
FORMULA GROWTH

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

DECEMBER 31, 2011

FORMULA GROWTH FUND

INCEPTION DATE
JUNE 30, 1960

PORTFOLIO MANAGEMENT TEAM
FORMULA GROWTH LIMITED

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 514-288-5136, by writing to us at 1010 Sherbrooke St. West, Suite 2300, Montreal, Quebec, H3A 2R7 or by visiting our website at www.formulagrowth.ca or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the investment fund's proxy policies and procedures, proxy voting disclosure record and quarterly portfolio disclosure.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objectives and Strategies

Formula Growth Fund seeks to achieve long-term growth through capital appreciation by investing primarily in small to medium-sized American companies judged to have above-average growth potential or to be undervalued. Formula Growth employs a number of quantitative and qualitative analytical tools in the process of identifying superior investment opportunities. Formula Growth invests in U.S. growth companies with outstanding management, strong brand identity or prospects, a dedicated customer focus, and a record of demonstrated financial performance. Security selection is based on "bottom-up" research of individual companies rather than on broader economic analysis or themes. Less emphasis is placed on macro-economic, interest rate, market or sector forecasting. Earnings per share growth is the dominant variable monitored in the management of Formula Growth portfolios.

In growth investing, diversification is critical. Formula Growth portfolios employ significant diversification by holding a relatively large number of stocks. This ensures that the risk of any particular security to the overall portfolio is predetermined and can be effectively managed over time.

Risks

There are risks associated with an investment in the Fund, as a result of, among other considerations, the proposed nature and operations of the Fund. An investment in Units should only be made after consultation with independent qualified sources of investment and tax advice. An investment in the Fund is speculative and involves a high degree of risk and is not intended as a complete investment program. There is a risk that an investment in the Fund will be lost entirely or in part. Only investors who do not require immediate liquidity of their investment and who can reasonably afford a substantial impairment or loss of their entire investment should consider the purchase of Units.

There is no guarantee that an investment in Units will earn any positive return in the short or long-term. The value of the Units may increase or decrease depending on market, economic, political, regulatory and other conditions affecting the Fund's portfolio. Investment in Units is more volatile and risky than some other forms of investments. All prospective Unitholders should consider an investment in the Fund within the overall context of their investment policies. Investment policy considerations include, but are not limited to, setting objectives, defining risk/return constraints and considering time horizons. Furthermore, there can be no assurance that the Fund will be able to achieve its investment objectives.

Many of the investments in the Fund, at any time, will consist of securities denominated in currencies other than the Canadian dollar (primarily the U.S. dollar) and, accordingly, the Net Asset Value will, when measured in Canadian dollars, be affected by fluctuations in the value of such currencies relative to the Canadian dollar.

As at December 31, 2011, approximately 75% of the units issued were held by 50 unitholders. In the unlikely but possible scenario that the majority of those unitholders decide at the same time and as a group, to give the required 10 days redemption notice, the net asset value of the fund may be negatively impacted. It is important to recognize that the manager believes that the Fund's portfolio is very liquid and consists of publicly traded stocks on recognized stock exchanges. Those stocks may be liquidated under normal market conditions in a matter of hours to satisfy any size redemption request. In addition, as stated in the syndicate agreement "should the manager reasonably considers that i) the amount of redemption requested would result in a disorderly liquidation of the Fund's investments or ii) there exists a state of affairs that is outside the normal course of business as a result of which the disposal of the Fund's investments is not reasonably practicable or would not determine fairly the value of its assets, then the manager shall have the right, in its discretion, to delay the withdrawal date for up to two additional valuation dates".

Subscription and Redemption of Units

New members to the Fund may be admitted by consent of the Manager. New and existing members may subscribe to new units at a price equal to the "Transactional" net asset value (NAV) of such unit at the date of subscription, which is computed in the middle and end of the month. The Manager reserves the right, in its sole discretion, to accept or reject subscriptions for units.

Any member of the Fund may redeem one or more units at the NAV, on the dates described above, by giving notice to the Manager at the address of the Manager in either Montreal, Quebec or other such place as the Manager may determine; such notice shall be given by registered post and shall be received at least ten (10) days prior to the redemption date. The said notice shall state the number of units which are to be redeemed. Payment for the units shall be made within three (3) days of the NAV computation upon which the redemption is based.

Results of Operations

The net asset value of the Fund as of December 31, 2011 was \$3,704.16 per unit in Canadian dollars. This represents an 8.1% increase for the year in Canadian dollars and a 5.7% increase in U.S. Dollars. Our results compare very well with the Indexes listed in the table below and with the average U.S. Small-cap Manager who declined 3.4%.

	Dec. 31/11	Dec. 31/10	1 Year
Fund Cdn	\$3,704.16	\$3,427.57	8.1%
Fund U.S.	\$3,642.24	\$3,446.18	5.7%
S&P 500	1,257.60	1,257.64	0.0%
Russell 2000	740.92	783.65	-5.5%
NASDAQ	2,605.15	2,652.87	-1.8%

As it was in 2010, the year 2011 was a year in three parts, only with a deeper mid-year decline. Through late July the S&P500 was up 6% but then dropped quickly by 18% by early October. Fortunately by year end the markets recovered and the S&P500 finished flat for the year. The Formula Growth Fund had a similar experience being up 18% by the end of July and then declining 21% from there by the beginning of October. The Fund rallied strongly at that point to close the year up 5.7% in U.S. dollars. On the whole 2011 was a very difficult year for stocks around the world. The U.S. was the one bright spot in a sea of negative returns.

The extreme volatility in the equity markets in recent years has made it difficult for investors to achieve a consistent or even a remotely smooth return. Returns on stocks have been lumpy and have come in fits and starts. Masked by the volatility is the fact that since the financial meltdown of 2008, U.S. stocks have had solid returns. The S&P500 has compounded at 12% while the smaller and more growth oriented Russell and NASDAQ indexes have compounded at 14% and 18% respectively. Formula Growth Fund has done better over the past three years compounding at 23% in U.S. dollars. It has paid investors to hunker down and stay exposed to equities instead of allowing frustration and skepticism from the macro environment to drive them away from stocks. It is our strong feeling this will continue to be the case in 2012.

It is easy to understand why there has been tremendous volatility in the financial markets given this year's Euro zone sovereign debt crisis, U.S. debt-ceiling impasse, sputtering global GDP growth, the Arab spring, the Japanese earthquake and bumbling politicians. These concerns, and others, have shaken investor confidence to the core and are resulting in economic deleveraging and political paralysis around the globe. Over time confidence will rebuild as negative headlines fade into background noise and the focus shifts to the solid results being reported by U.S. public companies. As this occurs volatility should subside and stocks should increase.

Given the flight to safety during 2011 less risky assets such as bonds were home runs last year. Government bond yields were pushed down to unprecedented levels resulting in a 19 percent total return on 10-year U.S. Treasury bonds --- 30-year Treasury bonds returned 36 percent! It is extremely unlikely that U.S. government bond yields can move any lower. It needs to be noted that in 2009 when yields were moving higher 10 and 30-year bonds lost 11 and 29 percent. The bottom line is risk free government bonds are not always risk free. It is our guess that bond returns are likely to be very mediocre in 2012 and this too should help drive investors to own stocks.

In this low yield environment we find it perplexing that stocks with growing earnings are being ignored. Defensively minded investors are forgetting that the coveted dividends they seek are paid out of corporate earnings and earnings in total are being valued inexpensively by the market. The S&P500 price/earnings multiple is just 12 times which represents an 8 percent earnings yield. These earnings are available to be paid out as dividends. The stocks in the Formula Growth Fund have the same price to earnings multiple and yet the earnings are growing faster than the market.

In summary, we are constructive on U.S. stocks as corporate earnings are in good shape and stock valuations are inexpensive. Furthermore, any reversal in the powerful bond market will mean even more funds flowing back to the equity markets.

Recent Developments

No recent developments to report on at the date of publication.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past 5 years. This information is derived from the Fund's audited annual financial statements.

Net Asset Value per Unit (1) (2) (3)	2011	2010	2009	2008	2007
Net Asset Value, beginning of year	3,427.57	2,914.47	2,400.55	3,550.67	4,168.33
Increase (decrease) from investment operations					
Total revenues	5.83	19.83	6.31	9.96	15.53
Total expenses	(40.79)	(34.63)	(29.80)	(30.50)	(45.90)
Realized capital gains (losses)	270.34	113.18	(90.29)	(189.00)	393.45
Unrealized capital gains (losses)	52.13	422.58	636.70	(932.85)	(967.36)
Transaction costs on purchase and sale of investments (2)	(10.93)	(7.87)	(9.00)	(7.73)	(13.98)
Total increase (decrease) from investment operations (1)	276.59	513.10	513.92	(1,150.12)	(618.26)
Deemed distribution from investment operations	-	-	-	-	-
Utilization of tax losses carried forward and other tax deferred adjustments	-	-	-	-	-
Total deemed distribution per unit	-	-	-	-	-
Net asset value, end of year (2)	3,704.16	3,427.57	2,914.47	2,400.55	3,550.67

(1) Values in the table are in Canadian Dollars.

(2) Net asset value is based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period.

(3) On January 1, 2007 the fund adopted new accounting standards (sections 3855 and 3861) issued by the "CICA", without prior period restatement as required by the "CICA". Accordingly comparative figures for the years 2006 and 2005 have not been restated. The new standards require that the fair value of investments listed on an active market be determined by the closing bid price. The new standards also require that transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities be expensed in the current period as opposed to being added to the costs and deducted from the proceeds of purchases and sales of investments, respectively.

Ratios and supplemental data	2011	2010	2009	2008	2007
Net asset value (000's), end of year	152,063	155,228	152,033	143,488	230,914
Number of units outstanding, end of year	41,023	45,288	52,165	59,773	65,034
Management expense ratio (4)	1.15%	1.07%	1.08%	1.00%	1.13%
Portfolio turnover rate (5)	39%	29%	38%	28%	43%
Trading expense ratio (6)	0.31%	0.24%	0.33%	0.24%	0.34%

(4) Management expense ratio is based on the total expenses, excluding commissions and other portfolio transaction costs, for the stated period and is expressed as an annualized percentage on the average net assets during the period.

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

(6) The trading expense ratio represents total commissions expressed as an annual percentage of the average net assets during the period.

RELATED PARTY TRANSACTIONS

Management Fees

A percentage of net assets is paid monthly to the Manager of the Fund based on 1/12 of 1% of the net assets at the end of each month. This fee is paid to compensate the Manager for managing the portfolio and for normal expenses of operating the Fund. During the year, the fund paid management fees of \$1.58 million. Services provided in consideration of this fee are as follows:

Portfolio Management	93.7%
Normal Operating Expenses	<u>6.3%</u>
	100.0%

Securityholder Activity

Throughout the year, \$0.6 million flowed into the Fund by way of subscriptions and \$15.9 million flowed out of the Fund as a result of redemptions.

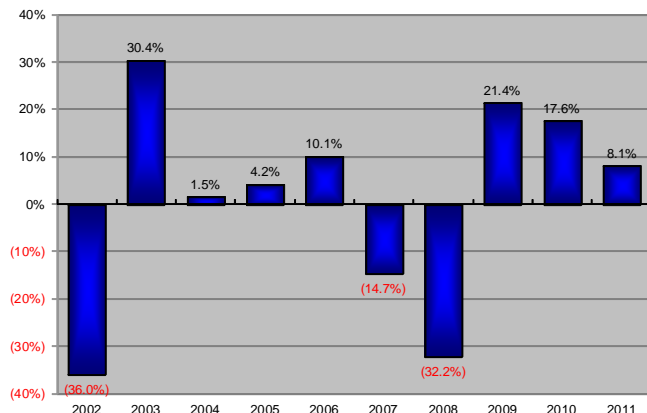
PAST PERFORMANCE

The Fund's past performance is not necessarily indicative of how the Fund will perform in the future.

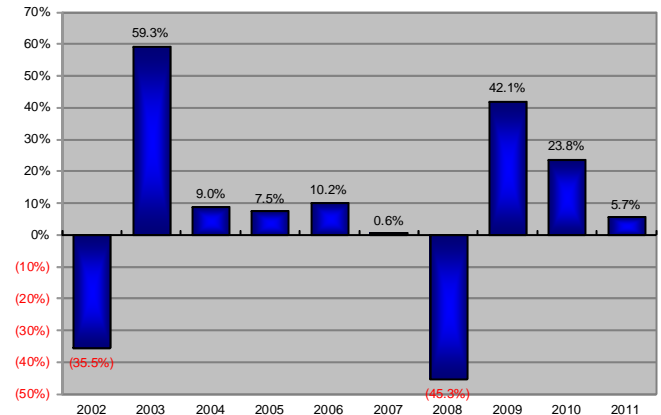
Annual Returns

The bar chart shows the Fund's annual performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by December 31 of each financial year.

Expressed in Canadian Dollars:



Expressed in U.S. Dollars:



Annual Compound Returns

Expressed in Canadian Dollars:

	1 Year	3 Years	5 Years	10 Years
Formula Growth Fund	8.1%	15.6%	(2.3%)	(1.5%)
Russell 2000	(3.3%)	7.2%	(3.9%)	(0.3%)
S&P 500	2.2%	5.0%	(5.0%)	(3.5%)

(Indices exclude reinvested dividends. Unit value is net of the 1% management fee.)

Expressed in U.S. Dollars:

	1 Year	3 Years	5 Years	10 Years
Formula Growth Fund	5.7%	22.9%	0.4%	3.1%
Russell 2000	(5.5%)	14.1%	(1.2%)	4.3%
S&P 500	0.0%	11.7%	(2.4%)	0.9%

(Indices exclude reinvested dividends. Unit value is net of the 1% management fee.)

S&P 500 Index

A market capitalization-weighted price-only index comprised of 500 widely held common stocks listed on the New York Stock Exchange, American Stock Exchange and Over-The-Counter market. Although the S&P 500 focuses on the large-cap segment of the market, with over 80% coverage of the market capitalization of U.S. equities, it is also an ideal proxy for the total market.

Russell 2000 Index

A capitalization-weighted price-only index which measures the performance of the 2,000 smallest U.S. companies out of the 3,000 largest, based on total market capitalization. As of December 31st 2011 the average market capitalization was approximately \$1.3 billion; the median market capitalization was approximately \$500 million. The largest company in the index had an approximate market capitalization of \$3.4 billion.

PORTFOLIO OVERVIEW

Top 25 Holdings

Liberty Global Inc	5.7%
Plains Exploration And Production	3.7%
NIC Inc	3.6%
LKQ Corp	2.9%
Cash	2.8%
Liquidity Services	2.6%
Dollar Financial Corp	2.6%
First Cash Finl Svcs Inc	2.3%
Endeavour International	2.2%
Hunt (JB) Transport Svcs Inc	2.0%
Coinstar Inc	2.0%
Northern Oil & Gas Inc	1.9%
O'Reilly Automotive Inc	1.8%
Amerigon Inc	1.7%
Bridgepoint Education Inc	1.7%
Ryanair Holdings Plc-Sp Adr	1.7%
Web Com Group Inc	1.6%
Mindspeed Technologies Inc	1.6%
Cash America Intl Inc	1.6%
Sonic Automotive Inc	1.5%
Omnicare Inc	1.5%
Motorcar Parts Of America Inc	1.5%
C&J Energy Services Inc	1.4%
TGC Industries Inc	1.3%
Callidus Software Inc	1.3%
TOTAL	54.4%

Weighting by Sector

Cash	2.8%
Consumer Discretionary	23.7%
Consumer Staples	0.1%
Energy	14.9%
Financials	6.8%
Healthcare	9.3%
Industrials	16.4%
Information Technology	25.2%
Materials	0.8%
	100.0%
Net Assets (CAD)	\$152,063,314

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GROWTH**

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