

*15 years of* **GROWTH AT A  
REASONABLE PRICE**



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**2007 ANNUAL REPORT**  
& AUDITED FINANCIAL STATEMENTS



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*15 years of*

**“GROWTH AT A REASONABLE PRICE”**

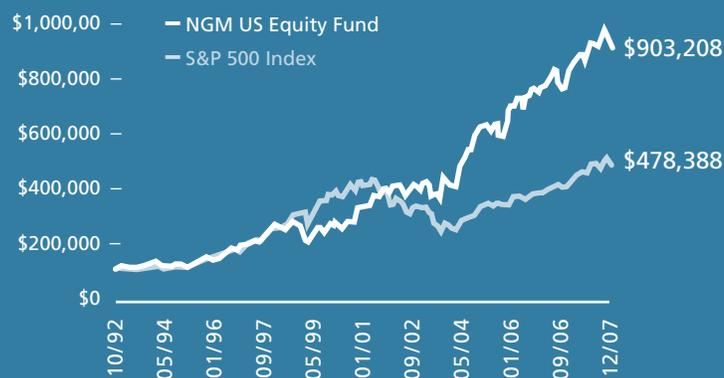
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On October 13, 2007, we celebrated the 15th anniversary of the North Growth US Equity Fund. This anniversary is particularly rewarding for us, as our disciplined, long term results-oriented approach to investing enabled us to achieve the Fund's superior long term record.

A highlight of this record is that as of December 31, 2007, the Fund had the highest rate of return in the 10-year and 15-year periods in its class. We invite you to read on to find out more about our Fund's performance in 2007 and over the past 15 years.

If you had invested \$100,000 US at October 13, 1992, after just over 15 years, your investment value would be \$903,208 US.

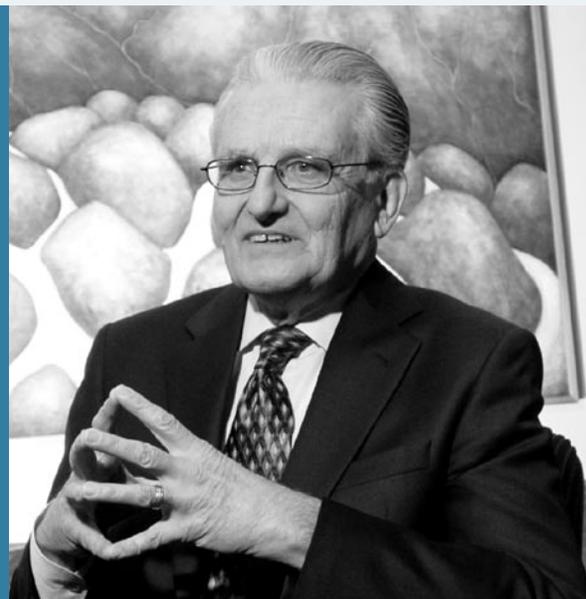
US Equity Fund since inception \$US



## Delivering Superior Long Term Results –

While 2007 was a difficult year in the markets and for us, these figures confirm that North Growth Management is delivering on its mandate providing superior long term investment results over all significant time periods.

***“Performance*** is why investors buy our Funds and why they stay invested.”



5-year and 10-year records are significant milestones. A good 15-year record, however, is the equivalent of a blue ribbon in performance results and should be considered even more important by serious long term investors. The record of the past eight and one-half years is the accomplishment of the current investment team who continue to become more experienced and continue to execute our investment philosophy with unusual discipline. Their solid teamwork makes my role as mentor particularly satisfying.

# PRESIDENT'S AND CHIEF OPERATING OFFICER'S MESSAGE

## 2007 Reflections on 15 Years of Growth

In 2007, North Growth Management celebrated the firm's 10-year anniversary as well as the anniversary of the firm's flagship Fund, the North Growth US Equity Fund which achieved an impressive first 15-year performance record.

While 2007 was an eventful year for the firm, the US market provided plenty of drama.

To put 2007 into perspective we asked Rudy North, the founder of the firm, and Rory North, our Chief Operating Officer and lead portfolio manager, to reflect on our achievements, and provide insight on our Funds' management going forward. Here's what they had to say.

**Q:** 2007 was a milestone year for the US Equity Fund: it now has a 15-year record. In 1997 you commented that a 5-year record was the equivalent of coming of age in the fund business. How important is a 15-year record?

**Rudy:** In the final analysis even having some great periods of short term results become meaningless over time if they don't add up to good long term performance. It is what a fund delivers over a longer period, such as 15 years, that matters to the investor's financial health. Combining the 15-year record and the history of consecutive 5-year and 10-year records is the best way to distinguish between a good fund and also-ran funds which can turn out to be very bad investments, especially if they are purchased on the strength of some good short term results.

**Q:** Why has North Growth Management become a contender in the business of fund investment management? What are some of the key reasons for the firm's success?

**Rudy:** North Growth is focused on providing top rank long term results to serious investors. We resist chasing short term market leaders that don't make sense against our "growth at a reasonable price" discipline. Combined with relying on our internal fundamental individual company analysis this results in leading investment results. Serious, successful long term investors tend to recognize that we have produced not

only leading investment results, but do this with a high quality investment portfolio!

**Q:** What is Rudy's role in the management of the Funds? How active is he in the decision making process?

**Rudy:** I serve as a source of ancient history which helps put current events into perspective. I also act as a sounding board for the thoughts and decisions of Rory and his investment team.

I like to believe that my presence has helped in the adoption of a first class investment philosophy and an environment that allows that philosophy to be adhered to with remarkable discipline.

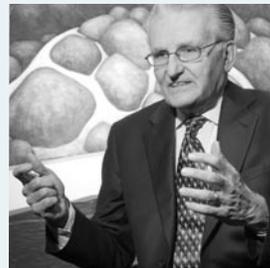
The fact that I don't make investment decisions and haven't since mid-1999 is, ironically, the most important outcome of my "role" in the management of the US Fund and of NGM. The US Equity Fund's record of the past eight and a half years is not the record of an old guy who might retire in five years – it is the impressive accomplishment of the current investment team with Rory having the ultimate responsibility for investment decisions. No firm in the industry has a greater probability of enjoying a stable, effective management group that could go on for the next 25 years.

**Q:** What is the current market cap composition of the US Fund? How has that changed and is it likely to change in the near future?

**Rudy:** The current market cap of the US Fund is 78% large cap, the complete opposite of what it was in the late 1990s and early 2000s. The swing from a small cap emphasis to a large cap emphasis is based on the same logic that led us to move almost completely into small and mid cap stocks in the late 90s. When we started avoiding large cap stocks back then they were at record high valuations, but – based on overly optimistic investor expectations – they were still enjoying good market performance.

At the same time, small cap stocks, many of which were showing good operating results and selling at P/E multiples which were at record discounts to the P/E multiples of the large cap stocks, were underperforming the market. This anomaly persisted until the bear market of 2000-2002 got underway. The dramatic swing back to rationality took place during the punishing bear market that saw the S&P 500 decline by 50%, and through the early bull market recovery of 2003. Beyond 2003, small cap stocks continued to show strong market performance well after they lost their compelling valuations.

Meanwhile, large cap stocks as a group have had modest market performance since their 2000-2002 rout despite some of the best run, quality growth stocks racking up impressive earnings gains. Many of the world's best-managed, large cap, long term growth businesses are currently selling at low valuation levels – often at the very lowest levels of their price/earnings range since the 1980s. These companies are also reporting strong current earnings and are in the early stages of impressive new product cycles.



The bottom line is that the Fund is now 78% in large cap stock with a 50% focus on technology.

**Q:** How has investment management changed from 10 to 15 years ago?

**Rudy:** We have seen the acceleration of a trend that probably goes back more than 15 years; namely the moving away from serious fundamental stock analysis in favour of momentum investing. By that I mean chasing after well-established “market leadership” instead of attempting to buy low and sell high based on analysis of a company’s business outlook and reasonable valuation levels.

Momentum investing is simply buying whatever is going up fastest even though that might mean buying stocks at high historic P/E multiples often with the idea of selling them only when they are no longer going up the fastest. This style met its extreme in 1998/1999. The only reason to get out of a stock using this rationale is to sell after the uptrend suffers an “unexpected” and often significant drop in price. Experienced investors will recognize what an undesirable situation that is.

The 50% correction in the S&P 500 Index of roughly two and a half years’ duration in 2000-2002 didn’t cause investors to go back to fundamentals but rather to give up growth at any price momentum “investing” in favour of alternative investments such as hedge funds and buying physical infrastructure such as port facilities and turnpikes.

Schemes involving derivative products have also attracted more attention over the past 10 to 15 years. How far the industry will continue on this track before deciding that it too is a bad idea is unpredictable. One would think that sooner or later disasters such as the Long Term Capital fiasco and the current subprime mortgage related problems will cause another change.

**Q:** For Canadian investors purchasing US equities the appreciation of the Canadian dollar versus the US dollar has been an important issue over the past few years. How has this affected the performance of the US Fund and what do you foresee for the years ahead?

**Rory:** Any time a Canadian purchases US equities they are purchasing an asset in US dollars. Their Canadian dollar return will consist of both the

## PRESIDENT'S AND CHIEF OPERATING OFFICER'S MESSAGE

return on the equity itself and the return on the US dollar. Since the Canadian dollar bottomed in 2001 it has appreciated against the US dollar by approximately 60%. The full impact of this appreciation is captured in a comparison of the US Fund's 6-year average annual returns in Canadian and US dollars. Over the past six years to December 31, 2007, the equity returns for the US Fund were 13.9% per annum but when we add the currency impact to show the US Fund's returns in Canadian dollars, the average annual rate is reduced to 5.3%. This is an unprecedented move in the Canadian dollar and represents a move from an extremely undervalued Canadian dollar to what we believe is now an overvalued Canadian dollar.

For the past few years we have been quite neutral on the Canadian dollar with our opinion that it was trading near a fair value level. Due to the continued appreciation of the Canadian dollar during 2007 we now believe that the Canadian dollar is overvalued and anticipate that over the next five years it will move back down towards 80 cents. The overvalued Canadian dollar is just one more reason why we believe Canadians should currently be increasing their exposure to US equities.

**Q: News out of the US continues to be negative as we start the new year. What are your thoughts on the market going into 2008?**

**Rory:** I would agree that the media continues to focus almost exclusively on negatives with respect to the condition of the US economy. While there clearly are areas of weakness in the US economy there are also a whole host of positives. For the equity markets probably the most important positive is the health of the corporate sector excluding housing and finance. I believe the unbalanced reporting on the US economy has generated a greater than usual emphasis on the short term creating a compelling opportunity for long term investors to buy many of the best global corporations at exceptionally attractive valuations.

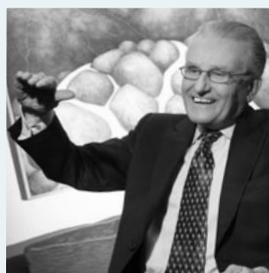
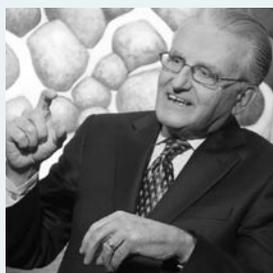
**Q: Many commentators are suggesting that the US is either already in or likely to slip into a recession. How does this impact your investment management decisions?**

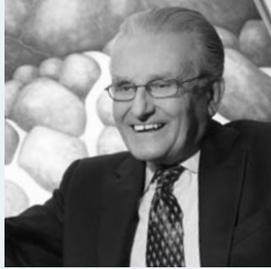
**Rory:** First, one has to recognize that macro economic forecasting has a very poor track record when

it comes to accuracy, so I would take everything you hear from the "experts" and talking heads on TV with a grain of salt. That being said, with the ongoing weakness in the housing sector and the related problems in the credit markets, the probability of a recession is certainly increasing. The macro economic situation is the backdrop to our investment decisions but ultimately is not a very important factor in our investment decision process. The impact of a recession versus a slowdown on the value of our investments is more psychological than anything. Currently the fear of a recession is causing investors to act irrationally and sell stocks at levels that undervalue the long term growth prospects for these corporations. We will continue to remain focused on the long term and view recession fear-induced selling as a great opportunity to buy long term growth at a very reasonable price.

**Q: Is the investment philosophy the same for both the Canadian Equity Fund and the US Equity Fund?**

**Rory:** Yes we use the same "growth at a reasonable price" philosophy for Canada and the US. US equities continue to be the primary emphasis of our research efforts. We use our US research to identify compelling investment opportunities in Canada. We are encouraged by the opportunities we have found for investing in Canada. I would describe the Canadian Fund's holdings as being deeply out of favor. While to-date we have not achieved satisfactory returns from our Canadian





investments, we believe that ultimately the improving fundamentals and low valuations on the majority of the Canadian Fund’s holdings will provide for excellent long term returns.

**Q:** North Growth Management has been in business for 10 years now. What has been most rewarding for you over these years and do you have any big plans for the next 10?

**Rory:** We are in this business to make money for our clients. Our long term goal (30+ years) is to beat the market by 2% per annum. During the first 10 years the North Growth US Equity Fund beat the S&P 500 by over 7% per annum. We are satisfied with these results and have set the bar high for our future expectations.

I view this first 10-year period as our start up phase during which we have built a strong foundation for future growth. Erica Lau has been a key member of our investment team throughout this period and Cynthia Yen and Jamie Kozak have now been

with us for almost five years. We are investing heavily in our back office systems and look forward to bringing our new system on-line within the next 18 months. We will continue to strive to deliver superior investment performance and unparalleled client service.

*Yours truly,*

**Rudy North,**  
President of NGM Ltd.

**Rory North,**  
Chief Operating Officer of NGM Ltd.

“The most important factor contributing to our good past record has been our ‘growth at a reasonable price’ investment philosophy.

The second is simply having a well-trained, motivated team of compatible people that practice this philosophy and continually put in their best effort at analysis and decision making.”

*Rudy North*

# 2007 PERFORMANCE REVIEW

## THE NORTH GROWTH FAMILY OF FUNDS

### Our Funds – Our Progress

A consistent investment philosophy is the best assurance of good long term results.

At times it is difficult to stay with this discipline. Nevertheless, that is what we are doing and we believe that 2008 is a logical and past due time for change in market leadership to our style of growth investing.

The principal reasons why investors buy our Funds:

- Our long term record
- Acceptance of our investment philosophy
- Respect for our judgment

### NGM US Equity Fund

2007 was a volatile year for US equities. However, the majority of the major indices we follow managed to generate positive returns, with the S&P 500 Index gaining 5.5% for the year. The S&P 400 MidCap and the NASDAQ Composite indices outperformed the broad market with returns of 8.0% and 10.7% respectively, while the S&P 600 SmallCap Index was the laggard, declining 0.3%. In 2007, the North Growth US Equity Fund advanced 4.7%

in US dollars, trailing the S&P 500 by 0.8%. Due to the strong appreciation of the Canadian currency throughout the year, in Canadian dollars, the Fund was down 10.9% versus the S&P 500 which declined 10.3%.

### NGM Canadian Equity Fund

The year started on a promising note, but, similar to 2006 the Canadian Equity Fund's early strength disappeared in July to end the year with a loss of [REDACTED] compared to a gain of 9.8% for the S&P/TSX Composite Index. Initially it seemed like the stories we like so much were being recognized but the economic uncertainty in the United States quickly took the wind out of the sails;

much like last year, we feel many stock price movements were overreactions. The strength in the Canadian dollar also hurt the performance of US-centric companies which would have had a meaningful impact on the overall portfolio's performance much like the currency impact on the US Equity Fund.

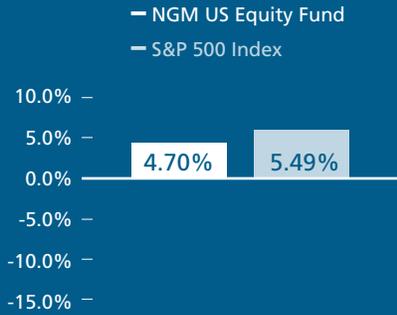
Many of the Fund's holdings have been delivering solid operational results, however, this has not translated into sustained stock price performance partly due to investors' continued infatuation with commodities and

### NGM Canadian Money Market Fund

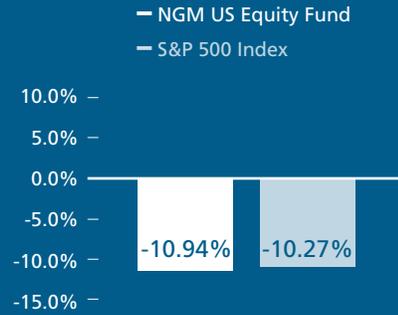
The Money Market Fund's current yield ended 2007 at 4.28%, slightly ahead of the 4.06% current yield at the beginning of the year. For the year, the Fund returned 4.34%, 0.06% above the 4.28% return for 30-day Treasury Bills. Over the past five years, the average annual return for the Fund was 3.07%, just 0.10% behind the 3.17% average annual return for 30-day T-Bills.

During the latter half of 2007, concerns over subprime mortgage risks caused the short term credit markets to seize up as investors flocked to the safe haven of Treasury Bills. The safety of money market assets became an issue following publicized problems at certain third-party asset-backed commercial paper (ABCP) programs. The Money Market Fund has always maintained a well-diversified portfolio of Canadian money market securities with an emphasis on high credit ratings. Currently, the Fund has no exposure to any ABCP, nor did it

### 1-Year Performance Comparison \$US



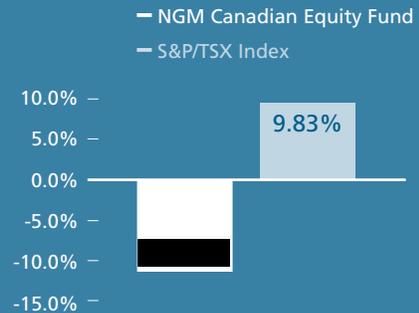
### 1-Year Performance Comparison \$CDN



financials. A few holdings are going through transitions but we are still excited about their long term future potential and patience is required for the stories that we see to become evident to the market.

Interestingly, the Fund began the year with 24 holdings and 6 were acquired or were in the process of being acquired by year-end. While we hate to lose good companies, we feel this strongly validates our view that investors are overlooking and undervaluing many of the Fund's holdings. We strongly believe the portfolio is undervalued and offers an excellent "growth at a reasonable price" opportunity for patient and long term-oriented investors.

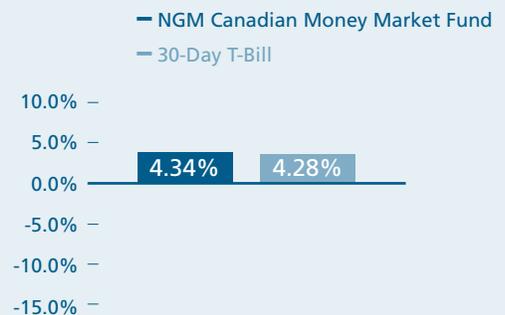
### 1-Year Performance Comparison



have exposure at the height of the subprime problems in August; it has been unaffected by the dislocations in the credit markets. Historically, the Fund did own up to 15% of its holdings in asset-backed paper sponsored by the major Canadian banks; these trusts typically consisted of stable, diversified multi-asset pools that include high-quality residential mortgages, trade receivables, credit card receivables, and auto loans.

Due to the short average maturities within the Money Market Fund of 30 days or less, the direction of the Fund's current yield corresponds closely with the direction in Canadian short term interest rates. The Bank of Canada's overnight target rate of 4.25% at the end of the year was identical to the rate at the beginning of 2007. In July, the central bank increased the overnight rate by 0.25% to 4.50%, then lowered it by 0.25% back down to 4.25% in December.

### 1-Year Performance Comparison



## Investments for the Long Term –

North Growth Management also offers in-house RRSP and RRIF accounts with no additional fees or charges. The North Growth US Equity Fund, North Growth Canadian Equity Fund, and the North Growth Canadian Money Market Fund are all eligible investments.

Our clients are primarily high net worth individuals who use us to manage the long term growth component of their overall investment program. We emphasize the long term nature of an equity investment with us and suggest that anyone wanting to invest in our Funds should have at least a five-year time horizon in mind.

### NGM US Equity Fund

All of North Growth's Funds are offered with an "all-inclusive" management fee. This means that the Fund's management fee is essentially equivalent to its MER or Management Expense Ratio (management fee plus other fund expenses). In 2007, the MER for the North Growth US Equity Fund was 1.20%. By comparison, the average MER for the US equity fund category was 2.68% according to Globefund.com

1.20%

### NGM Canadian Equity Fund

In 2007, the MER for the North Growth Canadian Equity Fund was 1.25%. According to Globefund.com, the average MER for the Canadian equity fund category was 2.52%.

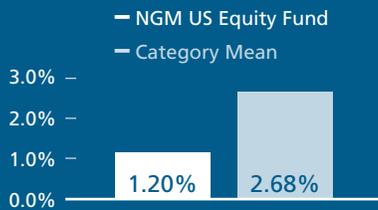
1.25%

### NGM Canadian Money Market Fund

The Fund's 0.25% all-inclusive management fee is among the lowest in Canada. Due to its competitive fee, the Fund outperformed the average of the Globe and Mail's Universe of Canadian Money Market Funds by 0.84%.

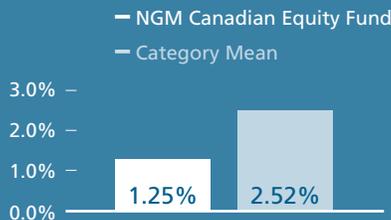
0.25%

**NGM: 2007 MER**  
(Management Expense Ratio)  
Comparison\*



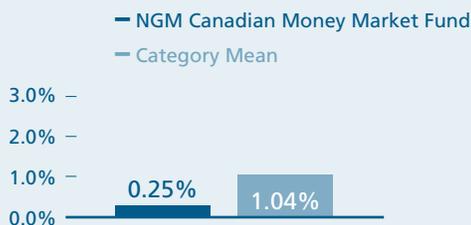
\*Source: Globefund (Dec 2007)

**NGM: 2007 MER**  
(Management Expense Ratio)  
Comparison\*



\*Source: Globefund (Dec 2007)

**NGM: 2007 MER**  
(Management Expense Ratio)  
Comparison\*



\*Source: Globefund (Dec 2007)

## FAQs on Fees –

**Q:** Are there any other fees involved in investing in North Growth Funds?

**No.** Our Funds are no-load and we do not pay trailer fees.

**Q:** Are your management fees tax deductible?

**Yes.** We are often asked about the tax deductibility of our management fees. North Growth Management fees are tax deductible. The tax deduction occurs “at source”, which means that the T3 slip that you receive from us just after year-end already reflects the fee tax deduction.

## Minimum Initial Purchase Amount –

The minimum initial investment for the North Growth US Equity Fund and the North Growth Canadian Equity Fund is \$150,000 CDN, corresponding with the minimum amount investment exemptions from registration and prospectus requirements contained in the National Instrument 45-106 (NI45-106).

# PERFORMANCE RESULTS

## Average Annual Compound Rates of Return

It is virtually impossible to correctly judge a long 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 to compare alternative investments.

### North Growth (NGM) Equity Funds and Market Indices

Annualized Rates of Return (%) for Periods Ending December 31, 2007

NGM US Equity Fund	1 yr	2 yrs	3 yrs	4 yrs	5 yrs	6 yrs	7 yrs	8 yrs	9 yrs	10 yrs	15 yrs	Since Inception*
US Equity Fund \$CDN	-10.9	0.2	2.2	2.6	6.8	5.3	6.3	10.4	10.0	9.6	12.8	13.9
S&P 500 \$CDN	-10.3	2.0	1.9	2.1	2.8	-2.0	-2.6	-3.0	-1.3	2.1	8.7	9.2
US Equity Fund \$US	4.7	8.5	9.0	9.7	17.2	13.9	12.8	15.7	15.5	13.7	14.7	15.6
S&P 500 \$US	5.5	10.5	8.6	9.2	12.8	6.1	3.3	1.7	3.7	5.9	10.5	10.8
S&P 400 MidCap \$US	8.0	9.1	10.3	11.8	16.2	10.4	8.8	9.8	10.4	11.2	13.4	14.1
S&P 600 SmallCap \$US	-0.3	7.1	7.3	11.0	16.0	10.3	9.7	10.0	10.2	9.0	11.7	12.8
NASDAQ Composite \$US†	10.7	10.5	7.7	8.0	15.5	5.9	1.6	-4.7	2.7	5.9	9.5	10.6

NGM Canadian Equity Fund	1 yr	2 yrs	3 yrs	4 yrs	5 yrs	6 yrs	7 yrs	8 yrs	9 yrs	10 yrs	15 yrs	Since Inception**
CDN Equity Fund \$CDN	■	■	■	■	■	■	■	-	-	-	-	■
S&P/TSX \$CDN	9.8	13.5	16.9	16.3	18.3	12.5	8.6	-	-	-	-	4.9

\* NGM US Equity Fund Inception October 13, 1992

\*\* NGM Canadian Equity Fund Inception September 1, 2000

† Return Since Inception and for the 15-year period for the NASDAQ is simple price appreciation only because Total Return data is not available on Bloomberg

## Annual Performance Results

This data gives you insight into the typical annual variations in investment results. Annual results explain how long term results come about and will reveal whether a record is dependent largely on earlier results, more recent results, or more ideally a balance of both. This data also shows that our outstanding long term results were not achieved by having stellar results in every single year. In equity investing, it should be noted that performance results will periodically

fall below expected or desired levels and this is why we emphasize the use of longer term results in the evaluation of performance. Furthermore, a year or more of exceptionally strong performance should not give rise to unreasonably high long term expectations. A superior long term record does not mean every year was (or will be) exceptional; but it does mean that despite some years of low returns we have delivered on our mandate to provide superior long term results.

### North Growth (NGM) Equity Funds and Market Indices

#### Annual Rates of Return (%) for Calendar Years

NGM US Equity Fund	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
US Equity Fund \$CDN	-10.9	12.7	6.5	3.5	25.5	-2.0	12.9	43.4	7.2	6.3	29.1	29.5	25.0	0.4	15.1
S&P 500 \$CDN	-10.3	16.0	1.5	2.8	5.8	-22.8	-6.4	-5.6	13.9	37.8	39.2	23.6	33.9	7.5	14.5
US Equity Fund \$US	4.7	12.5	10.0	11.6	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	5.5	15.8	4.9	10.9	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 MidCap \$US	8.0	10.3	12.6	16.5	35.6	-14.5	-0.6	17.5	14.7	19.1	32.2	19.2	30.9	-3.6	13.9
S&P 600 SmallCap \$US	-0.3	15.1	7.7	22.7	38.8	-14.6	6.5	11.8	12.4	-1.3	25.6	21.3	30.0	N/A	N/A
NASDAQ Composite \$US*	10.7	10.4	2.1	9.2	50.8	-31.3	-20.8	-39.2	86.1	40.2	22.2	23.0	41.0	-3.2	14.8
NGM Canadian Equity Fund	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
CDN Equity Fund \$CDN	█	█	█	█	█	█	█	-	-	-	-	-	-	-	-
S&P/TSX \$CDN	9.8	17.3	24.1	14.5	26.7	-12.4	-12.6	-	-	-	-	-	-	-	-

Source: Bloomberg "Total Return Analysis"

\*Price appreciation only for NASDAQ in 1993 and 1994

NAVPS (US FUND): December 31, 2007

\$ 22.93 CDN

\$ 23.13 US

NAVPS (CANADIAN FUND): December 31, 2007

\$ █ CDN

# RUNNING FIVE-YEAR RESULTS

## North Growth US Equity Fund Running Five-Year Results: Expressed in US Dollars

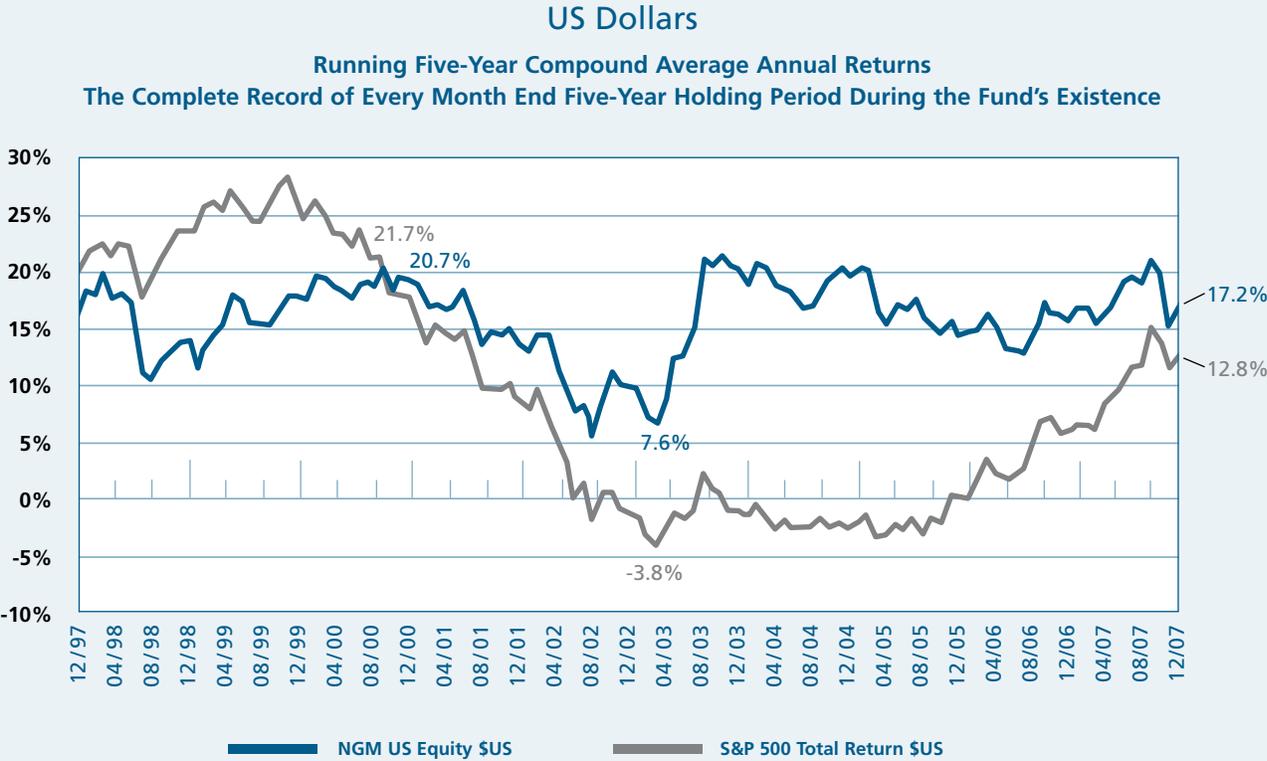
### The Best Long Term Perspective of a Fund's Performance

We feel this is a measure that gives a particularly good long term perspective of a Fund's performance. Five years may be a longer period than many investors focus on, but it is the minimum meaningful period for evaluating performance. It presents longer term results in a way which are neither overly influenced by long past periods of good performance, nor by strong short term results (end date sensitivity).

a complete record of the range of performance over all five-year holding periods. Moreover looking at the complete series of consecutive five-year periods also gives a good insight into the range of five-year performance that has been typical over the long term.

We present the record of five-year holding periods in US dollars first to document the results of the firm's ability as a manager of US equities.

The running five-year average return chart shown below effectively achieves this desired balance as it provides

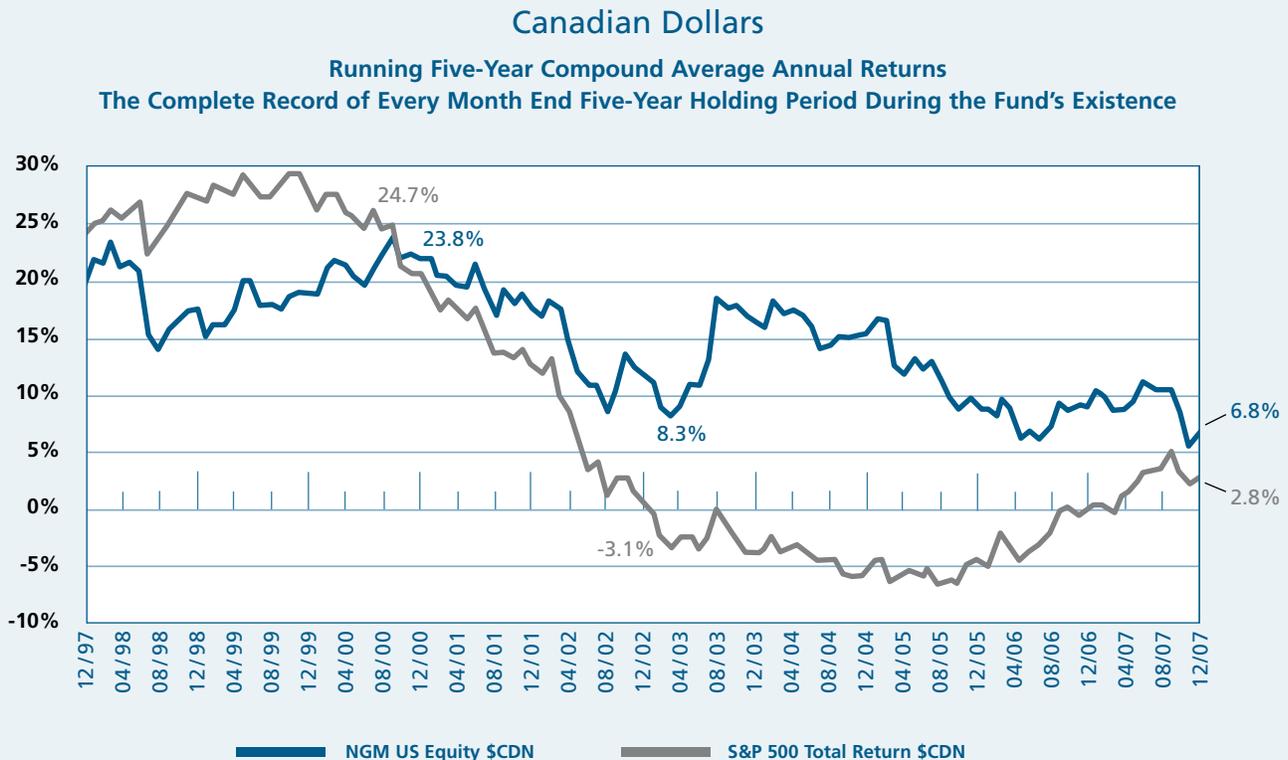


The above chart shows the annualized compound returns for the preceding five years from any point in time over the life of the Fund. For example, at December 31, 2007 from December 31, 2002, the average annual compound return for the US Equity Fund in US dollars over that five-year period is 17.2%.

## North Growth US Equity Fund Running Five-Year Results: Expressed in Canadian Dollars

As Canadian investors it is important to understand the impact foreign exchange volatility can have on Canadian dollar denominated returns from our foreign investments. Comparing the running five-year compound average annual returns for the North Growth US Equity Fund in both Canadian and US dollars should help investors better understand the currency impact. As of December 31, 2007, the Fund's five-year average annual return in

Canadian dollars was 6.8% versus 17.2% in US dollars. This 10.4% per annum difference is unusually high as the current five-year period captures the majority of the Canadian dollar's move from its near trough levels at the beginning of 2003. Accordingly, going forward, the US Fund's rolling five-year return in Canadian dollars should begin to converge towards the rolling five-year US dollar return.



The above chart shows the annualized compound returns for the preceding five years from any point in time over the life of the Fund. For example, at December 31, 2007 from December 31, 2002, the average annual compound return for the US Equity Fund in CDN dollars over that five-year period is 6.8%.

# PORTFOLIO HOLDINGS

## NORTH GROWTH US EQUITY FUND PORTFOLIO

AS OF DECEMBER 31, 2007

**Adobe Systems, Inc...** is a leading provider of software for digital imaging, design, and document technology platforms for consumers, creative professionals, and enterprises. Adobe offers several key products, including *Photoshop*, *Illustrator*, and *Acrobat* as well as a bundled package, *Creative Suite*. With the acquisition of Macromedia in December 2005, Adobe gained market leading toolsets in web design (*Dreamweaver* and *Studio*) and rich internet applications (*Flash*).

**American Eagle Outfitters, Inc...** is a leading lifestyle retailer that designs, markets, and sells its own brand of casual clothing for 15 to 25 year-olds, providing high quality merchandise at affordable prices. The company's collection includes modern basics like jeans, cargo pants, and graphic t-shirts as well as a stylish assortment of accessories, outerwear, and footwear. American Eagle currently operates in 50 states, the District of Columbia and Puerto Rico, and in Canada. The Company also targets an older segment of 15 to 40 year-old women and men with its *Martin + OSA* concept and has recently announced that it will launch a new children's apparel brand, under *77kids*.

**Apple, Inc...** is a leading designer, manufacturer, and marketer of personal computers and related products, portable digital music players and mobile communication devices. Personal computer products offered include the *iMac*, *MacBook*, and the *Mac mini* and its *iPod* family of products include the *iPod*, *iPod shuffle*, *iPod nano* and the *iPod Touch*. During the past year, *Apple* launched *AppleTV* and *iPhone*.

**Applied Materials, Inc...** is the world's largest supplier of products and services to the global semiconductor industry. The company develops, manufactures, markets, and services the processing and manufacturing technology that helps semiconductor manufacturers produce the world's most advanced chips. The Company also provides equipment to produce thin film transistor liquid crystal displays (LCDs) and has recently entered the emerging solar industry, supplying solutions to produce solar cells, flexible electronics and energy efficient glass.

**Boston Scientific Corporation...** is a global medical device company that provides minimally-invasive products and services across several medical specialties, including interventional cardiology, cardiac rhythm management, peripheral interventions, electrophysiology, neurovascular intervention, oncology, endoscopy, urology, gynecology and neuromodulation. In 2005, the Company acquired Guidant Corporation, a leader in the treatment of cardiovascular and vascular disease.

**Bristol-Myers Squibb Company...** is a global biopharmaceutical company. Its prescription drugs, which cover key areas in cardiovascular, virology, oncology and psychiatric disorders, include: *Plavix* (for heart attacks and strokes), *Baraclude* (for hepatitis B), *Orencia* (for rheumatoid arthritis), *Sprycel* (for cancer), *Avapro* (for hypertension), *Abilify* (for schizophrenia and bipolar disorders), and *Erbix* (for colorectal cancer). The company is currently reviewing a range of strategic alternatives for its nutritional and ostomy/wound care products businesses.

**Cheesecake Factory, Inc...** is an upscale, casual dining concept that offers more than 200 menu items. Its second concept, *Grand Luxe Café*, is an upscale, casual dining restaurant. The company also operates two bakery production facilities that produce over 40 varieties of cheesecakes and other baked products for its restaurants and other foodservice operators, retailers, and warehouse clubs.

**Chico's FAS, Inc...** is a specialty retailer that sells exclusive private-label women's clothing and related accessories. The company operates over 900 women's specialty stores in 48 states, the District of Columbia, the Virgin Islands, and Puerto Rico under the *Chico's*, *White House|Black Market*, and *Soma Intimates* brands.

**Cisco Systems, Inc...** is a leading provider of networking equipment including routers, switches, and access products. Its broad portfolio of products provides end-to-end networking solutions and encompasses advanced technologies ranging from storage area networking to home networking. Its acquisition of Scientific-Atlanta in 2005 gives Cisco a meaningful share in the market for set-top boxes and positions it to

benefit from the emerging digital living room. In 2007, Cisco also acquired WebEx, a leader in on-demand collaboration applications which allow companies to engage in real-time conferences over the Internet as well as share web-based documents and workspaces.

**Citigroup, Inc...** is a diversified financial services company with global operations in the US, Japan, Asia, Latin America, Mexico, Europe, the Middle East and Africa. The company provides a wide range of services including consumer and corporate banking, credit cards, investment banking, wealth management, brokerage, and alternative investments.

**Citrix Systems, Inc...** is a leading supplier of software and services that enable the effective and efficient enterprise-wide deployment and management of applications based on the *Windows* 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.

**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 leader in this niche with a 70% market 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 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.

**DSP Group, Inc...** is a fabless semiconductor company that develops applications for the short-range residential wireless communications market. The company's *Total Telephony Solutions* delivers 900 MHz, 2.4 GHz, 5.8 GHz, DECT, and Bluetooth applications for residential, enterprise, and automotive markets. The company also develops embedded integrated silicon/software solutions for voice-over-packet applications.

Apple introduces  
iPhone, combining  
three products —

a revolutionary  
mobile phone, a  
widescreen iPod with  
touch controls, and a  
breakthrough Internet  
communications device  
with desktop-class  
email, web browsing,  
searching, and maps  
into one small  
and lightweight  
handheld device.

*Apple Inc.*  
Jan 09, 2007 Press Release

# NORTH GROWTH US EQUITY FUND PORTFOLIO...

AS OF DECEMBER 31, 2007

**Federal Signal Corporation...** manufactures and sells safety, signalling, and communications equipment, fire rescue products, street sweeping and vacuum loader vehicles, parking control equipment, precision punches, and related die components. The company is managed on a decentralized basis and has three major operating groups: fire rescue, environmental products, and safety products.

**General Electric Company...** is the largest industrialized company in the world with products and services that include aircraft engines, power generation, water processing, security technology, medical imaging, business and consumer financing, media content and advanced materials.

**Herman Miller, Inc...** designs, manufactures and distributes interior furnishings and provides related services primarily for workplace environments. Its products are mainly used in corporate offices, healthcare facilities, educational institutions and residential settings. The company markets its products primarily through a dealer base of independent businesses in the US and various countries around the world.

**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, and products used for graphics, network and communications, system management, conferencing, and digital imaging.

**Kellwood Company...** is a marketer of branded and private-label women's and men's sportswear, infant apparel, and recreational camping products. Some of its brands include *Sag Harbor*, *Koret*, *Dorby*, *My Michelle*, *Briggs New York*, *Vince*, *Calvin Klein*, *Slates*, *Nautica*, *Claiborne* and *Dockers*.

**Mesa Air Group, Inc...** operates over 184 aircraft with over 1,100 daily system departures to more than 184 cities in 45 states, the District of Columbia, Canada, the Bahamas and Mexico. It operates as *Delta Connection*, *US Airways Express*, and *United Express* under contractual agreement with Delta Air Lines, US Airways, and United Airlines, respectively. Mesa also operates independently as *Mesa Airlines* and *go!*.

**Microsoft Corporation...** is the largest software company in the world; it develops, manufactures, licenses, and sells a broad range of software, hardware and services. The company has a dominant franchise in desktop software through its *Windows* operating system and *Office* productivity suite. Its line of software products has expanded into related areas such as servers, the Internet, home entertainment, and embedded and mobile devices. Microsoft also makes the highly successful *Xbox* game console.

**Nike, Inc...** is the world's lead designer, marketer, and distributor of authentic athletic footwear, apparel, equipment, and accessories. Wholly-owned subsidiaries include *Converse* (athletic footwear, apparel and accessories), *NIKE Bauer Hockey* (hockey equipment), *Cole Haan* (luxury shoes, handbags, accessories and coats), and *Hurley International LLC* (action sports, youth lifestyle footwear and apparel). The company sells its products to various retail accounts as well as through its owned retail stores and independent distributors and licensees.

**Pier 1 Imports, Inc...** is a specialty retailer of imported decorative home furnishings, dining and kitchen goods, bath and bedding accessories and gifts. The company currently operates more than 1,200 stores throughout the US, Canada, the United Kingdom and Mexico.

**Pfizer, Inc...** is the world's largest research-based pharmaceutical company. It discovers, develops, manufactures, and markets leading prescription medicines which include cholesterol reduction drug, *Lipitor*, pain management drug, *Celebrex*, hypertension drug, *Norvasc*, erectile dysfunction therapy, *Viagra*, smoking cessation drug, *Chantix*, cancer drug, *Sutent*, and epilepsy drug, *Lyrica*. Its Animal Health division, one of the largest in the world, develops and sells products for the prevention and treatment of diseases in livestock and companion animals.

**Safeway, Inc...** is one of the largest North American food and drug retailers, with 1,700 stores throughout the US and Canada. Stores operate under the *Safeway*, *Pak 'n Save*, *Dominick's*, *Vons*, *Pavilions*, *Randall's*, *Tom Thumb*, *Carrs*, and *Genuardi* names.

**St. Jude Medical, Inc...** develops, manufactures and distributes medical devices with an emphasis on cardiovascular products and services. The company's products are sold in more than 100 countries. St. Jude Medical has five major focus areas that include cardiac rhythm management, atrial fibrillation, cardiology, cardiac surgery, and neuromodulation.

**Sybase, Inc...** develops software solutions for mobile and embedded computing, data warehousing, and web computing environments. The company serves the public sector as well as industries including financial services, telecommunications, health care, and government.

**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. Its Education Technology division is a leading supplier of graphing handheld calculators.

**Wal-Mart, Inc...** is the largest retailer as well as food retailer in the world. It operates under a variety of formats including: discount stores and supercenters (*Wal-Mart*), warehouse clubs (*Sam's Club*), and supermarkets (*Neighborhood Markets*).

**Wellpoint, Inc...** provides health care benefits to over 34 million medical members through its licensed Blue Cross or Blue Cross Blue Shield operations in 14 states and its non-Blue branded operations in other states. The company is active in the commercial market as well as the government Medicare, Medicaid, and Federal Employee programs.

**Zimmer Holdings, Inc...** designs, manufactures and markets reconstructive orthopaedic implants, including joint and dental, spinal implants, trauma products and related orthopaedic surgical products. Its products are sold in more than 100 countries and are sold directly to health care institutions, through stocking distributors, and directly to dental practices and dental laboratories.

Microsoft today announced that Halo® 3 has officially become the biggest entertainment launch in history, garnering an estimated \$170 million in sales in the United States alone in the first 24 hours.

*Microsoft Corporation*  
Sept 24, 2007 Press Release

# NORTH GROWTH CANADIAN EQUITY FUND PORTFOLIO

AS OF DECEMBER 31, 2007

**Angiotech Pharmaceuticals, Inc...** is a specialty pharmaceutical and medical device company that discovers, develops, and markets innovative technologies and medical products primarily for local diseases or for complications associated with medical device implants, surgical interventions, and acute injury.

**ATS Automation Tooling Systems, Inc...** is a world-leading industrial automation company dedicated to designing and manufacturing advanced factory automation systems, custom or standard automation equipment, turn-key assembly machinery, as well as high-volume precision components, sub-assemblies, solar cells, and solar modules. ATS provides services to companies in medical, health, pharmaceutical, consumer, automotive, telecommunications, semiconductor, computer, and electrical industries.

**Ballard Power Systems, Inc...** is recognized as the world leader in the design, development, and manufacture of zero-emission proton exchange membrane (PEM) fuel cells for automobiles, materials handling vehicles such as forklifts, and stationary power generation.

**Biovail Corporation...** is a specialty pharmaceutical company engaged in the formulation, clinical testing, registration, manufacture, and commercialization of pharmaceutical products utilizing its advanced oral controlled-release drug-delivery technologies. The company primarily focuses on cardiovascular disease, central nervous system disorders, and pain management. Biovail applies its drug delivery technologies to drug compounds to develop both branded and generic products.

**Bombardier, Inc...** is a world-leading manufacturer of innovative transportation solutions such as regional jets, business jets, and rail transportation equipment.

**Certicom Corporation...** is a pioneer in the development of Elliptic Curve Cryptography (ECC) which was adopted by the US National Security Agency for both mission critical and non-mission critical applications. ECC offers the most security per bit of any known public-key scheme making it ideal for small devices where processing power is limited.

**Cognos, Inc...** is a world leader in developing business intelligence software to help its customers drive, monitor, and understand corporate performance. The company recently agreed to be acquired by IBM.

**Cossette Communication Group, Inc...** is Canada's largest marketing communications firm and among the top fifteen in North America. Cossette has approximately 1,400 employees and offices in Quebec City, Montreal, Toronto, Vancouver, Halifax, New York, Boston, Irvine, Los Angeles, London, and Shanghai.

**Dorel Industries, Inc (CL B)...** is a global manufacturer of consumer products. The company operates in three business segments: Juvenile, Home Furnishings, and Recreational/Leisure. Some of Dorel's brand names are *Cosco*, *Safety 1st*, *Maxi-Cosy*, *Ameriwood*, *Ridgewood*, *Schwinn*, *GT Bicycle*, and *Mongoose*.

**Emergis Inc...** develops and manages solutions to automate transactions and the exchange of information to increase the process efficiency and quality of service of its clients. Emergis has expertise in electronic health-related claims processing, health record systems, pharmacy management solutions, cash management, and mortgage document processing and registration. Recently the company agreed to be acquired by Telus.

**EXFO Electro-Optical Engineering, Inc...** is a recognized test and measurement expert in the global telecommunications industry. The company offers a full suite of test solutions and monitoring systems to network service providers, cable TV operators, telecom system vendors, and component manufacturers in approximately 70 countries.

**GSI Group, Inc...** supplies precision motion products, lasers, and laser systems that are used to boost efficiency and productivity for manufacturers in the global medical, semiconductor, electronics, and industrial markets.

**Jean Coutu Group (PJC), Inc...** operates a network of 329 franchised drugstores in Canada located in Quebec, New Brunswick and Ontario and employs more than 15,500 people. The company holds a significant interest in Rite Aid Corporation which is a leading drugstore chain in the US with approximately 5,100 drugstores in 31 states and the District of Columbia.

**MacDonald, Dettwiler & Associates, Ltd...** designed and built the *Canadarm* and is a world leader in information and technology. Its Information Systems group provides mission critical information systems for robotics, defense, and satellites. Its Information Products group delivers land-related products and services concerning legal, asset, and geographic information. In early 2008, the company agreed to sell its Information Systems group.

**QLT, Inc...** is a global biopharmaceutical company whose portfolio of drugs include *Visudyne* for the treatment of wet age-related macular degeneration and *Eligard* for the treatment of advanced prostate cancer. The company also owns a unique drug delivery technology called *Atrigel* which is injected into the body and dissolves over time. The company is also developing an ocular punctal plug drug delivery system for the treatment of glaucoma.

The world's first  
hybrid train built  
by Bombardier  
officially enters  
commercial service  
in the Champagne-  
Ardenne region  
of France.

*Bombardier, Inc.*  
Oct 09, 2007 Press Release

# NORTH GROWTH CANADIAN EQUITY FUND PORTFOLIO...

AS OF DECEMBER 31, 2007

**Saputo, Inc...** is Canada's largest dairy processor and snack cake manufacturer as well as Argentina's third largest dairy processor. Saputo also has a growing presence as a cheese producer in the United States. The company's products include brand names such as *Saputo*, *Armstrong*, and *Dairyland*.

**Sierra Wireless, Inc...** is a leader in developing innovative broadband wireless data technology for access through cellular networks. The company offers a broad product line including the *AirCard* line of wireless modems, embedded modules that are built into laptops and other devices such as point of sale devices, and rugged modems for vehicle-mounted connectivity solutions.

**Telus Corporation...** is a leading Canadian telecommunications company that provides wireline, wireless, internet, entertainment and video services.

**Tundra Semiconductor Corporation...** designs, develops, and markets standards-based system interconnect for use by the world's leading communications and storage system companies. Tundra System Interconnect is a vital technology that enables customers to connect critical system components while compressing development cycles and maximizing performance. Applications include wireless infrastructure, storage networking, network access, military technology, and industrial automation.

Texas Instruments  
selects Certicom to  
secure next-generation  
of government-issued  
identification documents.

*Certicom*  
Nov 12, 2007 Press Release

**WestJet Airlines, Ltd...** is Canada's leading low-cost airline offering scheduled service throughout its growing North American and Caribbean network. The company strives to be the number one choice for travelers by operating a modern fleet of Boeing *Next-Generation 737* aircraft with increased legroom and leather seats as well as live seatback television provided by *Bell ExpressVu* on most of its aircraft.

**Zarlink Semiconductor, Inc...** delivers semiconductor solutions that drive the capabilities of voice, enterprise, broadband, and wireless communications. The company's success is built on its technology strengths in voice and data networks, optoelectronics, and ultra low-power communications for medical devices.

WestJet announces  
preferred airline  
partnership with  
Wal-Mart, the world's  
largest retailer.

WestJet will leverage  
this relationship to  
appeal to a broad  
range of corporate  
business travellers.

*WestJet*  
Mar 21, 2007 Press Release

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# STATEMENTS OF FINANCIAL HIGHLIGHTS

## Auditors' Report on Statements of Financial Highlights

### To the Unitholders of:

North Growth Canadian Money Market Fund  
North Growth Canadian Equity Fund  
North Growth U.S. Equity Fund  
(collectively referred to as the "Funds"):

We have audited the statements of financial highlights of the Funds for each of the years in the five year period ended December 31, 2007, which information has been calculated in accordance with the provisions of National Instrument 81-106. This financial information is the responsibility of the Funds' management. Our responsibility is to express an opinion on this financial information 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 information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial information.

In our opinion, the statements of financial highlights present fairly, in all material respects, the financial highlights of the Funds for each of the years in the five year period ended December 31, 2007 in accordance with the provisions of National Instrument 81-106.

*Deloitte & Touche LLP*

### **Chartered Accountants**

Vancouver, British Columbia  
January 25, 2008

# NORTH GROWTH CANADIAN MONEY MARKET FUND

## STATEMENT OF FINANCIAL HIGHLIGHTS

FOR THE FIVE YEARS ENDED DECEMBER 31, 2007

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years.

	2007	2006	2005	2004	2003
<b>Net Assets Per Unit <sup>1</sup></b>					
<b>Net Assets, Beginning of Year</b>	<b>\$ 10.00</b>				
<b>Increase (Decrease) From Operations</b>					
Total revenue	0.45	0.41	0.27	0.24	0.31
Total expenses	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Net investment income	0.42	0.38	0.24	0.21	0.28
Realized gains for the period	–	–	–	–	–
Unrealized gains for the period	–	–	–	–	–
Net gains on investments for the period	–	–	–	–	–
<b>Total Increase (Decrease) from Operations <sup>2</sup></b>	<b>0.42</b>	<b>0.38</b>	<b>0.24</b>	<b>0.21</b>	<b>0.28</b>
<b>Distributions</b>					
From income (excluding dividends)	(0.42)	(0.38)	(0.24)	(0.21)	(0.28)
From dividends	–	–	–	–	–
From net investment income	(0.42)	(0.38)	(0.24)	(0.21)	(0.28)
From capital gains	–	–	–	–	–
Return of capital	–	–	–	–	–
<b>Total Annual Distributions <sup>3</sup></b>	<b>(0.42)</b>	<b>(0.38)</b>	<b>(0.24)</b>	<b>(0.21)</b>	<b>(0.28)</b>
<b>Net Asset, End of Year</b>	<b>\$ 10.00</b>				
<p><sup>1</sup> This information is derived from the Fund's audited annual financial statements as at Dec 31 of the year shown. Starting with the reporting period of 2007, the net assets per unit presented in the financial statements differs from the net asset value per unit calculated for fund pricing purposes. An explanation of these differences can be found in Note 2 of the notes of the financial statements.</p> <p><sup>2</sup> Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from investment operations is based on the weighted average number of units outstanding over the financial period.</p> <p><sup>3</sup> Distributions were paid in cash/reinvested in additional units of the Fund, or both.</p>					
<b>Ratios and Supplemental Data</b>					
Net asset value (000's) <sup>4</sup>	\$ 6,803	\$ 6,338	\$ 6,151	\$ 8,459	\$ 12,507
Number of units outstanding (000's) <sup>4</sup>	680	634	615	846	1,251
Management expense ratio <sup>5</sup>	0.25%	0.26%	0.27%	0.27%	0.27%
Annual rate of return <sup>6</sup>	4.34%	3.84%	2.42%	2.03%	2.71%
Net asset value per unit	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00
<p><sup>4</sup> This information is provided as at December 31 of the year shown.</p> <p><sup>5</sup> Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.</p> <p><sup>6</sup> Annual rate of return represents the historical total rate of return for the year and includes the reinvestment of all distributions.</p>					

# NORTH GROWTH CANADIAN EQUITY FUND

## STATEMENT OF FINANCIAL HIGHLIGHTS

FOR THE FIVE YEARS ENDED DECEMBER 31, 2007

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years.

	2007	2006	2005	2004	2003
<b>Net Assets Per Unit <sup>1</sup></b>					
<b>Net Assets, Beginning of Year</b>	<b>\$ 12.65</b>	<b>\$ 12.18</b>	<b>\$ 12.89</b>	<b>\$ 12.37</b>	<b>\$ 10.69</b>
<b>Increase (Decrease) From Operations</b>					
Total revenue	0.13	0.08	0.08	0.06	0.13
Total expenses	(0.16)	(0.16)	(0.16)	(0.13)	(0.11)
Net investment (loss) income	(0.03)	(0.08)	(0.08)	(0.07)	0.02
Realized gains (losses) for the period	0.38	0.51	1.77	0.33	0.24
Unrealized (losses) gains for the period	(1.59)	0.54	(0.95)	0.32	2.13
Net gains (losses) on investments for the period	(1.21)	1.05	0.82	0.65	2.37
<b>Total Increase (Decrease) from Operations <sup>2</sup></b>	<b>(1.24)</b>	<b>0.97</b>	<b>0.74</b>	<b>0.58</b>	<b>2.39</b>

### Distributions

From income (excluding dividends)	–	–	–	–	–
From dividends	–	(0.08)	(0.09)	–	(0.01)
From net investment income	–	(0.08)	(0.09)	–	(0.01)
From capital gains	–	(0.51)	(1.36)	(0.15)	(0.12)
Return of capital	–	–	–	–	–
<b>Total Annual Distributions <sup>3</sup></b>	<b>–</b>	<b>(0.59)</b>	<b>(1.45)</b>	<b>(0.15)</b>	<b>(0.13)</b>

<b>Net Assets, End of Year</b>	<b>\$ 11.21</b>	<b>\$ 12.65</b>	<b>\$ 12.18</b>	<b>\$ 12.89</b>	<b>\$ 12.37</b>
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<sup>1</sup> This information is derived from the Fund's audited annual financial statements as at Dec 31 of the year shown. Starting with the reporting period of 2007, the net assets per unit presented in the financial statements differs from the net asset value per unit calculated for fund pricing purposes. An explanation of these differences can be found in Note 2 of the notes of the financial statements.

<sup>2</sup> Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from investment operations is based on the weighted average number of units outstanding over the financial period.

<sup>3</sup> Distributions were paid in cash/reinvested in additional units of the Fund, or both.

### Ratios and Supplemental Data

Net asset value (000's) <sup>4</sup>	\$ 19,488	\$ 25,796	\$ 22,406	\$ 20,343	\$ 12,905
Number of units outstanding (000's) <sup>4</sup>	1,733	2,040	1,839	1,578	1,043
Management expense ratio <sup>5</sup>	1.25%	1.25%	1.30%	1.31%	1.24%
Management expense ratio before waivers or absorptions	1.25%	1.25%	1.30%	1.31%	1.32%
Trading expense ratio <sup>6</sup>	0.16%	0.21%	0.27%	N/A	N/A
Portfolio turnover rate <sup>7</sup>	26.92%	30.84%	77.65%	30.76%	78.37%
Annual rate of return <sup>8</sup>	(11.06%)	8.80%	5.76%	5.38%	16.99%
Net asset value per unit	\$ 11.25	\$ 12.65	\$ 12.18	\$ 12.89	\$ 12.37

<sup>4</sup> This information is provided as at December 31 of the year shown.

<sup>5</sup> Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

<sup>6</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

<sup>7</sup> The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

<sup>8</sup> Annual rate of return represents the historical total rate of return for the year and includes the reinvestment of all distributions.

# NORTH GROWTH U.S. EQUITY FUND

## STATEMENT OF FINANCIAL HIGHLIGHTS

FOR THE FIVE YEARS ENDED DECEMBER 31, 2007

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years.

	2007	2006	2005	2004	2003
<b>Net Assets Per Unit <sup>1</sup></b>					
<b>Net Assets, Beginning of Year</b>	<b>\$ 25.75</b>	<b>\$ 22.84</b>	<b>\$ 24.02</b>	<b>\$ 23.32</b>	<b>\$ 18.68</b>
<b>Increase (Decrease) from Operations</b>					
Total revenue	0.25	0.32	0.16	0.22	0.08
Total expenses	(0.30)	(0.28)	(0.31)	(0.28)	(0.25)
Net investment income	(0.05)	0.04	(0.15)	(0.06)	(0.17)
Realized gains for the period	0.21	0.27	4.15	0.46	0.64
Unrealized (losses) gains for the period	(2.95)	2.58	(2.50)	0.39	4.47
Net gains (losses) on investments for the period	(2.74)	2.85	1.65	0.85	5.11
<b>Total Increase (Decrease) from Operations <sup>2</sup></b>	<b>(2.79)</b>	<b>2.89</b>	<b>1.50</b>	<b>0.79</b>	<b>4.94</b>

### Distributions

From income (excluding dividends)	–	–	–	–	–
From dividends	–	–	–	–	–
From net investment income	–	–	–	–	–
From capital gains	–	–	(2.76)	(0.10)	(0.12)
Return of capital	–	–	–	–	–
<b>Total Annual Distributions <sup>3</sup></b>	<b>–</b>	<b>–</b>	<b>(2.76)</b>	<b>(0.10)</b>	<b>(0.12)</b>
<b>Net Assets, End of Year</b>	<b>\$ 22.90</b>	<b>\$ 25.75</b>	<b>\$ 22.84</b>	<b>\$ 24.02</b>	<b>\$ 23.32</b>

<sup>1</sup> This information is derived from the fund's audited annual financial statements as at Dec 31 of the year shown. Starting with the reporting period of 2007, the net assets per unit presented in the financial statements differs from the net asset value per unit calculated for fund pricing purposes. An explanation of these differences can be found in Note 2 of the notes of the financial statements.

<sup>2</sup> Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from investment operations is based on the weighted average number of units outstanding over the financial period.

<sup>3</sup> Distributions were paid in cash/reinvested in additional units of the Fund, or both.

### Ratios and Supplemental Data

Net asset value (000's) <sup>4</sup>	\$ 254,630	\$ 294,147	\$ 256,772	\$ 231,803	\$ 199,603
Number of units outstanding (000's) <sup>4</sup>	11,105	11,425	11,242	9,650	8,560
Management expense ratio <sup>5</sup>	1.20%	1.20%	1.21%	1.23%	1.25%
Trading expense ratio <sup>6</sup>	0.06%	0.16%	0.18%	N/A	N/A
Portfolio turnover rate <sup>7</sup>	17.07%	42.93%	58.07%	50.51%	40.34%
Annual rate of return <sup>8</sup>	(10.94%)	12.72%	6.47%	3.45%	25.50%
Net asset value per unit	\$ 22.93	\$ 25.75	\$ 22.84	\$ 24.02	\$ 23.32

<sup>4</sup> This information is provided as at December 31 of the year shown.

<sup>5</sup> Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

<sup>6</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

<sup>7</sup> The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

<sup>8</sup> Annual rate of return represents the historical total rate of return for the year and includes the reinvestment of all distributions.

## Auditors' Report

### To the Unitholders of:

North Growth Canadian Money Market Fund  
North Growth Canadian Equity Fund  
North Growth U.S. Equity Fund  
(collectively referred to as the "Funds"):

We have audited the statements of net assets and of investments of the Funds as at December 31, 2007, and the statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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, the financial position of the Funds as at December 31, 2007, and the results of their operations and the changes in their net assets for the year then ended, in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*

### **Chartered Accountants**

Vancouver, British Columbia  
January 25, 2008

# NORTH GROWTH MUTUAL FUNDS

## STATEMENTS OF NET ASSETS

DECEMBER 31, 2007 AND 2006  
(in thousands of dollars except per unit amounts)

	Canadian Money Market Fund		Canadian Equity Fund		U.S. Equity Fund	
	2007	2006	2007	2006	2007	2006
<b>Assets</b>						
Investments - at fair value (Note 2)	\$ 6,762	\$ 6,321	\$ 19,214	\$ 25,731	\$251,505	\$290,184
Cash	22	3	80	73	2,859	4,019
Due from brokers	-	-	408	-	-	-
Due from unitholders	-	-	-	5	-	20
Accrued interest and dividends receivable	20	15	10	13	248	225
	<u>42</u>	<u>18</u>	<u>498</u>	<u>91</u>	<u>3,107</u>	<u>4,264</u>
	<u>6,804</u>	<u>6,339</u>	<u>19,712</u>	<u>25,822</u>	<u>254,612</u>	<u>294,448</u>
<b>Liabilities</b>						
Accounts payable and accrued liabilities	1	1	21	26	265	297
Due to brokers	-	-	262	-	-	-
Due to unitholders	-	-	-	-	5	4
	<u>1</u>	<u>1</u>	<u>283</u>	<u>26</u>	<u>270</u>	<u>301</u>
<b>Net Assets - Representing</b>						
Unitholders' Equity (Note 5)	<u>\$ 6,803</u>	<u>\$ 6,338</u>	<u>\$ 19,429</u>	<u>\$ 25,796</u>	<u>\$254,342</u>	<u>\$294,147</u>
<b>Number of Units</b>						
Outstanding (000's) (Note 5)	<u>680</u>	<u>634</u>	<u>1,733</u>	<u>2,040</u>	<u>11,105</u>	<u>11,425</u>
<b>Net Assets Per Unit (Note 2(g))</b>	<u>\$ 10.00</u>	<u>\$ 10.00</u>	<u>\$ 11.21</u>	<u>\$ 12.65</u>	<u>\$ 22.90</u>	<u>\$ 25.75</u>

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



Rudy North, President

# NORTH GROWTH MUTUAL FUNDS

## STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2007 AND 2006

(in thousands of dollars except per unit amounts)

	Canadian Money Market Fund		Canadian Equity Fund		U.S. Equity Fund	
	2007	2006	2007	2006	2007	2006
<b>Investment Income</b>						
Dividends (1)	\$ –	\$ –	\$ 254	\$ 155	\$ 2,758	\$ 3,629
Interest	264	264	1	1	4	5
	<u>264</u>	<u>264</u>	<u>255</u>	<u>156</u>	<u>2,762</u>	<u>3,634</u>
<b>Expenses</b>						
Management fees (Note 6)	15	17	313	316	3,325	3,207
	<u>15</u>	<u>17</u>	<u>313</u>	<u>316</u>	<u>3,325</u>	<u>3,207</u>
<b>Net Investment Income (Loss) (Note 3)</b>	<u>249</u>	<u>247</u>	<u>(58)</u>	<u>(160)</u>	<u>(563)</u>	<u>427</u>
<b>Realized and Unrealized Gains (Losses) on Investments and Transaction Costs</b>						
Proceeds from sale of investments	61,311	71,704	10,519	7,773	55,119	113,920
Investments at average cost, beginning of year	6,321	6,130	24,516	21,466	234,303	224,918
Cost of investments purchased	61,752	71,895	6,546	9,808	46,835	120,197
	<u>68,073</u>	<u>78,025</u>	<u>31,062</u>	<u>31,274</u>	<u>281,138</u>	<u>345,115</u>
Investments at average cost, end of year	(6,762)	(6,321)	(21,281)	(24,516)	(228,330)	(234,303)
Cost of investments sold	61,311	71,704	9,781	6,758	52,808	110,812
Net realized gains on sale of investments (Note 7)	–	–	738	1,015	2,311	3,108
Change in unrealized appreciation (depreciation) of investments	–	–	(3,036)	1,076	(32,528)	29,487
Transaction costs (Note 2(d))	–	–	(40)	–	(167)	–
<b>Net (Losses) Gains on Investments (Note 3)</b>	<u>–</u>	<u>–</u>	<u>(2,338)</u>	<u>2,091</u>	<u>(30,384)</u>	<u>32,595</u>
<b>Increase (Decrease) in Net Assets from Operations</b>	<u>\$ 249</u>	<u>\$ 247</u>	<u>\$ (2,396)</u>	<u>\$ 1,931</u>	<u>\$ (30,947)</u>	<u>\$ 33,022</u>
<b>Earnings Per Unit (Note 2(g))</b>	<u>\$ 0.42</u>	<u>\$ 0.38</u>	<u>\$ (1.24)</u>	<u>\$ 0.97</u>	<u>\$ (2.78)</u>	<u>\$ 2.89</u>
<b>Average Number of Units Outstanding During The Year (000's)</b>	<u>586</u>	<u>656</u>	<u>1,934</u>	<u>1,999</u>	<u>11,116</u>	<u>11,443</u>

(1) Net of withholding taxes, where applicable.

# NORTH GROWTH MUTUAL FUNDS

## STATEMENTS OF CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2007 AND 2006  
(in thousands of dollars)

	Canadian Money Market Fund		Canadian Equity Fund		U.S. Equity Fund	
	2007	2006	2007	2006	2007	2006
<b>Total Increase (Decrease) in Net Assets from Operations</b>	\$ 249	\$ 247	\$ (2,396)	\$ 1,931	\$ (30,947)	\$ 33,022
<b>Distributions to Unitholders</b>						
From net investment income	(249)	(247)	-	-	-	-
From net realized gain on investments	-	-	-	(1,150)	-	-
	(249)	(247)	-	(1,150)	-	-
<b>Capital Unit Transactions</b>						
Units issued on sales	2,372	2,303	230	3,436	11,842	67,191
Units issued on reinvestment of distributions	249	247	-	1,150	-	-
Units redeemed	(2,156)	(2,363)	(3,954)	(1,977)	(20,436)	(62,838)
	465	187	(3,724)	2,609	(8,594)	4,353
<b>Increase (Decrease) in Net Assets</b>	465	187	(6,120)	3,390	(39,541)	37,375
<b>Fair Value Adjustment</b>						
From December 31, 2006 closing prices to bid prices (Note 2)	-	-	(247)	-	(264)	-
<b>Net Assets, Beginning of Year</b>	6,338	6,151	25,796	22,406	294,147	256,772
<b>Net Assets, End of Year</b>	\$ 6,803	\$ 6,338	\$ 19,429	\$ 25,796	\$ 254,342	\$ 294,147

# NORTH GROWTH CANADIAN MONEY MARKET FUND

## STATEMENT OF INVESTMENTS

DECEMBER 31, 2007

(in thousands of dollars)

Face Value	Security	Average Cost and Fair Value	% of Net Assets
\$ 200	Manulife Bank of Canada, 4.74%, January 4, 2008	\$ 199	2.93
200	Home Depot, 4.77%, January 7, 2008	199	2.93
200	Vancouver City Savings Credit Union, 4.74%, January 7, 2008	199	2.93
200	Wachovia Capital Finance Corporation, 4.62%, January 7, 2008	199	2.93
300	Province of Ontario, 3.98%, January 8, 2008	299	4.38
200	Royal Bank of Canada, 4.52%, January 8, 2008	199	2.93
200	Bank of Nova Scotia, 4.65%, January 9, 2008	199	2.93
200	OMERS Realty Corporation, 4.68%, January 9, 2008	199	2.93
150	Farm Credit Canada, 3.85%, January 10, 2008	150	2.19
200	Toronto-Dominion Bank, 4.50%, January 11, 2008	200	2.94
200	HSBC Financial Corporation Ltd., 4.70%, January 14, 2008	199	2.93
200	Citigroup Finance Canada Ltd., 4.73%, January 15, 2008	198	2.91
250	PSP Capital Inc., 4.76%, January 15, 2008	249	3.65
200	TELUS Communications Inc., 4.70%, January 15, 2008	199	2.93
200	Total Capital Canada Ltd., 4.64%, January 15, 2008	199	2.93
200	EnCana Corporation, 4.78%, January 16, 2008	199	2.93
200	Finning Ltd., 4.74%, January 17, 2008	199	2.93
250	Business Development Bank of Canada, 3.85%, January 21, 2008	249	3.65
250	Dexia CAD Funding LLC, 4.62%, January 22, 2008	249	3.65
250	Goldman Sachs Canada Finance Co., 4.74%, January 23, 2008	248	3.65
200	Province of British Columbia, 4.00%, January 25, 2008	199	2.93
200	Caterpillar Financial Services Inc., 4.83%, January 28, 2008	198	2.91
200	Honda Canada Finance Inc., 4.58%, January 29, 2008	199	2.93
200	Terasen Pipelines Inc., 4.72%, January 30, 2008	199	2.93
200	Credit Union Central of British Columbia, 4.65%, January 31, 2008	199	2.93
200	Wells Fargo Financial Canada Corporation, 4.79%, January 31, 2008	198	2.90
250	Canadian Wheat Board, 3.85%, February 4, 2008	249	3.65
200	GE Capital Canada Funding Company, 4.57%, February 4, 2008	199	2.93
200	Paccar Financial Services Inc., 4.62%, February 5, 2008	199	2.93
200	Anglo American Luxembourg PLC, 4.70%, February 11, 2008	199	2.93
200	Nestle Capital Canada Limited, 4.70%, February 11, 2008	197	2.89
200	CDP Financial Inc., 4.77%, March 5, 2008	198	2.91
100	Honda Canada Finance Inc., 4.77%, March 10, 2008	99	1.45
	Total investments	6,762	99.40
	Other assets less liabilities	41	0.60
	Net assets	<u>\$ 6,803</u>	<u>100.00</u>

# NORTH GROWTH CANADIAN EQUITY FUND

## STATEMENT OF INVESTMENTS

DECEMBER 31, 2007

(in thousands of dollars)

Number of Shares	Security	Average Cost	Fair Value	% of Net Assets
325,000	Bombardier Inc., Class B	\$ 916	\$ 1,937	9.97
86,000	WestJet Airlines Ltd.	1,039	1,935	9.96
110,000	Sierra Wireless Inc.	1,687	1,625	8.37
88,000	Biovail Corporation	2,041	1,175	6.05
126,300	GSI Group Inc.	1,396	1,151	5.92
22,500	Telus Corporation	1,080	1,112	5.72
34,200	Dorel Industries Inc., Class B	1,168	986	5.07
174,025	ATS Automation Tooling Systems Inc.	1,684	898	4.62
107,500	Emergis Inc.	514	881	4.53
255,800	Angiotech Pharmaceuticals Inc.	1,746	867	4.46
165,000	Ballard Power Systems Inc.	895	861	4.43
72,000	Jean Coutu Group (PJC) Inc., Class A	915	800	4.12
14,000	Cognos Inc.	619	800	4.12
1,059,800	Zarlink Semiconductor Inc.	1,634	784	4.04
18,100	MacDonald, Dettwiler and Associates Ltd.	445	756	3.89
146,600	EXFO Electro-Optical Engineering Inc.	930	720	3.71
20,800	Saputo Inc.	367	619	3.19
85,800	Tundra Semiconductor Corporation	1,100	429	2.21
33,200	Cossette Communication Group Inc.	324	366	1.88
60,600	QLT Inc.	317	261	1.34
160,000	Certicom Corporation	464	251	1.29
	Total investments	<u>\$ 21,281</u>	<u>19,214</u>	98.89
	Other assets less liabilities		<u>215</u>	1.11
	Net assets		<u>\$ 19,429</u>	100.00

# NORTH GROWTH U.S. EQUITY FUND

## STATEMENT OF INVESTMENTS

DECEMBER 31, 2007

(in thousands of dollars)

Number of Shares	Security	Average Cost	Fair Value	% of Net Assets
988,260	Cisco Systems Inc.	\$ 20,933	\$ 26,490	10.41
108,500	Apple Inc.	2,754	21,304	8.37
585,400	Microsoft Corporation	17,633	20,653	8.12
461,910	General Electric Company	17,759	16,933	6.65
524,300	Intel Corporation	11,278	13,825	5.44
339,600	St. Jude Medical Inc.	13,262	13,661	5.37
299,000	Citrix Systems Inc.	8,032	11,266	4.43
584,600	Applied Materials Inc.	11,577	10,269	4.04
380,000	Bristol-Myers Squibb Company	10,432	9,990	3.93
474,000	American Eagle Outfitters Inc.	10,513	9,759	3.84
323,900	Sybase Inc.	7,141	8,374	3.29
243,900	Texas Instruments Inc.	7,000	8,061	3.17
119,000	NIKE Inc., Class B	5,781	7,569	2.98
330,000	Pfizer Inc.	8,801	7,423	2.92
210,000	Safeway Inc.	6,233	7,111	2.80
151,000	Wal-Mart Stores Inc.	8,543	7,110	2.80
154,800	Adobe Systems Inc.	3,682	6,557	2.58
98,000	Zimmer Holdings Inc.	9,087	6,414	2.52
220,000	Citigroup Inc.	7,604	6,392	2.51
64,200	WellPoint Inc.	3,648	5,581	2.19
445,403	DSP Group Inc.	11,208	5,373	2.11
225,000	Cheesecake Factory Inc.	6,821	5,282	2.08
114,000	Herman Miller Inc.	3,356	3,661	1.44
41,300	Dionex Corporation	1,744	3,392	1.33
300,000	Federal Signal Corporation	5,398	3,337	1.31
170,160	Kellwood Company	2,684	2,807	1.10
97,500	Boston Scientific Corporation	1,370	1,121	0.44
126,900	Pier 1 Imports Inc.	594	653	0.26
201,100	Mesa Air Group Inc.	1,880	606	0.24
59,500	Chico's FAS Inc.	1,582	531	0.21
	Total investments	<u>\$228,330</u>	251,505	98.88
	Other assets less liabilities		<u>2,837</u>	1.12
	Net assets		<u>\$254,342</u>	100.00

# NORTH GROWTH MUTUAL FUNDS

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

### 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"), and the North Growth U.S. Equity Fund (the "U.S. Equity Fund") are open-ended mutual funds established under the laws of the Province of British Columbia.

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 Canadian generally accepted accounting principles and reflect the following significant accounting policies:

- (a) Impact of the adoption of new financial instrument standards

On April 1, 2005, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3855: Financial Instruments - Recognition and Measurement ("Section 3855") of the CICA Handbook - Accounting which establishes standards for the fair valuation and recording of portfolio investments for financial statement purposes. Section 3855 is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The new standard was developed to harmonize accounting standards for financial instruments with those previously issued by the International Accounting Standards Board. The new accounting standard has been applied prospectively.

The adoption of Section 3855 impacts the valuation and disclosure of the net assets of an investment fund for financial statement reporting purposes (the "GAAP NAV"). Throughout the period, the funds' active securities are valued using the end of day closing or last trade price. However, these new rules for financial statement reporting purposes require the use of bid price for securities purchased long and ask price for securities sold short. This change impacts the reported net asset values of the funds as at December 31, 2007. Section 3855 also mandates the immediate recognition of transaction costs through net income. Transaction costs, if any, such as brokerage commissions incurred in the purchase and sale of securities, are shown as a separate line item in the Statement of Operations and are not part of the cost of investments.

The Funds continue to calculate their net asset value as before (primarily using closing prices) for capital transaction purposes such as subscriptions and redemptions (the "Transactional NAV").

The adoption of the new rules of Section 3855 may result in net assets for financial reporting purposes in accordance with Canadian GAAP ("GAAP NAV") different from the net asset values for pricing and capital transaction purposes ("Transactional NAV"). The impact on the net asset value per unit as at December 31, 2007 is as follows:

Fund	Transactional NAV Per Unit \$	Section 3855 Adjustment \$	GAAP NAV Per Unit \$
Canadian Money Market Fund	10.00	-	10.00
Canadian Equity Fund	11.25	(.04)	11.21
U.S. Equity Fund	22.93	(.03)	22.90

# NORTH GROWTH MUTUAL FUNDS

## NOTES TO THE FINANCIAL STATEMENTS...

DECEMBER 31, 2007 AND 2006

### 2. Significant Accounting Policies, continued

#### (b) 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 results may differ from those estimates.

#### (c) Basis of determining fair market value

Each investment security is valued at fair value, which is determined by the closing bid price for securities purchased long and closing ask price for securities sold short, 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. The principal amounts of: (i) bonds or similar securities are valued at the closing bid prices, (ii) mortgages are valued based on current interest yields for similar mortgage loans, and (iii) short-term notes are valued at cost which, together with accrued interest, approximates market value. If no bid prices are available securities traded in an active market are valued at the closing sale price or the securities are valued at their fair value as determined by North Growth Management Ltd. on the basis of the latest reported information available.

Prior to January 1, 2007, such investments were generally valued at the closing sale price on the recognized stock exchange. Accordingly, the fair value adjustment from the closing sale prices as at December 31, 2006, to the closing bid prices for investments is reflected as an adjustment to opening net assets in the Statement of Changes in Net Assets.

#### (d) Investment transactions, income and transaction costs

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.

In accordance with Section 3855, effective January 1, 2007, transaction costs, such as brokerage commissions incurred in the purchase and sale of securities by the Funds, are recognized in the Realized and Unrealized Gains (Losses) on Investments and Transaction Costs in the Statement of Operations. Transaction costs are incremental costs that are directly paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. There is no impact on net assets, results of operations or increase/decrease in net assets from operations per unit, as a result of this change in accounting policy.

Transaction costs incurred for portfolio transactions prior to January 1, 2007 were capitalized and included in the cost of investments purchased or as a reduction of proceeds received upon sales of investments. The Statement of Investment Portfolio includes, if required, an adjustment to reduce the cost of investments for this change in accounting policy.

#### (e) 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.

- (f) 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.

- (g) Per unit amounts

The net asset value per unit is calculated based on the number of units outstanding post-distribution at the end of the year.

Earnings per unit in the Statement of Operations represents the increase (decrease) in net assets from operations, divided by the average number of units outstanding during the year.

### **3. Income Taxes**

The Canadian Money Market Fund is classified as a “Unit Trust” under the Income Tax Act. The Fund distributes to its unitholders all of its annual taxable income, including its taxable net realized capital gains, with the result that the Fund is not liable for any income taxes.

The Canadian Equity Fund and the U.S. Equity Fund are classified as “Mutual Fund Trusts” under the Income Tax Act. The Funds distribute to their unitholders all of their annual taxable income, including such portion of their taxable net realized capital gains, as will result in the Funds 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 Canadian Equity Fund and the U.S. Equity Fund have made such an election.

### **4. Distributions to Unitholders**

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

The Canadian Equity Fund and the U.S. 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.

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

# NORTH GROWTH MUTUAL FUNDS

## NOTES TO THE FINANCIAL STATEMENTS...

DECEMBER 31, 2007 AND 2006

### 5. Unitholders' Equity, continued

Canadian Money Market Fund	2007	2006
Balance, beginning of the year	633,794.118	615,131.998
Issued during the year		
Sales	237,119.442	230,220.697
On reinvestment of distributions	24,932.077	24,746.163
	262,051.519	254,966.860
	895,845.637	870,098.858
Redeemed during the year	215,593.999	236,304.740
Balance, end of the year	680,251.638	633,794.118
<b>Canadian Equity Fund</b>	<b>2007</b>	<b>2006</b>
Balance, beginning of the year	2,039,936.831	1,839,042.651
Issued during the year		
Sales	17,619.601	266,228.142
On reinvestment of distributions	0.000	93,860.455
	17,619.601	360,088.597
	2,057,556.432	2,199,131.248
Redeemed during the year	324,874.278	159,194.417
Balance, end of the year	1,732,682.154	2,039,936.831
<b>U.S. Equity Fund</b>	<b>2007</b>	<b>2006</b>
Balance, beginning of the year	11,425,204.351	11,242,201.827
Issued during the year		
Sales	487,196.681	2,730,861.505
On reinvestment of distributions	0.000	0.000
	487,196.681	2,730,861.505
	11,912,401.032	13,973,063.332
Redeemed during the year	807,140.414	2,547,858.981
Balance, end of the year	11,105,260.618	11,425,204.351

## 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 monthly 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

Management fees are calculated daily and payable monthly at an annual rate of 1.25% of the net asset value (excluding investments in other mutual funds) of the Fund. The Manager has absorbed all other expenses of the Fund.

### U.S. Equity Fund

Management fees are calculated daily and payable monthly at an annual rate of 1.20% 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 U.S. Equity Fund includes losses from foreign currencies of \$28,000 in 2007 and gains from foreign currencies of \$74,000 in 2006.

## 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	2007	2006
Canadian Equity Fund	\$ 40,000	\$ 54,000
U.S. Equity Fund	167,000	439,000

## 9. Risk Management

### Market Risk

Market risk represents the potential loss that can be caused by a change in the fair value of a financial instrument and is most commonly associated with equity investments. The investments of the US and Canadian Equity Funds are subject to normal market fluctuations and the risk inherent in investments in equity markets. The Equity Funds intend to continue to invest taking a long-term perspective while focusing on quality businesses that consistently deliver strong returns for their shareholders. The money Market Fund is minimally exposed to market risk.

The Funds' investment portfolios are monitored on a daily basis by the Manager.

### Interest Rate Risk

Interest rate risk represents the potential loss resulting from a change in interest rates and has the greatest impact on longer term bonds. The Equity Funds do not have any direct exposure to this risk factor with any cash balances invested in overnight deposits or short term treasury notes. The Money Market Fund invests only in short term notes generally maintaining an average maturity of less than 30 days and accordingly has minimal exposure to interest rate risk.

### Credit Risk

Credit risk represents the potential loss that the Funds would incur if the counterparties failed to perform in accordance with the terms of their obligations to the Funds. The term credit risk is generally associated with

# NORTH GROWTH MUTUAL FUNDS

## NOTES TO THE FINANCIAL STATEMENTS...

DECEMBER 31, 2007 AND 2006

### 9. Risk Management, continued

bonds, and the risk is that the issuer will default in the payment of either capital or interest. The Equity Funds do not invest in debt securities and accordingly have minimal if any direct credit risk exposure. The Money Market Fund manages its credit risk by investing only in short term investment grade corporate and government notes. Derivative contracts are also a major source of credit risk. The Funds do not invest in any derivatives.

#### Currency Risk

Currency risk represents the potential loss that the Funds could incur from fluctuations in foreign exchange rates. As the Funds are Canadian domiciled, currency risk is defined as the potential loss from the appreciation of the Canadian dollar versus foreign currencies. The assets and liabilities of the Canadian Equity Fund and the Money Market Fund are predominantly held in Canadian dollars, and accordingly do not have significant direct currency risk exposure. The assets of the US Equity Funds are generally held in US dollars and accordingly any appreciation of the Canadian dollar versus the US dollar will result in a currency related loss. The US Equity Fund does not attempt to manage this risk.

#### Liquidity Risk

Liquidity risk represents the potential loss stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss. The Funds invest the majority of their assets in investments that are traded in an active market and can be readily disposed of.

There can be no assurance that an active trading market for the investments will exist at all times, or that the prices at which the securities trade accurately reflect their values. Thin trading in a security could make it difficult to liquidate holdings quickly.

### 10. Adoption of Future Accounting Standards

On December 1, 2006, the Canadian Institute of Chartered Accountants issued Section 3862, Financial Instruments- Disclosures and Section 3863, Financial Instruments- Presentation, of the CICA Handbook-Accounting. Section 3862 and 3863 replace Handbook Section 3861, Financial Instruments- Disclosure and Presentation, revising and enhancing its disclosure requirements. Section 3862 and 3863 applies to fiscal years beginning on or after October 1, 2007. These new sections place increased emphasis on disclosures about the nature and extend of risks arising from financial instruments and how the entity manages those risks.

## Investing with North Growth Management –

### Investment Management Services

Our primary products are our equity funds; the North Growth US Equity Fund and the North Growth Canadian Equity Fund. We provide a high quality money market fund for the liquidity needs of our clients. In-house RRSP/RRIFs are also available. We would be happy to discuss the role our Funds could play in your investment portfolio.

### Conducting Transactions

The cut-off time for same-day transactions is 4pm Eastern time or 1pm 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:

North Growth Management Ltd.  
Suite 830, One Bentall Centre  
505 Burrard Street, Box 56  
Vancouver, BC V7X 1M4

Fax: 604 688 5402

[www.northgrowth.com](http://www.northgrowth.com)

Please visit our website to view Fund performance and current Fund reports.

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# 2007 ANNUAL REPORT & AUDITED FINANCIAL STATEMENTS

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