



## 2011 Annual Financial Statements

For the year ended August 31, 2011

### GrowthWorks Atlantic Venture Fund Ltd.

Balanced Series

GIC Series

Growth Series

Financial Services Series

Performance Diversification Know-How

A large, light blue, stylized graphic in the bottom right corner of the page. It depicts two human figures in a dynamic, overlapping pose, suggesting movement or interaction. The figures are composed of simple, rounded shapes and lines.

## **GrowthWorks Atlantic Venture Fund 2011 Annual Report**

To our investors:

We are pleased to report that, despite ongoing uncertainty in global markets, the Atlantic Venture Fund made solid progress against key goals during fiscal 2011.

Over the past 12 months, we continued to invest in up-and-coming Atlantic Canadian businesses with strong growth potential, placing \$3.5 million in new and follow-on investments. A number of our 15 portfolio companies made good headway, securing new customers, growing sales and advancing the development of promising new products.

Fundraising continued to be difficult, however, as many Canadians chose not to invest through their RRSP despite the relative strength of Canada's economy. As a result, we raised \$2.9 million from investors during the 2010-2011 RRSP season.

### **Two Atlantic Canada companies receive \$2.3 million in new investments**

In January 2011, the Fund helped support the diversification of economic activity in Atlantic Canada by investing \$1 million in **ClearRisk Inc.**, a Newfoundland and Labrador-based company that provides web-based risk-management solutions for the insurance industry and small to medium-size enterprises. The Fund's investment, its second in Newfoundland and Labrador, was part of a \$1.3 million financing with First Angel Network, a not-for-profit organization that bridges the funding gap for young companies in Atlantic Canada with extraordinary potential.

The Fund also completed a \$1.3 million investment in **Lymbix Inc.** of Moncton. This promising software company develops tools that help organizations measure the tone and emotional impact of words in everyday written language. When applied to the huge volume of social media, Lymbix's real-time sentiment technology helps companies measure emotions like friendliness, enjoyment, amusement, contentment, sadness, anger, fear, and shame on an individual message level in any domain.

### **Follow-on investments support growing portfolio companies**

Supporting the growth of our portfolio companies remained a priority during fiscal 2011, with the Fund making follow-on investments in three companies. These included:

- **Virtual Marine Technology Inc. (VMT), St. John's (\$150,000):** During the past 12 months, VMT has enjoyed strong sales growth of its simulators for survival and fast-response marine craft, and high-speed electronic navigation training. It also became the first company to receive funding under the Newfoundland and Labrador Government's OceanTech Smart Growth Program, which provides financial assistance to private sector ocean technology firms that demonstrate high growth potential. VMT has attracted domestic and international attention, recently selling lifeboat simulator and training courseware to Duncan y Cossio S.A., one of Mexico's leading providers of inspection, maintenance and recertification services for lifeboats. New sales agreements also include a contract to provide simulation equipment for Newfoundland and Labrador's offshore oilfields, as well as a portable simulation unit that will be used by the Nova Scotia Community College. In May 2011, VMT signed an agreement with Petroleum Research Atlantic Canada (PRAC) to develop advanced simulation technologies for use by the offshore oil and gas industry in safety and operations training. With the infusion of new capital and a robust product pipeline, we expect VMT to continue generating strong sales growth.
- **Origin Biomed Inc., Halifax (\$500,000):** Through its scientifically proven, topically applied Neuragen® products, Origin Biomed improves its customers' quality of life by offering fast, effective, relief from nerve pain. Our most recent investment was part of a \$2.0 million financing round, with the funds earmarked bring a new over-the-counter cream-based treatment to market. Syndicate partners include Avrio Ventures, a Calgary-based venture capital firm that supports the development of Canadian commercialization and growth stage industrial bio-products, nutraceutical ingredients and food technology companies and Nova Scotia Business Inc. (NSBI), Nova Scotia's private-sector-led business development agency. NSBI helps businesses in Nova Scotia reach their full potential by providing advisory services, trade development, financing and venture capital.

- **Impath Networks Canada Corporation, Halifax (\$500,000):** Established in 1996, Impath helps the world's leading system integrators deploy complex video networks. Its video surveillance solutions are used by diverse customers to monitor transportation systems, bridges and tunnels, government and military facilities, airports and seaports, city centres, border crossings and correctional facilities, with thousands of its products operating in mission critical installations. As with Origin Biomed, our follow-on investment was part of a \$2.6 million financing round, which included syndicate partner NSBI and management. The new funds will allow Impath to continue developing new technologies and partnerships, and capitalize on growing demand for Internet-based security and surveillance video applications.

### **Portfolio companies continue to make gains**

During fiscal 2011, many of our existing portfolio companies recorded solid progress in line with their business plans and our expectations. These included:

- **STI (formerly Sampling Technologies Inc.)** of Halifax, which is leveraging its innovative SmartTechnology platform. STI has contracted with over 60 customers for more than 250 programs that allow all stakeholders – manufacturer, pharmacy, prescriber, and payer – to optimize their patient relationships. This year, for example, Canadian pharmaceutical company AstraZeneca Canada Inc., implemented a prescription benefit program after a generic counterpart to its NEXIUM® tablets was introduced into the Canadian market. The program allows physicians and pharmacists to provide patients with an STI smart card that bridges the financial gap between the two drugs, thereby eliminating cost as a decision-making factor. NEXIUM® is the largest selling prescription drug in the US and enjoys strong sales in Canada. Accordingly, the prescription benefit program, which is currently available in Ontario, Nova Scotia and New Brunswick, is expected to drive solid sales growth.
- Halifax-based **Azorus Inc.** offers a full suite of Customer Relationship Management (CRM) solutions to help post-secondary schools provide higher levels of service and communication to an ever-more discerning and tech-savvy

market. During the past 12 months, its CRM solutions continued to gain recognition for delivering a strong competitive edge in the battle to attract strong students. In June 2011, the prestigious University of Leicester, which began working with Azorus two years ago, won Gold for “best use of a digital platform for student recruitment” at the well-regarded Heist Awards in the UK. Azorus also secured new accounts over the past year, including the University of New Orleans and the University of Westminster.

### **Virtual Expert Clinics acquired by California company**

In September 2010, Virtual Expert Clinics Inc. (VEC) of Fredericton was acquired by California-based Trumpet Search LLC. As part of the acquisition, the Fund has retained an indirect ownership position in VEC through shares in Trumpet Search. VEC is now part of a much larger enterprise focussed on services within the autism space and we foresee better growth potential for the combined companies as a result. Trumpet Search, which operates Trumpet Behavioral Health, plans to grow through acquisitions and to maintain VEC’s presence in New Brunswick.

### **Venture portfolio composition**

The following tables summarize certain information on the Fund’s portfolio holdings as of August 31, 2011

#### **Asset class weighting by market value**

- Private venture 52.4%
- Public venture 3.0%
- Fixed income 16.6%
- Income and index notes 19.0%
- Others 9.0%

#### **Venture portfolio industry weighting by market value**

- Information technology 82.0%
- Biotech 17.0%
- Entertainment & other 1.0%

**Top-10 venture portfolio holdings by market value**

1. Azorus Inc.
2. Origin Biomed Inc.
3. Sampling Technologies Inc.
4. Virtual Marine Technology Inc.
5. Impath Networks Canada Inc.
6. AnyWare Group Inc.
7. Lymbix Inc.
8. ClearRisk Inc.
9. Virtual Expert Clinics
10. Spectral Diagnostics Inc.

**Venture portfolio holdings by province**

- Newfoundland and Labrador 17.8%
- New Brunswick 55.3%
- Nova Scotia 26.9%

For more information on our portfolio companies, visit [www.growthworks.ca/atlantic](http://www.growthworks.ca/atlantic) and choose "Portfolio." Then click on the link to the respective company's website.

**Provincial government initiatives improve venture capital supply**

We are pleased to see that the Nova Scotia Government's initiative to create a privately managed venture capital fund in cooperation with the other Atlantic Provinces and private investors is progressing well. Both Nova Scotia and New Brunswick have committed \$15.0 million in capital to the new fund and other institutional investors are expected to contribute in the near future. We view the formation of this fund extremely positively, as the number of quality companies that require venture funding for success is much greater than the supply of risk capital currently available. We also believe the formation of the fund will benefit the Atlantic Venture Fund by increasing opportunities for syndicated funding and by increasing funding opportunities for entrepreneurial companies. As a result, we enthusiastically applaud this initiative and the progress being made on regional co-operation for a stronger and more prosperous Atlantic Canada.

We would also like to extend our congratulations to Summerhill Venture Partners, Brightspark Ventures and BDC Venture Capital which received the 2011 'Deal of the Year Award' from Canada's Venture Capital and Private Equity Association (CVCA) for their joint investment in Radian6 Technologies. While Atlantic Venture Fund did not invest in Radian6, we believe the successful sale of Radian6 offers further evidence that high quality venture capital investments exist here in Atlantic Canada.

### **Diversified Series consolidated into Balanced Series**

In December, shareholders approved the consolidation of the Fund's Diversified Series shares into Balanced Series shares. The consolidation was effected through a conversion of Diversified Series shares into Balanced Series shares based on the relative net asset value (NAV) per share of the two series.

### **Moving forward**

Looking ahead, we expect Canadian venture capital markets to remain relatively quiet while investors wait for the global economy to stabilize. In August 2011, the CVCA reported that Canadian venture capital investment activity between April and June was down slightly over the same period last year, due mainly to stalled fund-raising activity. A lack of funds is also impeding deal-making, with only one VC-backed initial public offering (IPO) reported during the first eight months of 2011.

More positively, we have witnessed satisfying progress in several of the Fund's portfolio companies over the past 12 months and we anticipate that this will continue. Additionally, deal flow is improving in New Brunswick and we are beginning to see positive trends in merger and acquisition (M&A) transactions.

Venture capital by definition is long-term, patient capital. It can take several years, and numerous rounds of financing, before an early stage company may generate a return on investment through an exit event. As our portfolio matures, we will continue to work closely with the management of our portfolio companies to help them achieve their business development and growth objectives.

In closing, I'd like to thank our shareholders for their confidence and trust, and welcome new shareholders. I also thank our portfolio company management teams for their hard work and achievements.

Sincerely,



*Thomas J. Hayes*

*President and CEO*

*GrowthWorks Atlantic Venture Fund Ltd.*

*This report contains forward looking statements that are not based on historical or current fact, including statements containing the words “believes,” “may,” “anticipates,” “estimates,” “expects” or “will”. These statements primarily relate to assessments of the future economic and market conditions for the Fund, the plans and prospects of, and results achieved by, portfolio companies, deal flow and future capital raising and investment activity, expectations for divesting from investments in the Fund's venture portfolio and new government programs that may increase the availability of venture capital. Events or circumstances may cause actual results to differ materially from those expressed or implied by such forward looking statements as a result of numerous known and unknown risks, including but not limited to economic and market conditions, results achieved and further financing required by portfolio companies, deal flow and future capital raising and investment activity, timing of and proceeds from divestments of portfolio investments, changing government policies and those risks referenced in the Fund's filings with Canadian securities regulators. Most of these factors are beyond the control of the Fund and its manager. Neither the Fund nor its manager assumes any obligation to update any of the forward-looking statements made in this report.*

## THE MANAGER'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of **GrowthWorks Atlantic Venture Fund Ltd.**

The accompanying financial statements for the GrowthWorks Atlantic Venture Fund Ltd. are the responsibility of the Manager, GrowthWorks WV Management Ltd., and have been approved by the Board of Directors.

The financial statements have been prepared by the Manager based on the information available to November 17, 2011 and are in accordance with Canadian generally accepted accounting principles and reflect the Manager's best estimate and judgements.

The Manager has established systems of internal controls designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors discharges its duties related to the financial statements primarily through the activities of its Audit and Valuation Committee [the "Committee"], which is composed of members of the Board of Directors.

The Committee has responsibility for establishing policies and procedures used by the Manager in determining the value of the Fund's assets, the net asset value by series of the Class A Shares of the Fund as at August 31, 2011.

The Committee meets with the Manager to ensure that the Manager is performing responsibly to maintain financial controls and systems, and to review the financial statements for the Fund. The Committee also meets with the independent auditors to discuss the audit approach, the review of internal accounting controls and the results of their examination, prior to submitting the financial statements to the Board of Directors and recommending its approval thereof. The Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement and re-appointment of the independent auditors.

The financial statements have been audited by KPMG LLP, Chartered Accountants. The auditors' report outlines the scope of their audit and their opinion on the financial statements.

November 17, 2011



Thomas J. Hayes  
President and CEO



Clint Matthews  
CFO



**KPMG LLP**  
**Chartered Accountants**  
PO Box 10426 777 Dunsmuir Street  
Vancouver BC V7Y 1K3  
Canada

Telephone (604) 691-3000  
Fax (604) 691-3031  
Internet www.kpmg.ca

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of GrowthWorks Atlantic Venture Fund Ltd., comprising the following series:

Balanced Series  
GIC Series  
Growth Series  
Financial Services Series  
(collectively, the "Fund")

We have audited the accompanying financial statements of the Fund, which comprise the statement of investment portfolio as at August 31, 2011, the statements of net assets as at August 31, 2011 and 2010, the statements of operations, changes in net assets and cash flows for the years ended August 31, 2011 and 2010 and notes, comprising a summary of significant accounting policies and other explanatory information.

### *The Manager's Responsibility for the Financial Statements*

The Manager is responsible for the preparation and fair presentation of financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

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 comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



Page 2

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the investment portfolio of GrowthWorks Atlantic Venture Fund Ltd. as at August 31, 2011, its net assets as at August 31, 2011 and 2010 and its results of operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*KPMG LLP*

---

Chartered Accountants

November 17, 2011  
Vancouver, Canada

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Statement of Net Assets - Balanced Series  
As at August 31

	2011	2010
<b>Assets</b>		
Short-term investments and bonds	\$ 1,751,514	\$ 4,441,900
Bank instruments	2,184,404	3,191,720
Income notes	4,834,842	4,172,501
Total non-venture investments	8,770,760	11,806,121
Venture investments	14,316,635	13,825,335
Total portfolio assets	23,087,395	25,631,456
Cash	578,240	1,124,782
Subscriptions receivable	-	-
Accounts receivable	-	-
Accrued interest receivable	2,349,045	1,820,039
Income and capital taxes recoverable	-	309,164
Future income tax asset [Note 7]	-	-
Inter-series receivable [Note 6(c)]	-	-
	26,014,680	28,885,441
<b>Liabilities</b>		
Accounts payable and accrued liabilities [Note 9]	477,858	409,262
Income and capital taxes payable	4,344	-
Inter-series payable [Note 6(c)]	326,264	496,548
	808,466	905,810
<b>Net assets</b>	<b>\$ 25,206,214</b>	<b>\$ 27,979,631</b>
Shares outstanding [Note 5]	3,484,255	3,469,872
Net assets per share	\$ 7.23	\$ 8.06

See accompanying notes to financial statements.

Approved on behalf of the Board:



Director



Director

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Statement of Operations - Balanced Series  
For the years ended August 31

	2011	2010
Investment income:		
Interest - short-term investments and bonds	\$ 106,177	\$ 142,684
Interest - bank instruments	78,637	86,312
Interest - income notes	273,512	301,592
Interest - venture investments	493,196	797,417
Interest - other	1,004	16,446
	<u>952,526</u>	<u>1,344,451</u>
Expenses:		
Management fees [Note 6(a)]	558,457	575,977
Administration fees [Note 6(a)]	558,457	575,978
Capital retention administration fee [Note 6(a)]	266,967	265,851
Service fees [Note 5]	138,575	142,460
Capital taxes	4,344	7,354
Other	247,179	225,712
	<u>1,773,979</u>	<u>1,793,332</u>
Net investment income (loss)	(821,453)	(448,881)
Net realized gain (loss) from:		
Sale of short-term investments and bonds	22,696	(20)
Venture investments	-	(4,014,876)
Bank instruments	10,139	-
	<u>32,835</u>	<u>(4,014,896)</u>
Change in unrealized appreciation (depreciation) of:		
Short-term investments and bonds	(38,134)	(30,474)
Bank instruments	(1,970)	43,444
Income notes	636,984	819,012
Venture investments	(2,584,238)	2,612,481
	<u>(1,987,358)</u>	<u>3,444,463</u>
Increase (decrease) in net assets from operations before income taxes	(2,775,976)	(1,019,314)
Provision for income taxes (expense) recoverable	(112,637)	209,478
Future income tax recovery (expense)	-	-
	<u>(112,637)</u>	<u>209,478</u>
Increase (decrease) in net assets from operations	<u>\$ (2,888,613)</u>	<u>\$ (809,836)</u>
Increase (decrease) in net assets from operations per share	<u>\$ (0.83)</u>	<u>\$ (0.24)</u>

See accompanying notes to financial statements.

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Statement of Changes in Net Assets - Balanced Series  
For the years ended August 31

	2011	2010
Net assets, beginning of year	\$ 27,979,631	\$ 27,725,420
Changes during year:		
Increase (decrease) in net assets from operations	(2,888,613)	(809,836)
Capital transactions:		
Shares issued on conversion of Diversified Series Class A shares [Note 8]	309,776	-
Proceeds from issuance of Class A shares	2,073,847	2,961,187
Amounts paid for Class A shares redeemed	(2,268,427)	(1,897,140)
	115,196	1,064,047
Net assets, end of year	\$ 25,206,214	\$ 27,979,631

See accompanying notes to financial statements.

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Statement of Cash Flows - Balanced Series  
For the years ended August 31

	2011	2010
Cash flows provided by (used for):		
Cash flows from operating activities:		
Net investment income (loss)	\$ (821,453)	\$ (448,881)
Income tax (expense) recoverable	(112,637)	209,478
Changes in non-cash operating accounts:		
Accrued interest receivable	(529,006)	(499,286)
Accounts receivable	-	-
Accounts payable and accrued liabilities	60,996	(53,505)
Income and capital taxes payable (recoverable)	320,236	(258,805)
Future income taxes payable (receivable)	-	-
Inter-series payable (receivable)	470,193	618,861
Total used in operations	(611,671)	(432,138)
Cash flows from investing activities:		
Proceeds of disposition of portfolio assets		
Disposition of venture investments	20,500	2,399,472
Disposition of short-term investments and bonds	3,672,771	9,477,895
Disposition of bank instruments	958,953	-
Disposition of index notes	-	-
Purchase of portfolio assets		
Purchase of venture investments	(3,500,000)	(3,187,000)
Purchase of short-term investments and bonds	(892,515)	(8,600,771)
Purchase of bank instruments	-	-
Purchase of index notes	-	-
Total used for investing activities	259,709	89,596
Cash flows from financing activities:		
Proceeds from issuance of Class A shares	2,073,847	2,961,187
Payment on redemption of Class A shares	(2,268,427)	(1,897,140)
Total from financing activities	(194,580)	1,064,047
Net increase (decrease) in cash position	(546,542)	721,505
Cash position, beginning of year	1,124,782	403,277
Cash position, end of year	\$ 578,240	\$ 1,124,782
Supplemental Cash Flow information:		
Allocation of investment assets and inter-series payable (receivable)	\$ 522,650	\$ 195,955
Non cash increase in net assets due to merger of Diversified series	\$ 309,776	\$ -

See accompanying notes to financial statements.

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Balanced Series, as at August 31, 2011

## Discussion of Financial Risk Management (Note 4)

### Liquidity Risk

At the year end, all of the Fund's financial liabilities are due within one year. Total financial liabilities of the Series as at August 31, 2011 were \$804,122 (2010: \$905,810). In addition, as of August 31, 2011, there was \$2.1 million (2010: \$1.8 million) in shares that were eligible for redemption without penalty. The Fund is not required to redeem all eligible shares upon request. Refer to Note 5 (Share Capital) for details regarding limitations and restrictions.

### Credit Risk

The maximum exposure to credit risk at August 31, 2011 is \$16.9 million (2010: \$19.7 million) which represents approximately 67.2% (2010: 70.5%) of the Series' net assets. This is comprised of \$5.8 million (2010: \$6.0 million) of venture investments, \$1.8 million (2010: \$4.4 million) of short term investments and bonds, \$2.2 million (2010: \$3.2 million) of bank instruments, \$4.8 million (2010: \$4.2 million) of income notes and \$2.3 million (2010: \$1.9 million) in receivables.

#### - Venture Investments:

An analysis of the fair value of venture debt investments owned by the Fund that are past due and/or impaired as at August 31, 2011 and 2010 is as follows:

Venture Investments Debt	Impaired only		Past Due only		Past Due and Impaired		Total Past Due and/or Impaired	
	2011	2010	2011	2010	2011	2010	2011	2010
Current	\$ 2,435,531	\$ 1,500,000	\$ -	\$ -	\$ -	\$ -	\$ 2,435,531	\$ 1,500,000
<b>Total</b>	<b>\$ 2,435,531</b>	<b>\$ 1,500,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,435,531</b>	<b>\$ 1,500,000</b>

The Fund holds no collateral on these investments as security. Cumulative unrealized loss recorded in the valuation of the Fund's net assets for all venture debt investments is \$2.9 million (August 31, 2010: \$2.3 million). No other investments are past due or impaired at August 31, 2011.

#### - Short-term Investments, Bonds, and Bank Instruments:

An analysis of the credit ratings of the Series' short-term investments, bonds and bank instruments as at August 31, 2011 and 2010 is as follows:

Short-term Investments, Bonds and Bank Instruments by Credit Rating	Fair Value		Percentage of Portfolio		Percentage of Net Assets	
	2011	2010	2011	2010	2011	2010
AAA	\$ -	\$ 1,045,118	-	13.7%	-	3.7%
AA	2,839,454	5,566,812	72.0%	72.9%	11.3%	19.9%
A	-	271,690	-	3.6%	-	1.0%
R1	350,531	-	9.0%	-	1.4%	-
Not available	745,933	750,000	19.0%	9.8%	3.0%	2.7%
<b>Total</b>	<b>\$ 3,935,918</b>	<b>\$ 7,633,620</b>	<b>100.0%</b>	<b>100.0%</b>	<b>15.7%</b>	<b>27.3%</b>

These credit ratings were obtained from credit rating services. Where more than one rating exists for a short-term investment, bond or bank instrument, the lower rating has been used.

#### - Income Notes:

The Series' portfolio of income notes are issued by National Bank of Canada, a Canadian Schedule I bank. Given the strength and standing of this institution, the Manager does not perceive a significant risk of credit loss to the Series' holdings in these investments.

### Currency Risk

There was no exposure to foreign currencies at year end.

### Interest Rate Risk

At August 31, 2011 short-term investments, bonds, and bank instruments, comprising approximately 15.7% (2010: 27.3%) of the Series' net assets, are exposed to interest rate risk. The Manager does not consider the Series' venture debt investments to be exposed to interest rate risk as discussed in note 4(b)(iii). At August 31, 2011, if market interest rates had increased or decreased by 1% with all other factors remaining constant, net assets for the Series would have increased or decreased, respectively, by approximately \$76,246 (2010: \$200,000), representing approximately 0.4% (2010: 0.7%) of the Series' net assets. In practice, actual results may differ from the sensitivity analysis, and the difference could be material. The following table summarizes the Series' exposure to interest rate risk analyzed by maturity date:

Short-term Investments, Bonds, and Bank Instruments by maturity date	Fair Value		Percentage of portfolio		Percentage of net assets	
	2011	2010	2011	2010	2011	2010
Less than 1 year	\$ 671,285	\$ 967,755	17.0%	12.6%	2.7%	3.5%
1-3 years	2,518,700	3,764,469	64.0%	49.3%	10.0%	13.4%
3-5 years	745,933	2,370,253	19.0%	31.1%	3.0%	8.5%
5-7 years	-	531,143	-	7.0%	-	1.9%
<b>Total</b>	<b>\$ 3,935,918</b>	<b>\$ 7,633,620</b>	<b>100.0%</b>	<b>100.0%</b>	<b>15.7%</b>	<b>27.3%</b>

### Other Price Risk

As at August 31, 2011 the Series is exposed to other price risk from public venture investments and income notes. Public venture investments represent \$780,045 (2010: \$1.2 million) or 3.1% (2010: 4.2%) of the Series' net assets. Investments in income notes represent approximately \$4.8 million (2010: \$4.2 million) or 19.2% (2010: 14.9%) of the Series' net assets. At August 31, 2011, a 1% increase or decrease in the related portfolio benchmark would have the following increase or decrease, respectively, on the fair value of the various portfolios:

Portfolio Assets	Benchmark	Effect on Net Assets		Percentage Effect on Net	
		2011	2010	2011	2010
Venture (public only)	S&P/TSX Small Cap Index	\$ 5,589	\$ 32,687	-	0.1%
Income Notes	S&P/TSX Capped Income Trust Index	26,411	59,250	0.1%	0.2%
<b>Total</b>		<b>\$ 32,000</b>	<b>\$ 91,937</b>	<b>0.1%</b>	<b>0.3%</b>

Therefore, if each portfolio benchmark increased or decreased by 1% simultaneously, the fair value of the portfolio would increase or decrease, respectively, by approximately \$32,000 (2010: \$91,937) or 0.1% (2010: 0.3%) of net assets. This sensitivity analysis is based on the risk and return characteristics of the respective portfolio benchmarks compared to the actual Series portfolio holding calculated using regression analysis based on monthly observations and holding all other factors constant. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Statement of Net Assets – GIC Series

As at August 31

	2011	2010
<b>Assets</b>		
Short-term investments and bonds	\$ -	\$ -
Guaranteed investment certificates	833,250	670,000
Total non-venture assets	833,250	670,000
Venture investments	325,026	303,068
Total portfolio assets	1,158,276	973,068
Cash	-	-
Subscriptions receivable	139,255	109,402
Accounts receivable	-	-
Accrued interest receivable	-	-
Income and capital taxes recoverable	-	20,178
Future income tax asset [Note 7]	-	-
Inter-series receivable [Note 6(c)]	2,889	5,032
	1,300,420	1,107,680
<b>Liabilities</b>		
Accounts payable and accrued liabilities [Note 9]	9,667	7,035
Income and capital tax payable	191	-
Inter-series payable [Note 6(c)]	-	-
	9,858	7,035
<b>Net assets</b>	<b>\$ 1,290,562</b>	<b>\$ 1,100,645</b>
Shares outstanding [Note 5]	153,045	118,152
Net assets per share	\$ 8.43	\$ 9.32

See accompanying notes to financial statements.

Approved on behalf of the Board:



Director



Director

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Statement of Operations - GIC Series  
For the years ended August 31

	2011	2010
Investment income:		
Interest - short-term investments and bonds	\$ -	\$ -
Interest - GIC	6,848	1,281
Interest - venture investments	10,935	14,509
Interest - other	42	288
	<u>17,825</u>	<u>16,078</u>
Expenses:		
Management fees [Note 6(a)]	24,699	16,737
Administration fees [Note 6(a)]	24,699	16,737
Capital retention administration fee [Note 6(a)]	10,382	6,544
Service fees [Note 5]	6,222	4,290
Capital taxes	191	1,484
Other	10,894	8,193
	<u>77,087</u>	<u>53,985</u>
Net investment income (loss)	(59,262)	(37,907)
Net realized gain (loss) from:		
Sale of short-term investments and bonds	-	-
Sale of guaranteed investment certificates	-	-
Venture investments	-	(45,627)
	<u>-</u>	<u>(45,627)</u>
Change in unrealized appreciation (depreciation) of:		
Short-term investments and bonds	-	-
Guaranteed investment certificates	-	-
Venture investments	(59,203)	14,787
	<u>(59,203)</u>	<u>14,787</u>
Increase (decrease) in net assets from operations before income taxes	(118,465)	(68,747)
Provision for income taxes (expense) recoverable	(5,066)	18,297
Future income tax recovery (expense)	-	-
	<u>(5,066)</u>	<u>18,297</u>
Increase (decrease) in net assets from operations	<u>\$ (123,531)</u>	<u>\$ (50,450)</u>
Increase (decrease) in net assets from operations per share	<u>\$ (0.90)</u>	<u>\$ (0.55)</u>

See accompanying notes to financial statements.

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Statement of Changes in Net Assets - GIC Series  
For the years ended August 31

	2011	2010
Net assets, beginning of year	\$ 1,100,645	\$ 538,458
Changes during year:		
Increase (decrease) in net assets from operations	(123,531)	(50,450)
Capital transactions:		
Proceeds from issuance of Class A shares	329,056	616,086
Amounts paid for Class A shares redeemed	(15,608)	(3,449)
	313,448	612,637
Net assets, end of year	\$ 1,290,562	\$ 1,100,645

See accompanying notes to financial statements.

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Statement of Cash Flows - GIC Series  
For the years ended August 31

	2011	2010
Cash flows provided by (used for):		
Cash flows from operating activities:		
Net investment income (loss)	\$ (59,262)	\$ (37,907)
Income tax (expense) recoverable	(5,066)	18,297
Changes in non-cash operating accounts:		
Accrued interest receivable	-	-
Accounts payable and accrued liabilities	2,632	4,034
Income and capital taxes payable (receivable)	20,369	(16,813)
Inter-series payable (receivable)	(79,018)	(216,447)
Total used in operations	(120,345)	(248,836)
Cash flows from investing activities:		
Proceeds of disposition of portfolio assets		
Disposition of venture investments	-	-
Disposition of guaranteed investment certificates	2,925,000	1,970,000
Purchase of portfolio assets		
Purchase of venture investments	-	-
Purchase of guaranteed investment certificates	(3,088,250)	(2,320,000)
Total used for investing activities	(163,250)	(350,000)
Cash flows from financing activities:		
Proceeds from issuance of Class A shares	329,056	616,086
Payment on redemption of Class A shares	(15,608)	(3,449)
Subscriptions receivable	(29,853)	(13,801)
Total from financing activities	283,595	598,836
Net increase (decrease) in cash position	-	-
Cash position, beginning of year	-	-
Cash position, end of year	\$ -	\$ -

## Supplemental Cash Flow information:

Allocation of investment assets and inter-series payable (receivable) \$ 81,161 \$ (118,236)

See accompanying notes to financial statements.

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

GIC Series, as at August 31, 2011

## Discussion of Financial Risk Management (Note 4)

### Liquidity Risk

At the year end, all of the Fund's financial liabilities are due within one year. Total financial liabilities of the Series as at August 31, 2011 were \$9,667 (2010: \$7,035). In addition, as of August 31, 2011, there was \$9,879 (2010: \$3,350) in shares that were eligible for redemption without penalty. The Fund is not required to redeem all eligible shares upon request. Refer to Note 5 (Share Capital) for details regarding limitations and restrictions.

### Credit Risk

The maximum exposure to credit risk at August 31, 2011 is \$ 965,169 (2010: \$ 910,469) which represents approximately 74.8% (2010: 82.7%) of the Series' net assets. This is comprised of \$131,919 (2010: \$131,067) of venture investments, \$833,250 (2010: \$670,000) of GIC's, \$ 139,255 (2010: \$109,402) in receivables.

#### - Venture Investments:

An analysis of the fair value of venture debt investments owned by the Fund, that are past due and/or impaired as at August 31, 2011 and 2010 is as follows:

Venture Investments Debt	Impaired only		Past Due only		Past Due and Impaired		Total Past Due and/or Impaired	
	2011	2010	2011	2010	2011	2010	2011	2010
Current	\$ 2,435,531	\$ 1,500,000	\$ -	\$ -	\$ -	\$ -	\$ 2,435,531	\$ 1,500,000
Total	\$ 2,435,531	\$ 1,500,000	\$ -	\$ -	\$ -	\$ -	\$ 2,435,531	\$ 1,500,000

The Fund holds no collateral on these investments as security. Cumulative unrealized loss recorded in the valuation of the Fund's net assets for all venture debt investments is \$2.9 million (August 31, 2010: \$2.3 million). No other investments are past due or impaired at August 31, 2011.

#### - Guaranteed Investment Certificates ("GICs"):

An analysis of the credit ratings of the Series' GICs as at August 31, 2011 and 2010 is as follows:

GIC's by Credit Rating	Fair Value		Percentage of Portfolio		Percentage of Net Assets	
	2011	2010	2011	2010	2011	2010
AAA	\$ -	\$ -	-	-	-	-
AA	-	-	-	-	-	-
A	-	-	-	-	-	-
Not available	833,250	670,000	100.0%	100.0%	64.6%	60.9%
Total	\$ 833,250	\$ 670,000	100.0%	100.0%	64.6%	60.9%

These credit ratings were obtained from credit rating services. Where more than one rating exists for a short-term investment, bond or bank instrument, the lower rating has been used.

### Currency Risk

There was no exposure to foreign currencies at the year end.

### Interest Rate Risk

At August 31, 2011 the GIC portfolio comprising approximately 64.6% (2010: 60.9%) of the Series' net assets, are exposed to interest rate risk. The Manager considers the exposure to interest rate risk insignificant for GIC's as discussed in note 4(b)(iii). Further the Manager does not consider the Series' venture debt investments to be exposed to interest rate risk as discussed in note 4(b)(iii). Given the nature of the holdings, a sensitivity analysis has not been provided as it would not be considered meaningful. The following table summarises the Series' potential exposure to interest rate risk analyzed by maturity date:

GIC by maturity date	Fair Value		Percentage of portfolio		Percentage of Net Assets	
	2011	2010	2011	2010	2011	2010
Less than 1 year	\$ 833,250	\$ 670,000	100.0%	100.0%	64.6%	60.9%
Total	\$ 833,250	\$ 670,000	100.0%	100.0%	64.6%	60.9%

### Other Price Risk

As at August 31, 2011 the Series is exposed to other price risk from public venture investments. Public venture investments represent \$17,709 (2010: \$25,320) or 1.4% (2010: 2.3%) of the Series' net assets. At August 31, 2011, a 1% increase or decrease in the related portfolio benchmark would have the following increase or decrease, respectively, on the fair value of the various portfolios:

Portfolio	Benchmark	Effect on Net Assets		Percentage Effect on Net Assets	
		2011	2010	2011	2010
Venture (public only)	S&P/TSX Small Cap Index	\$ 127	\$ 717	-	0.1%
Total		\$ 127	\$ 717	-	0.1%

Therefore, if each portfolio benchmark increased or decreased by 1% simultaneously, the fair value of the portfolio would increase or decrease, respectively, by approximately \$127 (2010: \$717) or 0.0% (2010: 0.1%) of net assets. This sensitivity analysis is based on the risk and return characteristics of the respective portfolio benchmarks compared to the actual Series portfolio holding calculated using regression analysis based on monthly observations and holding all other factors constant. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Statement of Net Assets – Growth Series  
As at August 31

	2011	2010
<b>Assets</b>		
Short-term investments and bonds	\$ 3,835	\$ 45,292
Index notes	238,713	201,037
Total non-venture portfolio assets	242,548	246,329
Venture investments	537,148	427,379
Total portfolio assets	779,696	673,708
Cash	-	-
Subscriptions receivable	3,429	-
Accounts receivable	-	-
Accrued interest receivable	-	-
Income and capital taxes recoverable	-	18,649
Future income tax asset [Note 7]	-	-
Inter-series receivable [Note 6(c)]	170,380	197,379
	953,505	889,736
<b>Liabilities</b>		
Accounts payable and accrued liabilities [Note 9]	7,300	8,647
Income and capital taxes payable	163	-
Inter-series payable [Note 6(c)]	-	-
	7,463	8,647
<b>Net assets</b>	<b>\$ 946,042</b>	<b>\$ 881,089</b>
Shares outstanding [Note 5]	130,726	107,263
Net assets per share	\$ 7.24	\$ 8.21

See accompanying notes to financial statements.

Approved on behalf of the Board:



Director



Director

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Statement of Operations - Growth Series  
For the years ended August 31

	2011	2010
Investment income:		
Interest - short-term investments and bonds	\$ 115	\$ 143
Interest - venture investments	17,018	21,766
Interest - other	36	395
	<u>17,169</u>	<u>22,304</u>
Expenses:		
Management fees [Note 6(a)]	19,418	15,989
Administration fees [Note 6(a)]	19,418	15,989
Capital retention administration fee [Note 6(a)]	8,486	6,619
Service fees [Note 5]	4,850	4,010
Capital taxes	163	439
Other	8,558	8,558
	<u>60,893</u>	<u>51,604</u>
Net investment income (loss)	(43,724)	(29,300)
Net realized gain (loss) from		
Sale of short-term investments and bonds	-	-
Sale of index notes	-	-
Venture investments	-	(123,100)
	<u>-</u>	<u>(123,100)</u>
Change in unrealized appreciation (depreciation) of:		
Short-term investments and bonds	28	(5)
Index notes	13,872	15,629
Venture investments	(92,882)	81,685
	<u>(78,982)</u>	<u>97,309</u>
Increase (decrease) in net assets from operations before income taxes	(122,706)	(55,091)
Provision for income taxes (expense) recoverable	(3,916)	14,418
Future income tax recovery (expense)	-	-
	<u>(3,916)</u>	<u>14,418</u>
Increase (decrease) in net assets from operations	<u>\$ (126,622)</u>	<u>\$ (40,673)</u>
Increase (decrease) in net assets from operations per series share	<u>\$ (1.05)</u>	<u>\$ (0.43)</u>

See accompanying notes to financial statements.

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Statement of Changes in Net Assets - Growth Series  
For the years ended August 31

	2011	2010
Net assets, beginning of year	\$ 881,089	\$ 673,855
Changes during year:		
Increase (decrease) in net assets from operations	(126,622)	(40,673)
Capital transactions:		
Proceeds from issuance of Class A shares	203,457	258,378
Amounts paid for Class A shares redeemed	(11,882)	(10,471)
	191,575	247,907
Net assets, end of year	\$ 946,042	\$ 881,089

See accompanying notes to financial statements.

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Statement of Cash Flows - Growth Series  
For the years ended August 31

	2011	2010
Cash flows provided by (used for):		
Cash flows from operating activities:		
Net investment income (loss)	\$ (43,724)	\$ (29,300)
Income tax (expense) recoverable	(3,916)	14,418
Changes in non-cash operating accounts:		
Accrued interest receivable	-	-
Accounts payable and accrued liabilities	(1,347)	4,646
Income and capital taxes payable (receivable)	18,812	(13,978)
Inter-series payable (receivable)	(157,971)	(324,766)
Total used in operations	(188,146)	(348,980)
Cash flows from investing activities:		
Proceeds of disposition of portfolio assets		
Disposition of venture investments	-	-
Disposition of short-term investments and bonds	-	-
Disposition of index notes	-	-
Purchase of portfolio assets		
Purchase of venture investments	-	-
Purchase of short-term investments and bonds	-	-
Purchase of index notes	-	-
Total used for investing activities	-	-
Cash flows from financing activities:		
Proceeds from issuance of Class A shares	203,457	258,378
Payment on redemption of Class A shares	(11,882)	(10,471)
Subscriptions receivable	(3,429)	101,073
Total from financing activities	188,146	348,980
Net increase (decrease) in cash position	-	-
Cash position, beginning of year	-	-
Cash position, end of year	\$ -	\$ -
Supplemental Cash Flow information:		
Allocation of investment assets and inter-series payable (receivable)	\$ 184,970	\$ (127,941)

See accompanying notes to financial statements.

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Growth Series, as at August 31, 2011

## Discussion of Financial Risk Management (Note 4)

### Liquidity Risk

At the year end, all of the Fund's financial liabilities are due within one year. Total financial liabilities of the Series as at August 31, 2011 were \$7,300 (2010: \$8,647).

### Credit Risk

The maximum exposure to credit risk at August 31, 2011 is \$ 460,561 (2010: \$ 431,156) which represents approximately 48.7% (2010: 49.7%) of the Series' net assets. This is comprised of \$218,013 (2010: \$184,827) of venture investments, \$3,835 (2010: \$45,292) of short term investments and bonds, \$238,713 (2010: \$201,037) of index notes and \$3,429 in receivables.

#### - Venture Investments:

An analysis of the fair value of venture debt investments owned by the Fund that are past due and/or impaired as at August 31, 2011 and 2010 is as follows:

Venture Investments Debt	Impaired only		Past Due only		Past Due and Impaired		Total Past Due and/or Impaired	
	2011	2010	2011	2010	2011	2010	2011	2010
Current	\$ 2,435,531	\$ 1,500,000	\$ -	\$ -	\$ -	\$ -	\$ 2,435,531	\$ 1,500,000
Total	\$ 2,435,531	\$ 1,500,000	\$ -	\$ -	\$ -	\$ -	\$ 2,435,531	\$ 1,500,000

The Fund holds no collateral on these investments as security. Cumulative unrealized loss recorded in the valuation of the Fund's net assets for all venture debt investments is \$2.9 million (August 31, 2010: \$2.3 million). No other investments are past due or impaired at August 31, 2011.

#### - Short-term Investments and Bonds:

An analysis of the credit ratings of the Series' short-term investments, bonds and bank instruments as at August 31, 2011 and 2010 is as follows:

Short-term investments, Bonds and Bank Instruments by Credit Rating	Fair Value		Percentage of Portfolio		Percentage of Net Assets	
	2011	2010	2011	2010	2011	2010
AAA	\$ -	\$ -	-	-	-	-
AA	1,434	45,292	37.0%	100.0%	0.2%	5.1%
R1	768	-	20.0%	-	0.1%	-
Not Available	1,633	-	43.0%	-	0.2%	-
<b>Total</b>	<b>\$ 3,835</b>	<b>\$ 45,292</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.5%</b>	<b>5.1%</b>

These credit ratings were obtained from credit rating services. Where more than one rating exists for a short-term investment, bond or bank instrument, the lower rating has been used.

#### - Index Notes:

The Series' portfolio of income notes are issued by National Bank of Canada, a Canadian Schedule I bank. Given the strength and standing of this institution, Management does not perceive a significant risk of credit loss to the Series' holdings in these investments.

### Currency Risk

There was no exposure to foreign currencies at the year end.

### Interest Rate Risk

At August 31, 2011 short-term investments comprising approximately 0.5% (2010: 5.1%) of the Series' net assets, are exposed to interest rate risk. The Manager does not consider the Series' venture debt investments to be exposed to interest rate risk as discussed in note 4(b)(iii). At August 31, 2011, if market interest rates had increased or decreased by 1% with all other factors remaining constant, net assets for the Series would have increased or decreased, respectively, by approximately \$78 (2010: \$140), representing approximately 0.0% (2010: 0.02%) of the Series' net assets. In practice, actual results may differ from the sensitivity analysis, and the difference could be material. The following table summarizes the Series' exposure to interest rate risk analyzed by maturity date:

Short-term Investments and Bonds by Maturity Date Assets	Fair Value		Percentage of portfolio		Percentage of Net Assets	
	2011	2010	2011	2010	2011	2010
Less than 1 year	\$ 1,470	\$ 14,169	38.0%	31.3%	0.2%	1.6%
1-3 years	732	31,123	19.0%	68.7%	0.1%	3.5%
3-5 years	1,633	-	43.0%	-	0.2%	-
<b>Total</b>	<b>\$ 3,835</b>	<b>\$ 45,292</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.5%</b>	<b>5.1%</b>

### Other Price Risk

As at August 31, 2011 the Series is exposed to other price risk from public venture investments and index notes. Public venture investments represent \$29,267 (2010: \$35,705) or 3.1% (2010: 4.1%) of the Series' net assets. Investments in index notes represent approximately \$238,713 (2010: \$201,037) or 25.2% (2010: 23.2%) of the Series' net assets. At August 31, 2011, a 1% increase or decrease in the related portfolio benchmark would have the following increase or decrease, respectively, on the fair value of the various portfolios:

Portfolio	Benchmark	Effect on Net Assets		Percentage effect on Net Assets	
		2011	2010	2011	2010
Venture (public only)	S&P/TSX Small Cap Index	\$ 210	\$ 1,010	-	0.1%
Index Notes	S&P/TSX 60 Capped Total Return Index	1,683	2,011	0.2%	0.2%
<b>Total</b>		<b>\$ 1,893</b>	<b>\$ 3,021</b>	<b>0.2%</b>	<b>0.3%</b>

Therefore, if each portfolio benchmark increased or decreased by 1% simultaneously, the fair value of the portfolio would increase or decrease, respectively, by approximately \$1,893 (2010: \$3,021) or 0.2% (2010: 0.3%) of net assets. This sensitivity analysis is based on the risk and return characteristics of the respective portfolio benchmarks compared to the actual Series portfolio holding calculated using regression analysis based on monthly observations and holding all other factors constant. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Statement of Net Assets – Financial Services Series

As at August 31

	2011	2010
<b>Assets</b>		
Short-term investments and bonds	\$ 5,715	\$ 71,407
Index notes	405,693	362,694
Total non-venture portfolio assets	411,408	434,101
Venture investments	800,472	673,800
Total portfolio assets	1,211,880	1,107,901
Cash	-	-
Accounts receivable	-	-
Accrued interest receivable	-	-
Subscriptions receivable	46,632	46,632
Income and capital taxes recoverable	-	34,300
Future income tax asset [Note 7]	-	-
Inter-series receivable [Note 6(c)]	152,995	204,349
	1,411,507	1,393,182
<b>Liabilities</b>		
Accounts payable and accrued liabilities [Note 9]	10,892	9,236
Income and capital taxes recoverable	243	-
Inter-series payable [Note 6(c)]	-	-
	11,135	9,236
<b>Net assets</b>	<b>\$ 1,400,372</b>	<b>\$ 1,383,946</b>
Shares outstanding [Note 5]	194,812	169,110
Net assets per share	\$ 7.19	\$ 8.18

See accompanying notes to financial statements.

Approved on behalf of the Board:



Director



Director

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Statement of Operations – Financial Services Series  
For the years ended August 31

	2011	2010
Investment income:		
Interest - short-term investments and bonds	\$ 179	\$ 239
Interest - index notes	-	-
Interest - venture investments	25,805	37,056
Interest - other	54	717
	<u>26,038</u>	<u>38,012</u>
Expenses:		
Management fees [Note 6(a)]	29,446	27,671
Administration fees [Note 6(a)]	29,446	27,671
Capital retention administration fee [Note 6(a)]	13,281	11,605
Service fees [Note 5]	7,385	6,939
Capital taxes	243	543
Other	12,926	15,048
	<u>92,727</u>	<u>89,477</u>
Net investment income (loss)	(66,689)	(51,465)
Net realized gain (loss) from		
Sale of short-term investments and bonds	-	(1)
Sale of index notes	-	-
Venture investments	-	(194,563)
	<u>-</u>	<u>(194,564)</u>
Change in unrealized appreciation (depreciation) of:		
Short-term investments and bonds	42	(9)
Index notes	20,912	(2,656)
Venture investments	(139,816)	130,033
	<u>(118,862)</u>	<u>127,368</u>
Increase (decrease) in net assets from operations before income taxes	(185,551)	(118,661)
Provision for income taxes (expense) recoverable	(6,883)	25,494
Future income tax recovery (expense)	-	-
	<u>(6,883)</u>	<u>25,494</u>
Increase (decrease) in net assets from operations	<u>\$ (192,434)</u>	<u>\$ (93,167)</u>
Increase (decrease) in net assets from operations per share	<u>\$ (1.05)</u>	<u>\$ (0.58)</u>

See accompanying notes to financial statements.

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Statement of Changes in Net Assets – Financial Services Series  
For the years ended August 31

	2011	2010
Net assets, beginning of year	\$ 1,383,946	\$ 1,302,644
Changes during year:		
Increase (decrease) in net assets from operations	(192,434)	(93,167)
Capital transactions:		
Proceeds from issuance of Class A shares	213,986	180,090
Amounts paid for Class A shares redeemed	(5,126)	(5,621)
	208,860	174,469
Net assets, end of year	\$ 1,400,372	\$ 1,383,946

See accompanying notes to financial statements.

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Statement of Cash Flows - Financial Services Series  
For the years ended August 31

	2011	2010
Cash flows provided by (used for):		
Cash flows from operating activities:		
Net investment income (loss)	\$ (66,689)	\$ (51,465)
Income tax (expense) recoverable	(6,883)	25,494
Changes in non-cash operating accounts:		
Accrued interest receivable	-	-
Accounts payable and accrued liabilities	1,656	987
Income and capital taxes payable (receivable)	34,543	(24,950)
Future income taxes payable (receivable)	-	-
Inter-series payable (receivable)	(171,487)	(175,293)
Total used in operations	(208,860)	(225,227)
Cash flows from investing activities:		
Proceeds of disposition of portfolio assets		
Disposition of venture investments	-	-
Disposition of short-term investments and bonds	-	-
Disposition of index notes	-	-
Purchase of portfolio assets		
Purchase of venture investments	-	-
Purchase of short-term investments and bonds	-	-
Purchase of index notes	-	-
Total used for investing activities	-	-
Cash flows from financing activities:		
Proceeds from issuance of Class A shares	213,986	180,090
Payment on redemption of Class A shares	(5,126)	(5,621)
Subscriptions receivable	-	50,758
Total from financing activities	208,860	225,227
Net increase (decrease) in cash position	-	-
Cash position, beginning of year	-	-
Cash position, end of year	\$ -	\$ -
Supplemental Cash Flow information:		
Allocation of investment assets and inter-series payable (receivable)	\$ 222,841	\$ (76,971)

See accompanying notes to financial statements.

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Financial Services Series, as at August 31, 2011

## Discussion of Financial Risk Management (Note 4)

### Liquidity Risk

At the year end, all of the Fund's financial liabilities are due within one year. Total financial liabilities of the Series as at August 31, 2011 were \$10,892 (2010: \$9,236). In addition, as of August 31, 2011, there was \$2,381 (2010: \$1,180) in shares that were eligible for redemption without penalty. The Fund is not required to redeem all eligible shares upon request. Refer to Note 5 (Share Capital) for details regarding limitations and restrictions.

### Credit Risk

The maximum exposure to credit risk at August 31, 2011 is \$ 736,297 (2010: \$ 772,129) which represents approximately 52.6% (2010: 56.8%) of the Series' net assets. This is comprised of \$324,889 (2010: \$291,396) of venture investments, \$5,715 (2010: \$71,407) of short term investments and bonds, \$405,693 (2010: \$362,694) of index notes and \$46,632 (2010: \$46,632) in receivables.

#### - Venture Investments:

An analysis of the fair value of venture debt investments owned by the Fund that are past due and/or impaired as at August 31, 2011 and 2010 is as follows:

Venture Investments Debt	Impaired only		Past Due only		Past Due and Impaired		Total Past Due and/or Impaired	
	2011	2010	2011	2010	2011	2010	2011	2010
Current	\$ 2,435,531	\$ 1,500,000	\$ -	\$ -	\$ -	\$ -	\$ 2,435,531	\$ 1,500,000
Total	\$ 2,435,531	\$ 1,500,000	\$ -	\$ -	\$ -	\$ -	\$ 2,435,531	\$ 1,500,000

The Fund holds no collateral on these investments as security. Cumulative unrealized loss recorded in the valuation of the Fund's net assets for all venture debt investments is \$2.9 million (August 31, 2010: \$2.3 million). No other investments are past due or impaired at August 31, 2011.

#### - Short-term Investments and Bonds

An analysis of the credit ratings of the Series' short-term investments, bonds and bank instruments as at August 31, 2011 and 2010 is as follows:

Short-term Investments, Bonds and Bank Instruments by Credit Rating	Fair Value		Percentage of Portfolio		Percentage of Net Assets	
	2011	2010	2011	2010	2011	2010
AAA	\$ -	\$ -	-	-	-	-
AA	2,137	71,407	37.0%	100.0%	0.2%	5.1%
R1	1,144	-	20.0%	-	0.1%	-
Not Available	2,434	-	43.0%	-	0.2%	-
Total	\$ 5,715	\$ 71,407	100.0%	100.0%	0.5%	5.1%

These credit ratings were obtained from credit rating services. Where more than one rating exists for a short-term investment, bond or bank instrument, the lower rating has been used.

#### - Index Notes:

The Series' portfolio of income notes are issued by National Bank of Canada, a Canadian Schedule I bank. Given the strength and standing of this institution, Management does not perceive a significant risk of credit loss to the Series' holdings in these investments.

### Currency Risk

There was no exposure to foreign currencies at the year end.

### Interest Rate Risk

At August 31, 2011 short-term investments and bonds comprising approximately 0.5% (2010: 5.1%) of the Series' net assets, are exposed to interest rate risk. The Manager does not consider the Series' venture debt investments to be exposed to interest rate risk as discussed in note 4(b)(iii). At August 31, 2011, if market interest rates had increased or decreased by 1% with all other factors remaining constant, net assets for the Series would have increased or decreased, respectively, by approximately \$117 (2010: \$220), representing approximately 0.0% (2010: 0.02%) of the Series' net assets. In practice, actual results may differ from the sensitivity analysis, and the difference could be material. The following table summarizes the Series' exposure to interest rate risk analyzed by maturity date:

Short-term Investments by maturity date	Fair Value		Percentage of portfolio		Percentage of Net Assets	
	2011	2010	2011	2010	2011	2010
Less than 1 year	\$ 2,190	\$ 22,338	38.0%	31.3%	0.2%	1.6%
1 -3 years	1,091	49,069	19.0%	68.7%	0.1%	3.5%
3 - 5 years	2,434	-	43.0%	-	0.2%	-
Total	\$ 5,715	\$ 71,407	100.0%	100.0%	0.5%	5.1%

### Other Price Risk

As at August 31, 2011 the Series is exposed to other price risk from public venture investments and index notes. Public venture investments represent \$43,614 (2010: \$9,064) or 3.1% (2010: 0.7%) of the Series' net assets. Investments in index notes represent approximately \$405,693 (2010: \$362,694) or 29.0% (2010: 26.7%) of the Series' net assets. At August 31, 2011, a 1% increase or decrease in the related portfolio benchmark would have the following increase or decrease, respectively, on the fair value of the various portfolios:

Portfolio	Benchmark	Effect on Net Assets		Percentage effect on Net Assets	
		2011	2010	2011	2010
Venture (public only)	S&P/TSX Small Cap Index	\$ 312	\$ 73	-	-
Index Notes	S&P/TSX Capped Financial Services	2,860	3,554	0.2%	0.3%
Total		\$ 3,172	\$ 3,627	0.2%	0.3%

Therefore, if each portfolio benchmark increased or decreased by 1% simultaneously, the fair value of the portfolio would increase or decrease, respectively, by approximately \$3,172 (2010: \$3,627) or 0.2% (2010: 0.3%) of net assets. This sensitivity analysis is based on the risk and return characteristics of the respective portfolio benchmarks compared to the actual Series portfolio holding calculated using regression analysis based on monthly observations and holding all other factors constant. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Statement of Investment Portfolio

Venture Investments – Balanced Series, GIC Series, Growth Series, and Financial Services Series

As at August 31, 2011

VENTURE INVESTMENTS	Number of	Debt	Equity	Percentage	
Investee Companies	shares or	at cost	at cost	of total	
	par value (\$)			net assets	
<b>Information Technology:</b>					
Anyware Group Inc.,					
convertible debenture					
- 10.00%, Jan. 15, 2012	1,000,000	\$ 1,000,000	\$ -	\$ 1,000,000	
- 12.00%, Jan. 15, 2012	500,000	500,000	-	500,000	
- 13.33%, Jan. 15, 2012	499,500	499,500	-	499,500	
- 6.00%, Jan. 15, 2012	702,500	702,500	-	702,500	
Azorus Inc.,					
- demand note 10.00% on demand	200,000	200,000	-	200,000	
- preferred shares C 8.00%, on demand	291,666	-	350,000	350,000	
- preferred shares 8.00%, on demand	313,546	-	352,740	352,740	
- preferred shares G	1,130,700	-	644,499	644,499	
- preferred shares A	999,932	-	899,940	899,940	
- preferred shares D	495,472	-	371,604	371,604	
- preferred shares F	361,902	-	325,712	325,712	
Clear Risk Inc.,					
- preferred shares B	401,606	-	1,000,000	1,000,000	
Impath Networks Canada Corporation,					
- preferred shares	3,571,428	-	1,500,000	1,500,000	
Inocom Inc., common shares					
	81,667	-	61,250	61,250	
Lymbix Inc.,					
convertible debenture					
- 12.00%, Mar 31, 2014	1,350,000	1,350,000	-	1,350,000	
Sampling Technologies Inc.,					
convertible debenture					
- 10.00%, Jan. 13, 2013	2,000,000	2,000,000	-	2,000,000	
SG5 Innovation Inc.,					
- preferred shares	362,500	-	400,000	400,000	
- convertible debenture, 16.00%, due on demand	500,000	500,000	-	500,000	
Virtual Expert Clinics Inc.,					
convertible debenture,					
- 10.00%, due on demand	575,000	575,000	-	575,000	
- 13.00%, Mar. 23, 2013	500,000	500,000	-	500,000	
- 13.00%, due on demand	600,000	600,000	-	600,000	
- 13.00%, Dec. 15, 2011	700,000	700,000	-	700,000	
- 16.00%, due on demand	625,000	625,000	-	625,000	
Virtual Marine Technology Inc.,					
- class A preferred shares	58,470	-	1,100,000	1,100,000	
- class B preferred shares	57,601	-	750,000	750,000	
<b>Total Information Technology</b>		<b>\$ 9,752,000</b>	<b>\$ 7,755,745</b>	<b>\$17,507,745</b>	<b>60.7%</b>
<b>Entertainment and Tourism:</b>					
DHX Media Ltd., common shares	237,837	\$ -	\$ 440,000	\$ 440,000	
<b>Total Entertainment and Tourism</b>		<b>\$ -</b>	<b>\$ 440,000</b>	<b>\$ 440,000</b>	<b>1.5%</b>

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Statement of Investment Portfolio (continued)

Venture Investments – Balanced Series, GIC Series, Growth Series, and Financial Services Series

As at August 31, 2011

VENTURE INVESTMENTS	Number of shares or par value (\$)	Debt at cost	Equity at cost	Total	Percentage of total net assets
Investee Companies					
<b>Biotechnology:</b>					
Origin Biomed Inc.,					
- preferred shares	1,241,379	\$ -	\$ 1,800,000	\$ 1,800,000	
- convertible debt 15.00% Feb. 26, 2013	250,000	250,000	-	250,000	
- convertible debt 15.00% on demand	12,594,458	500,000		500,000	
- common shares	302,674	-	-	-	
Spectral Diagnostics Inc.					
- common shares	3,125,000	-	1,250,000	1,250,000	
<b>Total Biotechnology</b>		<b>\$ 750,000</b>	<b>\$ 3,050,000</b>	<b>\$ 3,800,000</b>	<b>13.2%</b>
<b>Others:</b>					
Coast to Coast Publishing Inc.					
- class B common shares	125,000	\$ -	\$ 125,000	\$ 125,000	
- convertible debentures, 14.00%, Jun. 1, 2013	242,997	242,997	-	242,997	
Neuroquest					
- common shares	1,241,379	-	-	-	
<b>Total Others</b>		<b>\$ 242,997</b>	<b>\$ 125,000</b>	<b>\$ 367,997</b>	<b>1.3%</b>
<b>Total venture investments, at cost</b>		<b>\$10,744,997</b>	<b>\$ 11,370,745</b>	<b>\$ 22,115,742</b>	<b>76.7%</b>
Unrealized appreciation (depreciation) of venture investments				(6,136,461)	
<b>Venture investments, at estimated fair value</b>				<b>\$ 15,979,281</b>	<b>55.4%</b>
<b>Venture Investments, per Series:</b>					
				<b>Fair Value</b>	
Balanced				\$ 14,316,635	
GIC				325,026	
Growth				537,148	
Financial services				800,472	
				<b>\$ 15,979,281</b>	

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Statement of Investment Portfolio (continued)

Venture Investments – Balanced Series, GIC Series, Growth Series, and Financial Services Series

As at August 31, 2011

Stage of Development	Number of investee companies	Cost (\$)	Percentage of venture investments at cost (%)	Fair value (\$)	Percentage of venture investments at fair value (%)
Early stage	10	17,257,744	78.0%	12,282,995	76.9%
Expansion	5	4,857,998	22.0%	3,696,286	23.1%
	15	22,115,742	100.0%	15,979,281	100.0%

Sector	Number of investee companies	Cost (\$)	Percentage of venture investments at cost (%)	Fair value (\$)	Percentage of venture investments at fair value (%)
Information technology	10	17,507,744	79.2%	13,095,495	82.0%
Entertainment, Tourism & Other	3	807,998	3.6%	183,134	1.1%
Biotechnology	2	3,800,000	17.2%	2,700,652	16.9%
	15	22,115,742	100.0%	15,979,281	100.0%

Portfolio Holdings	Number of investee companies	Cost (\$)	Percentage of venture investments at cost (%)	Fair value (\$)	Percentage of venture investments at fair value (%)
Public	2	1,690,000	7.6%	\$ 870,635	5.5%
Private	13	20,425,742	92.4%	15,108,646	94.5%
	15	22,115,742	100.0%	\$ 15,979,281	100.0%

See accompanying notes to financial statements.

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Statement of Investment Portfolio (continued)

Short-term Investments, Bonds, Bank Instruments, Income notes, Index Notes, and GICs

– Balanced Series, GIC Series, Growth Series, and Financial Services Series

As at August 31, 2011

	Interest Rate	Maturity date	Par value	Cost	Fair value	Percentage of net assets
<b>Bonds <sup>(1)</sup></b>						
Bank of Montreal	5.20%	21-Jun-12	\$ 314,000	\$ 322,244	\$ 322,503	
CIBC	5.15%	6-Jun-13	319,000	333,179	336,119	
			\$ 633,000	\$ 655,423	\$ 658,622	
<b>Corporate Notes <sup>(1)</sup></b>						
Plazacorp Retail Properties Ltd.	7.50%	31-Mar-15	\$ 750,000	\$ 750,000	\$ 750,000	
			\$ 750,000	\$ 750,000	\$ 750,000	
<b>Total Bonds and Corporate Notes</b>			\$ 1,383,000	\$ 1,405,423	\$ 1,408,622	4.9%
<b>Bankers' Acceptances</b>						
Royal Bank <sup>(2)</sup>		11-Sep-11	\$ 112,000	\$ 111,117	\$ 111,763	
TD Bank <sup>(1)</sup>		10-Nov-11	241,000	240,710	240,679	
<b>Total Bankers' Acceptances</b>			\$ 353,000	\$ 351,827	\$ 352,442	1.2%
<b>Bank Instruments <sup>(1)</sup></b>						
TD Bank	5.14%	19-Nov-12	\$ 685,000	\$ 706,904	\$ 715,038	
Royal Bank	4.97%	06-May-14	880,000	922,051	949,170	
Bank of Nova Scotia	5.25%	11-Jan-17	500,000	513,975	520,196	
<b>Total Bank Instruments</b>			\$ 2,065,000	\$ 2,142,930	\$ 2,184,404	7.6%
<b>Income notes <sup>(1)</sup></b>						
National Bank of Canada Income Note	7.60%	16-Feb-23	\$ 5,000,000	\$ 4,990,054	\$ 4,834,842	
			5,000,000	4,990,054	4,834,842	16.8%
<b>Index Notes</b>						
National Bank of Canada Index notes-60 Capped <sup>(3)</sup>		31-Jul-16	\$ 208,805	\$ 208,805	\$ 238,713	
National Bank of Canada Index notes-Capped Financials <sup>(4)</sup>		31-Jul-16	372,087	372,087	405,693	
<b>Total Index Notes</b>			\$ 580,892	\$ 580,892	\$ 644,406	2.2%
<b>Guaranteed Investment Certificates <sup>(5)</sup></b>						
Royal Bank	1.00%	27-Nov-11	\$ 833,250	\$ 833,250	\$ 833,250	
			\$ 833,250	\$ 833,250	\$ 833,250	2.9%
<b>Short-term investments, bonds, bank instruments, income notes, index notes, and GIC's at cost</b>			<b>10,215,142</b>	<b>10,304,376</b>	<b>10,257,966</b>	<b>35.6%</b>
Unrealized appreciation of bonds				3,198		
Unrealized depreciation of short-term investments				615		
Unrealized appreciation of bank instruments				41,475		
Unrealized depreciation of income notes				(155,212)		
Unrealized appreciation of index notes				63,514		
Short-term investments, bonds, bank instruments, income notes, index notes, and GIC's – at estimated fair value				<u>10,257,966</u>		

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Statement of Investment Portfolio (continued)

Short-term Investments, Bonds, Bank Instruments, Income notes, Index Notes and GICs

– Balanced Series, GIC Series, Growth Series, and Financial Services Series

As at August 31, 2011

	Par value (\$)	Cost (\$)	Fair value (\$)	Percentage of net assets
<b>Short-term investments, bonds, bank instruments, income notes, index notes and GIC's per series:</b>				
Balanced		8,770,760		
GIC		833,250		
Growth		242,548		
Financial Services		411,408		
		10,257,966		

See accompanying notes to financial statements.

(1) Held by Balanced Series only

(2) Held by Balanced Series, Growth Series, and Financial Services Series

(3) Held by Growth Series only

(4) Held by Financial Services Series only

(5) Held by GIC Series only

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Notes to the Financial Statements

For the years ended August 31, 2011 and 2010

---

## 1. CORPORATE STATUS, ACTIVITIES AND MANAGEMENT

---

GrowthWorks Atlantic Venture Fund Ltd. (the "Fund") was incorporated under the Canada Business Corporations Act on November 16, 2004. The Fund is registered as a labour-sponsored venture capital corporation under the *Income Tax Act* (Canada), the *Equity Tax Credit Act* (Nova Scotia) (the "Nova Scotia Act") and the *Labour-Sponsored Venture Capital Tax Credit Act* (Newfoundland and Labrador) (the "Newfoundland and Labrador Act") and, for particular tax years is a prescribed registered labour-sponsored venture capital corporation under the *New Brunswick Income Tax Act* (the "New Brunswick Act"), which allows individuals resident in those provinces to obtain federal and provincial tax credits in connection with an investment in Class A Shares of the Fund.

The Fund offers different series of Class A Shares (the "Series"), each constituting a separate investment fund under applicable securities laws. The Fund currently offers Series 6 ("GIC Series"), Series 7 ("Balanced Series"), Series 8 ("Growth Series"), and Series 9 ("Financial Services Series"). The Fund previously offered Series 1 ("Original Balanced Series"), Series 2 ("05 Commercialization Series"), Series 3 ("06 Commercialization Series"), Series 4 ("07 Commercialization Series") and Series 10 ("Diversified Series"), each of which has merged into the Balanced Series (Note 8). The Fund created but never offered Series 5 ("08 Commercialization Series"). The Fund may offer or otherwise issue additional series of Class A Shares in the future. Each of these share series currently or previously offered is referred to as a "Series", and collectively all Series are referred to as "Class A Shares".

On December 17, 2010, the Diversified Series shares were consolidated into the Balanced Series shares in accordance with shareholder approval received at the Fund's annual general meeting on December 3, 2010.

The Fund's investment objective is to achieve long term capital appreciation by investing in a mix of venture investments and non-venture investments.

GrowthWorks Atlantic Ltd. is the Manager of the Fund (the "Manager"). The Fund, under a management agreement, pays the Manager certain management and administration fees (Note 6).

These financial statements should be read in conjunction with the management reports of fund performance of the respective series of the Fund for the year ended August 31, 2011, which may be found on the Fund's website at <http://www.growthworks.ca/funds/atlantic-provinces/gw-atlantic-venture-fund/publications.asp> and at [www.sedar.com](http://www.sedar.com).

---

## 2. SIGNIFICANT ACCOUNTING POLICIES

---

### a) Basis of presentation

These financial statements are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), including Accounting Guideline 18, Investment Companies.

### b) Venture investments

Venture investments are recorded at estimated fair value. Fair value is the value that would be agreed upon between knowledgeable and willing parties dealing at arm's length without constraint. Investment transactions are accounted for on a trade date basis. Changes in unrealized appreciation or depreciation of venture investments, the differences between fair value and cost of these investments, are recorded in results of operations.

#### i) Publicly-traded

Venture investments having quoted market values that are publicly traded on a recognized stock exchange are recorded at values based on the closing bid quotations.

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Notes to the Financial Statements

For the years ended August 31, 2011 and 2010

---

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

---

### ii) Privately-owned

New venture investments in securities not having quoted market values are initially recorded at cost, generally for one year, and thereafter at estimated fair value. Estimated fair value is determined on the basis of generally accepted valuation methods which best and most objectively reflect the expected realizable value that would be agreed upon in an open and unrestricted market between fully informed, knowledgeable and willing parties dealing at arm's length and without constraints. If there is a recent significant arm's length, bona fide, enforceable offer or transaction with respect to an investment, values used in such an offer or transaction will be used in the valuation of the investment.

The process of valuing venture investments for which no public market exists is based on inherent uncertainties, and the resulting values may differ from values that would have been used had a ready market existed for the venture investments. These differences could be material to the fair value of the Fund's venture investment portfolio.

The Fund's prospectus sets out the policies, procedures and methodologies that have been adopted and approved by the Audit and Valuation Committee of the Board of Directors for determining fair value.

### c) **Short-term investments and bonds, income notes, index notes, bank instruments and guaranteed investment certificates ("GICs")**

New purchases and sales of short-term investments and bonds, income notes, index notes, bank instruments and GICs are recorded on a trade-date basis, and are subsequently valued on the basis of bid quotations. The difference between the fair value and cost is recorded as an unrealized appreciation (depreciation) of short-term investments and bonds, income notes, index notes, bank instruments or GICs as applicable. Each Series holds investments in one or more of these categories based on the investment strategy of that Series, as follows:

Balanced Series - Bonds and deposits, income notes and bank instruments

GIC Series – GICs

Growth Series - Bonds and deposits and index notes

Financial Services Series - Bonds and deposits and index notes

### d) **Income recognition**

Interest from investments is recorded on an accrual basis. Interest income includes accretion of discounts and amortization of premiums on debt securities. Realized gains and losses arising from the sale of investments are determined using the weighted average cost basis and are recorded in each Series' Statement of Operations.

### e) **Income taxes**

Income taxes are recorded using the asset and liability method of accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are recognized for the future consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability is settled. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized. The effect on future income tax assets and liabilities of a change in tax rates is recognized in operations in the period that enactment or substantive enactment occurs.

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Notes to the Financial Statements

For the years ended August 31, 2011 and 2010

---

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

---

The Fund files an income tax return that encompasses all Series. Income taxes recorded within each Series' financial statements are determined on an individual Series basis as if each Series were filing a separate income tax return. Where a Series utilizes tax deductions of another Series, the transfer of these tax deductions may be reflected in each Series' statement of operations within income tax expense or recovery, as appropriate, and in each Series' statement of net assets as an inter-series receivable or payable.

### f) Per share values

Net assets per share is calculated based on the number of shares outstanding at the period end. Increase (decrease) in net assets from operations per series share is calculated based on the weighted-average number of shares of the respective series outstanding during the period. While net assets for financial reporting purposes of some investment funds differ from net asset value (NAV) used to transact share sales and redemptions, in the Fund's current situation, net assets and NAV are the same.

### g) Use of estimates

The preparation of financial statements in accordance with Canadian GAAP requires estimates and assumptions that affect the reported amount of certain assets and liabilities at the date of these financial statements and the reported amounts of certain revenue and expenses during the period.

Areas requiring the use of significant management estimates include estimations of the fair value of investments, including assessments of the financial condition of investees that might indicate a change in value of a particular investment. Assumptions underlying investment valuations are limited by the availability of reliable data and the uncertainty of predictions concerning future events. Accordingly, investment valuations include a subjective element. Financial results as determined by actual events could differ from those estimates and assumptions, and the difference could be material.

### h) Financial instruments

The Series' financial instruments may consist of cash, receivables, short-term investments, bonds, bank instruments, index notes, income notes, GICs, venture investments and accounts payable and accrued liabilities.

The estimated fair values of cash, receivables, and accounts payable and accrued liabilities approximate carrying values due to the relatively short-term nature of the instruments. Short-term investments, bonds, bank instruments, index notes, income notes, GICs and venture investments are carried at estimated fair value in accordance with the valuation methodologies set out above, and in accordance with Section 3855 "Financial Instruments – Recognition and Measurement" and Accounting Guideline 18 "Investment Companies" of the Handbook of the Canadian Institute of Chartered Accountants.

### i) IPA Dividends and contingent incentive participation amounts

Incentive participation dividends ("IPA Dividends") and contingent incentive participation dividends on Class C Shares are recorded and expensed in the statement of operations on an accrual basis. IPA Dividends are accrued weekly, but only payable quarterly, when certain conditions are met (see Note 5). Provision for contingent incentive participation dividends, if any, is recognized based on the assumption that all of the venture investments are liquidated at their estimated fair value as at the date of the financial statements. To the extent that unrealized gains decline or realized, the related contingent incentive participation dividend will be adjusted.

### j) Comparative figures

Certain comparative figures have been reclassified to conform to the classification adopted in the current period.

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Notes to the Financial Statements

For the years ended August 31, 2011 and 2010

---

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

---

### k) Current or Future accounting changes

The Accounting Standards Board (“AcSB”) published amendments to the Handbook on October 1, 2010 that provided a one-year deferral of the transition to IFRS for investment companies like the Fund. However, the AcSB issued subsequent amendments to the Handbook in March 2011, providing a two-year deferral of the changeover date to January 1, 2013. The deferral of the mandatory changeover from January 1, 2011 to January 1, 2013 is intended to allow the IASB’s proposed exemption from consolidation (*Accounting Standard 27 Consolidated and Separate Financial Statements (IAS 27)*) for investment companies to be in place prior to adoption of IFRS by investment companies in Canada. If adopted, this would make *IAS 27* largely consistent with current Accounting Guideline 18 *Investment Companies*.

The identification and review of major differences from existing accounting policies, new IFRS accounting policies and exemptions, and the preparation of appropriate disclosures in the Fund’s IFRS financial statements is substantially complete.

As at August 31, 2011, the Manager expects that the impact of adopting IFRS will not impact measurement, but will be mainly in presentation and additional disclosure requirements in the financial statements of the Fund. Based upon the current deferral, the Fund would commence IFRS effective September 1, 2013 for its annual and interim financial statements, including comparative figures for the preceding year.

## 3. ALLOCATION OF INVESTMENT PORTFOLIO

---

The Balanced Series, GIC Series, Growth Series, and Financial Services Series participate in shared portfolios of venture and short-term investments. Each Series is allocated its share of the venture portfolio on a proportionate basis unless otherwise provided for in the Series’ investment strategy.

The Balanced Series may hold National Bank of Canada issued Income Notes as part of their non-venture portfolios. The GIC Series’ non-venture investment portfolio consists entirely of GICs. The Growth Series and Financial Services Series may hold National Bank of Canada issued Index Notes.

Realized and unrealized gains/losses and interest income arising from the Series’ venture portfolio are allocated to each Series based on the respective Series’ proportionate share in the venture portfolio.

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Notes to the Financial Statements

For the years ended August 31, 2011 and 2010

## 4. FINANCIAL RISK MANAGEMENT

The following is a summary of the financial asset and liability classifications as at August 31, 2011 and 2010:

	Balanced Series		GIC Series		Growth Series		Financial Services Series	
	2011	2010	2011	2010	2011	2010	2011	2010
<b>Assets</b>								
Held for trading	\$ 23,665,635	\$ 26,756,238	\$ 1,158,276	\$ 973,068	\$ 779,696	\$ 673,708	\$ 1,211,880	\$ 1,107,901
Loans and receivables	2,349,045	2,129,203	142,144	134,612	173,809	216,028	199,627	285,281
<i>Total financial assets</i>	<i>\$ 26,014,680</i>	<i>\$ 28,885,441</i>	<i>\$ 1,300,420</i>	<i>\$ 1,107,680</i>	<i>\$ 953,505</i>	<i>\$ 889,736</i>	<i>\$ 1,411,507</i>	<i>\$ 1,393,182</i>
<b>Liabilities</b>								
Held for trading	-	-	-	-	-	-	-	-
Financial liabilities	804,122	905,810	9,667	7,035	7,300	8,647	10,892	9,236
<i>Total financial liabilities</i>	<i>\$ 804,122</i>	<i>\$ 905,810</i>	<i>\$ 9,667</i>	<i>\$ 7,035</i>	<i>\$ 7,300</i>	<i>\$ 8,647</i>	<i>\$ 10,892</i>	<i>\$ 9,236</i>

The Fund uses a three-tier hierarchy as a framework for disclosing fair value of investments based on inputs used to value the Fund's investments. The fair value measurements are classified into three levels as follows:

- (1) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- (2) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- (3) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following is a summary of the inputs used as of August 31, 2011 and 2010 in valuing the Fund's investments carried at fair values:

As at August 31, 2011

<b>Quoted prices in active markets for identical assets (Level 1):</b>	Balanced Series*	GIC Series	Growth Series	Financial Services Series	TOTAL
Short-term investments & bonds	\$ 1,751,514	\$ -	\$ 3,835	\$ 5,715	\$ 1,761,064
Bank securities	2,184,404	-	-	-	2,184,404
Income notes	4,834,842	-	-	-	4,834,842
Index notes	-	-	-	-	-
GICs	-	833,250	-	-	833,250
Venture Investments	780,045	17,709	29,267	43,614	870,635
<i>Total Investments (Level 1)</i>	<i>\$ 9,550,805</i>	<i>\$ 850,959</i>	<i>\$ 33,102</i>	<i>\$ 49,329</i>	<i>\$ 10,484,195</i>

<b>Significant other observable inputs (Level 2):</b>	Balanced Series*	GIC Series	Growth Series	Financial Services Series	TOTAL
Short-term investments & bonds	\$ -	\$ -	\$ -	\$ -	\$ -
Bank securities	-	-	-	-	-
Index notes	-	-	238,713	405,693	644,406
Income notes	-	-	-	-	-
GICs	-	-	-	-	-
Venture Investments	-	-	-	-	-
<i>Total Investments (Level 2)</i>	<i>\$ -</i>	<i>\$ -</i>	<i>\$ 238,713</i>	<i>\$ 405,693</i>	<i>\$ 644,406</i>

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Notes to the Financial Statements

For the years ended August 31, 2011 and 2010

## 4. FINANCIAL RISK MANAGEMENT (continued)

<b>Significant unobservable inputs (Level 3):</b>	Balanced Series*	GIC Series	Growth Series	Financial Services Series	Diversified Series	TOTAL
Short-term investments & bonds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Bank securities	-	-	-	-	-	-
Income notes	-	-	-	-	-	-
Index notes	-	-	-	-	-	-
GICs	-	-	-	-	-	-
Venture Investments	13,536,590	307,317	507,881	756,858	-	15,108,646
<b>Total Investments (Level 3)</b>	<b>\$ 13,536,590</b>	<b>\$ 307,317</b>	<b>\$ 507,881</b>	<b>\$ 756,858</b>	<b>\$ -</b>	<b>\$ 15,108,646</b>
<b>Total Investments (all levels)</b>	<b>\$ 23,087,395</b>	<b>\$ 1,158,276</b>	<b>\$ 779,696</b>	<b>\$ 1,211,880</b>	<b>\$ -</b>	<b>\$ 26,237,247</b>

\*The Diversified Series consolidated with the Balanced Series on December 17, 2010 as discussed in Note 8

As at August 31, 2010

<b>Quoted prices in active markets for identical assets (Level 1):</b>	Balanced Series	GIC Series	Growth Series	Financial Services Series	Diversified Series (note 8)	Total
Short-term investments & bonds	\$ 4,441,900	\$ -	\$ 45,292	\$ 71,407	\$ 16,104	\$ 4,574,703
Bank instruments	3,191,720	-	-	-	-	3,191,720
Income notes	4,172,501	-	-	-	23,433	4,195,934
Index notes	-	-	-	-	-	-
GICs	-	670,000	-	-	-	670,000
Venture Investments	1,155,031	25,320	35,705	56,292	12,695	1,285,043
<b>Total Investments (Level 1)</b>	<b>\$ 12,961,152</b>	<b>\$ 695,320</b>	<b>\$ 80,997</b>	<b>\$ 127,699</b>	<b>\$ 52,232</b>	<b>\$ 13,917,400</b>

<b>Significant other observable inputs (Level 2):</b>	Balanced Series	GIC Series	Growth Series	Financial Services Series	Diversified Series (note 8)	Total
Short-term investments & bonds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Bank instruments	-	-	-	-	-	-
Income notes	-	-	-	-	-	-
Index notes	-	-	201,037	362,694	42,459	606,190
GICs	-	-	-	-	-	-
Venture Investments	-	-	-	-	-	-
<b>Total Investments (Level 2)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 201,037</b>	<b>\$ 362,694</b>	<b>\$ 42,459</b>	<b>\$ 606,190</b>

<b>Significant unobservable inputs (Level 3):</b>	Balanced Series	GIC Series	Growth Series	Financial Services Series	Diversified Series (note 8)	Total
Short-term investments & bonds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Bank instruments	-	-	-	-	-	-
Income notes	-	-	-	-	-	-
Index notes	-	-	-	-	-	-
GICs	-	-	-	-	-	-
Venture Investments	12,670,304	277,748	391,674	617,508	139,261	14,096,495
<b>Total Investments (Level 3)</b>	<b>\$ 12,670,304</b>	<b>\$ 277,748</b>	<b>\$ 391,674</b>	<b>\$ 617,508</b>	<b>\$ 139,261</b>	<b>\$ 14,096,495</b>
<b>Total Investments (all levels)</b>	<b>\$ 25,631,456</b>	<b>\$ 973,068</b>	<b>\$ 673,708</b>	<b>\$ 1,107,901</b>	<b>\$ 233,952</b>	<b>\$ 28,620,085</b>

During the year ended August 31, 2011, there were no transfers between Level 1 and Level 2. The reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

As at August 31, 2011

<b>Level 3 Reconciliation</b>	Balanced Series	GIC Series	Growth Series	Financial Services Series	Diversified Series (note 8)	Total
Beginning balance, September 1, 2010	\$ 12,670,304	\$ 277,748	\$ 391,674	\$ 617,508	\$ 139,261	\$ 14,096,495
Purchases	3,135,822	71,192	117,654	175,330	-	3,499,998
Sales	(18,366)	(417)	(690)	(1,027)	-	(20,500)
Inter-Series portfolio reallocations	(179,812)	8,981	82,184	88,647	-	-
Conversion of Class A shares (Note 8)	139,261	-	-	-	(139,261)	-
Net transfers into and/or out of Level 3	-	-	-	-	-	-
Realized gains/(losses)	-	-	-	-	-	-
Change in unrealized depreciation	(2,210,619)	(50,187)	(82,941)	(123,600)	-	(2,467,347)
Ending balance, August 31, 2011	\$ 13,536,590	\$ 307,317	\$ 507,881	\$ 756,858	\$ -	\$ 15,108,646

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

## Notes to the Financial Statements

For the years ended August 31, 2011 and 2010

### 4. FINANCIAL RISK MANAGEMENT (continued)

As at August 31, 2010

<u>Level 3 Reconciliation</u>	Balanced Series	GIC Series	Growth Series	Financial Services Series	Diversified Series (note 8)	Total
Beginning balance, September 1, 2009	\$ 13,740,149	\$ 213,408	\$ 322,916	\$ 612,780	\$ 128,446	\$ 15,017,699
Purchases	1,497,445	124,593	155,028	155,910	43,456	1,976,432
Sales	(2,208,667)	(32,123)	(48,607)	(92,240)	(19,335)	(2,400,972)
Increase (decrease) due to converted shares	932,807	-	-	-	-	932,807
Net transfers into and/or out of Level 3	-	-	-	-	-	-
Realized gains/(losses)	(4,014,876)	(45,627)	(123,100)	(194,563)	(43,970)	(4,422,136)
Change in unrealized depreciation	2,723,446	17,497	85,437	135,621	30,664	2,992,665
Ending balance, August 31, 2010	\$ 12,670,304	\$ 277,748	\$ 391,674	\$ 617,508	\$ 139,262	\$ 14,096,495

#### a) Risks and Risk Management

Financial instruments in the Fund's portfolios may be exposed to liquidity risk, credit risk, currency risk, interest rate risk and other price risk. The Discussion of Financial Risk Management following each Series' financial statements provides information and analysis of the risks specific to the applicable Series' financial instruments. The following discussion is of risks which are applicable to the financial instruments of all Series. See the Fund's prospectus, management reports of fund performance and statement of investment portfolio for other information, including the risks associated with investing in the Fund.

The Fund typically makes venture investments in early to mid stage private companies. These investments take several years to mature, and losses on unsuccessful investments are often realized before gains on successful investments. The primary venture investment strategy for the Fund is to diversify its venture portfolio by business sector and by stage of development. The Fund manages the risks associated with investing in developing companies through the use of experienced venture capital managers, careful selection of investment opportunities, ongoing monitoring of portfolio companies' operations and managing divestment opportunities. The Fund's Manager seeks to add value and manage risk by participating on portfolio companies boards of directors and assisting in recruiting key personnel, securing additional financing and formulating long-term strategic plans.

The Fund's holdings in short-term investments, bonds, bank instruments and GICs are exposed to interest rate risk and credit risk. There is minimal fair value sensitivity to interest rate fluctuations on cash and cash equivalents invested at market interest rates. The fair value of a debt investment represents the maximum exposure to credit risk.

Funds that are not invested or expected to be invested in venture investments are referred to as "Directed Funds". Directed Funds investments vary depending on the particular Series' investment strategy, and may range from GICs to investments linked to Canadian market equities. The values of certain of these investments fluctuate relative to movements in the market value of the securities to which the index, instruments or notes are linked. The Fund's strategy for limiting its exposure is to limit the proportion of a Series' assets which can be invested in Directed Funds investments, as mandated by the individual Series' investment strategy for Directed Funds.

#### *Liquidity Risk*

Liquidity risk is the risk that the Fund will have difficulty meeting obligations associated with financial liabilities. Liquidity risk for the Fund also arises from the need to meet share redemptions. Redemptions of Class A Shares, new and follow-on venture investments and other operational commitments all draw on the Fund's liquidity. Venture capital investments in private companies are generally illiquid and it often takes several years for investments to mature and present a divestment opportunity. If the Fund does not have sufficient liquidity to fund follow-on investments, it may incur dilution, or a loss of value on the investment if the portfolio company cannot secure required financing from alternative sources. Further, if the Fund is forced to sell a venture investment before it matures, it may incur a loss or make less of a gain.

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Notes to the Financial Statements

For the years ended August 31, 2011 and 2010

---

## 4. FINANCIAL RISK MANAGEMENT (continued)

---

Class A Shares must generally be held for eight years from the date of purchase in order for the holder to retain the benefit of tax credits claimed in respect of the shares. Accordingly, for liquidity management purposes the Fund considers shares to be redeemable only after expiry of this eight-year period. All references to “redeemable” shares should be read accordingly. As at the end of the period, all of the Fund’s financial liabilities are due within one year.

The Fund manages liquidity risk through the use of an annual liquidity model that forecasts the Fund’s short and long term liquidity needs over 90-days, and the next two annual sales cycles ending March 31, based on projected levels of capital raising, investment and divestment activity, Class A Share redemptions and other operational commitments. Using this model, the Fund strives to maintain a minimum level of excess liquidity greater than 35% of projected redemptions over a rolling 90-day period. As at the end of the period, the Fund met this level of excess liquidity.

### b) Venture Investment Portfolio

#### i) *Credit Risk*

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge a payment obligation owed to the Fund under the instrument, causing a financial loss. While the Fund’s venture investments include debt instruments, which expose the Fund to credit risk, most debt instruments held are convertible into equity securities and are expected to be converted well before a divestment opportunity arises. Upon conversion, the credit risk associated with the debt instrument may be replaced by other price risk associated with the equity securities, as discussed below. If not converted or redeemed upon maturity, the instruments generally become due on demand. Classification of debt instruments after maturity as due on demand does not represent a renegotiation of the original debt agreement. Given the expectation that debt instruments will be converted into equity securities, and thereby subject to other price risk, the credit risk associated with the Fund’s venture portfolio is not considered to be significant.

#### ii) *Currency Risk*

Currency risk is the risk that financial instruments denominated in a currency other than Canadian dollars, which is the Fund’s reporting currency, will fluctuate due to changes in the exchange rate between the Canadian dollar and the currency in which the investment is denominated. The Fund manages currency risk associated with its venture portfolio by seeking to minimize the number of venture investments denominated in currencies other than Canadian dollars. As at the end of the period, the Fund did not hold any investments in currencies other than Canadian dollars.

#### iii) *Interest Rate Risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund’s venture investment portfolio contains debt instruments, which are generally convertible into equity and expected to be converted before or in connection with a divestment. Accordingly, the Manager does not consider venture investments to be subject to significant interest rate risk as their valuation is generally based on the underlying equity securities of the entity into which the debt is convertible. The values of the underlying equity securities generally do not change with changes in market interest rates and, as the interest rates of these instruments are fixed, changes in market interest rates will not impact cash flows of the Fund.

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Notes to the Financial Statements

For the years ended August 31, 2011 and 2010

---

## 4. FINANCIAL RISK MANAGEMENT (continued)

---

### iv) *Other Price Risk*

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than changes caused by interest rate or currency risk), whether caused by factors specific to an individual investment, affecting the sector in which the investee operates or all sectors.

The Fund generally makes investments in private companies. The Fund generally holds publicly traded investments in its venture investment portfolio as a result of initial public offerings by such companies or through divestitures of companies in exchange for publicly traded securities. While all venture investments held by the Fund present a risk of loss of capital due to business failures, the values of publicly traded investments are linked to movements in the stock market. In some circumstances, it may prove difficult for the Fund to quickly liquidate investments in less readily traded securities without unduly affecting the market price of the securities. Private company holdings are also linked to general market trends to the extent that poor market conditions may place downward pressure on valuations of the Fund's holdings due to reduced levels of activity in the initial public offering and merger and acquisition markets. The Fund seeks to manage other price risk by managing the level of public company holdings, including through market and private sales of these investments.

Public venture investments are grouped in each Series. Once grouped, a regression analysis can be undertaken for each group of holdings to identify the correlation between the value of investments in the public venture investment portfolio grouping and the benchmark. The results and sensitivity analysis relevant to each individual Series is reported in the Discussion of Financial Risk Management following each Series' financial statements.

Private venture investments are generally in early and expansion-stage companies and accordingly, there is a limited history of operations and revenues from which to forecast the fair value of these investments. Further, the fair value of these companies will primarily fluctuate in response to specific company developments rather than in response to general market conditions. Therefore, while indices such as the NASDAQ Composite Index, which is the Fund's chosen broad-based index for benchmarking purposes, may be an indicator of the merger and acquisition ("M&A") and Initial Public Offering ("IPO") activity within the business sectors in which the Fund invests, it is difficult to identify a direct correlation between published indices or sector metrics and actual performance of private venture investments. Changes in the value of this index and other sub-sector indices may therefore differ materially from changes in the value of the Fund's private venture investments. Accordingly, a sensitivity analysis that would measure the impact on the Fund's net assets relative to changes in an index has not been provided as it is not considered meaningful.

### c) **Short-term Investments and Bonds**

The Fund's short-term investments include investments in bankers' acceptances, treasury bills, and GICs. The Fund invests in Canadian dollar denominated short-term investments and bonds, and as such is not exposed to currency risk on these investments.

#### i) *Credit Risk*

Credit rating agencies rate issuers based on how much credit risk they represent; the higher the credit rating, the lower the credit risk. The Fund manages this risk by generally investing in short-term investments, bonds and GICs issued by governments, financial institutions and issuers with credit ratings at the higher end of the range.

Other than in exceptional circumstances, transactions in these securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Notes to the Financial Statements

For the years ended August 31, 2011 and 2010

---

## 4. FINANCIAL RISK MANAGEMENT (continued)

---

### ii) *Interest Rate Risk*

The Fund's short-term investments and bonds may be subject to interest rate risk, which would affect the value of traded instruments and the Fund's income. When market interest rates rise, the value of traded interest-bearing instruments held by the Fund generally falls due to a decline in demand for lower yielding instruments. While higher interest rates may increase the Fund's income through higher yields on newly acquired instruments, the increase may be more than offset by a decrease in the overall value of traded instruments held by the Fund. The Fund's strategy for managing this risk is to monitor and adjust its interest-bearing portfolio holdings in light of prevailing and expected movements in short, medium and long-term interest rates and bond prices. This may include incurring early redemption penalties so as to allow re-investment of capital at higher rates.

### d) **Directed Funds Investments**

The Fund's Directed Funds investments may include investments in GICs, index notes, income notes and bank instruments. The Fund invests in Canadian dollar denominated Directed Funds investments, and as such is not exposed to currency risk on these investments.

#### i) *Credit Risk*

Directed Funds investments in debt instruments such as GICs, index notes, income notes, and bank instruments give rise to credit risk, which is managed in the same manner as credit risk associated with short-term investments and bonds (Note 4(c)(i)). The Fund's portfolios of index notes and income notes are issued by National Bank of Canada, a Canadian Schedule 1 bank. Management does not consider there to be a significant risk of loss to the Fund's holdings in the investments due to credit risk.

#### ii) *Interest Rate Risk*

Directed Funds investments are also subject to interest rate risk, however the extent of exposure for GICs and income notes is considered to be low due to the fact that these investments have fixed interest rates, are redeemable, and the maximum penalty for early redemption is loss of accrued interest. The interest rate risk management strategy is the same as that discussed for the short-term investments and bonds (Note 4(c)(ii)).

#### iii) *Other Price Risk*

Other price risk arises due to movements in the quoted prices of the securities underlying index notes and income notes. The Fund manages other price risk by limiting investments in, monitoring the composition of, and adjusting the concentration of these investments.

---

## 5. SHARE CAPITAL

---

### **Authorized:**

- Unlimited number of Class A Shares, issuable in series. All Series have the following rights and restrictions: voting, discretionary dividend entitlement, restrictions on transfer, and redeemable by the holder at the net asset value per share less any redemption fee and subject to certain restrictions and withholding of tax credits required to be repaid. Class A Shares are entitled to elect 6 of 15 directors that form the Board of Directors of the Fund.
- Unlimited number of Class B Shares, issuable only to the sponsor of the Fund. Class B shares have the following rights and restrictions: voting, no dividend entitlement, restrictions on transfer. Class B shares are entitled to elect 9 of the 15 directors that form the Board of Directors of the Fund.
- Unlimited number of non-voting Class C Shares ("IPA Shares"), issuable only to a person acting as manager or investment manager of the Fund. The owner of the Class C shares is entitled to receive

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Notes to the Financial Statements

For the years ended August 31, 2011 and 2010

## 5. SHARE CAPITAL (continued)

dividends ("IPA Dividends") equal to 25% of realized gains and income from each of the Fund's venture investments. Before any IPA Dividends can be paid in respect of an investment, the following conditions must be met:

*Portfolio Test* – the annualized rate of return generated by the total net realized and unrealized gains and income of the Fund from its portfolio of venture investments must exceed a cumulative annualized threshold rate of return equal to the average annual rate of return on a five-year guaranteed investment certificate offered by the Royal Bank of Canada plus 2%;

*Venture Investment Test* – the compounded annual internal rate of return (including realized and unrealized gains and income from prior partial dispositions of that venture investment or otherwise) from the venture investment since its acquisition by the Fund must equal or exceed 12% per year; and

*Principal Test* – the Fund must have fully recovered a cash amount equal to the principal invested in the venture investment.

For the purposes of payment to the Manager, the IPA Dividends are calculated and payable quarterly. To the extent they are not declared by the Board and paid when payable, they are cumulative.

The contingent IPA Dividend is an estimate of IPA Dividends that would have been payable to the Manager had the Fund's entire venture portfolio been disposed of at the estimated fair value as of the date of the financial statements; however, the total IPA Dividends that will actually be paid over the life of the Fund is currently not determinable, as it will depend on the value ultimately realized from the venture portfolio. There were no IPA Dividends or contingent IPA Dividends for the years ended August 31, 2011 or 2010 as the above tests were not met.

### Fee structure

All of the Class A Shares of the Fund are subject to the same fee and cost structure, except that certain shares of the Balanced Series issued under the merger with Workers Investment Fund Inc. on December 16, 2005 are not subject to an early redemption fee.

### Class A Shares

Redemption and subscription data includes switching of shares of one series for shares of another series. The following shares were issued and redeemed during the year ended August 31, 2011:

Class A Shares	Outstanding Shares at Beginning of Period	Issue of Shares	Conversion of Shares – Diversified Series to Balanced Series (Note 8)	Redemption of Shares	Outstanding Shares at End of Period
Balanced Series	3,469,872	262,218	38,807	(286,642)	3,484,255
GIC Series	118,152	36,628	-	(1,735)	153,045
Growth Series	107,263	24,933	-	(1,470)	130,726
Financial Services Series	169,110	26,336	-	(634)	194,812
Diversified Series (note 8)	38,138	-	(38,138)	-	-

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Notes to the Financial Statements

For the years ended August 31, 2011 and 2010

## 5. SHARE CAPITAL (continued)

The following shares were issued and redeemed during the year ended August 31, 2010:

Class A Shares	Outstanding Shares at Beginning of Period	Issue of Shares	Conversion of Shares – 07 Commercialization to Balanced Series	Redemption of Shares	Outstanding Shares at End of Period
Balanced Series	3,342,068	473,561	99,641	(445,398)	3,469,872
GIC Series	55,028	64,190	-	(1,065)	118,152
Growth Series	78,544	29,928	-	(1,209)	107,263
Financial Services Series	149,049	20,710	-	(649)	169,110
Diversified Series (Note 8)	31,242	7,050	-	(154)	38,138

### Class B Shares

1,000 Class B shares were outstanding throughout the years ended August 31, 2011 and August 31, 2010.

### Class C Shares

100 Class C shares were outstanding throughout the years ended August 31, 2011 and August 31, 2010.

### Redemption of Class A Shares

A shareholder may redeem all or part of a series of Class A Shares held at the net asset value per series share at the time of redemption, subject to certain restrictions. In any fiscal year, the Fund is not required to redeem issued Class A Shares having an aggregate redemption price greater than an amount equal to: 20% of the net asset value

of Class A Shares issued for 8 years or more, plus 10% of the net asset value of Class A Shares issued for less than 8 years, as at the last day of the immediately preceding financial year. If the Fund does not redeem Class A Shares upon request, it will redeem those shares in the following financial year, subject to the above limit, before it redeems any other Class A Shares that it has been requested to redeem. For such purposes, the requests to redeem such shares will be deemed to have been received by the Fund on the first day of the following fiscal year in the order that they were originally received by the Fund. The Fund may also suspend the right to redeem shares if it has received the necessary consents of securities regulators.

### Service Costs for Class A Shares

During the year, a total of \$157,504 (2010: \$159,226) of service costs was paid by the Fund to dealers as distribution costs for Class A shares. The Series allocation was as follows:

Class A shares - Service Costs:	2011	2010
Balanced Series	\$ 138,575	\$ 142,460
GIC Series	6,222	4,290
Growth Series	4,850	4,010
Financial Services Series	7,385	6,939
Diversified Series (Note 8)	472	1,528

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Notes to the Financial Statements

For the years ended August 31, 2011 and 2010

---

## 6. RELATED PARTY TRANSACTIONS

---

### a) Management fees and administration fees

The Fund entered into a Management Agreement with the Manager, a related party by virtue of the agreement, dated for reference December 24, 2004. Under the terms of the Management Agreement, the Manager provides certain management services; including management of day-to-day operations, portfolio advisory and investment management, compliance with securities laws, and monitoring and enforcing agreements on behalf of the Fund, as well as various administrative services which are recorded at transaction values. Under the Management Agreement, in return for providing or arranging for management and administration services, the Manager receives:

1. a management fee of 2.00% per annum of the average net asset value of the Fund;
2. an annual administration fee of 2.00% of average net asset value of the Fund; and
3. an annual capital retention fee of 0.75% of the original purchase price of Class A Shares which remain issued and unredeemed.

These fees are calculated and paid monthly. The fee based on capital retention ceases in respect of any Class A Shares which were originally issued more than eight years previously.

Unless terminated by the Fund or the Manager, the Management Agreement will remain in effect until dissolution, wind-up or termination of the Fund.

### b) IPA Dividends

As the holder of the IPA Shares, the Manager is entitled to receive IPA Dividends (see Note 5)

### c) Inter-series receivable and payable

The Fund, and in some cases the Balanced Series, may be stated as the owner of certain investment and other assets, including cash, that are allocated among multiple Series in the records of the Fund in accordance with the Fund's valuation policies and procedures through the use of inter-series receivable and payable accounts. The Series also incur inter-series receivables and payables on the transfer of tax deductions between the Series or on inter-series borrowings. All inter-series balances are non-interest bearing, unsecured and have no specified repayment terms. As all the Series of the Fund are currently reporting a non-capital loss for the year, there is no current tax benefit that can be utilized between Series for the current year.

---

## 7. INCOME TAXES

---

### Income taxes

Under the Income Tax Act (Canada), income taxes payable by the Fund on net realized capital gains will be fully refundable on a formula basis when shares are redeemed or capital gains dividends are paid or deemed to be paid by the Fund to its shareholders. Taxes payable on net investment income, other than capital gains, and certain dividends received from Canadian corporations will be partially refundable upon the payment or deemed payment of taxable dividends, other than capital gains dividends.

The Fund records the refundable portion of its income taxes as an asset, as it intends to recover all of its refundable income taxes through the deemed distribution of a Class A Share dividend from its net investment income and/or its realized capital gains on investments in the year in which the capital gains occur. If and to the extent the Fund distributes, or is deemed to have distributed, a dividend, the holder of the shares will be deemed to have received a Canadian taxable dividend and/or a realized capital gain, and the adjusted cost base of the shareholder's shares will be increased by the amount of any deemed dividend.

### Future income taxes

Temporary differences between the carrying amounts of assets and liabilities for accounting and income tax purposes and non-capital loss carry forwards may result in future tax assets and liabilities. When the fair value of

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Notes to the Financial Statements

For the years ended August 31, 2011 and 2010

## 7. INCOME TAXES (continued)

a security exceeds the cost base, a future tax liability arises. This future tax liability may be eliminated by refundable taxes generated by payment of capital gains dividends. When the cost base of a security exceeds the fair value, a future tax asset arises. Due to the uncertainty of such future tax assets ultimately being realized, to date a full valuation allowance has been applied.

The components of future income tax balances as at August 31, 2011 and 2010 are as follows:

	Balanced Series		GIC Series	
	2011	2010	2011	2010
Future income tax assets (liabilities)				
Tax loss carryforwards	\$ 1,220,905	\$ 1,116,830	\$ 37,860	\$ 29,279
Deferred finance fees	125,235	196,029	4,899	3,827
Net unrealized losses on portfolio assets	1,224,595	800,239	37,467	20,385
Valuation allowance	(2,570,735)	(2,113,098)	(80,226)	(53,491)
Net Future income tax asset (liability)	\$ -	\$ -	\$ -	\$ -

	Growth Series		Financial Services Series	
	2011	2010	2011	2010
Future income tax assets: (liabilities)				
Tax loss carryforwards	\$ 45,790	\$ 41,954	\$ 71,388	\$ 68,945
Deferred finance fees	4,030	4,412	6,378	8,073
Net unrealized losses on portfolio assets	38,453	16,191	59,716	28,295
Valuation allowance	(88,273)	(62,557)	(137,482)	(105,313)
Net Future income tax asset (liability)	\$ -	\$ -	\$ -	\$ -

### Investment requirements

The Income Tax Act (Canada), the New Brunswick Act, the Newfoundland and Labrador Act, and the Nova Scotia Act set minimum levels of qualifying venture investments required to be made by the Fund. If the required minimum level of qualifying venture investments is not met under each statute, the Fund may be subject to taxes and penalties.

### Income tax-loss carry forwards

As calculated at August 31, 2011, the Fund has an available non-capital loss of approximately \$990,210 (2010: \$560,420) and an available capital loss of approximately \$3,972,298 (2010:\$2,211,079) that may be carried forward and used to offset future income for tax purposes. The following table summarizes the amount of the carry forward attributable to each Series as at August 31, 2011.

	Non-capital loss carryforwards	Capital loss carryforwards
Balanced Series	\$826,020	\$3,645,965
GIC Series	56,889	40,985
Growth Series	42,333	110,577
Financial Services Series	64,967	174,771
	\$990,209	\$3,972,298

# GROWTHWORKS ATLANTIC VENTURE FUND LTD.

Notes to the Financial Statements

For the years ended August 31, 2011 and 2010

## 8. CONSOLIDATION OF THE DIVERSIFIED SERIES

On December 17, 2010, the Diversified Series was consolidated into the Balanced Series based on the relative NAV of each of the series. The NAV of the Balanced Series was \$7.98 per share, and the NAV for the Diversified Series was \$8.12 per share. Each Diversified Series share was converted into 1.02 of a Balanced Series Share.

The consolidation of the Diversified Series into the Balanced Series occurred in accordance with shareholder approval received at the Fund's annual general meeting on December 3, 2010.

## 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of short-term obligations arising primarily from related party transactions (Note 6) and accrued incentives relating to service fees the Fund pays quarterly to registered dealers at an annual rate of 0.5% of the average net asset value of the Class A Shares held by the dealers' clients.

The following table provides the detail by significant category for the years ended August 31, 2011 and 2010:

	Balanced Series		GIC Series		Growth Series	
	2011	2010	2011	2010	2011	2010
Accrued management fees	\$ 146,817	\$ 135,548	\$ 7,215	\$ 5,167	\$ 5,421	\$ 4,182
Accrued incentives	24,575	24,872	1,230	970	924	784
Accrued redemptions payable	282,233	214,558	-	-	-	2,888
Other payables/liabilities	24,233	34,284	1,222	898	955	793
Accounts payable and accrued liabilities	\$ 477,858	\$ 409,262	\$ 9,667	\$ 7,035	\$ 7,300	\$ 8,647

	Financial Services Series	
	2011	2010
Accrued management fees	\$ 8,090	\$ 6,660
Accrued incentives	1,373	1,245
Accrued redemptions payable	-	-
Other payables/liabilities	1,429	1,331
Accounts payable and accrued liabilities	\$ 10,892	\$ 9,236

## 10. INDEPENDENT REVIEW COMMITTEE ("IRC") FEES

For the year ended August 31, 2011, the Fund paid a total of \$500 (2010: \$1,000) to the members of the IRC, excluding fees paid to IRC members in their capacity as directors or members of other board committees.

## 11. INDEPENDENT VALUATOR

Pursuant to the independent valuation requirements of National Instrument 81-106, the Fund requires an independent review to assess whether or not the fair value of the Fund's venture portfolio is, in all material respects, reasonable. Qualified chartered business valuers within the Valuations Practice of KPMG LLP, the Fund's independent auditor, performed this review at the Fund's most recent year end (August 31, 2011) and concluded that the fair value was, in all material respects, reasonable.

**GROWTHWORKS**  
 **Atlantic Venture Fund**

[www.growthworks.ca/atlantic](http://www.growthworks.ca/atlantic)

1801 Hollis Street, Suite 310 Halifax, NS B3J 3N4  
902.492.5164 or 1.800.251.5331 [info@growthworks.ca](mailto:info@growthworks.ca)