

Equities closed out a very challenging year with a quiet and uninspired December. The U.S. markets were mixed with returns ranging from up 1.25% for the S&P 600 Small Cap Index to down 0.51% for the NASDAQ Composite. The North Growth U.S. Equity Fund was in the middle of the pack, posting a 0.14% decline for the month. Canadian equities were weaker with the S&P/TSX Composite down 1.70% and the North Growth Canadian Equity Fund down 2.93%.

In hindsight 2011 was an exercise in futility, with a whole lot of effort spent to get nowhere. At the beginning of the year, we believed U.S. economic activity was poised for a significant acceleration, but a series of shocks derailed this momentum to the point where the potential for a new recession became a mainstream obsession during the summer. The list of hurdles thrown at the global economy in 2011 was staggering: the spike in energy prices and fear stemming from the social unrest in the Middle East and the Libyan civil war, the devastating Japanese earthquake and resulting disruptions to the global supply chain, the Greek fiasco and ongoing financial woes of Europe, and the pathetic political gamesmanship in the U.S. Remarkably enough, despite all these challenges, the U.S. economy once again gathered momentum during the latter part of the third quarter and into the end of the year. So here we sit—right back where we were in January 2011—with the U.S. economy once again poised for growth in a world full of uncertainty.

Despite exceptionally high market volatility during 2011 we remained steadfast in our convictions. Our portfolio consists of outstanding corporations with strong growth prospects and exceptional balance sheets. Our heavy concentration in large cap technology names is based on our belief that these names represent the very best “growth at a reasonable price” investments available today. These technology heavyweights are trading at historically low valuation levels, delivering solid earnings growth, and generating substantial free cash flow to fund continued investment for growth, growing dividends, and repurchasing shares.

One of the emerging themes in our portfolio positioning is the renewed competitiveness of U.S. manufacturing in a global context. We are seeing many examples across a number of industries where corporations are choosing to develop new manufacturing capacity inside the U.S. We believe there is a high probability that, regardless of who ends up in the White House, there will be meaningful changes to U.S. corporate taxes over the next few years which will accelerate the return of the U.S. as a global exporter.

Looking at the five-year returns for the S&P 500 at minus 0.25% per annum, it is clear that there has been no enthusiasm for U.S. equities in a long time. In fact we have now experienced over five years of net outflows from U.S. equity funds. We believe that as a

result of these outflows U.S. equities are washed out and it should not take much to change sentiment, sparking a new long-term bull market for U.S. equities.

On December 15th, the North Growth U.S. Equity Fund paid out a small distribution of less than one cent per unit, all of which was capital gains. On December 30th, the North Growth Canadian Fund paid out a distribution of just over four cents per unit of dividend income. We are currently in the process of reviewing the T3 files and should have them mailed out by the end of the week.

We are in RRSP season. North Growth Management does offer both RSP and RIF accounts free of any additional fees.

Yours truly,

A handwritten signature in black ink, appearing to read 'Rory North', with a long horizontal flourish extending to the right.

Rory North, CFA
COO & Lead Portfolio Manager

NORTH GROWTH U.S. EQUITY FUND

Short Term Rates of Return (%) for Periods Ending December 31, 2011

| | 1 Month | 3 Months | 6 Months | YTD |
|---------------------------------|--------------|--------------|--------------|--------------|
| NGM US Equity Fund \$CDN | -0.46 | 6.92 | 0.22 | 1.71 |
| S&P 500 \$CDN | 0.70 | 8.49 | 1.55 | 4.41 |
| NGM US Equity Fund \$US | -0.14 | 10.20 | -4.96 | -0.53 |
| S&P 500 \$US | 1.02 | 11.82 | -3.69 | 2.11 |
| S&P 400 MidCap \$US | -0.37 | 12.98 | -9.48 | -1.73 |
| S&P 600 SmallCap \$US | 1.25 | 17.17 | -6.06 | 1.01 |
| NASDAQ Composite \$US | -0.51 | 8.21 | -5.53 | -0.79 |

NORTH GROWTH U.S. EQUITY FUND

Annualized Rates of Return (%) for Periods Ending December 31, 2011

| | 1 Year | 3 Years | 5 Years | 10 Years | 15 Years | Since Inception |
|---------------------------------|--------------|--------------|--------------|-------------|--------------|-----------------|
| NGM US Equity Fund \$CDN | 1.71 | 13.31 | -1.04 | 3.78 | 8.61 | 11.19 |
| S&P 500 \$CDN | 4.41 | 7.45 | -2.93 | -1.60 | 3.37 | 6.99 |
| NGM US Equity Fund \$US | -0.53 | 20.33 | 1.69 | 8.54 | 10.79 | 12.36 |
| S&P 500 \$US | 2.11 | 14.11 | -0.25 | 2.92 | 5.45 | 8.11 |
| S&P 400 MidCap \$US | -1.73 | 19.57 | 3.32 | 7.04 | 9.98 | 11.50 |
| S&P 600 SmallCap \$US | 1.01 | 17.01 | 1.94 | 7.09 | 8.27 | 10.56 |
| NASDAQ Composite \$US | -0.79 | 19.46 | 2.50 | 3.74 | 5.45 | 8.17* |

Source: Bloomberg "Total Return Analysis" as of January 1, 2012.

*These returns are a simple price appreciation because total return data is not available on Bloomberg.
The inception of the Fund: October 13, 1992.

NAVPS: Dec. 31, 2011 \$24.07 CDN
\$23.67 US

Total Assets in Fund \$238.0 Million CDN

NORTH GROWTH CANADIAN EQUITY FUND

Short Term Rates of Return (%) for Periods Ending December 31, 2011

| | 1 Month | 3 Months | 6 Months | YTD |
|---------------------------------|--------------|--------------|---------------|--------------|
| NGM Canadian Equity Fund | -2.93 | -0.19 | -12.31 | -6.01 |
| S&P / TSX \$CDN | -1.70 | 3.59 | -8.86 | -8.71 |

NORTH GROWTH CANADIAN EQUITY FUND

Annualized Rates of Return (%) for Periods Ending December 31, 2011

| | 1 Year | 3 Years | 5 Years | 10 Years | *Since Takeover | **Since Inception |
|---------------------------------|--------------|--------------|--------------|-------------|--------------------|----------------------|
| NGM Canadian Equity Fund | -6.01 | 22.26 | -2.82 | 1.36 | 3.03 | 2.55 |
| S&P / TSX \$CDN | -8.71 | 13.18 | 1.30 | 7.03 | 9.79 | 2.86 |

*North Growth Management Ltd. took over the Canadian Equity Fund's management contract on May 1, 2003.

**The inception of the Canadian Equity Fund: September 1, 2000.

NAVPS: Dec. 31, 2011 \$ 10.96 CDN

Total Assets in Fund \$ 19.6 Million CDN

NORTH GROWTH CANADIAN MONEY MARKET FUND

Annualized Rates of Returns (%) for Periods Ending December 31, 2011

| | *CURRENT YIELD | 1 Year | 3 Years | 5 Years |
|----------------------------------|-------------------|-------------|-------------|-------------|
| NGM CDN Money Market Fund | 0.83 | 0.82 | 0.51 | 1.75 |
| 30 Day T-Bill | N/A | 0.91 | 0.56 | 1.70 |

** The Current Yield for the Money Market Fund is the average of the annualized daily yield for the most recent seven day period. This measure is no longer available for the 30 day T-Bill Index.*

We take a very simple approach to managing the North Growth Canadian Money Market Fund. We invest in a portfolio of high quality short term bonds. The average maturity of the portfolio never is greater than 30 days. Historically the Fund has generated very competitive yields with this simple approach because the management fee is, and always has been, 0.25%. In today's low rate environment most other money market funds in Canada have cut their management fees and extended their maturities in order to improve yields, as a result the North Growth Canadian Money Market Fund's yields are now below the industry average.

We manage the portfolio to ensure high liquidity and have no intention to extend maturities in order to chase a few basis points and we do not have any room to reduce our management fees because we already take a loss on the product. We still believe our money market fund has superior liquidity characteristics due to its very low average maturity but our current yield is 0.83% which is lower than many other mainstream money market funds and even short term GICs at top tier Canadian banks.

The North Growth Canadian Money Market Fund's yield will quickly rise in response to any future increase in the Bank of Canada's overnight rate but its yield will not become competitive again unless other money market funds begin to increase their management fees back to their historic levels.

U.S. EQUITY FUND
As of December 31, 2011

| | % |
|--------------------------------|--------------------|
| Apple Inc. | 10.69 |
| Cisco Systems Inc. | 9.05 |
| Intel Corporation | 6.46 |
| Bristol-Myers Squibb Company | 5.79 |
| Pier 1 Imports Inc. | 5.07 |
| Microsoft Corporation | 3.96 |
| Texas Instruments Inc. | 3.74 |
| Pfizer Inc. | 3.48 |
| Citrix Systems Inc. | 3.39 |
| St. Jude Medical Inc. | 3.34 |
| Precision Castparts Corp. | 3.03 |
| Cerner Corporation | 2.91 |
| WellPoint Inc. | 2.79 |
| Varian Medical Systems Inc. | 2.57 |
| Zimmer Holdings Inc. | 2.51 |
| American Eagle Outfitters Inc. | 2.46 |
| Safeway Inc. | 2.43 |
| Herman Miller Inc. | 2.24 |
| Applied Materials Inc. | 2.14 |
| Electronic Arts Inc. | 1.99 |
| Micron Technology Inc. | 1.87 |
| NIKE Inc., Class B | 1.81 |
| General Electric Company | 1.60 |
| Johnson Controls Inc. | 1.60 |
| Cheesecake Factory Inc. | 1.53 |
| DSP Group Inc. | 1.52 |
| Ethan Allen Interiors | 1.32 |
| Adobe Systems Inc. | 1.15 |
| Wal-Mart Stores Inc. | 1.10 |
| Jacobs Engineering Group Inc. | 1.09 |
| Flow International Corporation | 1.04 |
| Citigroup Inc. | 0.97 |
| GT Advanced Technologies Inc. | 0.94 |
| Savient Pharmaceuticals Inc. | 0.82 |
| First Solar Inc. | 0.55 |
| Guess? Inc. | 0.38 |
| Total Equities | 99.32 |
| Cash | <u>0.68</u> |
| TOTAL ASSETS | 100.00 |

CANADIAN EQUITY FUND
As of December 31, 2011

| | % |
|---|--------------------|
| Miranda Technologies Inc. | 7.76 |
| Bombardier Inc., Class B. | 7.26 |
| EXFO Inc. | 6.96 |
| Celestica Inc. | 5.93 |
| Valeant Pharmaceuticals International, Inc. | 5.34 |
| WestJet Airlines Ltd. | 5.30 |
| Sandvine Corporation | 4.86 |
| Sierra Wireless Inc. | 4.73 |
| Gennum Corporation | 4.70 |
| Dorel Industries Inc. | 4.23 |
| ATS Automation Tooling Systems Inc. | 4.19 |
| GSI Group Inc. | 4.07 |
| QLT Inc. | 4.02 |
| CAE Inc. | 3.91 |
| Jean Coutu Group (PJC) Inc., Class A | 3.70 |
| COM DEV International Inc. | 2.94 |
| Saputo Inc. | 2.58 |
| MacDonald, Dettwiler and Associates Ltd. | 2.56 |
| TELUS Corporation | 2.49 |
| Imris Inc. | 2.06 |
| Azure Dynamics Corporation | 1.84 |
| Ballard Power Systems Inc. | 1.80 |
| Research in Motion Limited | 0.83 |
| Day4 Energy Inc. | 0.35 |
| Azure Dynamics Corporation, Warrant | 0.21 |
| Total Equities | 94.62 |
| Cash | <u>5.38</u> |
| TOTAL ASSETS | 100.00 |

INVESTING WITH NORTH GROWTH MANAGEMENT:

North Growth Management is a focused firm. We are Canada's U.S. Equity Specialist. Our objective is consistent, superior, long term returns on our equity funds based on our "growth at a reasonable price" investment philosophy.

CONDUCTING TRANSACTIONS:

The cut-off time for same-day transactions is 4 p.m. Eastern time or 1 p.m. Pacific time. Orders received after that time will be processed on the next business day. Cheques must be made payable to **RBC Dexia Investor Services Trust**. For security reasons, instructions can only be accepted by mail or by fax to:

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505 Burrard Street, Box 56
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Fax: 604-688-5402

WHERE TO FIND NGM FUND PRICES

Please visit www.northgrowth.com to view the Fund's daily prices or to be added to our e-mail list to receive daily notification of the Fund's prices. Alternatively, the Globe & Mail reports prices on www.globefund.com.