

Fifty-second annual report of

FORMULA GROWTH FUND

December 31, 2011 and 2010

FORMULA GROWTH FUND

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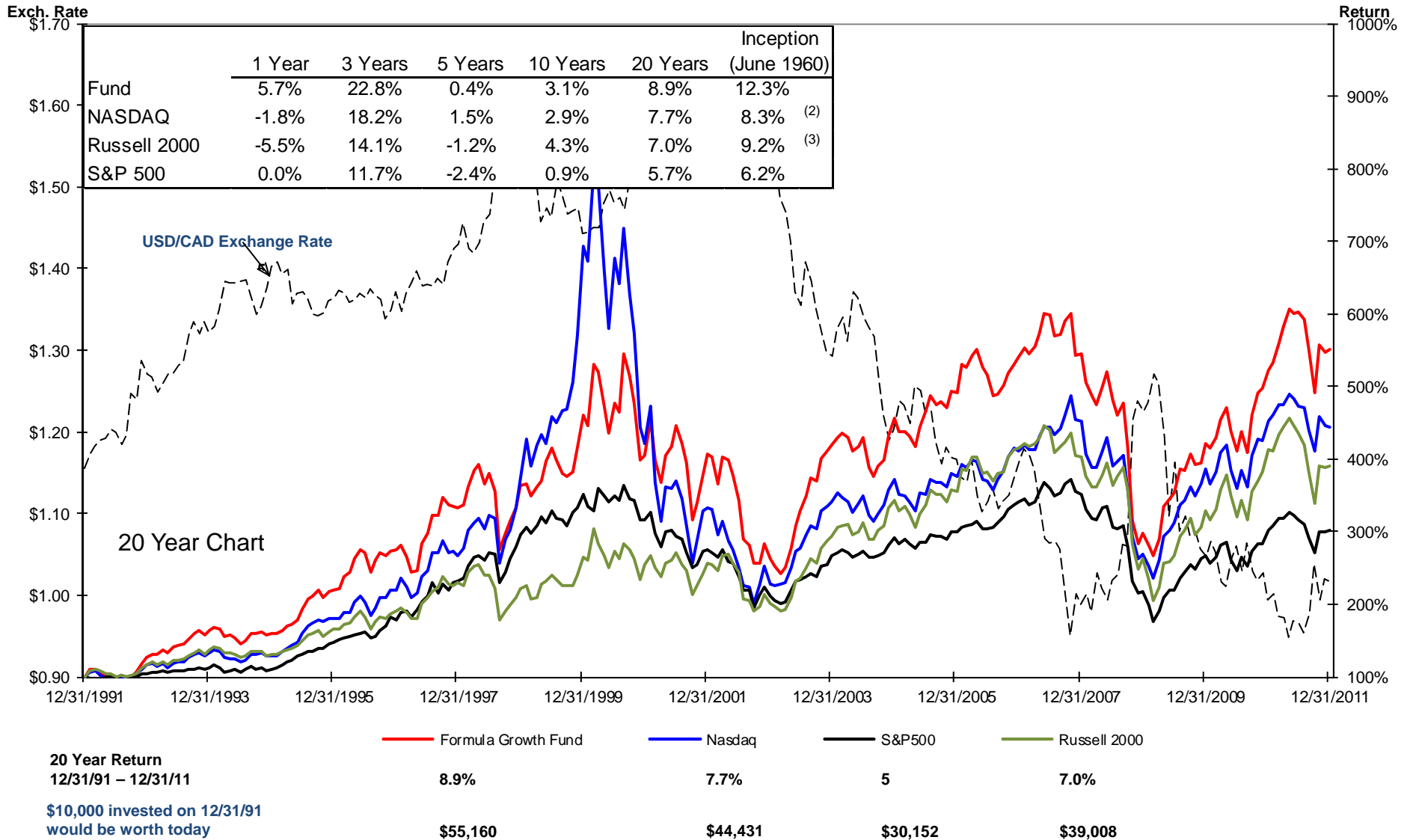
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Formula Growth Fund
Performance Comparison / Compound Returns ⁽¹⁾
As of December 31, 2011



(1) Returns expressed in US Dollars
Index returns exclude reinvested dividends. Fund is net of the 1% management fee.
(2) NASDAQ index return since inception Feb. 1971.
(3) Russell 2000 index return since inception Dec. 1978.

Independent auditor's report

To the Unitholders of
Formula Growth Fund

We have audited the accompanying financial statements of Formula Growth Fund (the "Fund"), which comprise the statements of net assets as at December 31, 2011 and 2010, the statements of operations and changes in net assets for the years then ended, the statement of investment portfolio as at December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Jelotte + Turcotte CMAA¹

February 20, 2012

¹Chartered accountant auditor permit No. 8845

FORMULA GROWTH FUND

Statements of operations

years ended December 31, 2011 and 2010

	2011	2010
	\$	\$
Investment income		
Dividends	283,176	1,038,086
Withholding taxes	(31,625)	(104,689)
Interest	1,796	3,834
	253,347	937,231
Expenses		
Management fees (Note 6)	1,578,615	1,472,948
HST/GST on management fees	106,189	98,224
Custodian fees and bank charges	78,084	56,051
Remuneration – Independent review committee	9,000	9,000
	1,771,888	1,636,223
Net investment loss	(1,518,541)	(698,992)
Net realized gain on investments	11,743,557	5,348,564
Change in unrealized appreciation in value of investments	2,264,586	19,968,955
Transaction costs on purchase and sale of investments (Note 7)	(474,617)	(371,816)
Net gain on investments	13,533,526	24,945,703
Increase in net assets from operations	12,014,985	24,246,711
Increase in net assets from operations per unit	276.59	513.10

The accompanying notes are an integral part of these financial statements.

FORMULA GROWTH FUND

Statements of net assets

as at December 31, 2011 and 2010

	2011	2010
	\$	\$
Investments, at fair value		
(average cost - 2011 - \$122,304,604; 2010 - \$129,206,335)	147,875,242	152,512,387
Current assets		
Cash	4,325,830	2,855,934
Current liabilities		
Accounts payable	137,758	140,748
Net current assets	4,188,072	2,715,186
Net assets	152,063,314	155,227,573
Net asset value per unit	3,704.16	3,427.57
Unitholders' equity (Note 8)	152,063,314	155,227,573

The accompanying notes are an integral part of these financial statements.

**Approved on behalf of Formula Growth Limited,
Manager of the Formula Growth Fund**

(signed) Randall Kelly, Chief Executive Officer

(signed) René Catafago, Executive Vice-President and Chief Financial Officer

FORMULA GROWTH FUND

Statements of changes in net assets years ended December 31, 2011 and 2010

	2011	2010
	\$	\$
Net assets at fair value, beginning of year	155,227,573	152,033,659
Increase in net assets from operations	12,014,985	24,246,711
Income tax refund	107,526	70,324
Capital transactions		
Proceeds on issuance of 196 units (1,852 units in 2010)	598,934	5,392,785
Redemption of 4,432 units (8,729 units in 2010)	(15,885,704)	(26,515,906)
	(15,286,770)	(21,123,121)
Net assets at fair value, end of year	152,063,314	155,227,573

The accompanying notes are an integral part of these financial statements.

FORMULA GROWTH FUND

Investment portfolio

as at December 31, 2011

Shares	%	Description	Fair value per share in US\$ (per entity)	Fair value in US\$ (per entity)	Average cost in CAN\$ (per entity)	Fair value in CAN\$ (per entity)
17,000	1.0	Air Methods Corp	84.45	1,435,650	1,154,521	1,460,056
292,402	0.6	American Standard Energy	3.05	891,826	1,560,403	906,987
139,130	0	American Standard Energy-WTS	0.01	1,391	1,352	1,415
181,072	1.7	Amerigon Inc.	14.26	2,582,087	2,073,367	2,625,982
274,534	1.1	Asia Entmnt & Res. Ltd.	5.9	1,619,751	2,097,788	1,647,286
35,000	0.9	Be Aerospace Inc.	38.7	1,354,500	1,343,494	1,377,527
110,000	1.7	Bridgepoint Education Inc.	22.96	2,525,600	1,619,834	2,568,535
100,000	1.4	C&J Energy Services Inc.	20.87	2,087,000	1,005,600	2,122,479
298,240	1.3	Callidus Software	6.41	1,911,718	1,354,028	1,944,218
50,500	1.6	Cash America int'l Inc.	46.64	2,355,320	1,160,916	2,395,360
80,925	0.6	Celadon Group Inc	11.76	951,678	800,690	967,857
24,600	1.1	Celgene Corp	67.59	1,662,714	56,839	1,690,980
20,500	0.5	Cepheid Corp	34.4	705,200	159,144	717,188
66,700	2.0	Coinstar Inc.	45.63	3,043,521	1,909,724	3,095,261
32,500	1.3	Copa Holdings	58.63	1,905,475	1,346,151	1,937,868
30,500	1.0	Copart Inc.	47.89	1,460,645	1,075,056	1,485,476
40,000	0.4	Crocs Inc.	14.76	590,400	772,836	600,437
40,000	0.2	Dexcom Inc.	9.3	372,000	451,534	378,324
211,944	2.6	DFC Global Corp	18.04	3,823,470	4,235,957	3,888,469
40,400	0.6	Digimarc Corporation	23.85	963,540	1,141,460	979,920
53,200	1.1	DXP Enterprises Inc.	32.14	1,709,848	1,320,687	1,738,915
60,000	0.8	Electronic Arts Inc.	20.58	1,234,800	1,400,758	1,255,792
383,000	2.2	Endeavour Intl Corporation	8.68	3,324,440	3,663,099	3,380,955
95,000	0.3	Entropic Communications Inc.	5.1	484,500	498,546	492,737
95,000	1.2	Euronet Worldwide Inc.	18.47	1,754,650	1,569,212	1,784,479
35,000	0.3	Fabrinet Corp.	13.68	478,800	449,441	486,940
97,000	2.3	First Cash Financial Services	35.09	3,403,730	1,431,800	3,461,593
40,000	0.9	Forward Air Corporation	32.04	1,281,600	1,296,872	1,303,387
49,000	0.8	Gamestop Corp. Hldgs	24.13	1,182,370	1,014,427	1,202,470
70,200	0.8	Geo Group Inc.	16.75	1,175,850	1,196,606	1,195,839
30,000	0.3	Grand Canyon Education Inc.	15.94	478,200	543,938	486,329
60,000	0.9	HCA Hldgs Inc.	22.03	1,321,800	1,220,932	1,344,271
58,000	0.6	Helix Enrgy Solutions Inc.	15.79	915,820	2,073,316	931,389
23,728	0.4	Home Bancshares Inc.	25.9	614,555	553,086	625,003
67,750	2.0	Hunt JB Transport Services Inc.	45.07	3,053,493	1,665,338	3,105,402
84,280	0.9	Igate Corporation	15.72	1,324,882	988,733	1,347,405
75,000	0.9	Imax Corporation	18.3	1,372,500	1,453,805	1,395,833
120,200	0.2	Imris Inc	2.69	323,338	613,501	328,835
50,000	0.4	Interxion Holding	13.42	671,000	726,313	682,407
20,000	0.9	Kirby Corporation	65.82	1,316,400	784,040	1,338,779
145,700	0.8	Kit Digital Inc.	8.44	1,229,708	1,621,178	1,250,613
73,900	0.4	Kvh Ind Inc.	7.76	573,464	1,069,263	583,213
44,351	1.2	Liberty Global Inc.-Class a	41.01	1,818,835	1,292,925	1,849,755
171,351	4.5	Liberty Global Inc.-Class c	39.52	6,771,792	4,995,242	6,886,912
104,543	2.6	Liquidity Services Inc.	36.9	3,857,637	1,700,011	3,923,217
146,000	2.9	Lkq Corporation	30.07	4,390,220	1,989,671	4,464,854
80,000	0.8	Mcmoran Exploration Co.	14.54	1,163,200	669,656	1,182,974
24,688	1.2	Mednax Inc.	72	1,777,536	1,291,596	1,807,754

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Investment portfolio

as at December 31, 2011

Shares	%	Description	Fair value per share in US\$ (per entity)	Fair value in US\$ (per entity)	Average cost in CAN\$ (per entity)	Fair value in CAN\$ (per entity)
515,000	1.6	Mindspeed Technologies Inc.	4.56	2,348,400	2,055,512	2,388,323
62,500	1.1	Mistras Group Inc.	25.45	1,590,625	966,900	1,617,666
291,400	1.5	Motorcar Parts of America Inc.	7.48	2,179,672	3,289,819	2,216,726
71,100	0.5	Navigant Consulting Inc.	11.39	809,829	766,258	823,596
120,000	0.4	Nektar Therapeutics	5.59	670,800	602,681	682,204
132,500	0.4	Neonode Inc.	4.5	596,250	543,018	606,386
409,400	3.6	NIC Inc.	13.3	5,445,020	2,596,472	5,537,585
119,938	1.9	Northern Oil & Gas Inc.	23.93	2,870,116	1,943,407	2,918,908
38,800	0.7	Nuance Communications Inc.	25.14	975,432	661,220	992,014
50,000	0.6	Nxstage Medical Inc.	17.78	889,000	1,012,114	904,113
128,600	0.6	Ocz Technology Group Inc.	6.6	848,760	695,919	863,189
35,000	0.2	Omega Protein Corporation	7.14	249,900	302,836	254,148
65,500	1.5	Omnicare Inc.	34.42	2,254,510	1,711,699	2,292,837
107,200	0.8	On Assignment Inc.	11.18	1,198,496	1,155,357	1,218,870
25,000	0.2	Orbotech Ltd	9.96	249,000	305,156	253,233
34,400	1.8	O'reilly Automotive Inc.	79.94	2,749,936	420,543	2,796,685
14,900	0.5	Osi Systems Inc.	48.78	726,822	542,574	739,178
80,000	1.0	Parametric Technology	18.25	1,460,000	1,432,331	1,484,820
150,400	3.7	Plains Exploration & Production Company	36.71	5,521,184	5,281,745	5,615,044
114,500	1.1	Providence Service Corporation	13.75	1,574,375	2,006,639	1,601,139
90,000	1.7	Ryanair Hlds Inc.	27.83	2,504,700	2,468,104	2,547,280
70,000	0.8	Sanchez Energy Corp.	17.25	1,207,500	1,602,524	1,228,028
135,000	0.8	Sanmina-sci Corporation	9.3	1,255,500	1,125,452	1,276,844
50,000	0.5	Sciquest Inc.	14.26	713,000	697,267	725,121
28,000	0.4	Shutterfly Inc	22.75	637,000	401,930	647,829
40,000	1.2	Solera Holdings Inc	44.54	1,781,600	1,042,407	1,811,887
155,000	1.5	Sonic Automotive Inc	14.8	2,294,000	1,787,866	2,332,998
70,000	0.7	Spirit Airlines Incorporated	15.57	1,089,900	807,090	1,108,428
95,000	1.1	Ss&C Technologies Holdings	18.03	1,712,850	1,487,258	1,741,968
19,800	0.4	Superior Energy Services Inc.	28.43	562,914	506,726	572,484
562,911	0.4	Syntroleum Corp	0.95	534,765	857,648	543,856
99,020	0.8	Tesco Corporation	12.63	1,250,623	2,141,644	1,271,883
268,400	1.3	Tgc Industries Inc.	7.14	1,916,376	1,727,128	1,948,954
134,100	0.8	The Dolan Company	8.49	1,138,507	1,340,890	1,157,864
10,000	0.8	Tronox Incorporated	120	1,200,000	1,119,140	1,220,400
500,000	0.6	Tso3 Inc.	1.74	870,000	950,000	870,000
170,000	0.5	Unitek Global Servives Inc.	4.51	766,700	1,544,347	779,734
67,300	0.8	Universal Truckload Services Inc.	18.08	1,216,784	1,520,689	1,237,469
200,000	0.2	Valuevision Media Inc.	1.86	372,000	920,094	378,324
25,000	0.5	Vera Bradley Inc.	32.23	805,750	816,671	819,448
106,600	1.0	Virtusa Corporation	14.43	1,538,238	1,018,485	1,564,388
38,000	0.8	Vistaprint N V	30.6	1,162,800	1,661,616	1,182,568
212,213	1.6	Web Com Group Inc.	11.45	2,429,839	2,052,742	2,471,146
		Portfolio investments (97.2%)		145,417,927	122,304,604	147,875,242
		Net current assets (2.8%)		4,118,065	4,188,072	4,188,072
				149,535,992	126,492,676	152,063,314

FORMULA GROWTH FUND

Notes to the financial statements

December 31, 2011 and December 31, 2010

1. Status and nature of business

The Formula Growth Fund is a mutual fund, the units of which are traded in accordance with the terms of a syndicate agreement, as revised on July 1, 1998.

The unit fair value is determined twice monthly, at mid-month and at month-end.

The Fund is considered for income tax purposes to be a mutual fund trust. Accordingly, income taxes may be payable by the unitholders when taxable income is allocated to them.

2. Significant accounting policies

The financial statements of the Fund have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and with National Instrument 81-106, the following consist of the significant accounting policies:

Valuation of investments

Stocks are valued at fair value, which are determined by the bid price on the recognized stock exchange on which the stock is listed or principally traded.

Cost of investments

Cost is determined according to the average cost method. Purchases and sales of investments are recorded at their transaction dates. The difference between the fair value and average cost of investments is recorded as an unrealized gain or loss on investments.

Transaction costs

Transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities are expensed as they are incurred.

Income and expenses

The Fund records its revenue and expenses using the accrual basis of accounting. Gains and losses on sales of investments are calculated using the average cost of investments.

Foreign currency translation

Transactions in foreign currencies are converted into Canadian dollars at the exchange rate in effect on the transaction date. Foreign currency assets and liabilities are translated into Canadian dollars at the year-end rate. On December 31, 2011, the U.S. dollar translated into CDN\$1.0170 compared to CDN\$0.9946 on December 31, 2010.

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Notes to the financial statements

December 31, 2011 and December 31, 2010

2. Significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Future accounting changes

International Financial Reporting Standards

The Accounting Standards Board of Canada (“AcSB”) had initially ruled that on January 1, 2010, the financial statements of publicly accountable enterprises would have to be prepared using International Financial Reporting Standards (“IFRS”) as published by the International Accounting Standards Board (“IASB”) replacing Canadian GAAP in effect until that time. However, on December 12, 2011, the AcSB decided to defer for one more year the mandatory application of IFRS since the IASB project on investment funds was delayed and it is unlikely that a definite standard would be issued before January 1, 2013. The mandatory application of IFRS for investment funds is now January 1, 2014.

Management is presently assessing the key elements of the conversion. They are as follows:

- a) Study and analysis of the differences between GAAP and IFRS:
 - Analysis of the choice of accounting policies regarding the classification of financial instruments
 - Analysis concerning the presentation of unitholders’ participation
 - Analysis of the possibility and the potential impact of the consolidation of financial statements of controlled entities in the financial statements of the Fund for periods beginning on January 1, 2014

- b) Assessing the impact on information technology, data systems, internal controls and the preparation of financial statements.

At this point, management does not expect that the transition to IFRS will have a significant impact on net assets or net asset value per unit. Rather, it expects that this transition will impact the presentation and disclosure of financial statements. However, this position could be revised given that the assessment has not been completed and the accounting standards and related interpretations may change prior to final adoption. In periods preceding the first year in which IFRS will be adopted, the impact of the transition to international standards on the financial statements of the Fund will be released as soon as it is known.

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Notes to the financial statements

December 31, 2011 and December 31, 2010

3. Reconciliation of net asset value

The Fund calculates its net asset value for capital transaction purposes, such as subscriptions and redemptions, using the closing sale prices of securities (the “Transactional NAV”). Management has determined that the Transactional NAV best reflects the net asset value of the underlying investments of the Fund. The difference between the Transactional NAV and the net asset value presented in the financial statements can be reconciled as follows:

	<u>2011</u>	<u>2010</u>
	\$	\$
Transactional net asset value	152,259,670	155,479,582
Less: valuation adjustment	196,356	252,009
Net asset value per financial statements	<u>152,063,314</u>	<u>155,227,573</u>
Transactional net asset value per unit	3,708.95	3,433.13
Less: valuation adjustment	4.79	5.56
Net asset value per unit	<u>3,704.16</u>	<u>3,427.57</u>

4. Cost of investments sold

	<u>2011</u>	<u>2010</u>
	\$	\$
Cost of investments, beginning of year	129,206,335	143,901,562
Cost of investments purchased	59,271,449	43,559,531
	<u>188,477,784</u>	<u>187,461,093</u>
Cost of investments, end of year	122,304,604	129,206,335
Cost of investments sold	<u>66,173,180</u>	<u>58,254,758</u>

A statement of portfolio transactions detailing investments purchased and sold can be obtained without cost from the manager of the Fund (the “Manager”).

FORMULA GROWTH FUND

Notes to the financial statements

December 31, 2011 and December 31, 2010

5. Fair value

Fair value of financial instruments

Financial instruments measured at fair value are classified according to a fair value hierarchy that reflects the importance of the data used to perform each evaluation. The fair value hierarchy is made up of the following levels:

Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – valuation techniques based on data corresponding to quoted prices for similar instruments in active markets; to quoted prices for identical or similar instruments in non-active markets; to data other than quoted prices used in a valuation model, that are observable for the instrument evaluated; and to data derived from mainly observable data or that is corroborated by market data by correlation or other link;

Level 3 – valuation techniques based on significant unobservable market parameters.

The fair value hierarchy requires the use of observable data on the market each time such data exists. A financial instrument is classified at the lowest level of the hierarchy for which significant input has been considered in measuring fair value.

The following table presents the financial instruments evaluated at fair value on a recurring basis at December 31, 2011, classified under the fair value hierarchy described above:

	Fair value at December 31, 2011 according to the following levels:			Total assets at fair value
	Level 1	Level 2	Level 3	
	\$	\$	\$	\$
Cash	4,325,830	-	-	4,325,830
Investments	147,875,242	-	-	147,875,242
	152,201,072	-	-	152,201,072

	Fair value at December 31, 2010 according to the following levels:			Total assets at fair value
	Level 1	Level 2	Level 3	
	\$	\$	\$	\$
Cash	2,855,934	-	-	2,855,934
Investments	151,517,787	994,600	-	152,512,387
	154,373,721	994,600	-	155,368,321

During the year, there has been no significant transfer of amounts between Level 1 and Level 2.

FORMULA GROWTH FUND

Notes to the financial statements

December 31, 2011 and December 31, 2010

6. Related party transactions

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.

7. Brokerage fees

In addition to covering brokerage services on security transactions, commissions paid to certain brokers may also cover research services provided to the Manager. The value of the research services included in the commissions paid to those brokers represents an insignificant amount.

8. Unitholders' equity

As at December 31, 2011, the unitholders' equity comprises \$126,492,676 of capital gain and an unrealized gain on investments of \$25,570,638.

The Fund may issue an unlimited number of units. The number of Fund units issued and paid by investors at the end of the year is as follows:

	Number of units	
	2011	2010
Outstanding, beginning of year	45,288	52,165
Issued during the year	196	1,852
Redeemed during the year	(4,432)	(8,729)
Outstanding, end of year	41,052	45,288

During the year, unitholders subscribed to 196 units (1,852 units in 2010) for a total consideration of \$598,934 (\$5,392,785 in 2010).

During the year, unitholders redeemed 4,432 units (8,729 units in 2010) for a total consideration of \$15,885,704 (\$26,515,906 in 2010).

9. Income taxes

The Fund has capital and non-capital tax losses carried forward in the amount of \$16,170,000 and \$2,530,000, respectively, which expire between 2028 and 2029. The tax benefit relating to these losses has not been recognized in the financial statements.

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Notes to the financial statements

December 31, 2011 and December 31, 2010

10. Risk management

The Fund aims to maximize returns over the long-term through investments in listed and publicly traded stocks. The Manager uses a disciplined and fundamental approach in its investment selection, which consists of an intensive and ongoing research process of investment opportunities across a broad range of investment vehicles in various industries and geographic regions. The Manager purchases and holds securities for the Fund for the medium to long term. The Manager also determines the timing to rotate the Fund's portfolio into various stocks within the different segments to enhance the Fund's portfolio performance and/or limit risk.

Market risk

Market risk represents the potential loss that can be caused by a change in the fair value of a stock. The investments of the Fund are subject to normal market fluctuations and the risks inherent in investments in the stock market. The Fund intends to continue to invest taking a long-term perspective while focusing on quality businesses that consistently deliver strong returns for unitholders. The Fund's investment portfolio is monitored on a daily basis by the Manager.

As of December 31, 2011, had the prices of securities held in the portfolio been different by 10%, with all other variables held constant, net assets would have increased or decreased, respectively, by approximately \$14,788,000 (\$15,251,000 in 2010) which represents approximately 9.7% of total net assets (9.8% in 2010).

Currency risk

The majority of the investments in the Fund consist of stocks denominated in currencies other than the Canadian dollar (primarily U.S. dollars) and, accordingly, the net asset value, when measured in Canadian dollars, may be affected by the fluctuations in the value of such currencies. In the current year, foreign exchange volatility resulted in a 2.2% increase (5% decrease in 2010) of the net asset value.

As of December 31, 2011, had the value of the Canadian dollar been different by a further 5% to the U.S. dollar, all other variables held constant, net assets would have decreased or increased by approximately \$7,603,166 (\$7,732,516 in 2010) which represents approximately 5% of total net assets (5% in 2010).

Liquidity risk and capital management

Liquidity risk is the risk that a counterparty to a financial instrument may not be able to settle or meet its obligations on time or at a reasonable price. The Fund's exposure to liquidity risk is concentrated in the daily cash redemption of units. As a result, the Fund invests the majority of its assets in investments that are traded in an active market and can be readily disposed of. It may invest a limited proportion of its assets in investments not actively traded on a stock exchange. There can be no assurance that an active trading market for the investments will exist at all times, or that the prices at which the securities trade accurately reflect their values.

Interest and credit risks

As at December 31, 2011, the Fund was not exposed to significant interest or credit risk. Credit risk relates mainly to due from brokers that are receivable from creditworthy counterparties.