscal policy) are still in place. Two years of modest economic recovery, not surprisingly, has yet to develop any signs of economic imbalances. On the contrary, the economy has produced strong, ongoing increases in productivity. This is one factor responsible for the modest rate of new job creation. Increasing productivity has also been a big factor in improving operating margins.

While consumer debt is on the high side, continued consumer spending will be supported by the continued job creation driven by the economic recovery. Strong earnings growth is expected to be a major contributor to further economic growth through capital spending and higher dividend payouts. Inventory building is a factor in every economic cycle. This is necessary to support higher levels of business activities. Very little inventory rebuilding has taken place so far in this recovery.

The world economy is experiencing a synchronized recovery that favours growth in US export business. China is booming and Japan is finally growing strongly after being stalled for over ten years. The weaker US dollar is also good for the US export business. All of these factors coming together while there is still plenty of slack in the economy both on the labour front and in unused physical capacity adds up to a powerful economic scenario which doesn't seem to be fully appreciated.

ECONOMIC REVIEW AND OUTLOOK FOR 2004, CONT...

The general economic background is conducive to a continuation of strong earnings growth in 2004. The strength of the US equity markets during 2003 has resulted in some overvalued equities - average valuations are also quite high but much more reasonable than the peak levels of 1999-2000. This means that our "growth at a reasonable price" discipline will be very important as it drives us to sell down stocks that are becoming expensive. We were doing this continuously as 2003 progressed and we are pleased that we are still finding attractively priced stocks. This is an ideal environment for stock picking. As always, North Growth Management will focus on identifying solid "growth at a reasonable price" investment opportunities for our Funds.

NORTH GROWTH US EQUITY FUND PORTFOLIO

AS OF DECEMBER 31, 2003

Nextel Communications, Inc. (CI A)... is a leading provider of fully-integrated, wireless communications services and has built the largest all-digital wireless network in the US. With over 12 million domestic subscribers, Nextel Communications provides all-digital cellular service, Nextel Direct Connect®, Nextel Mobile Messaging, and Nextel Online®.

Chesapeake Energy Corporation... is one of the 5 largest independent natural gas producers in the US. The Company has been one of the industry's most active drillers of deep vertical and horizontal wells and among the leaders in the use of enhanced seismic interpretation, advanced drilling technologies, and sophisticated well completion techniques. The Company's reserves and current drilling activities are concentrated in its core operating area of the Mid-Continent region, which includes Oklahoma, Western Arkansas, the Texas Panhandle and Southwest Kansas.

GAP, Inc... is a leading specialty retailer offering clothing, accessories and personal care products for men, women, children and babies. It operates nearly 420 stores worldwide under the Gap, Banana Republic and Old Navy brand names.

Texas Instruments, Inc... is a global semiconductor company and the world's leading designer and supplier of DSP (digital signal processing) and analog solutions, the engines driving the digitization of electronics. The Company continues to invest in the latest production technologies and is positioned to benefit from growth in its end markets as digital devices become more sophisticated and abundant. In addition to semiconductors, Texas Instrument's businesses also include Sensors & Controls, and Educational & Productivity Solutions.

Cisco Systems, Inc... is a leading provider of networking equipment, including routers, switches and access products. The Company has established a leadership position in a number of high growth markets including internet and wireless infrastructure.

Wellpoint Health Networks, Inc... is one of the largest publicly traded managed health care companies in the US. It serves the needs of more than 14 million medical members and 44 million specialty members nationwide through Blue Cross of California®, Blue Cross and Blue Shield of Georgia®, Blue Cross and Blue Shield of Missouri®, Blue Cross Clue Shield of Wisconsin®, Healthlink and UNICARE.

Cardinal Health, Inc... provides complementary products and services to health-care providers and manufacturers. The largest US distributor of pharmaceuticals and other medical supplies and equipment, manufactures medical-surgical and laboratory supplies, manufactures automated dispensing systems, develops drug-delivery systems, franchises retail pharmacies, and offers consulting and other services to improve quality and efficiency in health care.

Intel Corporation... designs, manufactures, and sells computer components and related products. The Company is the world's largest chip maker, and its major products include microprocessors, chipsets, embedded processors and microcontrollers, flash memory products, graphics products, network and communications products, system management software, conferencing products, and digital imaging products.

American Power Conversion Corporation... designs, manufactures and markets products that improve the reliability and productivity of computer systems by protecting hardware and data from the threat of power disturbances. Products include surge protectors, uninterruptible power supplies and various software products that help manage systems and networks when power fails.

NORTH GROWTH US EQUITY FUND PORTFOLIO

AS OF DECEMBER 31, 2003

Microsoft Corporation... is the worldwide leader in developing, manufacturing, licensing and selling software, services and Internet technologies for personal and business computing. The Company offers operating system software, server application software, business and consumer applications software, software development tools, and Internet and intranet software. Microsoft also develops the MSN network of Internet products and services, as well as the Xbox game console.

Ocular Sciences, Inc... is a growing manufacturer and marketer of a broad line of soft contact lenses. Ocular's strategy is to market exclusively to eye care practitioners high quality, competitively priced contact lenses that are brand-differentiated by private label and channel. Brands include Hydron, Edge, Ultraflex, SmartChoice, Echelon, Ultra T, and Versa-Scribe. The Company is expanding its offering of specialty contact lenses which include toric lenses (to correct astigmatism) and colour lenses.

King Pharmaceuticals, Inc... is a vertically integrated specialty pharmaceutical company. The Company seeks to capitalize on opportunities in the pharmaceutical industry through the development, including through in-licensing arrangements and acquisitions, of novel branded prescription pharmaceutical products in attractive markets and the strategic acquisition of branded products that can benefit from focused promotion and product life-cycle management. King focuses on major therapeutic areas including cardiovascular, women's health/endocrinology, anti-infectives, and critical care.

Universal Health Services, Inc. (CI B)... is one of the largest for-profit hospital management companies in the US, operating approximately 100 acute care hospitals, behavioural health facilities, and ambulatory surgical and radiation therapy centres across the country and in Puerto Rico and France. The Company's strategy is to build or purchase health care properties in rapidly growing markets, and then create a strong franchise based on exceptional service and effective cost control.

Manor Care, Inc... is the leading owner and operator of long-term care centres in the US. The Company provides care for residents and patients through a network of more than 500 long-term care centres, assisted living facilities, outpatient rehabilitation clinics and home health care offices. The Company operates primarily under the Manor Care, Heartland, Arden Courts and Springhouse brand names.

Apple Computer, Inc... is a leading designer, manufacturer and marketer of personal computers and related products. Personal computer products offered include the iMac®, iBook®, Power Mac® G5, PowerBook®, and eMac™. Other hardware products include the iPod™ MP3 player and iSight video camera. The Company's personal computers operate on the proprietary Macintosh® operating system, which has been revised after a complete makeover as Mac OS® X. Other software products developed in-house include iMovie™, iTunes®, iPhoto™, iDVD™ and Final Cut Pro®.

Maverick Tube Corporation... is the leading North American producer of tubular steel products used in energy and industrial applications. The Company manufactures oil country tubular goods (OCTG) and line pipe products for use in newly drilled oil and natural gas wells and transporting oil and natural gas. Industrial tubing products include hollow structural sections (HSS), standard pipe, pipe piling, and electrical steel conduit.

Citrix Systems, Inc... is a leading supplier of application delivery and management software and services that enable the effective and efficient enterprise-wide deployment and management of applications, including those designed for Microsoft Corporation ("Microsoft") Windows® operating systems and UNIX® operating systems. The Company's products permit organizations to deploy and manage applications without regard to location, network connection, or type of client hardware platform.

The Bombay Company, Inc... designs, sources and markets a unique line of home accessories, wall décor and furniture through over 440 retail outlets, specialty catalogs and the Internet in the US and internationally.

NORTH GROWTH US EQUITY FUND PORTFOLIO

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Marsh & McLennan Companies... is a global professional services firm with annual revenues exceeding \$10 billion. It is the parent company of Marsh, Inc, the world's leading risk and insurance services firm; Putnam Investments, one of the largest investment management companies in the US; and Mercer, Inc, a major global provider of consulting services.

Sybase, Inc... develops software solutions for mobile and embedded computing, data warehousing, and web computing environments. The Company serves the public sectors, as well as industries such as financial services, telecommunications, health care and media and entertainment.

Guidant Corporation... provides innovative, minimally invasive and cost-effective products and services for the treatment of cardiovascular and vascular disease. The Company's products include: cardiac rhythm management products including pacemakers and implantable defibrillators; coronary stents and other vascular intervention (including angioplasty) products; and, products to perform leading edge cardiac surgery procedures (including beating heart surgery).

Mesa Air Group, Inc... operates over 150 aircraft with over 950 daily system departures to 153 cities, 40 states, the District of Columbia, Canada, Mexico and the Bahamas. It operates in the West and Midwest as America West Express; the Midwest and East as US Airways Express; in Denver, Los Angeles and Chicago as United Express; in Kansas City with Midwest Airlines and in New Mexico and Texas as Mesa Airlines.

Bank of America Corporation... is one of the world's leading financial services companies, serving customers through a network of approximately 4,400 offices and 13,000 ATMs in the US, 30 international offices, and an Internet web site that provides online banking access to 4 million active users. The Company's operations consist of four primary segments: 1) Consumer and Commercial Banking, 2) Global Corporate and Investment Banking, 3) Asset Management and 4) Equity investments.

Jones Apparel Group, Inc... is a leading designer and marketer of apparel, footwear and accessories. Its products include sportswear, jeanswear, suits, dresses, menswear, shoes, accessories and costume jewelry. Jones markets its products under well-known brand names such as Jones New York, Evan-Picone, Anne Klein, Nine West, Norton McNaughton, Gloria Vanderbilt, Erika, Easy Spirit, Bandolino, Napier, Judith Jack, I.e.i. and Enzo Angiolini. Jones also produces for licensed brands that include Polo Jeans Company, Tommy Hilfiger costume jewellery, and ESPRIT footwear and accessories.

Borland Software Corporation... is a leading provider of software used to develop, deploy, integrate and manage software applications. Borland is focused on four main business areas: Java™, including the successful JBuilder® Java development environment; Rapid Application Development, including Delphi™ and Kylix™ for Windows® and Linux platforms, respectively; Enterprise; and, Services.

BJ Services Company... is a leading provider of pressure pumping and other oilfield services serving the petroleum industry worldwide. The Company's pressure pumping services consist of well stimulation, cementing, sand control, coiled tubing and downhole tools services used in the completion of new oil and natural gas wells and in remedial work on existing wells, both onshore and offshore. These services are provided through domestic and international locations to customers in most of the major oil and natural gas producing regions of the United States, Canada, Latin America, Europe, Asia, Africa and the Middle East.

Dionex Corporation... develops, manufactures, markets and services a range of analytical systems to isolate, identify and quantify the components of complex chemical mixtures. The Company pioneered ion chromatography (IC), a technique used to separate inorganic molecules in water-based solutions, and is the market leader in this niche market with a 70% share. Dionex has been actively expanding its capabilities in high performance liquid chromatography (HPLC), a large \$2 billion market with very high growth potential due to HPLC's role

NORTH GROWTH US EQUITY FUND PORTFOLIO

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in genomics and drug discovery. The Company sells to a broad base of customers in different industries that include environmental, chemical, life sciences, food and beverage, energy and electronics.

Ethan Allen Interiors, Inc... is a leading manufacturer and retailer of quality home furnishings. The Company sells a full range of furniture products and decorative accessories through an extensive network of over 300 retail locations in the United States and abroad. Ethan Allen has 14 manufacturing facilities, which include 3 sawmills, located throughout the US.

DSP Group, Inc... is a fabless semiconductor company that develops applications combining the Company's DSP (digital signal processing) Core expertise with advanced RF (radio frequency), communication technology, and speech-processing algorithms. The Company's Total Telephony Solutions™ delivers 900 MHz, 2.4 GHz, 5.8 GHz DECT and Bluetooth applications for residential and automotive markets. The Company also develops embedded, integrated silicon/software solutions for voice-over-packet applications.

Michaels Stores, Inc... is the world's largest retailer of arts, crafts, framing, floral, wall décor, and seasonal merchandise for the hobbyist and do-it-yourself home decorator. The Company owns and operates 798 Michaels Stores in 48 states and Canada, 11 Village Craft stores across the US, 158 Aaron Brothers Stores, located primarily on the West Coast, 2 ReCollections stores in Dallas and Frisco, Texas and two wholesale operations in Atlanta, Georgia and Dallas, Texas.

Trinity Industries, Inc... is a leading diversified industrial company providing a variety of high volume, repetitive products and services for the transportation, industrial and construction sectors. Trinity operates through five principal business groups: Trinity Rail Group, which produces a full range of freight cars, tank cars and related parts; Trinity Railcar Leasing and Management Services Group, which provides a variety of leasing, financing and asset management options for railcar customers; Inland Barge Group, the largest provider of inland barges in the United States; Construction Products Group, the domestic leader in the production of highway safety products, as well as a leading provider of concrete and aggregates and weld pipe fittings; and, Industrial Products Group, a leading producer of tank containers and tank heads for pressure vessels.

Bristol-Myers Squibb, Co... is a global pharmaceutical and related health care products company. Most of the Company's sales come from branded pharmaceuticals which include the cholesterol reduction drug Pravachol, platelet inhibitor Plavix, schizophrenia drug Abilify, and cancer drug Taxol. The Company also makes nutritional supplements through its Mead Johnson subsidiary, and ostomy and wound-cleansing products through Convatec.

Jacobs Engineering Group, Inc... is the one of the world's largest and most diverse providers of professional technical services. The Company offers full-spectrum support to industrial, commercial, and government clients across multiple markets. Services include scientific and specialty consulting as well as all aspects of engineering, construction, and operations and maintenance.

Advent Software, Inc... is a provider of software solutions and related services focused on investment management within the financial services industry. The company's Advent Office integrated suite of products addresses a variety of investment management functions such as portfolio management, client relationship management, trade order management, and reconciliation processing. Geneva, Advent's real-time portfolio accounting system, facilitates the complex accounting processes associated with large international portfolios.

Mohawk Industries, Inc... is the leading flooring manufacturer and distributor in the world. The Company designs, manufactures and markets woven and tufted broadloom carpet, carpet tile, ceramic tile and natural stone products, laminate, wood and vinyl flooring, home textiles, bath mats, and area and accent rugs. The Company is fully integrated with substantial fiber extrusion facilities, filament and yarn processing capacity, dyeing facilities and a modern distribution system.

NORTH GROWTH US EQUITY FUND PORTFOLIO

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Plantronics, Inc... is the leading designer, manufacturer and marketer of lightweight communications headsets. The Company offers mobile headsets to address the cordless and mobile phone market, next-generation computer audio headset products for computer applications, and corded and cordless headsets and systems for the office, small office/home office and contact centres.

Pier 1 Imports, Inc... is North America's largest specialty retailer of unique fashion-forward, decorative home furnishings, gifts and related items directly imported from over 50 countries around the world. The Company operates over 1,000 stores in the US, and has international operations in Canada, Mexico, Puerto Rico, and the United Kingdom.

Columbia Sportswear Co... is a global leader in designing, sourcing, marketing and distributing active outdoor apparel and footwear. The Company's products are categorized in four key segments: outerwear, sportswear, rugged footwear, and accessories. End markets include skiing, snowboarding, hiking, hunting, fishing, golf and casual wear. Products are generally offered at moderate price points, with a goal of delivering a high level of quality and functionality.

The Timberland Company (Cl A)... designs, engineers, and markets premium-quality footwear, apparel and accessories under the Timberland brand name and the Timberland PROSeries sub brand. Its products are sold in leading department and athletic specialty stores as well as Timberland retail stores throughout the world.

Checkpoint Systems, Inc... manufactures and markets identification and protection systems for a diverse customer base across many industries worldwide. The Company provides radio frequency (RF) source tagging, barcode labeling systems, electronic article surveillance (EAS) systems and tags, security source tagging, retail merchandising systems, and handheld labeling systems for several applications within the automatic identification industry. EAS accounts for the majority of Checkpoint's sales and the Company is a market leader in the world-wide EAS market.

Polaris Industries, Inc... designs, engineers, and manufactures snowmobiles, all terrain vehicles (ATVs), motorcycles, and personal watercraft. The Company markets its products, together with related replacement parts, garments, and accessories, through dealers and distributors located in the US, Canada, and Europe.

Brinker International, Inc... operates, develops, and franchises a portfolio of casual-dining restaurant chains: Chili's Grill & Bar, Romano's Macaroni Grill, On The Border Mexican Grill & Cantina, Maggiano's Little Italy, and Corner Bakery Cafe. Brinker is also the parent company to two smaller emerging concepts: Big Bowl and Rockfish Seafood Grill.

NORTH GROWTH CDN EQUITY FUND PORTFOLIO

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Biovail Corporation... is a full-service pharmaceutical company involved in the formulation, clinical testing, registration, manufacturing, and marketing of oral controlled-release products. The Company applies its drug delivery technologies to drug compounds to develop both branded and generic products which are sold throughout North America.

DataMirror Corporation... is a leading provider of live, on demand data integration and protection solutions, and gives companies the power to manage, monitor and protect their corporate data in real-time. DataMirror's comprehensive family of LiveBusiness™ solutions helps customers easily and cost-effectively capture, transform and flow data throughout the enterprise. DataMirror unlocks the experience of now™ by providing the live, on demand data access, integration and availability companies require today across all computers in their business.

Investors Group, Inc... is a Canadian leader in providing personal financial planning services and is dedicated to building lasting client relationships. The Company is the largest distributor of mutual funds in Canada and also provides Guaranteed Investment Certificates, insurance products, and mortgages.

Zarlink Semiconductor, Inc... employs analog, digital, and mixed-signal capabilities to offer products for wired, wireless, and optical connectivity markets. The Company also provides highly specialized ultra low power chipsets for use in medical applications. Zarlink's customers include Samsung, Motorola, Alcatel, Cisco, Sony, Nortel, and Lucent.

Canfor Corporation... is a leading integrated forest products company based in Vancouver, BC. The Company is the largest producer of softwood lumber and one of the largest market pulp producers in Canada.

Cinram International, Inc... is one of the world's largest manufacturers of prerecorded multimedia products. The Company supplies prerecorded video cassettes, audio cassettes, CD-ROM, and DVD for motion picture studios, music labels, publishers, and computer software companies worldwide. Cinram operates in Canada, the United States, Europe, and Latin America.

Compton Petroleum Corporation... is engaged in the exploration, development and production of natural gas, natural gas liquids and crude oil in the Western Canadian Sedimentary Basin.

Masonite International Corporation... is a world-renowned manufacturer of interior and exterior doors. The Company operates more than 70 facilities with over 12,000 employees worldwide spanning North America, South America, Europe, Asia, and Africa. Masonite sells its products - doors, components, industrial products and entry systems - to a wide variety of customers in over 50 countries.

Ensign Resource Service Group, Inc... is Canada's second largest land-based drilling contractor and third largest well servicing contractor. The Ensign Group provides oilfield services for the North American and international markets.

Suncor Energy, Inc... is a growing integrated energy company strategically focused on developing one of the world's largest petroleum resource basins - Canada's Athabasca oil sands. Suncor produces natural gas in Western Canada, has a refining and marketing business in Ontario, and a retail business that operates under the brand name of Sunoco.

EnCana Corp... is one of the world's leading independent oil and gas companies. The Company's core areas are the Western Basin in western Canada, the offshore East Coast Basins, the Rocky Mountain states of the United States, and the Gulf of Mexico. EnCana also produces oil in Ecuador and operates an oil discovery in the United Kingdom Central North Sea.

NORTH GROWTH CDN EQUITY FUND PORTFOLIO

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Dorel Industries, Inc. (CI B)... is a vertically-integrated consumer products designer and distributor with facilities and offices in North America, Europe and Asia. The Company's products, sold in over 60 countries, include a wide variety of ready-to-assemble furniture for home and office use, juvenile products, and home furnishings. Juvenile products include car seats, strollers, cribs, and high chairs. Home furnishings include metal folding chairs, tables, bunk beds, futons, and step stools.

Sobeys, Inc... is a national leader in retail food distribution. Sobeys, through subsidiaries and franchises, operates more than 1,300 corporate and franchised retail stores principally under the names Sobeys, IGA, Garden Market IGA, IGA Extra, Price Chopper, Bonichoix, Knechtel, Foodland and Needs.

Canadian Natural Resources, Ltd... is a senior independent oil and natural gas exploration, development, and production company based in Calgary. The Company operates in Alberta, northeastern British Columbia, and Saskatchewan in addition to the North Sea and offshore West Africa.

Creo, Inc... provides imaging and software technology to customers located in countries around the world. The Company provides professional digital cameras, color and copydot scanning systems, inkjet and halftone digital proofers, workflow management tools, variable information workflow systems, color servers, and computer-to-film and computer-to-plate devices.

Intrawest Corporation... is the owner/operator of world famous Whistler/Blackcomb, and leading developer and operator of village-centered destination resorts across North America. Intrawest owns or is involved in 14 mountain resorts in North America and Europe along with two warm-weather resorts in the US The company also has interests in Alpine Helicopters Ltd. - the owner of Canadian Mountain Holidays, the largest heli-skiing operation in the world, and Compagnie des Alpes - the largest ski operator in the world.

MacDonald, Dettwiler and Associates, Ltd... provides essential information from anywhere in the world for decision making in the workplace. The Company is active in data collection and information extraction and distribution. The Company generates products and delivers them via private networks, Internet, wireless networks, and digital media, or by traditional hardcopy methods. MacDonald Dettwiler generally serves businesses involved in real estate transactions, and organizations involved in land, resource, and transportation management.

Extendicare, Inc. (CI A)... operates long-term care facilities in Canada, the United States, and the United Kingdom. The Company provides medical specialty services, including subacute and rehabilitative therapy services, and other medical supplies and services in the United States. Extendicare also provides home care and rehabilitative services in Canada.

Pulse Data, Inc... specializes in acquiring, marketing, and licensing seismic data and seismic surveys. The Company's clients are oil and natural gas exploration and production companies located in the Western Canadian Sedimentary Basin.

CHC Helicopter Corporation (CI A)... based in St. John's, Newfoundland, is the world's leading provider of heavy and medium helicopter services to the global offshore oil and gas industry. The Company operates in 30 countries and has a team of approximately 3,400 professionals worldwide.

Cavell Energy Corporation... is an emerging oil and natural gas exploration and production company. The Company is actively expanding its production and reserve primarily in southeastern Saskatchewan and recently in Alberta.

NORTH GROWTH CDN EQUITY FUND PORTFOLIO

AS OF DECEMBER 31, 2003

BCE, Inc... is Canada's largest communications company. Through its subsidiaries, the Company provides local telephone, long distance, wireless communication, Internet access, data, satellite television and other services to residential and business customers through some 25 million customer connections. BCE also hold interests in some of Canada's leading media organizations including CTV, The Globe & Mail, and TQS, a French-language network operating in Quebec.

Teck Cominco, Ltd. (CI B)... is an integrated natural resource group with activities in mining, smelting, and refining. The Company mines zinc, copper, molybdenum, gold, and metallurgical coal in the United States, Canada, Peru, and Australia.

Viceroy Homes, Ltd. (CI A)... is a leader in the design, engineering, and manufacturing of custom home packages for both owner/builder clients and professional contractors. The Company currently ships throughout North America and overseas.

Quebecor, Inc. (CI B)... is a leading communications company with products and services including commercial printing, cable television, television broadcasting, internet access, and newspaper, magazine and book publishing. Quebecor operates in North America, Europe, South America, and Asia.

Esprit Exploration, Ltd... has established a reputation for successful exploration and development of oil and natural gas properties on the western side of the Western Canadian Sedimentary Basin.

FINANCIAL STATEMENTS

Auditors' Report

To the Unitholders of:

North Growth Canadian Money Market Fund
North Growth Canadian Equity Fund
(formerly Watermark Partners Value Fund)
North Growth US Equity Fund
(collectively referred to as the "Funds"):

We have audited:

- (a) the statements of investments of the North Growth Canadian Money Market Fund and the North Growth US Equity Fund as at December 31, 2003, the statements of net assets, operations and changes in net assets as at or for the years ended December 31, 2003 and 2002, and the statements of financial highlights for each of the years in the five-year period ended December 31, 2003; and
- (b) the statement of investments of the North Growth Canadian Equity Fund as at December 31, 2003, and the statements of net assets, operations, changes in net assets and financial highlights for the year ended December 31, 2003.

These financial statements are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects,:

- (a) the investment portfolio of the North Growth Canadian Money Market Fund and the North Growth US Equity Fund as at December 31, 2003, their financial position, the results of their operations and the changes in their net assets as at or for the years ended December 31, 2003 and 2002, and their financial highlights for each of the years in the five-year period ended December 31, 2003; and
- (b) the investment portfolio of the North Growth Canadian Equity Fund as at December 31, 2003, its financial position, the results of its operations, the changes in its net assets and its financial highlights for the year ended December 31, 2003,

in accordance with Canadian generally accepted accounting principles.

The financial statements of the North Growth Canadian Equity Fund as at December 31, 2002 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated February 7, 2003.

Deloitte & Touche LLP

Chartered Accountants
Vancouver, B.C.
January 16, 2004

FINANCIAL STATEMENTS

NORTH GROWTH MUTUAL FUNDS

STATEMENTS OF NET ASSETS

DECEMBER 31, 2003 AND 2002
(in thousands of dollars except per unit amounts)

	Canadian Money Market Fund		Canadian Equity Fund (1)		US Equity Fund	
	2003	2002	2003	2002	2003	2002
Assets						
Investments - at market value	\$ 12,500	\$ 20,655	\$ 12,751	\$ 5,328	\$195,104	\$121,276
Cash	3	4	174	270	4,785	1,816
Due from former Manager	-	-	-	4	-	-
Due from subscribers for units	-	-	-	-	227	3,169
Accrued interest and dividends receivable	23	40	8	8	87	49
	<u>26</u>	<u>44</u>	<u>182</u>	<u>282</u>	<u>5,099</u>	<u>5,034</u>
	<u>12,526</u>	<u>20,699</u>	<u>12,933</u>	<u>5,610</u>	<u>200,203</u>	<u>126,310</u>
Liabilities						
Accounts payable and accrued liabilities	9	14	28	26	600	379
Payable for units redeemed	10	-	-	-	-	-
	<u>19</u>	<u>14</u>	<u>28</u>	<u>26</u>	<u>600</u>	<u>379</u>
Net Assets - Representing Unitholders' Equity (Note 5)	<u>\$ 12,507</u>	<u>\$ 20,685</u>	<u>\$ 12,905</u>	<u>\$ 5,584</u>	<u>\$199,603</u>	<u>\$125,931</u>
Number of Units Outstanding (000's) (Note 5)	<u>1,251</u>	<u>2,068</u>	<u>1,043</u>	<u>522</u>	<u>8,560</u>	<u>6,742</u>
Net Asset Value Per Unit	<u>\$ 10.00</u>	<u>\$ 10.00</u>	<u>\$ 12.37</u>	<u>\$ 10.69</u>	<u>\$ 23.32</u>	<u>\$ 18.68</u>

(1) Formerly Watermark Partners Value Fund (Note 1)

Approved on Behalf of the Manager,
North Growth Management Ltd.



Rudy North, President

FINANCIAL STATEMENTS

NORTH GROWTH MUTUAL FUNDS

STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2003 AND 2002
(in thousands of dollars)

	Canadian Money Market Fund		Canadian Equity Fund (1)		US Equity Fund	
	2003	2002	2003	2002	2003	2002
Investment Income						
Dividends (2)	\$ -	\$ -	\$ 85	\$ 75	\$ 643	\$ 451
Interest	478	578	15	19	6	325
	<u>478</u>	<u>578</u>	<u>100</u>	<u>94</u>	<u>649</u>	<u>776</u>
Expenses						
Management fees (Note 6)	43	63	81	48	1,910	1,331
Administration fees	-	-	2	34	-	-
Professional fees	-	-	-	19	-	-
Trusteeship and other fees	-	-	11	10	-	-
Expenses reimbursed by the former Manager	-	-	(8)	(50)	-	-
	<u>43</u>	<u>63</u>	<u>86</u>	<u>61</u>	<u>1,910</u>	<u>1,331</u>
Net Investment Income (Loss) (Note 3)	<u>435</u>	<u>515</u>	<u>14</u>	<u>33</u>	<u>(1,261)</u>	<u>(555)</u>
Realized and Unrealized Gains (Losses) on Investments						
Proceeds from sale of investments	<u>182,849</u>	<u>240,003</u>	<u>6,328</u>	<u>5,254</u>	<u>61,014</u>	<u>321,621</u>
Investments at average cost, beginning of year	20,655	31,095	5,568	1,585	108,940	85,846
Cost of investments purchased (3)	<u>174,694</u>	<u>229,563</u>	<u>11,921</u>	<u>9,304</u>	<u>95,277</u>	<u>342,333</u>
	<u>195,349</u>	<u>260,658</u>	<u>17,489</u>	<u>10,889</u>	<u>204,217</u>	<u>428,179</u>
Investments at average cost, end of year	(12,500)	(20,655)	(11,326)	(5,568)	(148,133)	(108,940)
Cost of investments sold (4)	<u>182,849</u>	<u>240,003</u>	<u>6,163</u>	<u>5,321</u>	<u>56,084</u>	<u>319,239</u>
Net realized gain (loss) on sale of investments (Note 7)	-	-	165	(67)	4,930	2,382
Net realized gain on sale of investments included in distributions from other funds	-	-	21	-	-	-
Change in unrealized appreciation of investments	-	-	1,664	(448)	34,341	(2,824)
Net Gain (Loss) on Investments (Note 3)	-	-	1,850	(515)	39,271	(442)
Change in Net Assets From Operations	<u>\$ 435</u>	<u>\$ 515</u>	<u>\$ 1,864</u>	<u>\$ (482)</u>	<u>\$ 38,010</u>	<u>\$ (997)</u>

(1) Formerly Watermark Partners Value Fund (Note 1)
(2) Net of withholding taxes, where applicable.

(3) US Equity Fund includes short-term note purchases of \$235,950 in 2002
(4) US Equity Fund includes short-term note maturities of \$272,092 in 2002

FINANCIAL STATEMENTS

NORTH GROWTH MUTUAL FUNDS

STATEMENTS OF CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2003 AND 2002
(in thousands of dollars)

	Canadian Money Market Fund		Canadian Equity Fund (1)		US Equity Fund	
	2003	2002	2003	2002	2003	2002
Change in Net Assets From Operations	\$ 435	\$ 515	\$ 1,864	\$ (482)	\$ 38,010	\$ (997)
Distributions To Investors						
From net investment income	(435)	(515)	(12)	(23)	-	-
From net realized gain on investments	-	-	(126)	-	(1,010)	(887)
	(435)	(515)	(138)	(23)	(1,010)	(887)
Capital Unit Transactions						
Units issued on sales	4,405	14,806	7,583	4,082	41,440	30,144
Units issued on reinvestment of distributions	435	510	138	23	1,007	12,840
Units redeemed	(13,018)	(25,756)	(2,126)	(142)	(5,775)	(4,360)
	(8,178)	(10,440)	5,595	3,963	36,672	39,594
Change in Net Assets	(8,178)	(10,440)	7,321	3,458	73,672	36,710
Net Assets, Beginning Of Year	20,685	31,125	5,584	2,126	125,931	89,221
Net Assets, End Of Year	\$ 12,507	\$ 20,685	\$ 12,905	\$ 5,584	\$ 199,603	\$ 125,931

(1) Formerly Watermark Partners Value Fund (Note 1)

FINANCIAL STATEMENTS

NORTH GROWTH CANADIAN MONEY MARKET FUND

STATEMENT OF FINANCIAL HIGHLIGHTS

FOR THE FOUR YEARS ENDED
DECEMBER 31, 2003 AND THE
PERIOD FROM OCTOBER 26, 1999
to DECEMBER 31, 1999

	2003	2002	2001	2000	1999
Data Per Unit (Note 2)					
Net Asset Value, Beginning Of Year	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00
Income From Operations					
Net investment income	0.28	0.23	0.40	0.54	0.06
Net realized and unrealized gains on investments	-	-	-	-	-
	0.28	0.23	0.40	0.54	0.06
Distributions To Investors					
From net investment income	(0.28)	(0.23)	(0.40)	(0.54)	(0.06)
From net realized gain on investments	-	-	-	-	-
	(0.28)	(0.23)	(0.40)	(0.54)	(0.06)
Net Asset Value, End Of Year	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00
Ratios/Supplemental Data (Note 2)					
Net assets - end of year (000's)	\$ 12,507	\$ 20,685	\$ 31,125	\$ 13,130	\$ 8,624
Average net assets (000's)	\$ 16,147	\$ 23,463	\$ 21,774	\$ 11,155	\$ 8,477
Management expense ratio	0.27%	0.27%	0.27%	0.27%	0.20%
Annual rate of return (1)	2.71%	2.25%	4.11%	5.46%	N/A

(1) Since units of the fund have been offered for sale since October 26, 1999, there is no past performance information available prior to 2000.

FINANCIAL STATEMENTS

NORTH GROWTH CANADIAN EQUITY FUND

(formerly Watermark Partners Value Fund)

STATEMENTS OF FINANCIAL HIGHLIGHTS

FOR THE THREE YEARS ENDED DECEMBER 31, 2003
AND THE PERIOD FROM AUGUST 16, 2000
to DECEMBER 31, 2000

	2003	2002	2001	2000
Data Per Unit (Note 2)				
Net Asset Value, Beginning Of Year	\$ 10.69	\$ 11.53	\$ 10.27	\$ 10.00
Income From Operations				
Net investment income	0.02	0.07	0.07	0.03
Net realized and unrealized gains (losses) on investments	1.79	(0.87)	1.26	0.26
	1.81	(0.80)	1.33	0.29
Distributions To Investors				
From net investment income	(0.01)	(0.04)	(0.03)	(0.01)
From net realized gain on investments	(0.12)	-	(0.04)	(0.01)
	(0.13)	(0.04)	(0.07)	(0.02)
Net Asset Value, End Of Year	\$ 12.37	\$ 10.69	\$ 11.53	\$ 10.27
Ratios/Supplemental Data (Note 2)				
Net assets - end of year (000's)	\$ 12,905	\$ 5,584	\$ 2,126	\$ 966
Average net assets (000's)	\$ 9,891	\$ 4,773	\$ 1,298	N/A
Management expense ratio	1.24%	1.28%	1.34%	N/A
Portfolio turnover rate	78.37%	32.54%	25.62%	N/A
Annual rate of return (1)	16.99%	(6.87%)	12.99%	N/A

(1) Since units of the fund have been offered for sale since August 16, 2000, there is no past performance information available prior to 2001.

FINANCIAL STATEMENTS

NORTH GROWTH US EQUITY FUND

STATEMENTS OF FINANCIAL HIGHLIGHTS

FOR THE FIVE YEARS ENDED DECEMBER 31, 2003

	2003	2002	2001	2000	1999
Data Per Unit (Note 2)					
Net Asset Value, Beginning Of Year	\$ 18.68	\$ 19.20	\$ 19.30	\$ 16.16	\$ 16.08
Income From Operations					
Net investment income (loss)	(0.16)	(0.09)	0.06	0.19	0.09
Net realized and unrealized gains (losses) on investments	4.92	(0.29)	2.42	6.81	1.07
	4.76	(0.38)	2.48	7.00	1.16
Distributions To Investors					
From net investment income	-	-	(0.06)	(0.16)	(0.09)
From net realized gain on investments	(0.12)	(0.14)	(2.52)	(3.70)	(0.99)
	(0.12)	(0.14)	(2.58)	(3.86)	(1.08)
Net Asset Value, End Of Year	\$ 23.32	\$ 18.68	\$ 19.20	\$ 19.30	\$ 16.16
Ratios/Supplemental Data (Note 2)					
Net assets - end of year (000's)	\$ 199,603	\$ 125,931	\$ 89,221	\$ 64,631	\$ 44,005
Average net assets (000's)	\$ 153,133	\$ 109,298	\$ 89,175	\$ 59,167	\$ 46,333
Management expense ratio	1.25%	1.22%	1.19%	1.25%	1.12%
Portfolio turnover rate	40.34%	54.71%	95.01%	75.22%	70.53%
Annual rate of return	25.50%	(2.01%)	12.83%	43.32%	7.21%

FINANCIAL STATEMENTS

NORTH GROWTH CANADIAN MONEY MARKET FUND

STATEMENT OF INVESTMENTS

DECEMBER 31, 2003
(in thousands of dollars)

FACE VALUE	SHORT-TERM NOTES	AVERAGE COST & MARKET VALUE	% OF NET ASSETS
\$ 500	Paccar Financial Services Inc., 2.75%, January 2, 2004	\$ 499	3.99
500	Bank of Montreal, 2.72%, January 5, 2004	499	3.99
405	Royal Bank of Canada, 2.72%, January 5, 2004	404	3.23
275	Shell Canada Ltd., 2.72%, January 5, 2004	274	2.19
430	CDP Financial Inc., 2.74%, January 6, 2004	429	3.43
320	Halifax Bank of Scotland, 2.74%, January 6, 2004	319	2.55
420	John Deere Ltd., 2.76%, January 6, 2004	419	3.35
305	Canadian Imperial Bank of Commerce, 2.72%, January 7, 2004	304	2.43
420	Credit Union Central of British Columbia, 2.74%, January 7, 2004	419	3.35
340	BOC Canada Ltd., 2.73%, January 8, 2004	340	2.72
500	Honda Canada Finance Inc., 2.74%, January 8, 2004	498	3.98
505	Storm King Funding Trust, 2.76%, January 8, 2004	503	4.02
500	Caisse Centrale Desjardins, 2.74%, January 9, 2004	499	3.99
505	HSBC Bank of Canada, 2.74%, January 9, 2004	504	4.03
475	Stars Trust, 2.77%, January 13, 2004	474	3.79
600	GE Capital Canada Funding Company, 2.74%, January 14, 2004	598	4.78
500	Congress Financial Corporation, 2.75%, January 15, 2004	499	3.99
520	OMERS Realty Corporation, 2.72%, January 15, 2004	518	4.15
500	Plaza Trust, 2.76%, January 15, 2004	499	3.99
525	Pure Trust, 2.75%, January 19, 2004	523	4.18
500	Bank of Nova Scotia, 2.74%, January 20, 2004	499	3.99
475	Key Nova Scotia Funding Company, 2.74%, January 20, 2004	474	3.79
575	Toronto-Dominion Bank, 2.74%, January 20, 2004	573	4.58
505	Terasen Pipelines Inc., 2.76%, January 22, 2004	503	4.02
515	Citigroup Finance Canada Ltd., 2.75%, January 27, 2004	513	4.10
420	Britannia Building Society, 2.73%, January 28, 2004	419	3.35
500	Chevron Canada Capital Company, 2.75%, February 5, 2004	498	3.98
	Total investments	12,500	99.94
	Other assets less liabilities	7	0.06
	Net assets	\$ 12,507	100.00

FINANCIAL STATEMENTS

NORTH GROWTH CANADIAN EQUITY FUND

(formerly Watermark Partners Value Fund)

DECEMBER 31, 2003

(in thousands of dollars)

STATEMENT OF INVESTMENTS

NUMBER OF SHARES	CANADIAN COMMON SHARES	AVERAGE COST	MARKET VALUE	% OF NET ASSETS
26,700	Biovail Corporation	\$ 1,090	\$ 745	5.77
30,300	DataMirror Corporation	331	494	3.83
15,200	Investors Group Inc.	428	472	3.66
107,500	Zarlink Semiconductor Inc.	621	471	3.65
38,000	Canfor Corporation	331	428	3.32
15,000	Cinram International Inc.	212	425	3.29
69,700	Compton Petroleum Corporation	426	418	3.24
11,700	Masonite International Corporation	344	405	3.14
18,900	Ensign Resource Service Group Inc.	373	389	3.01
11,800	Suncor Energy Inc.	307	384	2.98
7,300	EnCana Corporation	348	372	2.88
10,900	Sobeys Inc.	369	363	2.81
10,200	Dorel Industries Inc., Class B	387	362	2.81
5,000	Canadian Natural Resources Limited	233	327	2.53
24,000	Creo Inc.	307	320	2.48
12,600	Intrawest Corporation	218	301	2.33
12,500	MacDonald, Dettwiler and Associates Ltd.	286	298	2.31
20,000	Extencicare Inc., Class A	119	265	2.05
150,000	Pulse Data Inc.	173	224	1.74
6,200	CHC Helicopter Corporation, Class A	166	205	1.59
100,000	Cavell Energy Corporation	249	204	1.58
7,000	BCE Inc.	171	202	1.57
9,000	Teck Cominco Limited, Class B	116	197	1.53
34,500	Viceroy Homes Limited, Class A	184	178	1.38
6,000	Quebecor Inc., Class B	118	142	1.10
36,500	Esprit Exploration Ltd.	84	101	0.78
		7,991	8,692	67.36
NUMBER OF UNITS	MUTUAL FUND UNITS			
174,092	North Growth US Equity Fund	3,335	4,059	31.45
	Total investments	\$ 11,326	12,751	98.81
	Other assets less liabilities		154	1.19
	Net assets		\$ 12,905	100.00

FINANCIAL STATEMENTS

NORTH GROWTH US EQUITY FUND

STATEMENT OF INVESTMENTS

DECEMBER 31, 2003

(in thousands of dollars)

NUMBER OF SHARES	FOREIGN COMMON SHARES	AVERAGE COST	MARKET VALUE	% OF NET ASSETS
389,500	Nextel Communications Inc., Class A	\$ 3,410	\$ 14,170	7.10
681,300	Chesapeake Energy Corporation	7,142	11,995	6.01
275,000	Gap Inc.	6,566	8,275	4.14
204,900	Texas Instruments Incorporated	5,321	7,805	3.91
228,600	Cisco Systems Inc.	3,480	7,181	3.60
57,100	WellPoint Health Networks Inc.	4,820	7,180	3.60
87,900	Cardinal Health Inc.	6,980	6,970	3.49
145,000	Intel Corporation	4,906	6,025	3.02
188,900	American Power Conversion Corporation	3,905	6,000	3.01
167,400	Microsoft Corporation	5,718	5,940	2.98
158,000	Ocular Sciences Inc.	5,603	5,881	2.95
296,000	King Pharmaceuticals Inc.	6,850	5,856	2.93
80,000	Universal Health Services Inc., Class B	3,161	5,572	2.79
117,900	Manor Care Inc.	3,306	5,284	2.65
200,000	Maverick Tube Corporation	4,119	4,992	2.50
180,000	Apple Computer Inc.	4,990	4,987	2.50
179,000	Citrix Systems Inc.	3,521	4,911	2.46
457,000	Bombay Company Inc.	6,114	4,823	2.42
77,500	Marsh & McLennan Companies	5,571	4,812	2.41
177,600	Sybase Inc.	3,840	4,739	2.37
59,500	Guidant Corporation	2,967	4,644	2.33
250,000	Mesa Air Group Inc.	1,701	4,074	2.04
38,000	Bank of America Corporation	3,761	3,963	1.98
85,300	Jones Apparel Group Inc.	3,457	3,896	1.95
305,000	Borland Software Corporation	4,152	3,848	1.93
75,000	BJ Services Company	3,110	3,491	1.75
56,000	Dionex Corporation	2,371	3,341	1.67
61,000	Ethan Allen Interiors Inc.	2,854	3,312	1.66
100,500	DSP Group Inc.	2,497	3,251	1.63
78,500	Trinity Industries Inc.	2,147	3,139	1.57
54,600	Michaels Stores Inc.	2,904	3,129	1.57
81,000	Bristol-Myers Squibb Company	3,264	3,003	1.50
38,000	Jacobs Engineering Group Inc.	1,723	2,365	1.18
100,400	Advent Software Inc.	1,883	2,269	1.14
23,500	Mohawk Industries Inc.	1,598	2,149	1.08
49,600	Plantronics Inc.	1,207	2,100	1.05
69,500	Pier 1 Imports Inc.	1,870	1,970	0.99
27,100	Columbia Sportswear Company	1,314	1,915	0.96
28,000	Timberland Company, Class A	1,288	1,890	0.95
75,000	Checkpoint Systems Inc.	1,260	1,839	0.92
15,900	Polaris Industries Inc.	1,215	1,826	0.91
6,800	Brinker International Inc.	267	292	0.15
	Total investments	<u>\$148,133</u>	<u>195,104</u>	<u>97.75</u>
	Other assets less liabilities		4,499	2.25
	Net assets		<u>\$199,603</u>	<u>100.00</u>

FINANCIAL STATEMENTS

NORTH GROWTH MUTUAL FUNDS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003 and 2002

1. The Funds

The North Growth Canadian Money Market Fund (the “Canadian Money Market Fund”), the North Growth Canadian Equity Fund (the “Canadian Equity Fund”) (formerly Watermark Partners Value Fund), and the North Growth US Equity Fund (the “US Equity Fund”) are open-ended mutual funds established under the laws of the Province of British Columbia. The fiscal year end of the Funds is December 31.

On May 1, 2003, North Growth Management Ltd. was appointed manager of the Watermark Partners Value Fund and changed the name of the Fund to North Growth Canadian Equity Fund. Watermark Capital Management Inc. had been the manager of the Fund prior to that date.

These financial statements are denominated in Canadian dollars. Also, for purposes of these financial statements:

- (a) reference herein to “Fund” or “Funds” refers individually or collectively, respectively, to the above-mentioned funds;
- (b) reference to “year” or “years” includes, where applicable, “period” or “periods”.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada and in conformity with prevailing practices in the Canadian investment fund industry, and reflect the following policies:

(a) Accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in these financial statements. Actual amounts may differ from those estimates.

(b) Basis of determining market value

Each investment security, other than short-term notes, is valued at the closing sales price thereof as reported by the principal securities exchange on which the security is traded or the closing net asset value of the respective mutual fund. If no sale is reported, the average of the latest bid and ask price is used. Short-term notes are valued at cost which, together with accrued interest, approximates market value.

(c) Investment transactions and income

Investment transactions are accounted for on the day that a buy or sell order is executed. Dividend income, including stock dividends, is recorded on the ex-dividend date and interest income is recorded on the accrual basis. Realized gains and losses on investment transactions and the unrealized appreciation or depreciation of investments are computed on an average cost basis.

The average cost of mutual fund units includes the original cost of purchases plus the reinvestment of distributions received. The Funds recognize as investment income that portion of the distributions relating to dividends and interest income. The balance of any distributions relating to the net realized gain on sale of investments is included in unitholders' equity.

FINANCIAL STATEMENTS

NORTH GROWTH MUTUAL FUNDS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003 and 2002

2. Significant Accounting Policies (continued)

(d) Translation of foreign currencies

Foreign currency assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing on the year-end date except for the historical costs of investments which are translated at the rate of exchange prevailing on the date of purchase. The proceeds from sale of investments and investment income in foreign currencies are translated into Canadian dollars at the approximate rate of exchange prevailing on the dates of such transactions. Gains and losses from transactions in and the translation of foreign currencies are considered to be investment transactions and accordingly, are included in the net gain or loss on investments.

(e) Unrealized appreciation or depreciation of investments

The unrealized appreciation or depreciation of investments represents the aggregate of the difference between their average cost and market value at the year-end date.

(f) Financial highlights

Information reported in the Statement of Financial Highlights is based on the following:

Data per unit

- (i) Net asset value per unit is based on the number of units outstanding at the end of the year.
- (ii) Net investment income (loss) per unit is based on the average number of units outstanding at the end of each month during the year.
- (iii) Net gain (loss) on investments per unit is based on the average number of units outstanding at the end of each month during the year. This amount also includes adjustments to account for the fact that the opening and closing net asset values and distributions per unit are calculated using different amounts of outstanding units.
- (iv) Distributions per unit to unitholders are based on the number of units outstanding on the record dates for the distributions.

Average net assets

This is the average of the daily net asset values of the Fund for each valuation day during the year.

Management expense ratio

The management expense ratio represents the total expenses of the Fund for a one-year period as shown in its Statement of Operations plus its proportionate share of the total expenses incurred by the underlying mutual fund in which the Fund had an investment, expressed as a percentage of the Fund's average daily net asset values for each valuation day.

FINANCIAL STATEMENTS

NORTH GROWTH MUTUAL FUNDS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003 and 2002

2. Significant Accounting Policies (continued)

Differences between the management expense ratio and the management fee percentage (Note 6) arise from the management expense ratio being calculated using the average daily net asset values whereas the management fee is calculated as a percentage of the quarter-end net asset value, of the Fund.

Portfolio turnover rate

This is the lesser of the cost of investments purchased or the proceeds from sale of investments, excluding investments that mature one year or less from the purchase date, divided by the average value of the investment portfolio for the year.

Annual rate of return

This represents the historical total rate of return for the year and includes the reinvestment of all distributions.

(g) Comparative figures

Certain comparative figures have been reclassified to conform with the classifications used in the current year.

3. Income Taxes

The Canadian Money Market Fund and the Canadian Equity Fund are classified as "Unit Trusts" under the Income Tax Act. These Funds distribute to their unitholders all of their annual taxable income, including their taxable net realized capital gains, with the result that the Funds are not liable for any income taxes.

The US Equity Fund is classified as a "Mutual Fund Trust" under the Income Tax Act. The Fund distributes to its unitholders all of its annual taxable income, including such portion of its taxable net realized capital gains, as will result in the Fund not being liable for any income taxes.

Income tax legislation currently allows a qualifying Mutual Fund Trust to elect to have a taxation year-end of December 15 instead of December 31. The US Equity Fund has made such an election effective December 15, 2002.

4. Distributions to Unitholders

The Canadian Money Market Fund allocates and distributes its taxable net investment income to its unitholders on a daily and a monthly basis, respectively.

The Canadian Equity Fund and the US Equity Fund make annual distributions to unitholders of their taxable net investment income and the net realized capital gains on sale of investments.

The distributions are reinvested in additional units of the Funds unless a unitholder elects to receive his or her proportionate share of any distributions in cash.

FINANCIAL STATEMENTS

NORTH GROWTH MUTUAL FUNDS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003 and 2002

5. Unitholders' Equity

Unitholders' equity includes the Fund units outstanding, retained net investment income and net realized gains or losses on sale of investments, and the unrealized appreciation or depreciation of investments.

There is one class of authorized units and the number of units that may be issued is unlimited. Fund units are sold, and are redeemable at the holder's option, in accordance with the provisions of the Trust Agreement at the prevailing net asset value per unit.

The registered unitholder may request redemption of Fund units at any time by submitting a written request to the Manager. A redemption request must include the name and account number, and the dollar amount or number of units to be redeemed. A redemption will be transacted on the same valuation day if such a request is received by the Manager prior to 1:00 p.m. Vancouver time. Otherwise, it will be transacted on the next valuation day. Payment will be made within three business days after the applicable valuation day. There is no charge on redemption of Fund units.

The number of units issued and redeemed during the year were as follows:

	2003	2002
Canadian Money Market Fund		
Balance, beginning of the year	2,068,474.260	3,112,550.509
Issued during the year		
Sales	440,524.480	1,480,551.307
On reinvestment of distributions	43,498.611	51,045.694
	484,023.091	1,531,597.001
	2,552,497.351	4,644,147.510
Redeemed during the year	1,301,750.968	2,575,673.250
Balance, end of the year	1,250,746.383	2,068,474.260
Canadian Equity Fund		
Balance, beginning of the year	522,377.376	184,499.000
Issued during the year		
Sales	697,026.912	349,194.747
On reinvestment of distributions	11,143.895	2,147.629
	798,170.807	351,342.376
	1,230,548.183	535,841.376
Redeemed during the year	187,465.440	13,464.000
Balance, end of the year	1,043,082.743	522,377.376

FINANCIAL STATEMENTS

NORTH GROWTH MUTUAL FUNDS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003 and 2002

5. Unitholders' Equity (continued)

	2003	2002
US Equity Fund		
Balance, beginning of the year	6,742,162.735	4,647,804.119
Issued during the year		
Sales	2,057,440.845	1,667,084.512
On reinvestment of distributions	44,488.801	669,047.002
	<u>2,101,929.646</u>	<u>2,336,131.514</u>
	8,844,092.381	6,983,935.633
Redeemed during the year	283,622.980	241,772.898
Balance, end of the year	<u>8,560,469.401</u>	<u>6,742,162.735</u>

6. Management Fees and Other Expenses

North Growth Management Ltd. is the Manager of the Funds and provides research, accounting, sales and management services, and acts as investment advisor. Management fees are calculated and payable by the Funds as follows:

Canadian Money Market Fund

Management fees are calculated daily and payable quarterly at an annual rate of 0.25% of the net asset value of the Fund. The Manager has absorbed all other expenses of the Fund.

Canadian Equity Fund

Commencing on May 1, 2003, management fees are calculated and payable quarterly at an annual rate of 1.25% of the net asset value (excluding investments in other mutual funds) of the Fund and the Manager has absorbed all other expenses of the Fund. Prior to that date management fees were calculated and payable monthly at an annual rate of 1% of the average net assets of the Fund and the Manager absorbed a portion of the other expenses of the Fund.

US Equity Fund

Management fees are calculated and payable quarterly at an annual rate of 1.2% of the net asset value of the Fund. The Manager has absorbed all other expenses of the Fund

7. Foreign Currencies

The net realized gain on sale of investments in the US Equity Fund includes gains from foreign currencies of \$58,000 in 2003 and \$88,000 in 2002.

FINANCIAL STATEMENTS

NORTH GROWTH MUTUAL FUNDS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003 and 2002

8. Portfolio Transactions

Information (unaudited) as to portfolio transactions is available to unitholders without charge on request to the head office of the Funds, 830 - 505 Burrard Street, Vancouver, British Columbia, V7X 1M4.

Commissions paid or payable to investment dealers and brokers during each of the last two years in connection with portfolio transactions for the Funds were as follows:

Fund	2003	2002
Canadian Equity Fund	\$ 43,000	\$ 39,000
US Equity Fund	387,000	465,000



GROWTH AT A
REASONABLE
PRICE

PORTFOLIO MANAGEMENT TEAM

Rudy North Cynthia Yen
Rory North Jamie Kozak
Erica Lau

ADMINISTRATION / CLIENT SERVICES

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