



## Management Report of Fund Performance

For the year ended August 31, 2011

### GrowthWorks Canadian Fund Ltd.

Financial Services Series – Commission I

Financial Services Series – Commission II

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.

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements for these series of GrowthWorks Canadian Fund Ltd. (the "Fund") Class A Shares. You can get a copy of the annual financial statements at your request, and at no cost, by calling toll free 1-800-268-8244, by writing to us at Suite 2200 Exchange Tower, 130 King Street West, PO Box 422, Toronto, Ontario, M5X 1E3 or by visiting our website at [www.growthworks.ca](http://www.growthworks.ca) or SEDAR at [www.sedar.com](http://www.sedar.com). Shareholders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, or proxy voting disclosure record. Unless otherwise stated, all information in this report relates only to GrowthWorks Canadian Fund Ltd., Financial Services Commission I and Financial Services, Commission II series of Class A Shares. These series are referred to collectively in this report as the "Financial Services Series" or "Series". Where information is presented for all series of Class A Shares, individual Series information may vary slightly due to different cost and fee structures.

In this report "NAV per share" means the price for purchasing, redeeming or switching shares of the Fund calculated in accordance with the Fund's valuation policies and procedures and "net asset value" or "NAV" means the total NAV of all Class A Shares of the Fund, or where referring to a particular series of shares, then the total NAV of only that series of shares. NAV per share may include the unamortized balance of selling costs incurred in respect of series shares (or Merged Fund shares). In this report, "net assets" refers to net assets determined in accordance with Canadian generally accepted accounting principles (GAAP), as presented in the financial statements of the Fund.

Our manager (the "Manager") is GrowthWorks WV Management Ltd. The Manager has engaged its affiliate GrowthWorks Capital Ltd. to perform investment fund management services and act as our principal distributor. Our Manager and GrowthWorks Capital Ltd. form part of the venture capital operating division of Matrix Asset Management Inc. which manages several retail venture capital funds (RVCs) across Canada. The Manager assumed management of the Fund as of November 29, 2002. The Fund completed a merger with Capital Alliance Ventures Inc. ("CAVI") and Canadian Science and Technology Growth Fund Inc. ("CSTGF") on November 29, 2005, with First Ontario Labour Sponsored Investment Fund Ltd. ("FOF" or "First Ontario Fund") on July 14, 2006, with ENSIS Growth Fund Inc. ("ENSIS") on October 24, 2008 and with Canadian Medical Discoveries Fund Inc. ("CMDF") on May 22, 2009 (the "Merged Funds").

***Forward looking statements:*** *This report contains forward looking statements. These statements primarily relate to assessments of the targeted timing of exits (also referred to as divestments) from the Fund's venture investment portfolio, the value, timing and impact of the Fund's cash position on divestments, the Fund's ability to make follow-on investments, timing and levels of Fund Class A share redemptions, the possible resumption of unrestricted Class A share redemptions, future economic and market conditions and the adoption of International Financial Reporting Standards ("IFRS"). Such information has been included to assist readers with assessing the maturity of the Fund's venture portfolio, recent developments in the Fund's operating climate and possible future developments that may affect Fund performance. All forward looking statements are based on management's current beliefs and assumptions which are subject to numerous risks and uncertainties. Statements with respect to targeted timing of and proceeds from venture portfolio exits are based on management's beliefs and assumptions with respect to a range of factors, including mergers and acquisitions ("M&A") and initial public offering ("IPO") market conditions generally and within the sectors in which portfolio companies operate, market potential of technologies and products under development or offered by portfolio companies, the management, intellectual property rights, performance and stage of development of portfolio companies and the portfolio companies' need for and access to further financing. Statements with respect to redemptions are based on beliefs and assumptions of management of the Fund with respect to a range of factors, including beliefs and assumptions about the Fund's ability to secure regulatory approval to process redemptions as contemplated under the redemption management plan (RMP) and Class A share redemption requests. While management considers such beliefs and assumptions to be reasonable based on information currently available to it, no assurance can be given that such beliefs and assumptions will prove to be correct or with respect to the actual timing of or proceeds from venture portfolio exits. 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 and uncertainties, including, but not limited to, those associated with economic and market conditions, including M&A and IPO market conditions, portfolio companies' development and achievement of milestones for developing products, technologies or services, including those for which markets are not yet established and may never be established, portfolio companies' access to needed financing, portfolio companies' ability to attract and retain key management and employees and establish and protect intellectual property rights, Class A share redemption requests, regulatory approvals and other risks identified in the Fund's prospectus. 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.*

## **Message from the President:**

*"Pursuing Value during Challenging Times"*

### *Venture Capital Investing*

Growing small and medium sized businesses, especially those in the technology and knowledge-based sectors, are vitally important to Canada's economic future. Retail venture capital funds (RVCs), like your fund, have played an important role in providing venture capital to those kinds of young, mostly private companies. A diversified portfolio of venture investments, with professional management, helps moderate the higher risks of investing in these kind of companies and presents an opportunity for gains. Successful venture investing also requires patience as it can take many years for portfolio companies to first develop and then realize on exit opportunities for investors. This is why governments provide special tax credits to RVC investors.

### *Recent Challenges*

The Ontario government's decision to phase out the Ontario tax credit to RVC investors has stemmed the flow of new capital into RVCs, especially in Ontario. As a result of declining capital raising and in light of the mature stage of many of the Fund's venture investments, the Fund closed sales of its Class A shares in September 2011.

The shortage of venture capital, most particularly in Ontario, has led to lower valuations over the past year. This has worked to significantly depress a number of the fund's portfolio values, even though portfolio company fundamentals remain sound.

After experiencing a strong mergers and acquisitions (M&A) market in 2010 and the first half of 2011, a period of economic uncertainty and market volatility arrived in August. This has buffeted markets, driven by a sovereign debt crisis in Europe and fears of major economies falling back into recession. Unfortunately, this has very negatively affected both the initial public offering (IPO) and private M&A markets, and a number of planned divestments have been delayed or cancelled. It's unclear at this time when these markets will improve.

### *Preserving Value*

The fund announced that it had adopted a redemption management plan or "RMP" subsequent to year end. Under the RMP, the fund will close weekly Class A share redemptions and, subject to regulatory approval, would process redemptions of Class A shares semi-annually in amounts determined by the Board of Directors. Under the RMP, redemptions would be processed based on an annual redemption value determined by the Board of Directors after taking into account projected divestment activity and the fund's follow-on investment needs, liabilities and operating commitments. The RMP was formulated to maintain meaningful levels of investor liquidity while at the same time preserve cash needed to fund follow on investments in the fund's most promising portfolio companies. The Board of Directors and the Manager of the fund remain confident in the potential of the fund's mature, diversified venture portfolio. The primary objective of the RMP is to ensure the significant upside potential in the fund's portfolio can be cultivated and optimized for shareholders.

### *Update on Growth Opportunities*

During the year, shareholders of the fund approved a proposed merger of some or all of the VenGrowth Funds into the fund. The board of directors of the VenGrowth Funds negotiated an alternative merger proposal whereby the VenGrowth Funds would be merged into Covington Fund II Inc. The fund believes that the GrowthWorks proposal offered a number of advantages for Class A shareholders of the VenGrowth Funds as compared to the Covington proposal. Despite the fund soliciting proxies voting against the Covington proposal, shareholders of the VenGrowth Funds approved the Covington proposal and the VenGrowth Funds were merged into Covington Fund II Inc. As a result, the VenGrowth Funds will not be merged into the fund.

### *Looking Ahead*

While the Fund has no control over government policy or investment markets, it will continue to focus on grooming its portfolio of companies for divestment when market conditions improve. We believe there is great value in the portfolio and our goal is to preserve and enhance that value during these challenging times.

We thank you for your support.

David Levi, President & CEO

## **MANAGEMENT DISCUSSION OF FUND PERFORMANCE**

### **Investment Objective and Strategies**

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The Fund's investment objective for all series of Class A Shares is to achieve long-term capital appreciation for shareholders. Long-term capital appreciation, typically measured after the passage of more than six years, means increasing the NAV of the Fund's shares. The Fund currently invests in a mix of venture investments and non-venture investments, with a focus on follow-on investing.

As an RVC, the Fund is required to make certain venture investments in companies that meet eligibility requirements. Eligibility requirements are focused around company size, measured by asset value and number of employees, and company location. All of the Fund's Class A Shares participate in the same venture investment portfolio. The primary venture investment strategy of the Class A Shares is to diversify the venture portfolio by business sector, company development stage, and geography within Canada. We seek out entrepreneurial companies with high growth potential capable of supporting our investment objectives. Our manager performs a fundamental analysis of each investment opportunity, including analyzing business plans, market opportunities, financial statements, particular industries, products, services, and technologies and evaluating the abilities of management of the business. The Fund holds active venture investments in 85 portfolio companies, a number of which will require further rounds of financing before an exit opportunity arises. Due to lower levels of new RVC capital raised in recent years and other factors, the Fund's venture investment activity is currently focussed on providing follow-on funding to existing portfolio companies. See "Recent Developments" below.

The Fund may structure its investments as equity or debt instruments or a combination of both. Generally, venture investments will be structured to participate in an appreciation in value of the investee business and we will typically take active minority positions that are frequently larger than the positions other mutual funds would ordinarily take.

Non-venture investments vary depending on the particular series of Class A Shares purchased and range from guaranteed investment certificates to investments linked to Canadian market equities. We call funds used to make non-venture investments "Directed Funds". The investment strategy for the Directed Funds of the Financial Services Series is generally to invest in reserves which offer participation in the securities of issuers whose business activities are in the financial services sector or sub-sectors such as banking, wealth management and insurance. This would include reserves whose returns are linked to the performance of equity securities, such as common or preferred shares, or debt securities, such as bonds or commercial paper, of such issuers. Our portfolio adviser may change the selection of non-venture investments within the area of focus for Directed Funds based on its investment outlook from time to time. Pending investment of new capital raised, funds may be temporarily held in high quality, liquid debt instruments. Additionally, some level of on-going cash balances may also be held as part of the Directed Funds of the Series. Currently the Financial Services Series has no Directed Funds investments. See "Investment Portfolio" below.

Subsequent to year end, the outstanding Income Series were consolidated into the Diversified Series based on relative net asset value per share. The outstanding Merger Series and FOF Growth Series Class A Shares will be consolidated into Diversified Series Class A Shares. The proposal is aimed at simplifying the Fund's share structure and making pricing and reporting processes more efficient. Also subsequent to year end, the name of Diversified Series was changed to "Balanced Series" and the Directed Funds investment focus for Diversified Series was refined to reflect a more balanced mix of equity and fixed income securities. The refined Directed Funds investment focus consists of: high quality debt instruments, high yield investments and bank securities. Required shareholder approvals for these proposed and completed changes were obtained at the Fund's annual general meeting held on June 28, 2011.

Our portfolio adviser may change the selection of non-venture investments within the area of focus for Directed Funds based on its investment outlook from time to time. Pending investment of new capital raised, funds may be temporarily held in high quality, liquid debt instruments. Additionally, some level of on-going cash balances may also be held as part of the Directed Funds of the Series.

## **Risks**

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There are risks associated with investing in the Fund. A detailed discussion of those risks can be found in the Fund's prospectus (as amended, updated and renewed from time to time).

The continuing heightened level of concern about a new recession and resulting high levels of market volatility have dampened activity in typical exit markets for the Fund's investments. This has impacted the Fund's ability to exit portfolio investments, thereby increasing the Fund's Liquidity and Follow-on Financings risks. The Fund's current venture investment activity is focussed on providing follow-on funding to existing portfolio companies that the Manager believes have the greatest potential for profitable exits.

Recent volatility in market conditions has impaired the Fund's ability to complete cash-generating exits from its venture portfolio, tightening the Fund's liquidity position. The Fund cannot continue to process all anticipated Class A share redemptions requests while at the same time preserve capital for follow-on investments.

The Fund announced that it had adopted a redemption management plan or "RMP" on November 10, 2011. Under the RMP, the fund will close weekly Class A share redemptions and, subject to regulatory approval, would process redemptions of Class A shares semi-annually in amounts determined by the Board of Directors. Under the RMP, redemptions would be processed based on an annual redemption value determined by the Board of Directors after taking into account projected divestment activity and the fund's follow-on investment needs, liabilities and operating commitments. The annual redemption amount may be increased or decreased in the discretion of the Board of Directors if divestment activity exceeds or falls short of projected levels. If and when regulatory approval of this element of the RMP is secured, the Fund will issue a press release announcing the first semi-annual redemption date and the process for lodging redemption requests under the RMP. See "Recent Developments" below for more details on the RMP.

The Financial Services Series may hold S&P/TSX Capped Financial Total Return Index Notes that are linked to a portfolio of equity securities ("Index Notes"). The Index Notes carry similar market risk to equity securities that are traded on open exchanges.

Past performance does not necessarily indicate how Index Notes will perform in the future. The proportion of funds available for allocation for the Financial Services Series' Directed Funds portfolios will decline due to, or be affected by, among other things, operational and financing commitments, Class A share redemptions, venture investment activity and liquidity of the Fund's portfolio generally. See "Results of Operations – Investment Portfolio" below.

## **Results of Operations**

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### *Net Asset Value (NAV)*

Total NAV for these Series closed at \$3.66 million for the year compared to \$4.19 million at the prior year end. The decrease in NAV was primarily the result of a net realized loss on the sale of venture investments of \$292,828 and redemption activity of \$34,000. These were partially offset by subscription activity of \$104,070 and unrealized appreciation of \$64,492 on venture investments.

### *Revenue, Expenses and Management Expense Ratio ("MER")*

Total investment income for the year was \$87,973 (2010: \$58,040). This increase was primarily the result of dividend payments received from two venture investment holdings, Castlemore Golf and Country Club and Western Life Sciences Venture Fund LP.

Total operating expenses for the year were \$422,996 (Aug 31, 2010: \$345,262). The Fund's primary expenses are management fees, administration fees and financing expenses. As management fee and administration fee expenses are based on fixed percentages of NAV as outlined in the management agreement between the Fund and its Manager, the expectation may be that expenses will increase or decrease relative to the increase or decrease in NAV for the year. However, the seasonal nature of the sales and redemption cycles of investment funds such as the Fund means that NAV may be lower or higher for a significant portion of the year than the NAV at the end of the year. As a result, changes in management fee and administration fee expenses may not change proportionate to the change in NAV at the end of the year. Other expenses, including trailer fees and Participation Transaction related expenses were also incurred by the Series. The reported changes in management and administration fees were consistent with the changes in NAV. The increase in operating expenses was primarily the

result of the financing expense associated with the Participation Liability. As a result of the Fund's tightening liquidity position, during the year the Series accrued \$89,156 in management fees payable to the Manager. These fees remain unpaid as of the year end. See "Participation Transaction" and "Management Fees" below.

Operating MER (before IPA and participation liability) for the year was 7.07% for Commission I and 7.05% for Commission II (Aug 31, 2010: 6.01% and 6.15%). See "Financial Highlights" below. Increases in Operating MER primarily flowed from the increased expense associated with initiation of the Harmonized Sales Tax ("HST") on July 1, 2010 by the Ontario government on management and administration fees.

During the 2011 fiscal year, as part of an existing financing facility, the Fund entered into a note indenture and credit facility agreement and issued a secured note for up to \$11 million Canadian to be used for working capital including general corporate requirements and the acquisition of additional assets. Advances of up to \$2.5 million are revolving and the balance is non-revolving. During the year ended August 31, 2011, the Fund had drawn a maximum of \$2.5 million, which remained outstanding as of the year end and paid a total commitment fee of 1.34% of the credit facility. As of year end, the borrowing represented 1.26% of net assets of the Fund. Under the credit facility agreement and note, simple interest of 12% is payable on amounts advanced which may be increased by up to 3% if venture investment portfolio divestments by the Fund generate net gains above fair values at the date of such advance and the balance outstanding and interest is due and payable in full by March 31, 2012.

### *Liquidity*

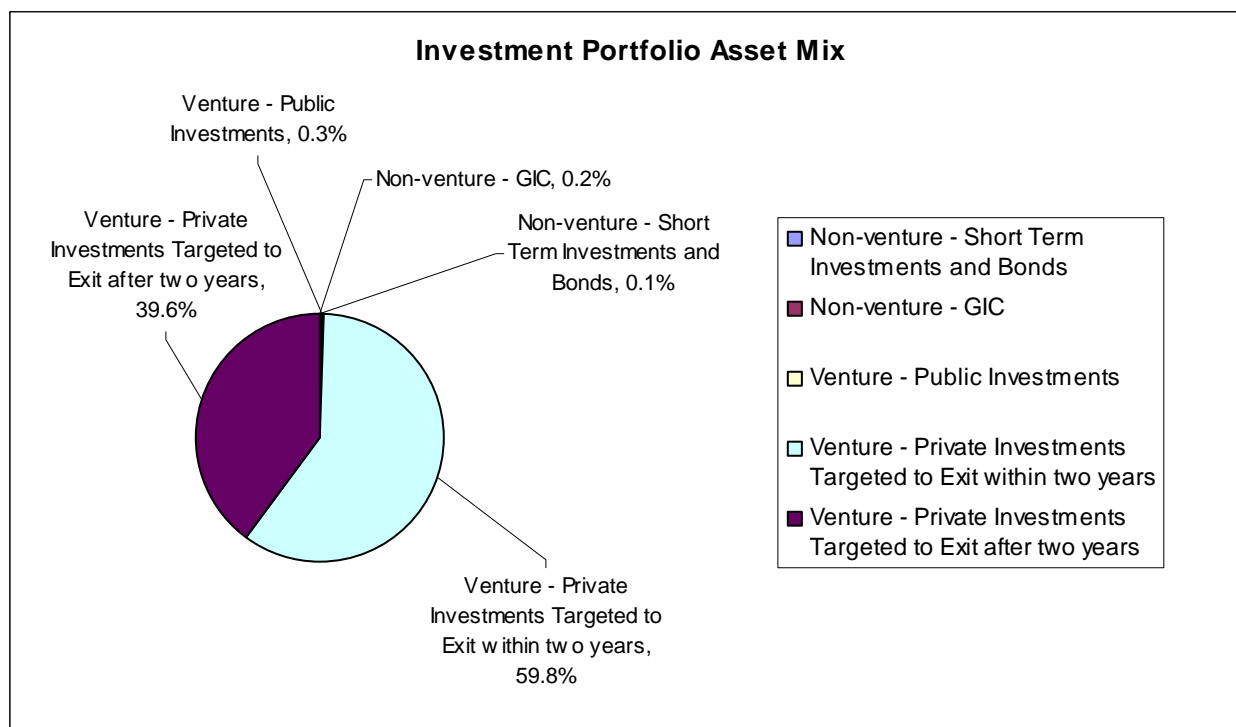
We monitor and manage liquidity at the Fund level based on activities that draw on liquidity, capital raised and realized and unrealized appreciation or depreciation of investments. Activities that draw on liquidity are (1) new and follow-on venture investments, (2) management fees, operating expenses, financing expenses and other commitments, and (3) redemptions of Class A Shares, in particular shares that may be redeemed without repayment of tax credits or payment of an additional redemption fee. In accordance with the requirements of the Manitoba *Labour-Sponsored Venture Capital Corporations Act*, the Fund has adopted a Reserves Policy and is actively monitoring its liquidity position.

As an RVC, the Fund invested in a diverse portfolio of small and medium sized Canadian companies. The Fund makes most of its investments in private companies, meaning that there is no immediate liquid market for those investments (such as a stock market). Instead, the Fund and its Manager provide ongoing financial and management expertise to the portfolio companies and look to develop potential exit strategies generally in the fourth to fifth year following an initial investment with a goal of realizing on an investment by the eighth year. Typically, full value exit events are IPOs or M&A transactions. However, the ability to dispose of an investment on a full value exit event (and within eight years) depends on the financial condition and prospects of the portfolio investment itself and the state of the financial markets at the time. During times of heightened financial and market volatility, investor confidence decreases reducing activity in IPO and M&A markets.

The economic conditions prevalent since 2008 have had a significantly negative impact on the ability of the Fund to seek out and develop successful full value exit events, resulting in longer periods of time to realizing on investments. In addition, recent concerns about a new recession, volatile markets and the resulting impact on IPO and M&A activity, as well as the continuing need to fund follow-on investments in the Fund's existing portfolio of investments, increased pressures on the Fund's liquidity. As a result, the Fund adopted the RMP effective November 10, 2011. See "Recent Developments" below for more details on the RMP.

## Investment Portfolio

The overall asset mix of these Series, as a percentage of the investment portfolio, is set out below:



While in certain instances the Fund, on its own or together with co-investors, may hold contractual rights by which an exit may be initiated, in other instances the timing of exits is beyond the Fund's control. Exits will also depend on M&A and IPO market conditions generally and within the sectors in which portfolio companies operate. Current carrying values of the Fund's investments may not reflect the amounts for which they can actually be sold. Statements made with respect to investments targeted to exit within two years are classified based on the Manager's current beliefs and assumptions. See "Forward looking statements" above.

All series of the Fund's Class A Shares participate in the same venture investment portfolio. Venture investments made during the year (excluding debt repayment restructuring) amounted to \$15.79 million and, based on cost, bring the total current value of this portfolio, net of divestments and unrealized appreciation and depreciation, to \$223.46 million. The following follow on venture investments were made or acquired during the year:

7842317 Canada Inc.	Natrix Separations Inc.
Aizan Technologies Inc.	Octopz Inc.
Ambit Biosciences (Canada) Corporation	OneChip Photonics Inc.
Ascentify Learning Media Inc.	Peerset Inc.
BTI Photonic Systems Inc.	Perspecsys Inc.
CanPro Ingredients Ltd.	Receptor Therapeutics Inc.
Kibboko Inc.	Spectral Diagnostics Inc.
Kraus Global Inc.	Trillium Therapeutics Inc.
LibreStream Technologies Inc.	Viron Therapeutics Inc.
Morega Systems Inc.	

In addition, the Fund fully or partially divested from a number of venture investment holdings during the year, generating gross proceeds of \$48.13 million and resulting in a net realized loss of \$12.78 million, which was shared proportionately among all series of the Fund's Class A Shares. The Fund's remaining venture investment portfolio generated unrealized appreciation of \$802,911 over the year, which was shared proportionately among all series of the Fund's Class A Shares.

The aggregate size of the Fund's venture investment portfolio decreased by \$48.11 million during the year, a net decrease of 17.72% from the prior year-end. While the value of the venture investment portfolio decreased during the year, reductions in the short-term investments and Directed Funds resulted in an increase in the percentage of NAV held in venture investments.

The continuing decline in overall venture capital supply and the volatility of IPO and M&A activity for technology and life sciences based companies has affected the Fund's ability to realize exits on a number of its investments. However, the revenue growth and financial performance achieved by the investee companies in the Fund's venture portfolio was generally positive over the period with some exceptions. In particular, there are a number of investments that continue to demonstrate the potential for strong investment returns. The Fund has generated over \$300 million in divestment proceeds over the past 6 fiscal years and continues to be one of the best-positioned funds in Canada in terms of future exit capabilities given the diversification and maturity of the Fund's holdings. The Fund's divestiture of GeminX Pharmaceuticals – a cancer drug developer - in March 2011 is illustrative of that potential. The value of the Fund's holdings in GeminX had been severely compressed over time due to adverse venture capital market conditions and the strength of the Canadian dollar. Yet the Fund reversed all of the value compression and achieved a significant gain on the sale of GeminX in spite of volatile market conditions because the company's fundamentals were strong and the Fund had remained highly disciplined in nurturing the company to an exit.

The Fund's intention is to remain focused on its proven approach of promoting strong fundamentals in each of its investee companies and actively helping those companies with their paths to exit within the next 1 to 4 years. A recent example was the exit subsequent to year end of Paymentus Corp. – an online bill payment company - to a leading U.S. private equity firm. The Fund more than doubled its investment in the company even after a 3-month drop of more than 15% in the stock markets because Paymentus' fundamentals had remained strong and the coordination amongst the Fund and the other stakeholders throughout the exit process was rock-solid. From a remaining portfolio of approximately 85 companies, we believe the candidates for future exits comparable to GeminX and Paymentus are numerous. In fact, the Fund continues to be a significant shareholder in 6 companies that we believe have the legitimate potential to generate returns on the scale of Galleon Energy and Med-Eng Systems, which were previous exits that each returned more than \$70 million to the Fund.

Short-term investments are comprised of investments in bonds and deposits, which may include high quality debt instruments. The Series currently holds \$8,546 in short term investments. The portfolio decreased by \$187,484 during the year due primarily to divestments of short-term investments to meet operational commitments and to fund investments in the venture portfolio.

At year end, the Series did not hold any Index Notes. Total net gains and revenue generated by Directed Funds investments have resulted in an increase in the Series' NAV of \$74,069 since the investment strategy was implemented. The level of Directed Funds of the Series fluctuates based on a number of factors, including capital raising and levels of redemption and investment and divestment activity within the Fund. The Fund expects to re-invest in such Directed Funds investments as and when operating needs permit.

#### *Investment Pacing*

As at the end of the year, the Fund is current with applicable investment pacing requirements. Investment pacing requirements are described in detail in the Fund's prospectus.

#### **SUMMARY OF INVESTMENT PORTFOLIO**

We seek to maximize returns by investing in high growth potential companies across a range of sectors, and we seek to reduce the risks typically associated with venture investments by diversifying our portfolio. Our Manager applies a "true" venture capital investing strategy by assembling a diversified portfolio of businesses in different regions, sectors and stages of development, implementing a disciplined investment strategy and adding value to those portfolio companies typically by participating on boards of directors, assisting in recruiting key personnel, securing additional financing and helping to formulate long-term strategic plans. The Fund holds active venture investments in 85 portfolio companies.

#### *Participation Transaction*

Due to lower levels of RVC capital raised in recent years and other factors, the Fund's venture investment activity is currently focused on providing follow-on funding to existing portfolio companies.

Given strong fundamentals evident across a number of portfolio companies, the Fund entered into a participation agreement dated May 28, 2010 with Roseway Capital L.P. ("Roseway") with the objective of strengthening follow-on investment support for particularly promising companies within the venture portfolio. Under the participation agreement, Roseway advanced \$20 million to the Fund in exchange for a participating interest in 15 venture investment holdings of the Fund (the "participation holdings"), with a total carrying value of approximately \$100 million. The proceeds advanced provide additional capital for high potential return follow-on investments and are intended to enhance the Fund's operating and financial flexibility. In addition, Roseway agreed to provide up to \$3

million of its own funds in follow-on funding for these companies. The participating interest entitles Roseway to receive 20% of the proceeds (cash or shares) earned on or generated from the sale or divestment of the participation holdings, subject to minimum annual payments of \$5.7 million during the three years after closing. The Fund's obligation to repay the funds advanced on the third anniversary of closing is recorded as a liability of the Fund. Payments on account of Roseway's participating interest are accrued by the Fund as a participation liability over the period during which the Fund is projected to divest the participation holdings. For further details, see the Fund's prospectus.

In connection with the Roseway transaction, Roseway entered into a services agreement with the Manager whereby the Manager agreed to assist with managing Roseway's participating interest and related follow-on investments in exchange for a services fee amounting to \$100,000 per year. The Manager agreed with the Fund to reduce the aggregate management and administration fees payable by the Fund under the Management Agreement by the amount of all fees received from Roseway under this services agreement.

The participation agreement with Roseway was approved by the Board of the Fund and terms of the transaction that created conflicts of interest affecting the Manager were reviewed and approved by the Independent Review Committee for the Fund.

During the year, the participation liability of the Roseway transaction resulted in an increase to Total MER of 3.57% in the case of Financial Services Series Commission I and 3.57% in the case of Financial Services Series Commission II. This reflected the first full year of liabilities accrued under the participation agreement with Roseway.

The tables and pie charts below provide information about the investment portfolio of the Series. The investment portfolio profile may change due to ongoing portfolio transactions within the Series. See the Statement of Investment Portfolio in the Fund's financial statements for additional investment details and a breakdown of the portfolio by subgroup as a percentage of net assets. Also, see the "Results of Operations – Investment Portfolio" for portfolio composition as at the end of the year. The information below does not take into account the participating interest of Roseway in those investments comprising the participation holdings.

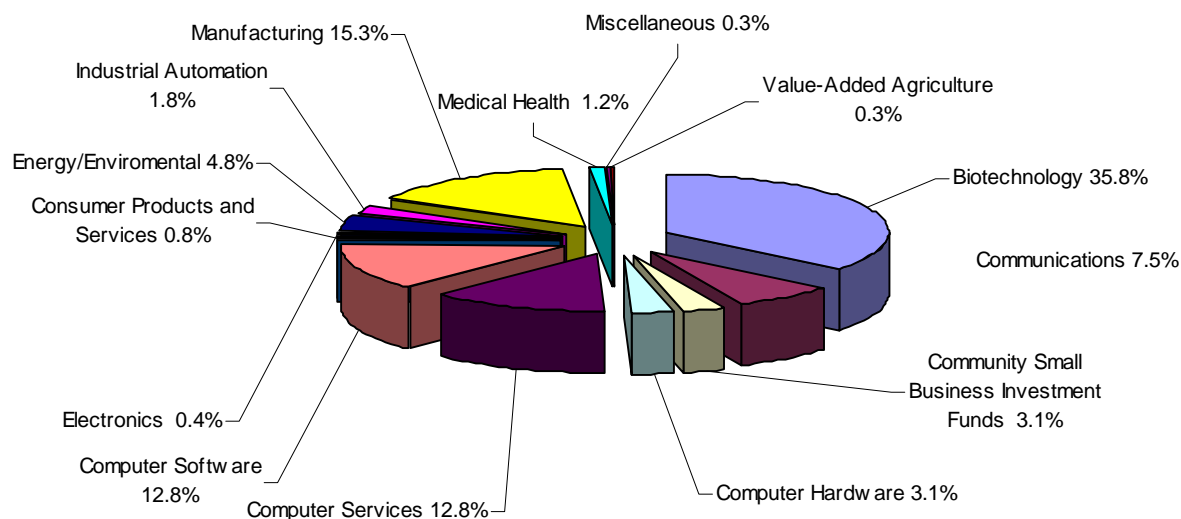
### **Top 25 Investments**

The following table represents the top 25 ranking of investments within the total investment portfolio based on fair value as a percentage of NAV.

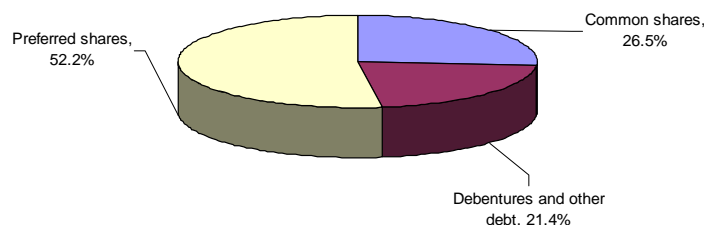
1 Targeted Growth Canada Inc.	14 Trillium Therapeutics Inc.
2 Ambit Biosciences (Canada) Corporation	15 Kraus Global Inc.
3 Cytochroma Canada Inc.	16 Kibboko Inc.
4 Morega Systems Inc.	17 Aizan Technologies Inc.
5 Cytochroma Inc.	18 Digital Payment Technologies Inc.
6 OneChip Photonics Inc	19 Covarity Inc.
7 Camilion Solutions Inc.	20 Ascentify Learning Media Inc.
8 BTI Photonic Systems Inc.	21 Blueprint Software Solutions (Formerly Sofea Corp.)
9 ViOptix Canada Inc.	22 Gemin X Biotechnologies Inc.
10 LibreStream Technologies Inc.	23 Paymentus
11 Viron Therapeutics Inc.	24 CanPro Ingredients Ltd.
12 Natrix Separations Inc.	25 Agrisoma Biosciences Inc.
13 CFN Precision Ltd.	<b>TOTAL % OF NAV</b>
	<b>95.17%</b>

The following charts show the venture investment portfolio for the Series as represented by sector and type of investment holding based on cost of like investments as a percentage of the total cost of the venture portfolio. The Fund's venture investments generally consist of equity and debt investments. Debt investments are generally subordinated and in most cases are structured to be converted into shares of the portfolio company.

## Sector Composition based on Cost of Venture



## Investment Holdings based on Cost of Venture Investments



### Recent Developments

The world economy recorded positive growth for the year ending August 31, 2011, however not without significant challenges, in particular concerns surrounding sovereign debt levels in Europe and the United States. In Europe, politicians, bankers, and regulators are working to manage potential instability of the European banking system. In the United States, Democrats and Republicans disagree on remedies for the Federal Government's substantial budget deficit. Unemployment remains high in many industrialized nations and governments have limited flexibility to provide fiscal stimulus. World central banks are providing substantial monetary stimulus as interest rates are at historically low levels in many countries.

North American equity markets reacted negatively during the summer months of 2011 to economic concerns. The NASDAQ declined 7% and the TSX Composite declined 4% during July and August, with further substantial declines in September. The period was marked by substantial market volatility. The Fund's manager expects these market conditions will continue at least in the near term until the European banking system shows signs of stabilization.

M&A markets, a key exit path for the Fund's venture investments, registered reasonable levels of activity in the United States during the first half of 2011. The activity was seen within the Fund's portfolio as there were a few notable M&A transactions within the Fund's venture portfolio during the period. While activity during Q1 2011 matched the record activity of Q1 2010, activity slowed during Q2 2011. Similar to the M&A market, activity in the IPO market in the United States during the first half of 2011 matched levels recorded during the first half of 2010. A

total of 24 venture-backed companies went public in the United States during the first half of 2011, including companies such as LinkedIn and Pandora.

Compared to the United States, Canadian exit markets were slower. The Canadian IPO market has been very slow since 2007, with only a few filings for venture-backed companies. In Q1 2011, Canadian M&A markets slowed, with activity levels falling short of levels for Q1 2010.

The Ontario government has adopted legislation providing for the phase-out of the Ontario RVC tax credit. Ontario purchasers of the Fund's Class A shares are eligible to receive a 5% tax credit for the 2011 taxation year. After the 2011 taxation year, no Ontario RVC tax credit will be available. The maximum investment that qualifies for the Ontario RVC tax credit is \$7,500. The maximum annual Ontario RVC tax credit for purchases of the Fund's Class A shares is \$375 for the 2011 taxation year. The federal tax credit remains at 15% subject to an annual maximum of \$750.

On June 28, 2011, shareholders approved the consolidation of the outstanding Income Series, Merger Series and FOF Growth Series Class A shares into currently offered Diversified Series Class A shares, the change of name of Diversified Series to "Balanced Series" and that the Directed Funds investment focus for Diversified Series Class A shares be refined to reflect a more balanced mix of equity and fixed income securities (consisting of high quality debt instruments, high yield investments and bank securities). Subsequent to year end, the outstanding Income Series was consolidated into the Diversified Series. Also subsequent to year end, the name of Diversified Series was changed to "Balanced Series" and the Directed Funds investment focus for Diversified Series was refined to reflect a more balanced mix of equity and fixed income securities. The refined Directed Funds investment focus consists of: high quality debt instruments, high yield investments and bank securities.

#### *The VenGrowth Acquisition Proposal*

On June 28, 2011, shareholders of the Fund approved a proposed merger of some or all of The VenGrowth Investment Fund Inc., The VenGrowth II Investment Fund Inc., The VenGrowth III Investment Fund Inc., The VenGrowth Advanced Life Sciences Fund Inc. and The VenGrowth Traditional Industries Fund Inc. (the "VenGrowth Funds") into the Fund (as amended, the "GrowthWorks Merger Proposal"). The board of directors of the VenGrowth Funds negotiated an alternative merger proposal whereby the VenGrowth Funds would be merged into Covington Fund II Inc. (the "Second Covington Proposal"). The Fund believed that the GrowthWorks Merger Proposal offered a number of advantages for Class A shareholders of the VenGrowth Funds as compared to the Second Covington Proposal. Despite the Fund soliciting proxies voting against the Second Covington Proposal, on August 25, 2011 shareholders of the VenGrowth Funds approved the Second Covington Proposal and on September 2, 2011 the VenGrowth Funds were merged into Covington Fund II Inc. As a result, the VenGrowth Funds will not be merged into the Fund.

#### *IFRS*

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.

## *RMP*

Subsequent to year end, on November 10, 2011, the Fund announced that it had adopted a redemption management plan or “RMP” whereby the Fund will close weekly Class A share redemptions and, subject to regulatory approval, would process redemptions of Class A shares semi-annually in amounts determined by the Board of Directors. The RMP was formulated to maintain meaningful levels of investor liquidity while at the same time preserve cash needed to fund follow on investments in the fund’s most promising portfolio companies. Recent volatility in market conditions has impaired the Fund’s ability to complete cash-generating exits from its venture portfolio, tightening the Fund’s liquidity position. The Fund cannot continue to process all anticipated Class A share redemptions requests while at the same time preserve capital for follow-on investments. The Board of Directors and the Manager of the fund remain confident in the potential of the fund’s mature, diversified venture portfolio. The primary objective of the RMP is to ensure the significant upside potential in the fund’s portfolio can be cultivated and optimized for shareholders.

Under the RMP, and subject to regulatory approval, the Fund would process redemptions of Class A shares semi-annually. Redemptions would be processed based on an annual redemption value determined by the Board of Directors after taking into account projected divestment activity and the fund’s follow-on investment needs, liabilities and operating commitments. The annual redemption amount may be increased or decreased in the discretion of the Board of Directors if divestment activity exceeds or falls short of projected levels. If and when regulatory approval of this element of the RMP is secured, the Fund will issue a press release announcing the first semi-annual redemption date and the process for lodging redemption requests under the RMP. The annual redemption value for the first year of redemptions under the RMP has been set at \$20 million (representing over 20% of the value of the Fund’s mature Class A shares and over 10% of the Fund’s net asset value), with \$10 million designated for redemption on the first semi-annual redemption date. Semi-annual redemption amounts are subject to adjustment in the discretion of the Board of Directors. If redemption requests exceed the redemption value for a particular redemption date, redemptions would be processed on a proportionate basis by reference to the number of shares subject to each redemption request. The Fund’s objective is to return to weekly, unrestricted Class A share redemptions within 24 months, or sooner if divestment activity exceeds projected levels.

The Fund has obtained regulatory approval to close Class A share redemptions until April 16, 2012 and will seek further regulatory approval to process redemptions of Class A shares on the terms of the RMP adopted by the Board of Directors. There can be no assurance that the Fund will secure regulatory approval required to process redemptions on the basis proposed under the RMP or at all or that the Fund will resume weekly, unrestricted Class A share redemptions.

## ***RELATED PARTY TRANSACTIONS***

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The Fund pays the Manager fees based on fixed percentages of NAV for management and administrative services provided to the Fund under a management agreement. See “Management Fees” below. Fees charged to these Series during the year were \$235,800, including applicable HST. The Fund also reimburses the Manager or other related entities any interest expense incurred in the financing of sales commissions. Payments to the Manager by the Series during the year are detailed under “Management Fees”.

The management agreement may be terminated by either party if the other party becomes bankrupt or insolvent or is in material breach of the agreement and does not remedy the breach within 60 days of notice from the other party. The Fund may also terminate the management agreement if the Manager does not maintain necessary securities registrations or by resolution of the Board if the resolution is ratified by a special resolution of the Fund’s shareholders. The termination would be effective five years after such ratification. The Manager may also terminate the management agreement if the Fund changes its fundamental investment objectives or policies.

The Manager has engaged GrowthWorks Capital Ltd., another company in the Matrix Venture Capital Operating Division, at its own cost, to provide investment fund manager services, investment advice and principal distributor services to the Fund. The Manager may engage others, including other companies in the Matrix Venture Capital Operating Division, at its own cost, to provide some or all of the Services and may delegate any part of its duties and powers to them.

A related fund, which is managed by Growth Works Capital Ltd., participated in the Fund’s 2011 financing facility. The financing facility was reviewed and approved by the Fund’s Independent Review Committee. See “Results of Operations” for more details on the terms of the financing facility.

The Manager owns Class C shares of the Fund, which entitle the Manager to receive dividends (“IPA dividends”) based on realized gains and income resulting from the Fund’s venture investments. No IPA dividends were paid during the year, however IPA dividends of \$43,641 have been accrued and allocated to these Series at August 31, 2011. In addition, contingent IPA of \$86,197 was recorded for the year in respect of the Series. Contingent IPA is not an amount that was actually paid or payable, but is an estimate of IPA dividends that would be payable if the entire venture portfolio were disposed of at the estimated fair value as of the end of the year.

The Fund’s assets and liabilities are allocated in the records of the Fund among all series of Class A Shares of the Fund in accordance with the particular investment policies and expenses and charges applicable to the particular series. Certain investments and other assets, including cash, are allocated among multiple series of Class A Shares of the Fund through the use of inter-series receivable and payable accounts. The Series also incur inter-series receivables and payables on the reallocation of the Fund’s various shared portfolios. All inter-series allocations occur at fair value. All inter-series balances are non-interest bearing, unsecured and have no specific repayment terms.

### **FINANCIAL HIGHLIGHTS**

The following tables show selected key financial information about these Series and are intended to help you understand each Series’ financial performance for the past five years. This information is derived from the Fund’s audited annual financial statements. The tables below disclose operating management expense ratio or “MER” and total MER for the Series. Operating MER is total MER (before waivers and absorptions), adjusted to exclude charges that are not ordinary course operating expenses of the Fund. These excluded charges consist of (i) earned IPA and contingent IPA which are charges associated with the Manager’s incentive arrangements and are tied to positive performance of the Fund’s venture portfolio, and (ii) charges associated with the participation financing transaction between the Fund and Roseway (such charges being referred to as “participation liability”). See “Participation Transaction” above. Through the participation transaction, Roseway advanced capital to the Fund aimed at preserving and enhancing value in the venture portfolio by enabling the Fund to participate in a number of follow-on investment opportunities in strong investee companies. Follow-on investments in strong investee companies often generate very high returns on subsequent divestments, thereby increasing the performance and returns of the venture portfolio. Operating MER does not have a standard meaning prescribed under Canadian securities laws and therefore may not be comparable to similar measures presented by other investment funds.

<b>Financial Services Commission I</b>					
<b>Net Assets per Share <sup>(1)</sup></b>	2011 <sup>(3)</sup>	2010 <sup>(3)</sup>	2009 <sup>(3)</sup>	2008 <sup>(3)</sup>	2007 <sup>(3)</sup>
Net assets per share, beginning of year <sup>(2)</sup>	\$7.63	\$8.84	\$10.33	\$11.04	\$10.46
<b>Increase (decrease) from operations:</b>					
Total revenue	\$0.16	\$0.11	\$0.20	\$0.23	\$0.37
Total expenses and amortization	(\$0.76)	(\$0.61)	(\$0.55)	(\$0.64)	(\$0.62)
Realized gains (losses) for the year	(\$0.55)	(\$0.60)	(\$0.47)	\$0.75	-
Unrealized gains (losses) for the year	\$0.07	(\$0.09)	(\$0.59)	(\$1.17)	\$0.74
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>(\$1.08)</b>	<b>(\$1.19)</b>	<b>(\$1.41)</b>	<b>(\$0.83)</b>	<b>\$0.49</b>
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends / capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
<b>Total annual distributions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net assets per share at end of year shown <sup>(1)</sup></b>	<b>\$6.55</b>	<b>\$7.63</b>	<b>\$8.84</b>	<b>\$10.33</b>	<b>\$11.04</b>

<b>Ratios and Supplemental Data</b>					
Total net asset value (000's) <sup>(3)</sup>	\$1,395	\$1,602	\$1,767	\$1,881	\$1,775
Number of shares outstanding (000's) <sup>(3)</sup>	213	209	200	182	161
Operating MER <sup>(4)</sup>	7.07%	6.01%	5.95%	5.99%	5.31%
Total MER before waivers or absorptions <sup>(4)</sup>	11.07%	7.30%	6.26%	6.42%	7.92%
Trading expense ratio <sup>(6)</sup>	0.00%	0.01%	0.00%	0.00%	0.02%
Portfolio turnover rate <sup>(7)</sup>	18%	19%	31%	26%	23%
NAV per share at end of year	\$6.55	\$7.67	\$8.84	\$10.33	\$11.04

<b>Additional Information on Ratios</b>					
Operating MER <sup>(4)</sup>	7.07%	6.01%	5.95%	5.99%	5.31%
<i>Earned IPA</i>	0.13%	0.27%	0.00%	2.71%	1.21%
<i>Contingent IPA</i>	0.30%	0.44%	0.27%	(2.46)%	1.22%
<i>Participation liability</i>	3.57%	0.58%	-	-	-
Total MER before waivers or absorptions <sup>(4)</sup>	11.07%	7.30%	6.26%	6.42%	7.92%
<p><i>Effective July 1, 2010 HST was implemented in Ontario increasing MER as compared to prior periods. Earned IPA reflects the Manager's participating interest in gains and income realized on successful exits from the Fund's venture investments. Contingent IPA is not an amount actually paid or payable; rather, it is an estimate of the IPA that would be payable if the Fund's entire venture portfolio was disposed of at the year end and this line reflects the change in the estimate from the previous year. Participation liability reflects the accounting treatment of liabilities accrued under the participation agreement with Roseway. See the Prospectus for further details.</i></p>					

<b>Financial Services Commission II</b>					
<b>Net Assets per Share<sup>(1)</sup></b>	2011 <sup>(3)</sup>	2010 <sup>(3)</sup>	2009 <sup>(3)</sup>	2008 <sup>(3)</sup>	2007 <sup>(3)</sup>
Net assets per share, beginning of year <sup>(2)</sup>	\$7.62	\$8.84	\$10.33	\$11.05	\$10.46
<b>Increase (decrease) from operations:</b>					
Total revenue	\$0.16	\$0.11	\$0.20	\$0.21	\$0.37
Total expenses and amortization	(\$0.76)	(\$0.62)	(\$0.55)	(\$0.63)	(\$0.61)
Realized gains (losses) for the year	(\$0.55)	(\$0.62)	(\$0.47)	\$0.67	\$0.01
Unrealized gains (losses) for the year	\$0.08	(\$0.07)	(\$0.61)	(\$1.06)	\$0.77
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>(\$1.07)</b>	<b>(\$1.20)</b>	<b>(\$1.43)</b>	<b>(\$0.81)</b>	<b>\$0.54</b>
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends / capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
<b>Total annual distributions</b>	-	-	-	-	-
<b>Net assets per share at end of year shown<sup>(1)</sup></b>	<b>\$6.54</b>	<b>\$7.62</b>	<b>\$8.84</b>	<b>\$10.33</b>	<b>\$11.05</b>

<b>Ratios and Supplemental Data</b>					
Total net asset value (000's) <sup>(3)</sup>	\$2,263	\$2,594	\$2,864	\$3,090	\$2,611
Number of shares outstanding (000's) <sup>(3)</sup>	346	340	324	299	236
Operating MER <sup>(4)</sup>	7.05%	6.15%	6.02%	5.97%	5.32%
Total MER before waivers or absorptions <sup>(4)</sup>	11.06%	7.44%	6.33%	6.41%	7.88%
Trading expense ratio <sup>(5)</sup>	0.00%	0.01%	0.00%	0.00%	0.02%
Portfolio turnover rate <sup>(6)</sup>	18%	19%	31%	26%	23%
NAV per share at end of year	\$6.54	\$7.63	\$8.84	\$10.33	\$11.05

<b>Additional Information on Ratios</b>					
Operating MER <sup>(4)</sup>	7.05%	6.15%	6.02%	5.97%	5.32%
<i>Earned IPA</i>	0.14%	0.27%	0.00%	2.56%	1.18%
<i>Contingent IPA</i>	0.30%	0.44%	0.27%	(2.30)%	1.21%
<i>Participation liability</i>	3.57%	0.58%	-	-	-
Total MER before waivers or absorptions <sup>(4)</sup>	11.06%	7.44%	6.33%	6.41%	7.88%
<p><i>Effective July 1, 2010 HST was implemented in Ontario increasing MER as compared to prior periods. Earned IPA reflects the Manager's participating interest in gains and income realized on successful exits from the Fund's venture investments. Contingent IPA is not an amount actually paid or payable; rather, it is an estimate of the IPA that would be payable if the Fund's entire venture portfolio was disposed of at the year end and this line reflects the change in the estimate from the previous year. Participation liability reflects the accounting treatment of liabilities accrued under the participation agreement with Roseway. See the Prospectus for further details.</i></p>					

## Notes

- (1) *This information is derived from the Series' audited annual financial statements.*
- (2) *Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial year.*
- (3) *This information is presented as of August 31 of the year shown.*
- (4) *See introduction to tables for a description of Operating MER before IPA and participation liability. Total MER is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated year and is expressed as an annualized percentage of average weekly NAV during the year.*
- (5) *The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of average weekly net asset value during the year.*
- (6) *A Series' portfolio turnover rate indicates how actively that Series' portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Series buying and selling all of the securities in its portfolio once in the course of the year. The higher a Series' portfolio turnover rate in a year, the greater the trading costs payable by the Series in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Series. This rate includes the turnover of venture and non-venture investments.*

## Management Fees

The Manager provides management services (including day-to-day management and investment management) and administrative services (including administrative, sales and marketing) to the Fund under an amended and restated management agreement dated July 15, 2006. Under the terms of the agreement, the Manager is entitled to a management fee of 2.04% of average NAV and an annual base administration fee on a declining basis as follows: 1.95% of average NAV up to \$300 million, 1.77% for the next \$200 million and 1.58% beyond \$500 million. The management and base administration fees are calculated and paid monthly on the average NAV of the Fund. There is also an annual capital retention administration fee of 0.75% of the original purchase price of Commission I Series and 1.1625% of the original purchase price of Commission II Series, in each case payable in respect of shares that remain issued and unredeemed. This fee is calculated and paid monthly for the Manager's efforts to retain capital within the Fund. This fee ceases in respect of shares outstanding for more than 8 years.

For the year, the aggregate amount of fees charged to these Series was \$235,800, including \$27,127 of HST. The breakdown of those fees is as follows: management fees (net of abatement) of \$84,903 (including \$9,768 of HST), representing 36.01% of fees paid to the Manager, annual base administration fees of \$86,604 (including \$9,963 of HST), representing 36.73% of fees paid to the Manager, and annual capital retention administration fees of \$64,294 (including \$7,397 of HST), representing 27.27% of fees paid to the Manager.

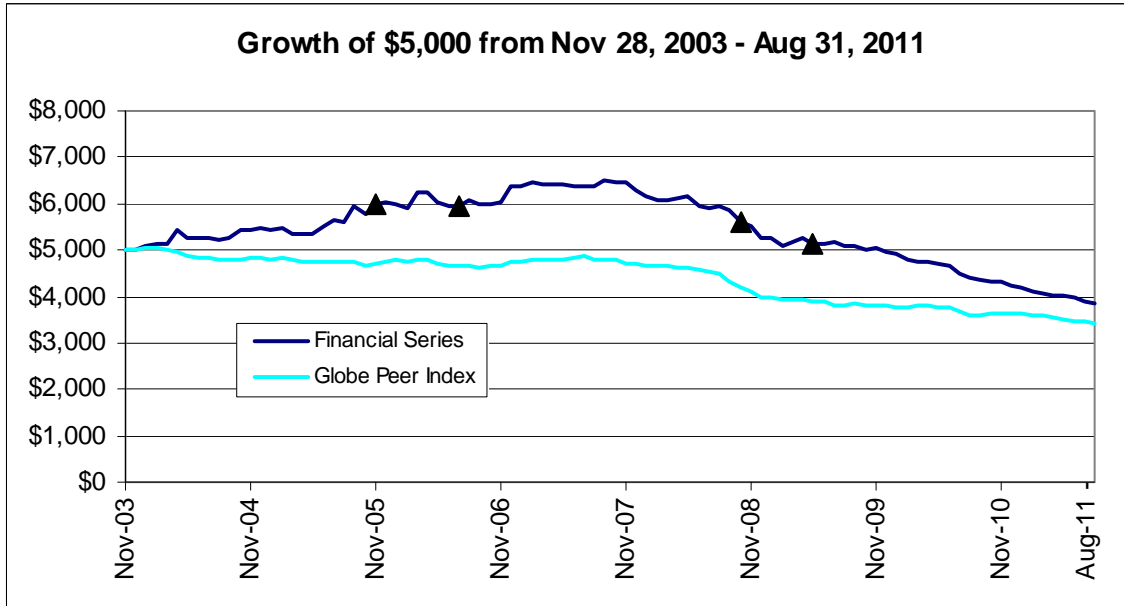
Service fees of 0.5% of NAV per year amounted to \$7,562 for the year and were paid directly by these Series to dealers. Directors fees of \$9,093 for the year were paid by these Series.

## PAST PERFORMANCE

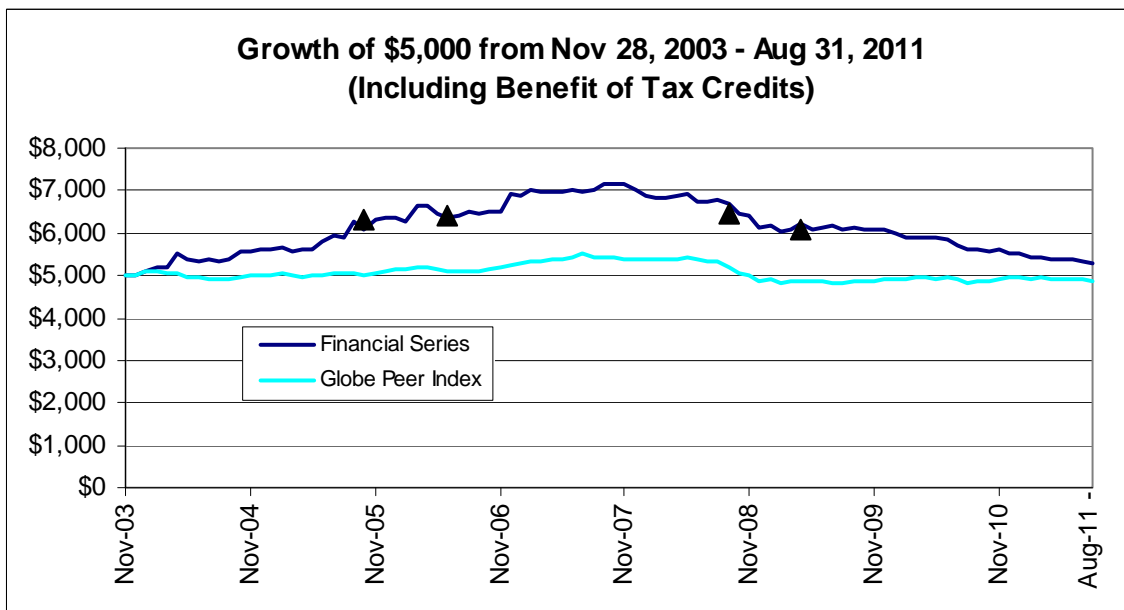
The performance data provided assumes reinvestment of distributions, if any, and does not take into account redemption or other charges directly payable by any shareholder that would have reduced returns. Past performance does not necessarily indicate how a Series will perform in the future. While it is assumed that distributions made by the Fund are reinvested, to date none of the Financial Services Series have made any distributions which could be re-invested. Return information may vary due to different cost and fee structures and different levels of share redemption activity among these Series.

The Fund completed material merger transactions with CAVI and CSTGF in 2005, with ENSIS in 2008 and with CMDF in 2009. In accordance with securities law requirements, historical performance under the headings "Year-by-Year Returns" is provided for each merged fund up to the date of the applicable merger and historical performance for the Series is provided before, between and after merger dates up to August 31, 2011, as applicable.

To provide additional material information for investors about the Fund's performance, we have included the following graphs which show the performance of a \$5,000 investment made on November 28, 2003 (Financial Services Shares Commission I Series inception date) to August 31, 2011 for the Financial Services Series Commission I as compared to the Globe Retail Venture Capital Peer Index ("Globe Peer Index"). The Globe Peer Index is a mutual fund sector specific index that combines data from similar funds, in this case RVCs, to provide sector average return information. Performance data for Financial Services Series Commission II will vary only slightly due to different commission structures. The second chart shows the performance of the Financial Services Series Commission I after taking in to account the special retail venture capital fund tax credits that you do not receive when you invest in ordinary mutual funds. These tax credits represent a substantial financial benefit that you should take into account when looking at share returns. Merger dates are reflected in the graphs below.



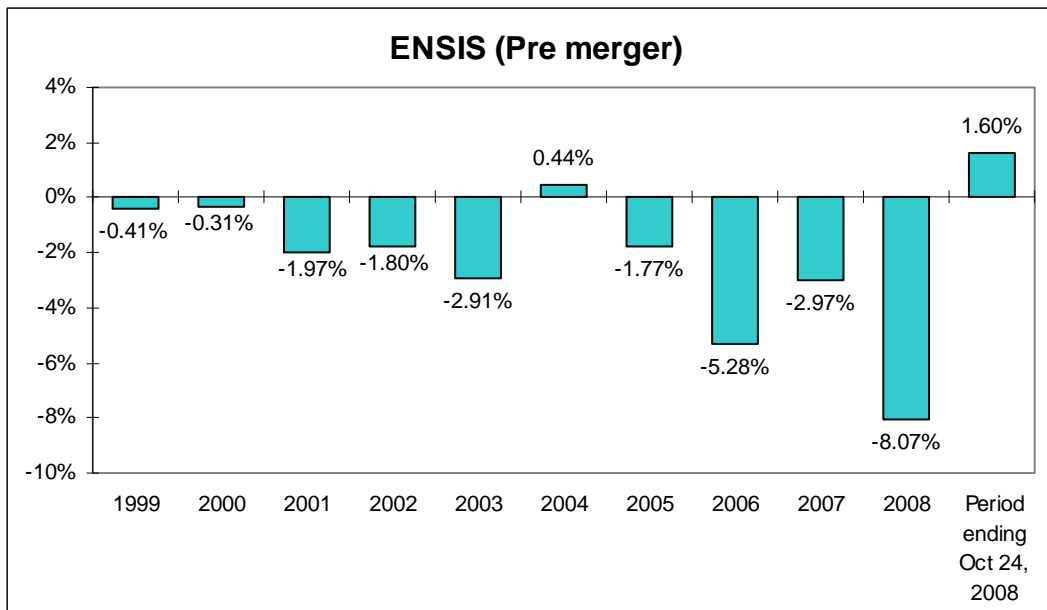
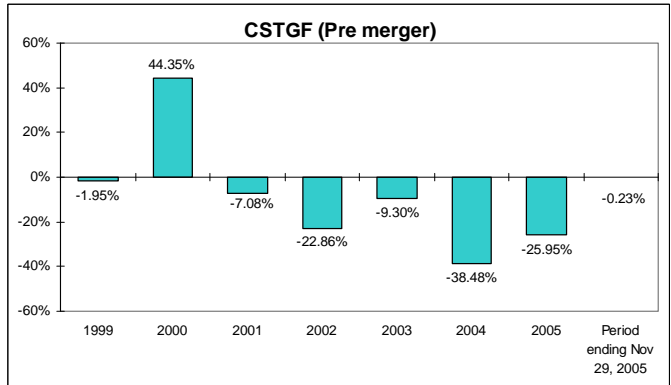
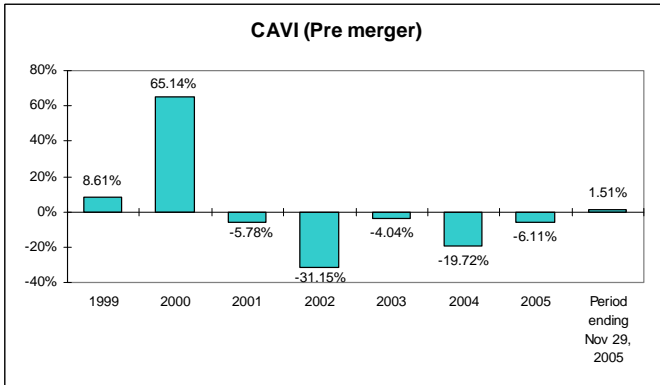
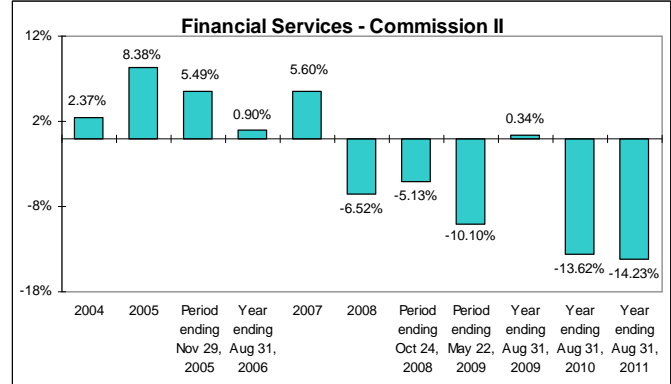
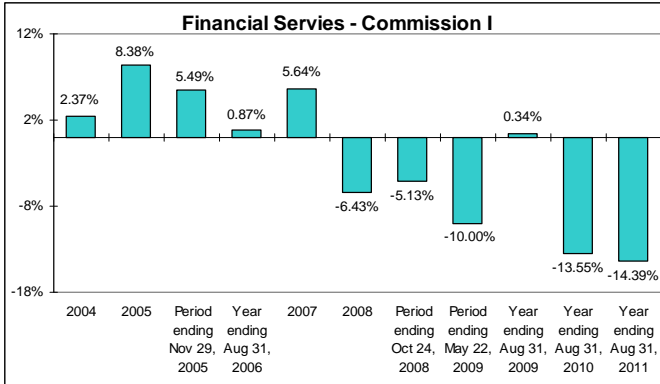
When comparing the performance of the Series with the Globe Peer Index Return, readers should be mindful of economic factors unique to venture capital investing. Venture capital funds employ a wide range of investment strategies. Some funds focus on businesses at earlier stages of development and others focus on later stage businesses that allow for shorter investment cycles. While the Fund has a diversified portfolio of investments, some venture investments made by the Fund are in earlier stage businesses that may take four to eight years or longer to mature. As a result, different investment portfolios may have vastly different investment cycles, and this can have a significant effect on relative performance. Venture capital funds also employ different non-venture investment strategies and are impacted in varying degrees by economic factors such as changing interest and foreign exchange rates. We believe these factors should be considered when comparing the returns of the Financial Services Series with the Globe Peer Index Return.

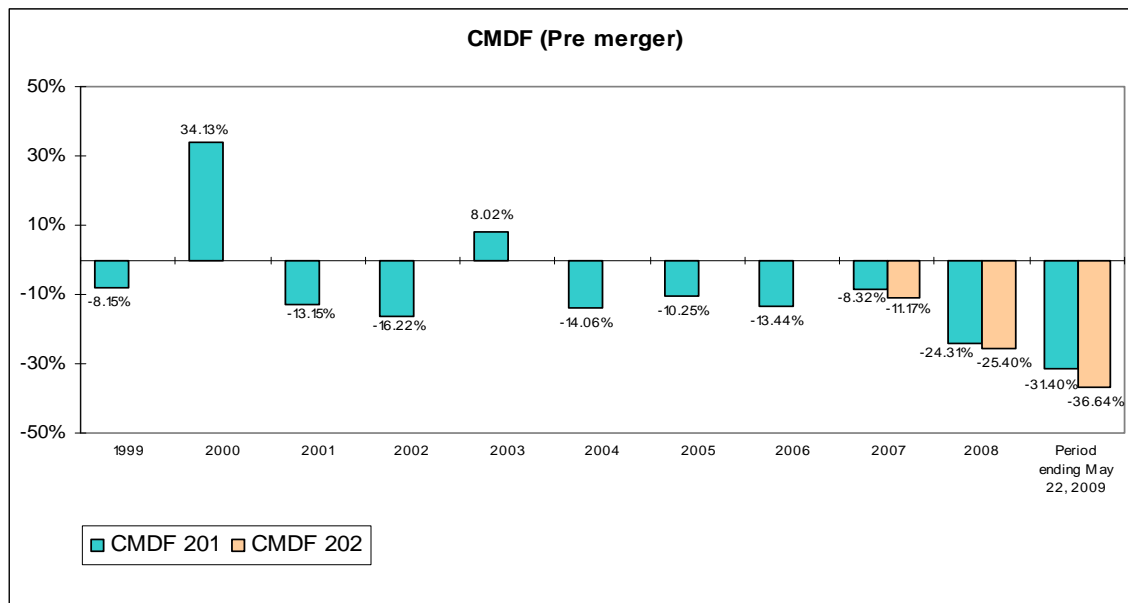


This second chart includes the annual, compounded rate of return related to the tax credits over the typical 8 year period during which shares must be held to retain the benefit of the tax credits (assumes tax credits were fully claimed and allowed at the same time as the purchase of Fund shares was made and are redeemed on the expiry of 8 years from the date of purchase). The tax credit rate for the 2011 taxation year for purchasers in Manitoba is 30% (15% federal and 15% provincial), in Saskatchewan is 35% (15% federal and 20% provincial) and in Ontario is 20% (15% federal and 5% provincial). The Ontario government has adopted legislation providing for the phase-out of the Ontario RVC tax credit. See "Recent Developments" above. The previous combined tax credit in Ontario was 30%. The rate of return related to a 30% combined tax credit is illustrated by the following. If there was no growth at all in the NAV per share over time, the net capital invested would essentially grow to a redemption claim equal to the purchase price over 8 years. To simplify the math, a share is purchased for \$1; the cost is reduced by 30 cents of tax credits, for net capital invested of 70 cents. At year 8, if NAV per share has not changed, the share can be redeemed for \$1. Thus 70 cents growing to \$1 over 8 years provides a 4.56% annual, compounded rate of growth over that period.

## Year-by-Year Returns

The bar charts below show each Series' performance for each of the periods shown, and illustrate how each Series' performance has changed from year to year. The bar charts show in percentage terms, how much an investment made on September 1 (or the applicable merger date) would have grown or decreased during the applicable year ended August 31 or up to the next merger date within the same year, as applicable.





### Annual Compound Returns

The table below shows each Series' annual compounded performance (or period performance for periods of less than one year) for the given periods, compared with the Globe Peer Index. As clarified by the Ontario Securities Commission, an investment fund is required to include comparative information for a broad-based market index. The Fund has selected the NASDAQ Composite Index denominated in Canadian dollars due to its significant exposure to technology and life sciences companies. As the chart reveals, the Financial Services Series generally underperformed the NASDAQ Composite Index during the given periods. The performance of the NASDAQ Composite Index can be an indicator of the M&A and IPO activity within the sectors represented by the Index, including the technology and life sciences sectors. To the extent that the Fund has investments within those sectors, changes in M&A and IPO activity can impact the value of the Fund's venture investments, opportunities for the Fund to dispose of such investments and, potentially, Fund returns. For instance, increasing performance of the Index may increase the number of potential acquirers for the Fund's venture investments since stock compensation is often the acquisition currency used in M&A transactions. This can positively influence the value of the Fund's venture investments, thereby increasing returns. By contrast, declining performance of the Index may be an indicator of decreased M&A and IPO activity, which may in turn negatively impact the value of the Fund's venture investments, thereby reducing returns.

Under securities laws, the Fund is not permitted to provide performance data for any periods that is composed of both time before and after a merger. As a result, the performance periods below are split out by merger dates. Comparative performance data for the benchmarks are similarly split out by merger dates.

Annual Compound Returns <sup>(1)(2)</sup>							
Since Inception							
5 Year							
3 Year							
1 Year							
	August 31, 2010 – August 31, 2011	CMDF Merger to August 31, 2010	ENSIS Merger to CMDF Merger	August 31, 2008 to ENSIS Merger	August 31, 2006 to August 31, 2008	CAVI/CSTGF Merger to August 31, 2006	Inception to CAVI/CSTGF Merger <sup>(3)</sup>
Financial Services – Commission I	-14.39%	-13.25%	-10.00%	-5.13%	-0.62%	0.87%	9.28%
Financial Services – Commission II	-14.23%	-13.32%	-10.10%	-5.13%	-0.62%	0.87%	9.28%
CAVI	N/A	N/A	N/A	N/A	N/A	N/A	-1.22%
CSTGF	N/A	N/A	N/A	N/A	N/A	N/A	-8.95%
ENSIS	N/A	N/A	N/A	1.60%	-5.54%	-1.63%	-1.97%
CMDF 201 <sup>(4)</sup>	N/A	N/A	-32.20%	1.12%	1.68%	-13.55%	-2.29%
CMDF 202 <sup>(4)</sup>	N/A	N/A	-32.20%	1.12%	1.68%	-17.97%	N/A

	1 Year	3 Year		5 Year	Since Inception <sup>(3)</sup>	
Globe Peer Index Return	-4.73%	-5.90%	-7.37%	-6.86%	-1.02%	-2.99%
NASDAQ Composite Index Return (C\$)	12.21%	12.06%	-6.54%	-17.29%	2.03%	1.24%

Notes:

- (1) Returns for periods of less than one year are not annualized.
- (2) The Fund completed a merger with CAVI and CSTGF on November 29, 2005, with FOF on July 14, 2006, with ENSIS on October 24, 2008 and with CMDF on May 22, 2009.
- (3) Since inception dates are as follows: Financial Services Series (Commission I and II) November 28, 2003; CAVI October 31, 1994; CSTGF November 29, 1996; ENSIS March 1, 1998; CMDF 201 December 19, 1994; CMDF 202 December 1, 2006.
- (4) Prior to the CMDF Merger, there were two series with different NAV in CMDF. As a result, returns are shown for both of CMDF 201 and CMDF 202. Return data for CMDF 201/202 from CAVI/CSTGF Merger to August 31, 2006 is from October 2005 because of data availability.

When comparing the performance of the Series with the Globe Peer Index Return, readers should be mindful of economic factors unique to venture capital investing. Venture capital funds employ a wide range of investment strategies. Some funds focus on businesses at earlier stages of development and others focus on later stage businesses that allow for shorter investment cycles. While the Fund has a diversified portfolio of investments, many venture investments made by the Fund are in earlier stage businesses that may take four to eight years or longer to mature. As a result, different investment portfolios may have vastly different investment cycles, and this can have a significant effect on relative performance. Venture capital funds also employ different non-venture investment strategies and are impacted in varying degrees by economic factors such as changing interest and foreign exchange rates. We believe these factors should be considered when comparing the returns of these Series with the Globe Peer Index Return.

### After Tax Credit Annual Compound Returns to Shareholders

Investing in a retail venture capital fund provides tax credits that you do not receive when you invest in ordinary mutual funds. These tax credits represent a substantial financial benefit that you should take into account when looking at share returns. The Saskatchewan tax credit increased from 15% to 20% beginning with the 2009 tax year. The Ontario tax credit was reduced from 10% to 5% beginning with the 2011 tax year. For Ontario, Saskatchewan and other investors that claim 15% federal and 20% or 15% provincial tax credits, an investor's returns on a \$5,000 purchase (\$3,500 in Saskatchewan) made on or after August 31, 2003 to the end of the year (excluding purchases by Ontario residents for tax years after 2009) after taking into account the special tax credits were:

After Tax Credit Annual Compound Returns <sup>(1)(2)</sup> 35% - Federal and Provincial Tax Credits <sup>(3)</sup> SK – purchases after January 1, 2009							
10 Year							
5 Year							
3 Year							
1 Year							
	August 31, 2010 – August 31, 2011	CMDF Merger to August 31, 2010	ENSIS Merger to CMDF Merger	August 31, 2008 to ENSIS Merger	August 31, 2006 to August 31, 2008	CAVI/CSTGF Merger to August 31, 2006	Inception to CAVI/CSTGF Merger <sup>(3)</sup>
<b>Financial Services – Commission I</b>							
Series & After Tax Credit Return	-8.86%	-7.72%	-6.82%	-4.31%	4.91%	5.04%	14.81%
Tax Credit Return	5.53%	5.53%	3.18%	0.82%	5.53%	4.17%	5.53%
Annual Compound Return	-14.39%	-13.25%	10.00%	-5.13%	-0.62%	0.87%	9.28%
<b>Financial Services – Commission II</b>							
Series & After Tax Credit Return	-8.70%	-7.79%	-6.92%	-4.31%	4.91%	5.04%	14.81%
Tax Credit Return	5.53%	5.53%	3.18%	0.82%	5.53%	4.17%	5.53%
Annual Compound Return	-14.23%	-13.32%	-10.10%	-5.13%	-0.62%	0.87%	9.28%

After Tax Credit Annual Compound Returns <sup>(1)(2)</sup> 30% - Federal and Provincial Tax Credits <sup>(3)</sup> SK – purchases before January 1, 2009							
10 Year							
5 Year							
3 Year							
1 Year							
	August 31, 2010 – August 31, 2011	CMDF Merger to August 31, 2010	ENSIS Merger to CMDF Merger	August 31, 2008 to ENSIS Merger	August 31, 2006 to August 31, 2008	CAVI/CSTGF Merger to August 31, 2006	Inception to CAVI/CSTGF Merger <sup>(3)</sup>
<b>Financial Services – Commission I</b>							
Series & After Tax Credit Return	-9.83%	-8.69%	-7.38%	-4.46%	3.94%	4.31%	13.84%
Tax Credit Return	4.56%	4.56%	2.62%	0.67%	4.56%	3.44%	4.56%
Annual Compound Return	-14.39%	-13.25%	-10.00%	-5.13%	-0.62%	0.87%	9.28%

<b>Financial Services – Commission II</b>							
<b>Series &amp; After Tax Credit Return</b>	-9.67%	-8.76%	-7.48%	-4.46%	3.94%	4.31%	13.84%
<b>Tax Credit Return</b>	4.56%	4.56%	2.62%	0.67%	4.56%	3.44%	4.56%
<b>Annual Compound Return</b>	-14.23%	-13.32%	-10.10%	-5.13%	-0.62%	0.87%	9.28%

**Notes:**

- (1) *This return is the sum of the Tax Credit Return and the Annual Compound Return for the series. Returns for periods of less than one year are not annualized. For applicable 10 year and since inception returns, before tax credits, see “Annual Compound Returns” above.*
- (2) *This is the annual, compounded rate of return related to the tax credits over the typical 8 year period during which shares must be held to retain the benefit of the tax credits (assumes tax credits were fully claimed and allowed at the same time as the purchase of Fund shares was made and shares were purchased on or after August 31, 2003 and are redeemed on the expiry of 8 years from the date of purchase). This is illustrated by the following. If there was no growth at all in the NAV per share over time, the net capital invested would essentially grow to a redemption claim equal to the purchase price over 8 years. To simplify the math, a share is purchased for \$1; the cost is reduced by, for example, 30 cents of tax credits, for net capital invested of 70 cents. At year 8, if NAV per share has not changed, the share can be redeemed for \$1. Thus 70 cents growing to \$1 over 8 years provides a 4.56% annual, compounded rate of growth over that period. In 2009, the Saskatchewan provincial tax credit rate was increased from 15% to 20% for tax years after 2008.*
- (3) *The tax credit rate for purchasers in Ontario is 30% (prior to 2010 tax year, 15% federal and 15% provincial), 25% (2010 tax year, 15% federal and 10% provincial) or 20% (2011 tax year, 15% federal and 5% provincial). See “Recent Developments” above. As a result of legislative amendments, effective January 1, 2009 the tax credit rate for purchasers in Saskatchewan is now 35% (15% federal and 20% provincial). At present, the maximum purchase amounts in respect of which tax credits may be claimed are \$5,000 federal, \$7,500 Ontario (previously \$5,000) and \$5,000 Saskatchewan (previously \$3,500). Returns for investments for which the Ontario tax credit is claimed for the 2010 or 2011 tax years or which exceed the purchase amounts assumed above or which exceed the maximum purchase amounts will vary and are not provided in these tables.*
- (4) *The Fund completed a merger with CAVI and CSTGF on November 29, 2005, with FOF on July 14, 2006, with ENSIS on October 24, 2008 and with CMDF on May 22, 2009.*
- (5) *See notes (1) and (2) above on Annual Compound Returns tables.*



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