

GROWTH AT A  
REASONABLE PRICE

2004 ANNUAL REPORT  
& AUDITED FINANCIAL STATEMENTS



NORTH  
GROWTH MANAGEMENT LTD.

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## PRESIDENT'S MESSAGE

### DEAR UNITHOLDER,

When we started North Growth Management seven years ago, many of my most experienced and successful friends in the investment management business warned about putting too much emphasis on performance. Beating the market averages is too hard to accomplish, they said. Performance, they reminded me, can and should be expected to turn against even the best investment managers over the short term from time to time.

My interest, and the goal of North Growth Management, is making sound investment decisions with the goal of achieving a **strong long term rate of growth** of assets for our clients. I don't know of any client who has come to us for any other reason than our long term investment record and the belief that we will continue to perform well. I wouldn't expect it to be any other way.

It is important that a client understands and accepts our investment approach if they are to settle down to holding either of our equity funds when the excitement of short term gains abates during the inevitable periods of market correction or periods when our investment philosophy keeps us out of the short term market leadership. We always point out that equity investment is a long term commitment, which should have, at the minimum, a 5-year time horizon. Over emphasis on the short term must be avoided.

Few management groups can boast a documented record of highly successful investment results like North Growth's. In the past 5 years, Rory and his team's astute stock selection and management of the North Growth US Equity Fund resulted in an annual average rate of growth of 19.8% US (15.5% CDN) versus an average annual rate of decline for the S&P 500 Index of -2.3%.

To put this in perspective, over the past 5 years, \$100,000 CDN invested in the North Growth US Equity Fund grew to \$205,879. Achieving this rate of growth during a period of market weakness is a major accomplishment. In my 40-year career, I have never been aware of a better 5-year record of relative performance.

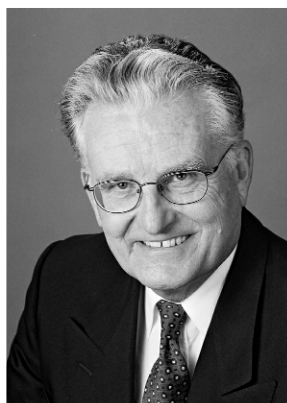
Performance over the last ten years has also been impressive. During this time period, the North Growth US Equity Fund grew at a 19.1% average annual rate in US dollars (17.2% CDN). A \$100,000 CDN investment in the Fund over this time period grew to \$490,641.

Obviously, we are not suggesting that this level of relative performance should be expected going forward. What you can expect from us, in 2005 and always, is that we will continue to strive to deliver **above average long term results** by consistently using our "growth at a reasonable price" investment approach independent of the short term market environment.

Yours truly,



Rudy North  
NORTH GROWTH MANAGEMENT LTD.



*Rudy North, President*

## CHIEF OPERATING OFFICER'S MESSAGE

DEAR UNITHOLDER,

Generally, our client communications focus on the end result of our efforts—performance. This letter is an opportunity to discuss some of the organizational developments that are laying a solid foundation for North Growth Management to deliver on our two primary long term objectives: superior investment results and outstanding client service.

We are very pleased with the development of our portfolio management team. I have been working closely with Erica Lau on the US Equity Fund since I joined the firm in August of 1998. In October 2003, we welcomed Cynthia Yen and Jamie Kozak to our portfolio management team. The team is now structured with me heading up the investment team, working with Erica and Cynthia on the US Equity Fund, and with Jamie on the Canadian Equity Fund. Of course, Rudy provides ongoing mentoring and advice. While we are encouraged by the results from the US Equity Fund over the past five years, we are still a very young team and believe we have yet to reach our potential.

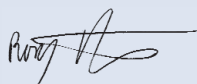
In 1999, we broke from the ranks of our industry in deciding that our back office systems were a core aspect of our business. While the norm is to outsource these functions, we are investing heavily on our own proprietary systems. Currently, we have a team of four contractors working to re-code our entire system adopting the latest Microsoft standards using the .NET framework.

Our early vindication on the decision to keep our client records and accounting system in-house was the development of the North Growth Currency Hedge Limited Partnership. Without the direct control of our systems and John Jackman's mutual fund accounting experience it would have been impossible to develop this product (see page 14 for details).

During 2004, we became one of the smallest asset managers on the Canadian mutual fund industry's primary information network called FUNDcom. Our reason for utilizing the FUNDcom and FundSERV networks was to eliminate the final excuse we have heard from dealers not willing to allow their clients to buy our Funds. Now, if a broker tells an eligible investor that they cannot purchase our Funds in their brokerage account, it can only be because, unlike most mutual fund companies, we do not pay brokers any trailer fees or commissions to sell our Funds. This is one of the reasons our management fees are significantly below industry averages (see page 9 for details).

We are also very pleased to be providing audited Statements of Financial Highlights for the North Growth Funds. You will find these statements on page 23. We believe these statements provide excellent summary information for unitholders, including management expense ratios (MER) and performance numbers. After being informed that, due to regulatory changes, these statements would no longer be included in the audited financial statements, we engaged Deloitte and Touche to provide a second separate audit report for these statements only. As a result, we anticipate that the North Growth Funds will be amongst a very small minority providing unitholders with fully audited MER and performance numbers.

Yours truly,



Rory North, CFA  
NORTH GROWTH MANAGEMENT LTD.



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

## 2004 PERFORMANCE REVIEW

### THE NORTH GROWTH FAMILY OF FUNDS

#### NORTH GROWTH US EQUITY FUND

The Fund returned 11.6% in US dollars, outperforming the S&P 500 Index for the fifth consecutive year. In 2004, all the major indices we track registered gains: 10.9% for the S&P 500, 16.5% for the S&P Mid Cap, 18.4% for the Russell 2000, and 9.2% for the NASDAQ Composite. The Canadian dollar continued to strengthen in 2004, reducing the Fund's return for the year in Canadian dollars to 3.5% versus 2.8% for the S&P 500. While the Fund's performance in 2004 was not as spectacular as the 52.7% return in 2003, a 11.6% per annum return is a reasonable expectation for a well-managed equity portfolio over the long run.

#### NORTH GROWTH CDN EQUITY FUND

The first full-year's management of the North Growth Canadian Equity Fund brought both disappointment and encouragement. We are disappointed that the Fund returned [REDACTED] for the year versus 14.5% for the S&P/TSX Composite Index and 11.0% for the 70/30 Composite (70% S&P/TSX and 30% S&P 500 in Canadian dollars). However, we are encouraged with the strong operational performance of the companies in the portfolio; we expect their operational performance will eventually reflect in their stock prices resulting in superior returns. Since we began managing the Fund on May 1, 2003, we have not been as excited about the portfolio's potential as we are now. Over this time frame, the Fund's annualized return was [REDACTED] versus 19.8% for the 70/30 Composite. We highlight the 70/30 Composite as a more relevant comparison because the North Growth US Equity Fund constitutes just under 30% of the book value of the Fund.

#### NORTH GROWTH CDN MONEY MARKET FUND

The Fund's current yield ended 2004 at 2.27%, 0.21% lower than the 2.48% current yield at the beginning of the year. Similarly, the Bank of Canada's overnight target rate of 2.50% at the end of the year was 0.25% lower than the 2.75% rate at the beginning of 2004. During the first half of the year, the Bank of Canada lowered the overnight target rate three times by 0.25% each time to bring the rate down to 2.00% by mid-year. Subsequently, the Bank raised the overnight rate by 0.25% in September and another 0.25% in October to bring it to 2.50% by year-end. Due to the relatively short average maturities within the Fund of 30 days or less, the direction of the Fund's current yield should continue to correspond with the direction in Canadian short term interest rates. Over the past five years, the average annual return for the Fund was 3.30%, just 9 basis points behind the 3.39% average annual return for 30-day Treasury Bills.

The Fund continues to invest in a well-diversified portfolio of Canadian money market securities with an emphasis on high credit ratings. The Fund's competitive 0.25% all-inclusive management fee helped it outperform the average of the Globe & Mail's universe of Canadian Money Market Funds by 0.64% in 2004.

## 2004 PERFORMANCE REVIEW

### THE NORTH GROWTH FAMILY OF FUNDS, CONT...

#### NORTH GROWTH CURRENCY HEDGE LIMITED PARTNERSHIP

During 2004, the Canadian dollar appreciated against the US dollar by approximately 7.9% from 77.13 cents to 83.19 cents. The majority of the investors utilizing the North Growth Currency Hedge Limited Partnership maintained an approximate 50% hedge during the year, until October 25, 2004 when, following North Growth's advice, they reduced their hedges to zero. During the year, the Partnership generated net income of approximately \$1.9 million, which was distributed daily to the limited partners on a pro rata basis based on the amount hedged on any given day.

In our Currency Risk commentary (on page 11) we provide our current views on the Canadian /US dollar currency risk for long term investors. This analysis explains why we have removed the currency hedges we first established in 2001. It is important to note that, if you are not as sanguine as we are with regards to currency risk, the North Growth Currency Hedge Limited Partnership is available and permits Canadian investors to own US equities without having to worry about further Canadian dollar strength. We strongly recommend that you talk to us before making any asset mix changes driven by currency risk concerns.

## PERFORMANCE RESULTS:

### AN ASSESSMENT OF THE MANAGEMENT RECORD

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

#### AVERAGE ANNUAL COMPOUND RATES OF RETURN

It is virtually impossible to correctly judge any 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.

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

#### NORTH GROWTH US EQUITY FUND

Calendar Year	1 yr	2 yrs	3 yrs	4 yrs	5 yrs	6 yrs	7 yrs	8 yrs	9 yrs	10 yrs
North Growth US Equity Fund \$CDN	3.5%	13.9%	8.4%	9.5%	15.5%	14.1%	13.0%	14.9%	16.4%	17.2%
S&P 500 \$CDN	2.8%	4.3%	-5.7%	-5.9%	-5.8%	-2.8%	2.2%	6.2%	8.0%	10.4%
North Growth US Equity Fund \$US	11.6%	30.5%	19.0%	15.7%	19.8%	18.8%	15.8%	16.8%	18.0%	19.1%
S&P 500 \$US	10.9%	19.5%	3.6%	-0.5%	-2.3%	1.3%	4.8%	8.0%	9.6%	12.1%

**Annualized performance since inception (October 13, 1992 to December 31, 2004)** 16.9% CDN  
17.2% US

#### NORTH GROWTH CDN EQUITY FUND

Calendar Year	1 yr	2 yrs	3 yrs	4 yrs	Since NGM takeover
North Growth CDN Equity Fund \$CDN	■%	■%	■%	■%	■%
S&P TSX \$CDN	14.5%	20.5%	8.3%	2.7%	24.8%
70% TSX/30% S&P 500 \$CDN	11.0%	15.5%	4.1%	0.2%	19.8%

**Annualized performance since inception (September 1, 2000 to December 31, 2004)** ■%

*North Growth Management assumed the Management Contract of the Canadian Equity Fund on May 1, 2003*

## PERFORMANCE RESULTS, CONT...

### 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.

#### NORTH GROWTH US EQUITY FUND

Calendar Year	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
North Growth US Equity Fund \$CDN	3.5%	25.5%	-2.0%	12.9%	43.4%	7.2%	6.3%	29.1%	29.5%	25.0%	0.4%	15.1%
North Growth US Equity Fund \$US	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 \$CDN	2.8%	5.8%	-22.8%	-6.4%	-5.6%	13.9%	37.8%	39.2%	23.6%	33.9%	7.5%	14.5%
S&P 500 \$US	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 Mid Cap \$US	16.5%	35.6%	-14.5%	-0.6%	17.5%	14.7%	19.1%	32.2%	19.2%	30.9%	-3.6%	13.9%
Russell 2000 \$US*	18.4%	47.3%	-20.5%	2.6%	-2.9%	21.4%	-2.2%	22.2%	16.6%	26.2%	-3.2%	17.0%
NASDAQ Composite \$US*	9.2%	50.8%	-31.3%	-20.8%	-39.2%	86.1%	40.2%	22.2%	23.0%	41.0%	-3.2%	14.8%

Source: Bloomberg "Total Return Analysis"

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

**NAVPS: Dec 31, 2004:** **\$24.02 CDN**  
**\$19.98 US**

#### NORTH GROWTH CDN EQUITY FUND

Calendar Year	2004	2003	2002	2001
North Growth CDN Equity Fund \$CDN	■%	■%	■%	■%
S&P/TSX \$CDN	14.5%	26.7%	-12.4%	-12.6%
70% TSX/30% S&P 500 \$CDN	11.0%	20.2%	-15.6%	-10.7%
North Growth US Equity Fund \$CDN	3.5%	25.5%	-2.0%	12.9%
S&P 500 \$CDN	2.8%	5.8%	-22.8%	-6.4%

**NAVPS: Dec 31, 2004:** **\$12.89 CDN**



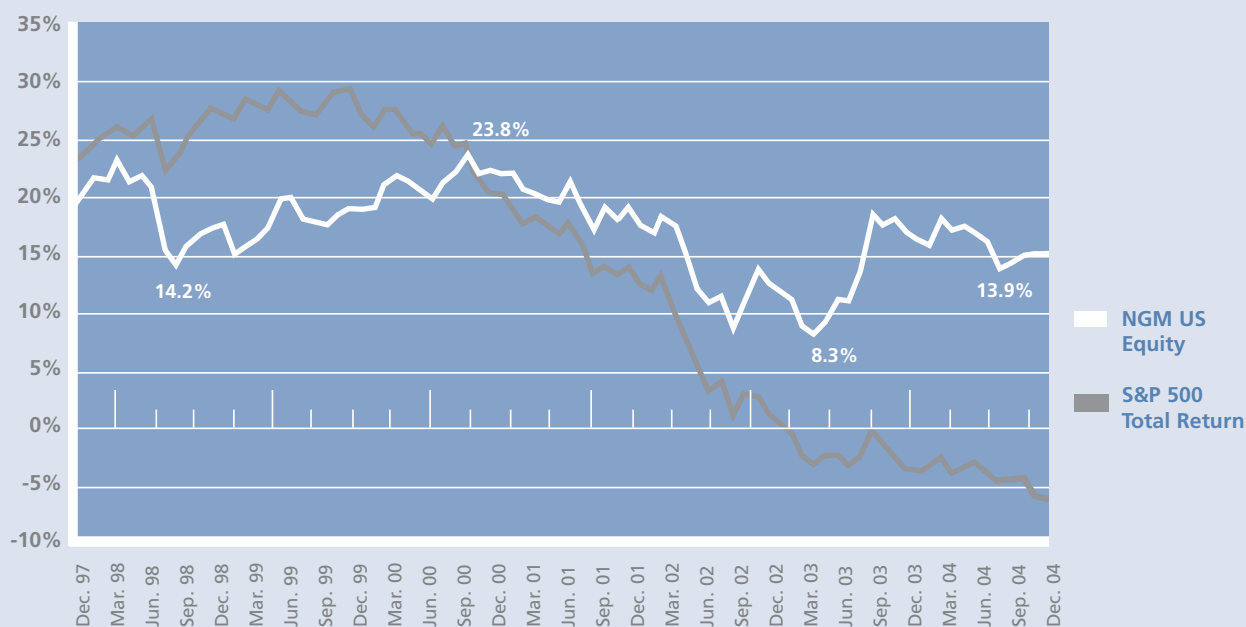
## PERFORMANCE RESULTS, CONT...

### RUNNING FIVE YEAR RESULTS: THE BEST LONG TERM PERSPECTIVE OF A FUND'S PERFORMANCE

We feel this is the measure that gives the best long term perspective of a Fund's performance. It presents longer term results in a way which is neither overly influenced by long past periods of good performance nor strong short term results (end date sensitivity). The running 5-year average return chart shown below effectively achieves this desired balance as it provides a complete record of the range of performance for any given 5-year holding period.

#### Running 5-Year Average Annual Returns (\$CDN)

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



## MANAGEMENT FEES

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

NORTH GROWTH FAMILY OF FUNDS	MANAGEMENT FEE	MANAGEMENT EXPENSE RATIO (MER)
US Equity	1.20%	1.23%
Canadian Equity	1.25%	1.31%
Canadian Money Market	0.25%	0.27%
Currency Hedge Limited Partnership	0.50%	N/A

The fees that North Growth Management charges for its family of Funds, as set out in the table above, are among the lowest in the Canadian mutual fund industry. According to Globefund.com, the average management expense ratio (management fee plus other fund expenses such as accounting and legal expenses) for the US equity fund category is 2.74%. For the Canadian equity fund category, the average MER is 2.86%. By comparison, in 2004, the MER was 1.23% for the North Growth US Equity Fund and 1.31% for the North Growth Canadian Equity Fund.

The difference of approximately 1.50% per annum has a significant impact on the long term performance of an investment. To put this into perspective, consider a \$100,000 investment in an equity fund with an average annual return of 10% net of fees over ten years. At the end of the ten-year horizon, the initial \$100,000 investment would be worth \$259,374. Now, if the same equity fund lowered its annual fees by 1.50%, the net return to the investor would be 11.50% per year over 10 years. Under this scenario, the initial \$100,000 investment would grow to \$296,995 after ten years—an additional \$37,621! Clearly, all else being equal, low fees meaningfully enhance investment results over the long run.

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

## MANAGEMENT FEES, CONT...

### NEW, LOWERED MINIMUM INITIAL PURCHASE AMOUNT

In November 2004, we lowered the minimum initial investment for the North Growth US Equity Fund from \$250,000 to \$100,000 for BC residents and investors in other provinces subject to availability under provincial securities laws. By making the Fund available to a broader investor base, we look forward to achieving good long term results for more individuals who previously were unable to include the Fund in their investment portfolio.

NORTH GROWTH EQUITY FUNDS	MINIMUM INVESTMENT *	
	INITIAL	SUBSEQUENT
US Equity	\$100,000	\$10,000
Canadian Equity	\$25,000	\$10,000

*\* subject to availability under provincial securities laws*

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

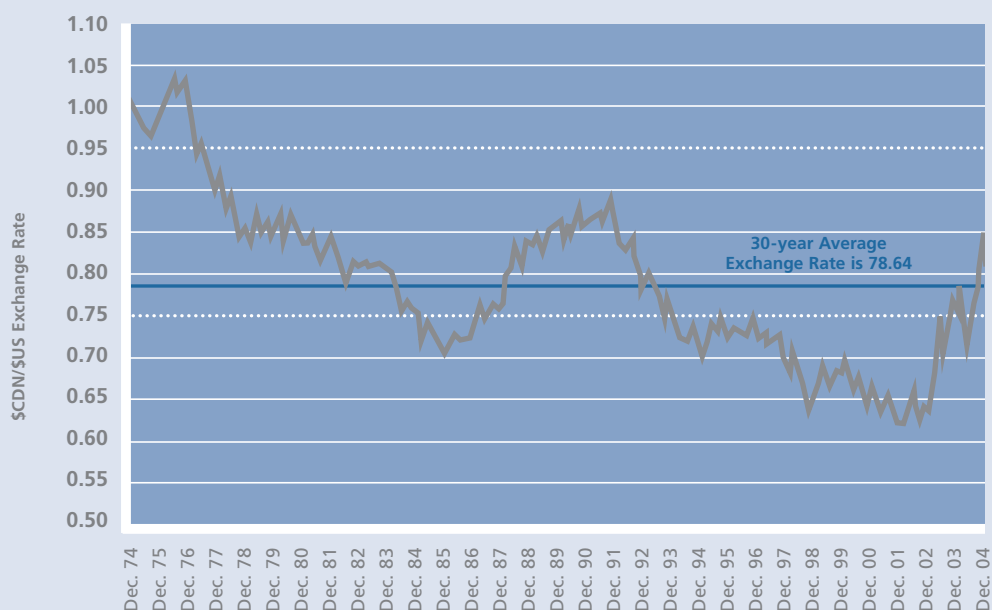
The NGM US FOCUS RRSP, with a minimum initial investment of only \$85,000, consists of \$25,000 in the US Equity Fund and the remaining \$60,000 in the Canadian Equity Fund. Due to the 30% investment by the Canadian Equity Fund in the US Equity Fund, this combination enables US FOCUS RRSP investors to have approximately 50% of their RRSP invested in the North Growth US Equity Fund. The NGM US FOCUS RRSP is open to any British Columbian resident and Accredited Investors in other provinces with some exceptions.

## CURRENCY RISK

North Growth Management no longer believes the Canadian dollar is undervalued. With the exchange rate now at over 80 US cents to the Canadian dollar, we believe the Canadian dollar is trading at levels that approximate fair value. On October 25, 2004, we eliminated all remaining currency hedges on in-house accounts and on those client accounts that directly follow our in-house positioning.

We currently expect a high degree of short term volatility in Canadian to US dollar exchange rates. Although, in the near term, we could easily see anywhere from 90 cents to 75 cents, we would expect any such sudden moves to either of these extremes to be fairly short lived. This type of volatile but directionless trading pattern tends to capture a lot of media attention, but should not be considered as anything much other than background noise. We believe long term equity investors would be best served to ignore the currency babble and focus on the fact that US equities have proven to be the best asset class for long term growth. We believe that, historically, Canadians have placed too much emphasis on currency risk and that this partially explains why, in aggregate, Canadians are inadequately invested in US equities.

**Canadian Dollar to US Dollar  
30-year Exchange Rate History to December 2004**



The Canadian dollar has gained over 30% from its January 2002 lows of just over 62 cents. The chart above clearly shows that the dollar is trading at historically high levels, well above the 78.64 cents average level of the past 30 years.

Throughout the 1990s our Canadian investors in the North Growth US Equity Fund benefited from the steady decline in the Canadian dollar. In our 2001 annual report, we strongly cautioned Canadian investors against basing their decision to invest in US equities on a belief that the Canadian dollar would continue to depreciate. Now, in early 2005, we are taking the position that Canadian investors should tune out the currency noise

## CURRENCY RISK, CONT...

generated from the unprecedented appreciation of the Canadian dollar over the past two years. Rather than reduce exposure to US assets because of concerns that the Canadian dollar might keep rising, we argue that Canadian investors should take the recent strength in the Canadian dollar as an opportunity to increase their exposure to US equities. The North Growth US Equity Fund has an outstanding long term track record, making it an ideal investment for any serious long term investor.

We understand that it may be difficult to ignore the currency issue when it is common headline news both in the newspapers and on television. We believe that the popular media often tends to focus on an issue at precisely the wrong time. One of the problems with the media, particularly the financial press, is that they are not held accountable for their predictions—remember that the financial press had a huge role in generating the hype that created the internet bubble. Also, if you recall, just a little more than two years ago, the Canadian financial press regularly ran stories suggesting the Canadian dollar was doomed to fall to 50 cents. Hopefully, just reminding yourself of a few of these recent and serious miscues by the financial press will be enough to convince you to ignore the inevitable currency related headlines.

When we initiated our currency risk commentary in the spring of 2002 with the conclusion that the Canadian dollar was undervalued versus the US dollar, we commented on the following three economic indicators: Purchasing Power Parity, the relative current account positions of Canada and the US and the relative federal budget positions of the two countries. The following year we added interest rate differentials between Canada and the US to our commentary. This year we use these same four indicators to support our argument that the Canadian dollar is now fairly to possibly slightly overvalued versus the US dollar.

Purchasing Power Parity is a theory that states that exchange rates between currencies are in equilibrium when their purchasing power is the same in each of the two countries.

In early 2002, with the Canadian dollar in the low 60 cents range, there were numerous examples of goods or services that were cheaper in Canada. Today, with the dollar at over 80 cents, this is not the case. For some goods the 30% appreciation of the Canadian dollar has inverted the relationship so that they are now cheaper in the US than in Canada. We currently believe that “Purchasing Power Parity” implies that the Canadian dollar is fairly valued or slightly overvalued versus the US dollar.

The current account is a broad measure of a country's trade balance, representing the difference between a nation's total imports and exports of goods, and services and transfers. Current account balance calculations exclude transactions in financial assets and liabilities. A current account surplus implies that a country is a net lender to the world. A deficit implies that a country is a net borrower.

In a freely floating currency market system, a long term build up of a current account deficit can be indicative that that country's currency is becoming overvalued. Throughout the 1990s, while the US dollar appreciated versus global currencies, the US current account moved from a current account surplus position in 1991 to a large current account deficit, amounting to approximately 4% of GDP at the end of 2001. With the benefit of hindsight, it now seems clear that this long term build up of the US current account deficit did in fact signal that the US dollar had become overvalued.

## CURRENCY RISK, CONT...

The depreciation of the US dollar over the past few years has more than offset all of the increases experienced during the 1990s. We have now seen the US dollar depreciate by approximately 30% versus the Canadian dollar and 16% on a trade weighted basis since it began to depreciate in late 2002. During this period we have seen the US current account deficit swell to a record of almost 6% of GDP. While some commentators suggest that this implies the US dollar is still overvalued, we do not believe that this is a valid conclusion. Rather, we believe that, in a phenomenon that has been described as the J-curve effect, the current account deficit will likely expand substantially prior to contracting.

The J-curve is essentially caused by a lagged reaction to a currency move and the impact this lag has on the actual calculation of the current account balance. Think of it this way, when the Canadian dollar first broke its well established downtrend, moving from the low 60 cents to the 70 cents level, the almost unanimous view was that the loonie had already moved too far too fast and was bound to turn back down. Whereas now, almost 2 years later, with the Canadian dollar over 80 cents, the popular opinion is that the loonie will keep rising or at least remain near these levels. Given that market participants are unlikely to change their supply arrangements until they are convinced the new exchange rates are likely to persist, it is logical that there would be a delayed reaction to a substantial currency move. In overly simplified terms, this is the cause of the J-curve.

Although we may yet see the current account deficit grow further over the next few quarters, we are convinced that the US dollar has already depreciated enough to cause a substantial change in global trade patterns that will result in a reduction of the US current account deficit. To date, we are somewhat surprised by how little we have heard about the J-curve. However, in typical fashion, we anticipate many economists will start to comment on the J-curve only after they have the benefit of hindsight to bolster their confidence.

The US Government's federal budget deficit for the fiscal year ending September 30, 2004 was \$412 billion. This is a record in dollar terms, but at 3.8% of GDP the 2004 deficit is a far cry from the 1982 budget deficit which amounted to 5.0% of GDP. More importantly, when looking at the monthly data, it becomes apparent that the federal budget deficit likely already peaked in early 2004 at a level substantially above this \$412 billion fiscal year end number. Federal receipts continue to grow faster than federal outlays, paving the way for further deficit reductions. We believe spending restraint will reemerge as a priority for the Republicans in both the White House and in Congress. Quite plausibly, the biggest surprise in store for us during Bush's second term may well turn out to be greater than expected deficit reduction.

In our 2003 annual report, we observed that the Canadian dollar coincidentally began to rally as the short term interest rate differential of Canadian over US rates widened to a 225 basis points premium. With large interest rate differentials it is possible for a trader to borrow in the country with a lower interest rate, convert the funds borrowed to the currency of the country with the higher interest rate, and invest the converted funds at the higher interest rate of that country. This trade can be highly profitable if the currency in which the trader is investing in appreciates versus the currency the trader borrows in. Also, it can become self fulfilling as this trade generates incremental demand for the currency the trader is investing in, contributing to the appreciation of this currency.

On February 2, 2005, the US Federal Reserve raised the Federal Funds rate by 25 basis points to 2.50%. This sixth consecutive 25 basis point rate increase since June 2004 completely eliminated the Canadian short term interest rate premium that has existed since April 2001. Furthermore, recent comments out of the Bank of

## CURRENCY RISK, CONT...

Canada and the US Federal Reserve suggest that, in the near term, US interest rates are likely to rise faster than Canadian rates, pushing the Canadian short term interest rates to a discount versus US rates. The swing to a Canadian interest rate discount to US rates will likely result in incrementally lower demand for the Canadian dollar, reducing the probability of further Canadian dollar appreciation.

Three years ago, North Growth Management was a major Canadian dollar bull. We broke with our traditional view that "over the long term currency does not matter" and voiced concerns regarding the potential negative impact that an appreciating Canadian dollar would have on US equity returns denominated in Canadian dollars. We are now reversing this position and are neutral to possibly even slightly bearish on the Canadian dollar. We are once again very comfortable with Rudy's long held view that "over the long term currency does not matter". We believe that now, with the dollar at over 80 cents, Canadians should be more comfortable buying US dollar assets than at any time over the past decade.

## THE NORTH GROWTH CURRENCY HEDGE LIMITED PARTNERSHIP

Almost two years ago, after a considerable in-house development effort, North Growth Management Ltd. began offering the North Growth Currency Hedge Limited Partnership units to investors in the North Growth US Equity Fund. This highly effective, unique and proprietary currency hedge overlay product was developed to permit our Canadian investors in the North Growth US Equity Fund to eliminate the majority of the currency risk inherent in their investment.

Prior to the availability of this product, North Growth Management Ltd. had provided interested clients with advice as to how they could establish their own currency hedges using exchange traded currency futures contracts. The introduction of the North Growth Currency Hedge Limited Partnership gave us the vehicle to actually administer currency hedges for our clients in a manner consistent with our pooled fund management philosophy. To date, due to the uniqueness and sophistication of this product, we have only been offering it under accredited investor prospectus exemptions. Now that the product will have had two years of audits by Deloitte and Touche, we are considering preparing an offering memorandum for it, making it available to most of our clients.

Although it is clear from the previous essay on currency risk that North Growth Management Ltd. does not currently believe it is worthwhile or necessary to maintain a currency hedge on your North Growth US Equity Fund holdings, we will continue to offer the product to our clients. If you do not agree with our view that at the current Canadian to US exchange rates, currency does not matter, and are still very concerned about potential Canadian dollar appreciation, we recommend that you consider establishing a currency hedge. Establishing a currency hedge on your North Growth US Equity Fund holdings will allow you to eliminate the majority of your currency risk exposure without giving up your US equity exposure.

## ECONOMIC REVIEW AND OUTLOOK FOR 2005

### REVIEW OF PAST ECONOMIC COMMENTARY

2004 was the third full year of the ongoing US economic expansion. Throughout the year, the economy continued to show slow and relatively steady improvements. During June, the Federal Reserve officially acknowledged that the economy was in a self sustaining recovery by raising interest rates for the first time and indicating its intent to gradually move towards a neutral monetary policy stance. Since June, the Federal Reserve has raised the Federal Funds rate at each meeting by 25 basis points, raising rates from 1.0% to 2.5%. These actions have simply removed a portion of the unprecedented liquidity that it had injected into the post internet bubble economy. We should expect a further 100 basis points of tightening before monetary policy can be deemed to be neutral.

US inflation, as measured by the Core CPI, increased in 2004 from 1.1% in the first quarter to 2.5% in the fourth quarter. Current rates of inflation are well within a range consistent with steady economic growth. Inflation rates have been rising from a level where deflation rather than inflation appeared to be the biggest risk. The Federal Reserve will only stop tightening at a neutral level if inflation rates stop increasing and stabilize at something close to current rates. Price stability remains the primary goal of monetary policy and the Federal Reserve has been very clear in its commitment to this priority.

Early in 2004, there was a considerable degree of concern regarding the slow rate of US job growth. These concerns have diminished as the economy continues to slowly add jobs. There is no question that to date this recovery has generated the slowest payroll growth in history; however, it is becoming more commonly accepted that this slow steady growth in jobs may actually be a good thing. The exceptionally strong productivity gains over the past few years are probably the primary reason for the historically low employment gains. The improving employment market has bolstered consumer confidence and accordingly, consumer spending.

Corporate America is very healthy with exceptionally strong balance sheets, earnings and cash flows. In 2004, we saw increased economic activity driven by capital spending and increased hiring. Increased dividend payouts also contributed to economic growth. By some estimates, Microsoft's huge \$32.6 billion special dividend payout boosted 4th quarter GDP growth by almost 0.5%. Finally there is the benefit of the low dollar which will continue to favor exporters.

Geopolitical risk, high energy prices, and the twin deficits all generated substantial noise in the media during 2004. Despite these and other well publicized risks, the current economic expansion plodded on in a very typical mid cycle fashion.



## ECONOMIC REVIEW AND OUTLOOK FOR 2005, CONT...

### OUTLOOK 2005

We are now in the fourth year of the current economic expansion which, in comparison to long term historical averages, suggests we must be near the end of the cycle. We believe such simple historical analysis is misleading, especially when we consider that the last two economic expansions were the longest on record. The current expansion is exhibiting no signs of excess that tend to be evident as we approach the end of a cycle. We believe we are in a mid cycle period that could last for a number of years. The mid cycle of an economic expansion may be boring but it is a good time for investors and should be enjoyed.

We continue to expect corporate spending to be the key driver of growth for the foreseeable future. Strong cash flow generation continues to improve already solid balance sheets. We believe, as confidence in the economy improves, corporations will increase their capital spending. Technology spending as a percentage of total capital spending has increased over the past few decades and now accounts for over 50% of total capital spending. Our portfolio is well-positioned to benefit from the anticipated growth in technology spending.

In 1998, we observed a relative undervaluation of historic proportions of small and mid capitalization stocks versus large capitalization stocks. We focused our research efforts on identifying high quality small and mid capitalization stocks. The resulting portfolio positioning was a key factor that permitted the North Growth US Equity Fund to outperform the S&P 500 Index over the past five years. Throughout this period, we stressed that the North Growth US Equity Fund was not a small and mid capitalization fund, but rather a "growth at a reasonable price" fund that, for the time being, was invested in small and mid capitalization stocks.

Over the past two years, small and mid capitalization stocks have outperformed large capitalization stocks to such a degree that they are no longer relatively undervalued. Our stock by stock research and investment process has resulted in a fairly significant shift in the capitalization mix of the North Growth US Equity Fund. As you can see from the table below our large capitalization exposure has moved from a low of 5% in December 2000 to over 55% as of December 2004. Clearly, going forward, we anticipate a change in market leadership, with large capitalization stocks once again moving to the lead.

### NORTH GROWTH US EQUITY FUND CAPITALIZATION SUMMARY 1998 - 2004

	Dec 98	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04
Large Cap	25.7%	19.9%	5.2%	9.1%	22.1%	40.1%	55.6%
Mid Cap	15.1%	22.6%	41.1%	33.9%	29.6%	31.0%	25.0%
Small Cap	50.8%	26.8%	21.8%	20.2%	44.6%	26.7%	17.9%
Cash	8.4%	30.7%	32.0%	36.9%	3.7%	2.3%	1.5%

*Definitions: Large Cap greater than \$10 billion; Mid Cap between \$2 billion and \$10 billion; Small Cap less than \$2 billion.*

## NORTH GROWTH US EQUITY FUND PORTFOLIO

AS OF DECEMBER 31, 2004

Nextel Communications, Inc. (Cl A)... is a leading provider of fully-integrated wireless communications services and has built the largest all digital wireless network in the US. With over 15 million domestic subscribers, Nextel Communications provides all-digital cellular service, Nextel Direct Connect®, Nextel Mobile Messaging, and Nextel Online®.

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

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

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

Wellpoint, Inc... is the largest publicly traded managed health care company in the US; the company formed in November 2004 when Anthem Inc. and Wellpoint Health Networks merged. It serves approximately 28 million medical members through its licensed Blue Cross or Blue Cross Blue Shield operations in 13 states and its non-Blue branded operations in other states.

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

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 many products including Photoshop and Acrobat.

Bank of America Corporation... is one of the world's leading institutions serving customers through a network of approximately 5,885 offices and 16,771 ATMs in the US, 37 international offices, and an Internet website that provides online banking access to over 12 million active users. The company's operations consist of four primary segments: Consumer and Small Business Banking, Commercial Banking, Global Corporate and Investment Banking, and Wealth and Investment Management.

Gap, Inc... is a leading specialty retailer offering clothing, accessories, and personal care products for men, women, children, and babies. It operates over 3,000 stores worldwide under the Gap, Banana Republic, and Old Navy brand names.

Citrix Systems, Inc... is a leading supplier of application delivery and management software and services that enable the effective and efficient enterprise-wide deployment and management of applications including those designed for Microsoft Corporation ("Microsoft") Windows® and UNIX® operating systems. The company's

## NORTH GROWTH US EQUITY FUND PORTFOLIO

AS OF DECEMBER 31, 2004

products permit organizations to deploy and manage applications without regard to location, network connection, or type of client hardware platform.

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 media and entertainment.

PACCAR, Inc... is a leader in the design, manufacture, and customer support of high-quality, light, medium, and heavy-duty trucks under the Kenworth, Peterbilt, DAF, and Foden brands. It also provides financial services and distributes truck parts related to its principal business.

Johnson & Johnson... is the world's most comprehensive and broadly based manufacturer of health care products and provider of related services, for the consumer, pharmaceutical, and medical device and diagnostics markets. Johnson & Johnson has more than 200 operating companies in 57 countries with approximately 109,000 employees and sells products in more than 175 countries.

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

Mesa Air Group, Inc... operates over 180 aircraft with over 1,100 daily system departures to more than 182 cities, 41 states, the District of Columbia, Canada, Mexico, and the Bahamas. It operates in the West and Midwest as America West Express; the Midwest and East as US Airways Express; in Chicago, Denver, Los Angeles and Washington Dulles as United Express; in Kansas City with Midwest Express; and in New Mexico, Colorado, and Texas as Mesa Airlines.

Michaels Stores, Inc... is the world's largest retailer of arts, crafts, framing, floral, wall décor, and seasonal merchandise for the hobbyist and do-it-yourself home decorator. The company owns and operates more than 800 Michaels Stores in 48 states and Canada, 164 Aaron Brothers Stores located primarily on the West Coast, 8 ReCollections stores in Dallas and Frisco, Texas, and 3 Star Wholesale operations.

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

Pfizer, Inc... is the world's largest research-based pharmaceutical company. It discovers, develops, manufactures, and markets leading prescription medicines and many of the world's best-known consumer healthcare products. Most of the company's sales come from branded pharmaceuticals which include cholesterol reduction drug Lipitor, pain management drug Celebrex, erectile dysfunction therapy Viagra, and antidepressant Zoloft.

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

## NORTH GROWTH US EQUITY FUND PORTFOLIO

AS OF DECEMBER 31, 2004

The Timberland Company (CL A)... designs, engineers, and markets premium quality footwear, apparel, and accessories under the Timberland brand name and the Timberland PRO/Series sub brand. Its products are sold in leading department and athletic specialty stores and Timberland retail stores throughout the world.

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

Chico's FAS, Inc... is a specialty retailer that sells exclusive private-label women's clothing and related accessories. The company operates over 600 women's specialty stores in 47 states, the District of Columbia, the Virgin Islands, and Puerto Rico under the Chico's, White House|Black Market, and Soma by Chico's brands.

Jones Apparel Group, Inc... is a leading designer and marketer of apparel, footwear, and accessories. Its products include sportswear, jeanswear, suits, dresses, menswear, shoes, and accessories. Jones owns a broad list of well-known brand names such as Jones New York, Anne Klein, Nine West, Kasper, Gloria Vanderbilt, Easy Spirit, Judith Jack, and l.e.i.. Jones also produces products for licensed brands that include Polo Jeans Company, Tommy Hilfiger Jewelry, and Givenchy Jewelry.

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

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

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.

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

KLA-Tencor Corporation... is the world's leading supplier of process control and yield management solutions for the semiconductor and related microelectronics industries. The company's comprehensive portfolio of products, software, analysis, services, and expertise is designed to help integrated circuit (IC) manufacturers manage yield throughout the entire wafer fabrication process—from R&D to final yield analysis.

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.

## NORTH GROWTH US EQUITY FUND PORTFOLIO

AS OF DECEMBER 31, 2004

Symantec Corporation... is the global leader in information security providing a broad range of software and services designed to help individuals, small and mid-sized businesses, and large enterprises secure and manage their IT infrastructure. Symantec's Norton brand of products is the worldwide leader in consumer security and problem solving solutions.

Federal Signal Corporation... manufactures and sells safety, signalling, and communications equipment, fire rescue products, street sweeping and vacuum loader vehicles, parking control equipment, carbide cutting tools, and precision punches and related die components. The company is managed on a decentralized basis and has 4 major operating groups: fire rescue, environmental products, safety products, and tools.

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

Ethan Allen Interiors, Inc... is a leading manufacturer and retailer of quality home furnishings. The company sells a full range of furniture products and decorative accessories through an extensive network of over 300 retail locations in the United States and abroad. Ethan Allen is vertically integrated with manufacturing facilities and sawmills throughout the US.

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

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

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

Brinker International, Inc... operates, develops, and franchises a portfolio of casual dining restaurant chains: Chili's Grill & Bar, Romano's Macaroni Grill, On the Border Mexican Grill & Cantina, Maggiano's Little Italy, and Corner Bakery Cafe.

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

## NORTH GROWTH CDN EQUITY FUND PORTFOLIO

AS OF DECEMBER 31, 2004

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.

QLT, Inc... is a leading biopharmaceutical company specializing in developing treatments for cancer, eye diseases, and dermatological and urological conditions. QLT has expertise in the discovery, development, commercialization, and manufacture of innovative drug therapies with unique technology platforms. QLT's products include Visudyne®, the first drug to treat wet age-related macular degeneration (AMD), and Eligard®, a drug to treat advanced prostate cancer.

ATS Automation Tooling Systems, Inc... is a world leading industrial automation company with 3,800 employees and 25 facilities worldwide 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 and computer, and electrical industries.

Biovail Corporation... is a fully integrated pharmaceutical company engaged in the development, manufacture, marketing, licensing, and distribution of pharmaceutical products primarily in North America. The company's primary focus is on the following therapeutic areas: 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.

Compton Petroleum Corporation... is an Alberta-based independent company actively engaged in exploration, development, and production of natural gas, natural gas liquids and crude oil in the Western Canadian Sedimentary Basin.

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

Cinram International, Inc... is one of the world's largest independent providers of pre-recorded multimedia products and logistics services. With facilities in North America, Latin America, and Europe, Cinram manufactures and distributes DVDs, video cassettes, audio CDs, music cassettes, and CD ROMs for motion picture studios, music labels, publishers, and computer software companies around the world.

EnCana Corporation... is a world leader and North America's largest independent producer of natural gas. The company also owns North America's largest independent natural gas storage network, enabling the company to optimize management of the inventory cycle.

Masonite International Corporation... is one of the world's largest manufacturers of interior and exterior doors. The company operates over 70 facilities with over 12,000 employees spanning North America, South America, Europe, Asia, and Africa. Masonite sells its products - doors, components, industrial products, and entry systems - to a variety of customers in over 50 countries.

Extendicare, Inc. (CL A)... operates long-term care facilities in North America and employs over 34,000 people. In the United States, Extendicare offers medical specialty services such as subacute care and rehabilitative therapy and it provides home health care services in Canada.



## NORTH GROWTH CDN EQUITY FUND PORTFOLIO

AS OF DECEMBER 31, 2004

Sierra Wireless, Inc... is a leader in providing wireless communication solutions that enable mobile professionals to improve productivity and lifestyle. The company designs and markets differentiated and reliable wireless solutions while providing world-class support to customers and partners.

Dorel Industries (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.

Sobeys, Inc... is a national leader in retail food distribution. Sobeys, through subsidiaries and franchises, operates more than 1,300 stores in 10 provinces under retail banners that include Sobeys, IGA, Price Chopper, Comisso's, Bonichoix, Foodland, Needs, Lawtons Drugs, and Food Town.

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

DataMirror Corporation... is a leading provider of real-time secure data integration software solutions that give companies the power to manage and monitor their corporate data across all heterogeneous systems and applications. DataMirror's comprehensive solutions help customers easily and cost-effectively capture, transform, and flow data throughout their enterprise. DataMirror provides the real-time secure data access, integration, and protection that companies require to gain business insight and competitive advantage.

Cossette Communication Group, Inc... is the largest marketing communications firm in Canada servicing some of the most prestigious brands in the world. Through its various divisions, Cossette takes a convergent approach to offer a complete package of services. Cossette has approximately 1,400 employees and offices in Québec City, Montréal, Toronto, Vancouver, Halifax, Ottawa, New York, and London.

Intrawest Corporation... is the leading developer and operator of village-centered destination resorts across North America. Intrawest, the owner/operator of world-famous Whistler Blackcomb, owns or manages mountain resorts, warm weather resorts, golf courses, and Club Intrawest, a vacation ownership business. Intrawest also owns Alpine Helicopters, the parent company of the world's largest heli-skiing operation.

BCE, Inc... is Canada's largest communications company. It has 25 million customer connections through its wireline, wireless, data/internet and satellite television services. BCE also holds interests in some of Canada's leading media organizations including CTV, The Globe & Mail, and TQS, a French network operating in Quebec.

MacDonald, Dettwiler & Associates, Ltd... designed and built the Canadarm and is a world leader in technology and information. Its Information Systems Group provides mission critical information systems for Robotics, Defense, and Monitoring the Planet. Its Information Products Group delivers essential land-related products and services concerning Legal & Asset Information and Geographic Information.

Pulse Data, Inc... specializes in the acquisition, management, marketing, and licensing of seismic data to the oil & gas industry in Western Canada.

Viceroy Homes, Ltd. (CL A)... is a leader in designing and manufacturing custom home packages for owner/builder clients and professional contractors. The company ships throughout North America and overseas.

## STATEMENTS OF FINANCIAL HIGHLIGHTS

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## 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 US Equity Fund  
(collectively referred to as the "Funds"):

We have audited the statements of financial highlights of the Funds for the five years ended December 31, 2004, which information has been calculated in accordance with the provisions of National Instrument 81-102. 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 the five years ended December 31, 2004 in accordance with the provisions of National Instrument 81-102.

The logo for Deloitte & Touche LLP, featuring the company name in a stylized, handwritten-style font.

Chartered Accountants  
Vancouver, British Columbia  
January 21, 2005

## FINANCIAL HIGHLIGHTS

### NORTH GROWTH CANADIAN MONEY MARKET FUND

#### STATEMENT OF FINANCIAL HIGHLIGHTS

FOR THE FIVE YEARS ENDED  
DECEMBER 31, 2004

	2004	2003	2002	2001	2000
<b>DATA PER UNIT (Note 1)</b>					
NET ASSET VALUE, BEGINNING OF YEAR	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00
<b>INCOME FROM INVESTMENT OPERATIONS</b>					
Net investment income	0.21	0.28	0.23	0.40	0.54
Net realized and unrealized gains on investments	—	—	—	—	—
	0.21	0.28	0.23	0.40	0.54
<b>DISTRIBUTIONS TO INVESTORS</b>					
From net investment income	(0.21)	(0.28)	(0.23)	(0.40)	(0.54)
From net realized gain on investments	—	—	—	—	—
	(0.21)	(0.28)	(0.23)	(0.40)	(0.54)
NET ASSET VALUE, END OF YEAR	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00
<b>RATIOS / SUPPLEMENTAL DATA (Note 1)</b>					
Net assets - end of year (000's)	\$ 8,459	\$ 12,507	\$ 20,685	\$ 31,125	\$ 13,130
Average net assets (000's)	\$ 9,769	\$ 16,147	\$ 23,463	\$ 21,774	\$ 11,155
Management expense ratio	0.27%	0.27%	0.27%	0.27%	0.27%
Annual rate of return	2.03%	2.71%	2.25%	4.11%	5.46%

## FINANCIAL HIGHLIGHTS

### NORTH GROWTH CANADIAN EQUITY FUND

#### STATEMENT OF FINANCIAL HIGHLIGHTS

FOR THE FIVE YEARS ENDED  
DECEMBER 31, 2004

	2004	2003	2002	2001	2000
<b>DATA PER UNIT (Note 1)</b>					
NET ASSET VALUE, BEGINNING OF YEAR	\$ 12.37	\$ 10.69	\$ 11.53	\$ 10.27	\$ 10.00
<b>INCOME (LOSS) FROM INVESTMENT OPERATIONS</b>					
Net investment income (loss)	(0.07)	0.02	0.07	0.07	0.03
Net realized and unrealized gains (losses) on investments	0.74	1.79	(0.87)	1.26	0.26
	0.67	1.81	(0.80)	1.33	0.29
<b>DISTRIBUTIONS TO INVESTORS</b>					
From net investment income	—	(0.01)	(0.04)	(0.03)	(0.01)
From net realized gain on investments	(0.15)	(0.12)	—	(0.04)	(0.01)
	(0.15)	(0.13)	(0.04)	(0.07)	(0.02)
NET ASSET VALUE, END OF YEAR	\$ 12.89	\$ 12.37	\$ 10.69	\$ 11.53	\$ 10.27
<b>RATIOS/SUPPLEMENTAL DATA (Note 1)</b>					
Net assets - end of year (000's)	\$ 20,343	\$ 12,905	\$ 5,584	\$ 2,126	\$ 966
Average net assets (000's)	\$ 16,489	\$ 9,891	\$ 4,773	\$ 1,298	N/A
Management expense ratio (1)	1.31%	1.24%	1.28%	1.34%	N/A
Portfolio turnover rate	30.76%	78.37%	32.54%	25.62%	N/A
Annual rate of return (2)	5.38%	16.99%	(6.87%)	12.99%	N/A

(1) Prior to May 1, 2003, the former Manager of the Fund absorbed a portion of the expenses of the Fund. If the former Manager had not absorbed these expenses, the management expense ratio would have been 1.32% in 2003, 2.32% in 2002 and 5.57% in 2001.

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

## FINANCIAL HIGHLIGHTS

### NORTH GROWTH US EQUITY FUND

### STATEMENT OF FINANCIAL HIGHLIGHTS

FOR THE FIVE YEARS ENDED  
DECEMBER 31, 2004

	2004	2003	2002	2001	2000
DATA PER UNIT (Note 1)					
NET ASSET VALUE, BEGINNING OF YEAR	\$ 23.32	\$ 18.68	\$ 19.20	\$ 19.30	\$ 16.16
INCOME (LOSS) FROM INVESTMENT OPERATIONS					
Net investment income (loss)	(0.06)	(0.16)	(0.09)	0.06	0.19
Net realized and unrealized gains (losses) on investments	0.86	4.92	(0.29)	2.42	6.81
	0.80	4.76	(0.38)	2.48	7.00
DISTRIBUTIONS TO INVESTORS					
From net investment income	—	—	—	(0.06)	(0.16)
From net realized gain on investments	(0.10)	(0.12)	(0.14)	(2.52)	(3.70)
	(0.10)	(0.12)	(0.14)	(2.58)	(3.86)
NET ASSET VALUE, END OF YEAR	\$ 24.02	\$ 23.32	\$ 18.68	\$ 19.20	\$ 19.30
RATIOS/SUPPLEMENTAL DATA (Note 1)					
Net assets - end of year (000's)	\$231,803	\$199,603	\$125,931	\$ 89,221	\$ 64,631
Average net assets (000's)	\$214,927	\$153,133	\$109,298	\$ 89,175	\$ 59,167
Management expense ratio	1.23%	1.25%	1.22%	1.19%	1.25%
Portfolio turnover rate	50.51%	40.34%	54.71%	95.01%	75.22%
Annual rate of return	3.45%	25.50%	(2.01%)	12.83%	43.32%

## FINANCIAL HIGHLIGHTS

### NOTE TO THE STATEMENTS OF FINANCIAL HIGHLIGHTS

FOR THE FIVE YEARS ENDED  
DECEMBER 31, 2004

1. Information reported in the Statements of Financial Highlights for each of the Funds has been calculated in accordance with the provisions of National Instrument 81-102, and should be read in conjunction with the financial information included in the financial statements and related notes of the Funds as at or for the years ended December 31, 2004, 2003, 2002, 2001, and 2000.

The information is reported in Canadian dollars. Also, reference to "year" or "years" includes, where applicable, "period" or "periods".

#### Data per unit

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

#### Average net assets

The average net assets are the average of the daily net asset values of the Fund for each valuation day during the year.

#### Management expense ratio

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

#### Portfolio turnover rate

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

#### Annual rate of return

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

## FINANCIAL STATEMENTS

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## FINANCIAL STATEMENTS

### AUDITORS' REPORT

To the Unitholders of:

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

We have audited the statements of investments of the Funds as at December 31, 2004, and the statements of net assets, operations and changes in net assets as at or for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the investment portfolio of the Funds as at December 31, 2004, and their financial position, the results of their operations and the changes in their net assets as at or for the years ended December 31, 2004 and 2003, in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*

Chartered Accountants  
Vancouver, British Columbia  
January 21, 2005

# FINANCIAL STATEMENTS

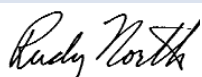
## NORTH GROWTH MUTUAL FUNDS

### STATEMENTS OF NET ASSETS

DECEMBER 31, 2004 AND 2003  
(in thousands of dollars except per unit amounts)

	Canadian Money Market Fund		Canadian Equity Fund		US Equity Fund	
	2004	2003	2004	2003	2004	2003
<b>ASSETS</b>						
Investments - at market value	\$ 8,448	\$ 12,500	\$ 19,658	\$ 12,751	\$ 228,383	\$ 195,104
Cash	3	3	745	174	4,197	4,785
Due from subscribers for units	—	—	—	—	—	227
Accrued interest and dividends receivable	14	23	6	8	202	87
	17	26	751	182	4,399	5,099
	8,465	12,526	20,409	12,933	232,782	200,203
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	6	9	44	28	698	600
Due to unitholders	—	10	3	—	—	—
Due to brokers	—	—	—	—	281	—
Income taxes payable	—	—	19	—	—	—
	6	19	66	28	979	600
NET ASSETS - REPRESENTING UNITHOLDERS' EQUITY (Note 5)	\$ 8,459	\$ 12,507	\$ 20,343	\$ 12,905	\$ 231,803	\$ 199,603
NUMBER OF UNITS OUTSTANDING (000's) (Note 5)	846	1,251	1,578	1,043	9,650	8,560
NET ASSET VALUE PER UNIT	\$ 10.00	\$ 10.00	\$ 12.89	\$ 12.37	\$ 24.02	\$ 23.32

Approved on Behalf of the Manager,  
NORTH GROWTH MANAGEMENT LTD.



Rudy North, President



# FINANCIAL STATEMENTS

## NORTH GROWTH MUTUAL FUNDS

### STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2004 AND 2003  
(in thousands of dollars)

	Canadian Money Market Fund		Canadian Equity Fund		US Equity Fund	
	2004	2003	2004	2003	2004	2003
<b>INVESTMENT INCOME</b>						
Dividends (1)	\$ —	\$ —	\$ 79	\$ 85	\$ 2,076	\$ 643
Interest	224	478	1	15	6	6
	<u>224</u>	<u>478</u>	<u>80</u>	<u>100</u>	<u>2,082</u>	<u>649</u>
<b>EXPENSES</b>						
Management fees (Note 6)	26	43	152	81	2,636	1,910
Administration fees	—	—	—	2	—	—
Trusteeship and other fees	—	—	—	11	—	—
Expenses reimbursed by the former Manager	—	—	—	(8)	—	—
	<u>26</u>	<u>43</u>	<u>152</u>	<u>86</u>	<u>2,636</u>	<u>1,910</u>
ALTERNATIVE MINIMUM TAX	—	—	19	—	—	—
NET INVESTMENT INCOME (LOSS) (Note 3)	<u>198</u>	<u>435</u>	<u>(91)</u>	<u>14</u>	<u>(554)</u>	<u>(1,261)</u>
<b>REALIZED AND UNREALIZED GAINS ON INVESTMENTS</b>						
Proceeds from sale of investments	109,307	182,849	4,953	6,328	107,171	61,014
Investments at average cost, beginning of year	12,500	20,655	11,326	5,568	148,133	108,940
Cost of investments purchased	105,255	174,694	11,028	11,921	132,507	95,277
	<u>117,755</u>	<u>195,349</u>	<u>22,354</u>	<u>17,489</u>	<u>280,640</u>	<u>204,217</u>
Investments at average cost, end of year	(8,448)	(12,500)	(17,815)	(11,326)	(177,764)	(148,133)
Cost of investments sold	<u>109,307</u>	<u>182,849</u>	<u>4,539</u>	<u>6,163</u>	<u>102,876</u>	<u>56,084</u>
Net realized gains on sale of investments (Note 7)	—	—	414	165	4,295	4,930
Net realized gains on sale of investments included in distributions from other funds	—	—	26	21	—	—
Change in unrealized appreciation of investments	—	—	418	1,664	3,566	34,341
NET GAIN ON INVESTMENTS (Note 3)	<u>—</u>	<u>—</u>	<u>858</u>	<u>1,850</u>	<u>7,861</u>	<u>39,271</u>
INCREASE IN NET ASSETS FROM OPERATIONS	<u>\$ 198</u>	<u>\$ 435</u>	<u>\$ 767</u>	<u>\$ 1,864</u>	<u>\$ 7,307</u>	<u>\$ 38,010</u>
EARNINGS PER UNIT (Note 2 (f))	<u>\$ 0.21</u>	<u>\$ 0.28</u>	<u>\$ 0.58</u>	<u>\$ 2.39</u>	<u>\$ 0.79</u>	<u>\$ 4.95</u>
AVERAGE NUMBER OF UNITS OUTSTANDING DURING THE YEAR (000's)	<u>955</u>	<u>1,582</u>	<u>1,320</u>	<u>780</u>	<u>9,256</u>	<u>7,678</u>

(1) Net of withholding taxes, where applicable.

## FINANCIAL STATEMENTS

### NORTH GROWTH MUTUAL FUNDS

### STATEMENTS OF CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2004 AND 2003

(in thousands of dollars)

	Canadian Money Market Fund		Canadian Equity Fund		US Equity Fund	
	2004	2003	2004	2003	2004	2003
INCREASE IN NET ASSETS FROM OPERATIONS	\$ 198	\$ 435	\$ 767	\$ 1,864	\$ 7,307	\$ 38,010
DISTRIBUTIONS TO INVESTORS						
From net investment income	(198)	(435)	—	(12)	—	—
From net realized gain on investments	—	—	(227)	(126)	(979)	(1,010)
	(198)	(435)	(227)	(138)	(979)	(1,010)
CAPITAL UNIT TRANSACTIONS						
Units issued on sales	2,535	4,405	8,509	7,583	36,367	41,440
Units issued on reinvestment of distributions	198	435	224	138	976	1,007
Units redeemed	(6,781)	(13,018)	(1,835)	(2,126)	(11,471)	(5,775)
	(4,048)	(8,178)	6,898	5,595	25,872	36,672
INCREASE (DECREASE) IN NET ASSETS	(4,048)	(8,178)	7,438	7,321	32,200	73,672
NET ASSETS, BEGINNING OF YEAR	12,507	20,685	12,905	5,584	199,603	125,931
NET ASSETS, END OF YEAR	\$ 8,459	\$ 12,507	\$ 20,343	\$ 12,905	\$ 231,803	\$ 199,603

## FINANCIAL STATEMENTS

### NORTH GROWTH CANADIAN MONEY MARKET FUND

#### STATEMENT OF INVESTMENTS

DECEMBER 31, 2004

(in thousands of dollars)

FACE VALUE	SHORT-TERM NOTES	AVERAGE COST & MARKET VALUE	% OF NET ASSETS
\$ 500	Citigroup Finance Canada Ltd., 2.61%, January 4, 2005	\$ 499	5.90
300	Caisse Centrale Desjardins, 2.60%, January 5, 2005	299	3.53
385	HSBC Bank of Canada, 2.55%, January 5, 2005	384	4.54
450	Credit Union Central of British Columbia, 2.56%, January 6, 2005	449	5.31
500	Honda Canada Finance Inc., 2.61%, January 6, 2005	498	5.89
280	John Deere Credit Inc., 2.53%, January 7, 2005	280	3.31
400	Summit Trust, 2.54%, January 7, 2005	399	4.72
385	Britannia Building Society, 2.53%, January 10, 2005	384	4.54
370	CDP Financial Inc., 2.61%, January 10, 2005	369	4.36
375	Royal Bank of Canada, 2.50%, January 10, 2005	374	4.42
340	Credit Union Central of Saskatchewan, 2.55%, January 13, 2005	339	4.01
450	Wells Fargo Financial Canada Corporation, 2.58%, January 13, 2005	449	5.31
355	Paccar Financial Services Inc., 2.53%, January 14, 2005	354	4.18
500	Plaza Trust, 2.55%, January 18, 2005	499	5.90
385	Potash Corporation of Saskatchewan, 2.54%, January 18, 2005	384	4.54
300	Pure Trust, 2.54%, January 18, 2005	299	3.53
330	Bank of Montreal, 2.51%, January 20, 2005	329	3.89
510	Halifax Bank of Scotland, 2.53%, January 20, 2005	509	6.02
295	GE Capital Canada Funding Company, 2.53%, January 24, 2005	294	3.48
300	Canadian Imperial Bank of Commerce, 2.51%, January 25, 2005	299	3.53
400	Nationwide Building Society, 2.55%, January 26, 2005	399	4.72
360	Key Nova Scotia Funding Company, 2.53%, February 11, 2005	359	4.24
	Total investments	8,448	99.87
	Other assets less liabilities	11	0.13
	Net assets	\$ 8,459	100.00

## FINANCIAL STATEMENTS

### NORTH GROWTH CANADIAN EQUITY FUND

#### STATEMENT OF INVESTMENTS

DECEMBER 31, 2004

(in thousands of dollars)

NUMBER OF SHARES	CANADIAN COMMON SHARES	AVERAGE COST	MARKET VALUE	% OF NET ASSETS
86,000	Tundra Semiconductor Corporation	\$ 1,210	\$ 1,249	6.14
60,000	QLT Inc.	1,154	1,154	5.67
97,000	ATS Automation Tooling Systems Inc.	1,089	1,043	5.13
46,500	Biovail Corporation	1,561	920	4.52
84,700	Compton Petroleum Corporation	544	919	4.52
36,200	Ensign Resource Service Group Inc.	755	908	4.46
34,000	Cinram International Inc.	671	753	3.70
10,800	EnCana Corporation	553	739	3.63
16,700	Masonite International Corporation	500	689	3.39
40,000	Extencare Inc., Class A	428	618	3.04
26,000	Sierra Wireless Inc.	584	552	2.71
13,200	Dorel Industries Inc., Class B	497	546	2.68
15,700	Sobeys Inc.	535	542	2.66
11,800	Suncor Energy Inc.	307	500	2.46
45,800	DataMirror Corporation	458	389	1.91
20,000	Cossette Communication Group Inc.	311	350	1.72
12,600	Intrawest Corporation	218	347	1.71
12,000	BCE Inc.	317	347	1.71
12,500	MacDonald, Dettwiler and Associates Ltd.	286	336	1.65
130,000	Pulse Data Inc.	150	226	1.11
34,500	Viceroy Homes Limited, Class A	184	141	0.69
		<u>12,312</u>	<u>13,268</u>	<u>65.21</u>
NUMBER OF UNITS	MUTUAL FUND UNITS			
266,010	North Growth US Equity Fund	<u>5,503</u>	<u>6,390</u>	<u>31.41</u>
	Total investments	<u>\$ 17,815</u>	<u>19,658</u>	<u>96.62</u>
	Other assets less liabilities		<u>685</u>	<u>3.38</u>
	Net assets		<u>\$ 20,343</u>	<u>100.00</u>

# FINANCIAL STATEMENTS

## NORTH GROWTH US EQUITY FUND

### STATEMENT OF INVESTMENTS

DECEMBER 31, 2004

(in thousands of dollars)

NUMBER OF SHARES	FOREIGN COMMON SHARES	AVERAGE COST	MARKET VALUE	% OF NET ASSETS
504,500	Nextel Communications Inc., Class A	\$ 6,979	\$ 18,198	7.85
681,300	Chesapeake Energy Corporation	7,142	13,512	5.83
558,760	Cisco Systems Inc.	11,623	12,976	5.60
142,000	Apple Computer Inc.	4,049	10,992	4.74
77,100	WellPoint Inc.	8,773	10,658	4.60
297,900	Texas Instruments Incorporated	8,174	8,816	3.80
113,400	Adobe Systems Incorporated	5,406	8,552	3.69
144,000	Bank of America Corporation	7,355	8,133	3.51
312,500	Gap Inc.	7,553	7,933	3.42
249,000	Citrix Systems Inc.	5,102	7,321	3.16
302,600	Sybase Inc.	6,498	7,256	3.13
72,000	PACCAR Inc.	5,679	6,965	3.00
85,000	Johnson & Johnson	6,213	6,480	2.80
74,500	Guidant Corporation	4,254	6,456	2.79
665,100	Mesa Air Group Inc.	6,358	6,348	2.74
175,200	Michaels Stores Inc.	4,941	6,311	2.72
223,700	DSP Group Inc.	5,523	6,004	2.59
170,000	Pfizer Inc.	5,563	5,495	2.37
167,400	Microsoft Corporation	5,718	5,376	2.32
69,500	Timberland Company, Class A	4,395	5,235	2.26
117,900	Manor Care Inc.	3,306	5,021	2.17
89,000	Chico's FAS Inc.	4,060	4,871	2.10
109,300	Jones Apparel Group Inc.	4,479	4,805	2.07
130,000	Maverick Tube Corporation	2,678	4,735	2.04
78,700	Jacobs Engineering Group Inc.	3,746	4,521	1.95
160,000	Intel Corporation	4,400	4,498	1.94
56,000	Dionex Corporation	2,371	3,815	1.65
68,000	KLA-Tencor Corporation	3,822	3,807	1.64
180,700	Applied Materials Inc.	3,780	3,714	1.60
114,500	Symantec Corporation	3,496	3,545	1.53
164,400	Federal Signal Corporation	4,146	3,490	1.51
59,000	BJ Services Company	2,447	3,301	1.42
61,000	Ethan Allen Interiors Inc.	2,854	2,934	1.27
23,500	Mohawk Industries Inc.	1,598	2,578	1.11
75,000	Checkpoint Systems Inc.	1,260	1,627	0.70
28,400	Plantronics Inc.	1,403	1,416	0.61
13,400	Brinker International Inc.	526	565	0.24
5,000	Advent Software Inc.	94	123	0.05
	Total investments	<u>\$177,764</u>	<u>228,383</u>	<u>98.52</u>
	Other assets less liabilities		<u>3,420</u>	<u>1.48</u>
	Net assets		<u>\$231,803</u>	<u>100.00</u>

# FINANCIAL STATEMENTS

## NORTH GROWTH MUTUAL FUNDS

### NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2004 and 2003

#### 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 US Equity Fund (the "US Equity Fund") are open-ended mutual funds established under the laws of the Province of British Columbia. The fiscal year end of the Funds is December 31.

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

The Canadian Institute of Chartered Accountants ("CICA") has issued CICA Handbook Section 1100, Generally Accepted Accounting Principles ("GAAP"), which establishes standards for financial reporting and, with respect to the Funds, was effective for the year ended December 31, 2004.

Consequently, certain disclosures previously considered to be GAAP, by virtue of general use in the Canadian investment fund industry, are no longer considered to be GAAP. However, Section 1100 primarily impacts disclosures in the Funds' financial statements and accordingly, has no impact on the calculation of the Funds' net asset value or net asset value per unit.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

##### (a) Accounting estimates

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

##### (b) Basis of determining market value

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

##### (c) Investment transactions and income

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

# FINANCIAL STATEMENTS

## NORTH GROWTH MUTUAL FUNDS

### NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2004 and 2003

#### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the net gain on investments.

##### (d) Translation of foreign currencies

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

##### (e) Unrealized appreciation or depreciation of investments

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

##### (f) Earnings per unit

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

##### (g) Comparative figures

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

#### 3. INCOME TAXES

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

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

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

# FINANCIAL STATEMENTS

## NORTH GROWTH MUTUAL FUNDS

### NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2004 and 2003

#### 4. DISTRIBUTIONS TO UNITHOLDERS

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

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

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

#### 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:

	2004	2003
<b>CANADIAN MONEY MARKET FUND</b>		
Balance, beginning of the year	1,250,746.383	2,068,474.260
Issued during the year		
Sales	253,501.365	440,524.480
On reinvestment of distributions	19,835.006	43,498.611
	273,336.371	484,023.091
	1,524,082.754	2,552,497.351
Redeemed during the year	678,168.259	1,301,750.968
Balance, end of the year	845,914.495	1,250,746.383

#### CANADIAN EQUITY FUND

Balance, beginning of the year	1,043,082.743	522,377.376
Issued during the year		
Sales	662,871.318	697,026.912
On reinvestment of distributions	17,387.352	11,143.895
	680,258.670	708,170.807
	1,723,341.413	1,230,548.183
Redeemed during the year	145,322.300	187,465.440
Balance, end of the year	1,578,019.113	1,043,082.743



# FINANCIAL STATEMENTS

## NORTH GROWTH MUTUAL FUNDS

### NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2004 and 2003

#### 5. UNITHOLDERS' EQUITY (continued)

	2004	2003
<b>US EQUITY FUND</b>		
Balance, beginning of the year	8,560,469.401	6,742,162.735
Issued during the year		
Sales	1,537,133.841	2,057,440.845
On reinvestment of distributions	40,027.632	44,488.801
	1,577,161.473	2,101,929.646
	10,137,630.874	8,844,092.381
Redeemed during the year	487,906.244	283,622.980
Balance, end of the year	9,649,724.630	8,560,469.401

#### 6. MANAGEMENT FEES AND OTHER EXPENSES

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

##### Canadian Money Market Fund

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

##### Canadian Equity Fund

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

##### US Equity Fund

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

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

## FINANCIAL STATEMENTS

### NORTH GROWTH MUTUAL FUNDS

### NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2004 and 2003

#### 6. MANAGEMENT FEES AND OTHER EXPENSES (continued)

The management expense ratio for each of the last five years was as follows:

	2004	2003	2002	2001	2000
FUND					
Canadian Money Market Fund	0.27%	0.27%	0.27%	0.27%	0.27%
Canadian Equity Fund	1.31%	1.24%	1.28%	1.34%	N/A*
US Equity Fund	1.23%	1.25%	1.22%	1.19%	1.25%

\* Information is not available

If the former Manager had not absorbed a portion of the other expenses of the Canadian Equity Fund, the management expense ratio would have been 1.32% in 2003, 2.32% in 2002 and 5.57% in 2001.

#### 7. FOREIGN CURRENCIES

The net realized gain on sale of investments in the US Equity Fund includes losses from foreign currencies of \$137,000 in 2004 and gains from foreign currencies of \$58,000 in 2003.

#### 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:

	2004	2003
FUND		
Canadian Money Market Fund	\$ 41,000	\$ 43,000
US Equity Fund	447,000	387,000



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