



Annual



Report



2002

Fiscal period
ended
March 31,
2002

TUSCARORA

Energy Growth Fund

THE RIGHT TIME
THE RIGHT TEAM
THE RIGHT FUND

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Front Street Capital, the Manager of Tuscarora Energy Growth Fund, is a focused and dedicated alternative asset class management firm, built and owned by experienced, respected portfolio managers who tailor profitable funds and partnerships to both capitalize on their expertise and experience, and to meet the needs of sophisticated investors.

Front Street Capital has developed a suite of investment products, which include performance funds, mutual funds, limited partnership and trusts. Front Street Capital also provides investment management and advisory services to institutional clients. Front Street Capital manages 13 funds, with assets under management of more than \$500 million.

Front Street Capital's partners include Canadian investment industry veterans Gary Selke, Norm Lamarche, Frank Mersch, Parminder Kalirai and Linda Hryma.



TUSCARORA
Energy Growth Fund

THE FUND Tuscarora Energy Growth Fund offers Canadian investors a unique opportunity to invest in the next round of substantial growth in energy production and related services companies. The Fund has a true venture capital structure that allows it to partner with seasoned management teams and invest in both public and private companies to capitalize on the current opportunities that exist in the energy sector.

INVESTMENT OBJECTIVE The Fund's objective is to achieve maximum capital appreciation by investing in small and medium-sized companies with strong growth prospects and a well-defined exit strategy, such as an initial public offering or acquisition.

The Fund will generally avoid start-up, or early-stage investments that require more active management by the investment advisor, and a longer period before an exit strategy can be executed.

INVESTMENT STRATEGY The Fund intends to use its investment advisor's very strong relationships, and oil and gas sector knowledge to exploit the opportunity to fund experienced management teams who have previously operated successful oil and gas companies.

The Fund seeks to identify investment opportunities with a number of specific characteristics, including: a stage of development that permits an acquisition or IPO within two years; a strong and experienced management team; and a definitive competitive advantage. The strategy also favours public companies or private companies with strong prospects for an eventual IPO or acquisition. The Fund expects to make investments in the \$2 million to \$3 million range and will endeavor to diversify its portfolio in a broad range of energy and energy-related industries.

TAX BENEFITS The Fund is a qualified investment for RRSPs and RRIFs and registered under the federal LSVCC legislation. Canadian residents who invest in the Fund are eligible for a 15% federal tax credit on the first \$5,000 they invest each year. In addition, every \$1 (book value) of the Fund held in an RRSP increases the foreign content allowance of that RRSP by \$3, to a maximum foreign content allowance of 50%.

Letter to shareholders

Dear Shareholder:

I am particularly pleased to report to you that as of fiscal period end (March 31, 2002), as well as of the date of this report, Tuscarora Energy Growth Fund has recorded strong performance and met all the expectations we had when we launched the Fund early in 2002. More important, especially for Shareholders and new investors, we remain very strongly optimistic about the future of the Canadian oil and gas sector and, hence, the potential for the Fund.

Our performance and the activity in the oil industry has only proved that the factors we thought would be driving growth in the sector were in fact in place, and that the real growth is yet to come.

Tuscarora Energy Growth Fund is achieving strongly in all critical areas of measurement. At fiscal period end, and as of the date of this report, our asset base and share price are both up since inception. Sales continue to add capital that the Fund's Investment Advisors can deploy into promising investments. Our portfolio has grown to include 13 companies that boast both proven energy industry management teams and promising futures. And on the economic front, oil and gas prices have recovered substantially since the beginning of 2002, and the Canadian economy is performing very strongly and establishing the kind of environment that should see energy demand rise rapidly.

Tuscarora Energy Growth Fund was launched in anticipation of this kind of economic recovery, coupled with the availability of quality oil and gas assets and proven management teams as a result of industry consolidation, to produce growth potential we thought would match the situation in Canada's oil and gas industry in the early 1990s.



With the Canadian economy on track to lead the industrialized world, with rising commodity prices and consumer demand, and with at least 30 startups headed by experienced senior management teams launched in the first six months of 2002 alone, we are more convinced than ever that we are entering a period of strong energy sector growth.

While our portfolio is already starting to fulfill its potential, we believe it's only a beginning. It is an ideal time to start a business in the energy sector, and an ideal time to invest in the small oil and gas companies that will spearhead industry growth for the foreseeable future.

Gary P. Selke
President and Chief Executive Officer
Front Street Capital Inc.
August 13, 2002

Fund highlights

ASSETS

At inception	
February 28, 2002	\$8.1 million
At July 31, 2002	\$14.1 million

SHARE PRICE

At inception	
February 28, 2002	\$10.00
At July 31, 2002	\$10.75

PORTFOLIO INVESTMENTS

At July 31, 2002	
Private companies:	5
Public companies:	8

Tuscarora Energy Growth Fund investments

As at July 31, 2002

Building on the advantage provided by our knowledge of the Canadian oil and gas industry, Tuscarora Energy Growth Fund has assembled the nucleus of a valuable portfolio of promising private and public oil and gas companies.

* Denotes portfolio holding acquired subsequent to fiscal period end of March 31, 2002.

Private Companies:

Anderson Energy Ltd. *

This new company is managed by the same highly successful executive team, led by J.C. Anderson, that built Anderson Exploration from its inception in 1982 to 200,000 barrels a day in 2001 when the company was sold to U.S.-based Devon Energy for \$5.3 billion.

Cinch Energy Corp. *

Cinch Energy Corp. is a private oil and gas exploration company founded by John W. Elick, co-founder and former Vice President, Land of Pan East Petroleum Corp., a company sold to POCO Petroleum Ltd. in 1998. Cinch Energy Corp.'s mandate is to explore for large reserves via farm-ins. Cinch raised \$3 million in a private placement, in part to fund its 2002 exploration program. Cinch has committed to two high-impact plays in West Central Alberta, and is currently evaluating several other projects.

Fairborne Energy Ltd. *

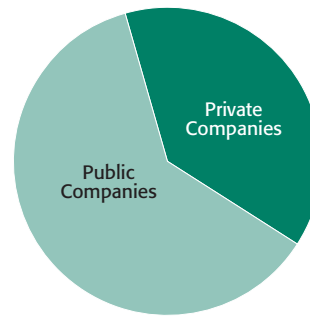
Fairborne Energy Ltd. is a private oil & gas company recently founded by Dr. Richard A. Walls, who has a successful three-decade record in Canada's oil and gas industry.

OPTI Canada Inc. *

OPTI Canada was established in 1999 to focus on the recovery and upgrading of Canadian heavy oil using eco-efficient and sustainable technologies. OPTI Canada is a member of the ORMAT group of companies, which 35 years has been involved in the development, engineering, construction, and operation of energy projects worldwide. In June, OPTI Canada appointed a new CEO, Sid W. Dykstra, former president of Hunt Oil Company of Canada and a founder, president, and COO of Newport Petroleum Corporation.

Profico Energy Management Ltd. *

Profico, which was incorporated in December, 1999, is actively engaged in the exploration, development, exploitation, acquisition and production of crude oil, natural gas liquids and natural gas in western Canada.



Public Companies:

Cequel Energy Inc. (CQL: CDNX) (formerly Argonauts Group Ltd.)

The former senior executive team from Cypress Energy has taken over management of Argonauts Group, and injected a significant amount of their own capital. This news was greeted positively by the market as the company's stock price increased. Argonauts has since acquired Chain Energy and doubled its production to more than 3,000 barrels of oil per day. Shareholders of Argonauts Group Ltd. voted to change the name to Cequel Energy Inc. on April 8, 2002.

Case Resources Inc. (CAZ: CDNX)

Case Resources is managed by the experienced team formerly with Stampeder Explorations Ltd. In addition to putting their own money in the deal, the team has secured strong financial backing.

Crescent Point Energy Ltd. (CPGA: CDNX) *

Crescent Point Energy Ltd. is a junior oil and gas company engaged in the exploration for, and development and production of, natural gas and light oil reserves primarily in the provinces of Alberta, Saskatchewan, and British Columbia. Since the beginning of the year, Crescent Point has acquired light oil reserves and production in Alberta and Saskatchewan, and raised nearly \$20 million through equity offerings to position its balance sheet for future growth.

Impact Energy Inc. (IEY: TSX)

Impact Energy is a Calgary based junior oil and gas exploration, development and production company with reserves primarily in Alberta, British Columbia, and Montana.

Resolution Resources Ltd. (RRL: CDNX) *

Resolution Resources Ltd. is a junior oil and gas exploration and production company with reserves and production in Southern Alberta.

Tempest Energy Corp. (TMY: V) *

Tempest is an emerging full-cycle oil and gas exploration and production company run by the seasoned management team previously with Tier 1 Energy Corp. We expect to see Tempest's production increase from 600 barrels per day currently to 2,500 barrels per day by the end of this year.

Terraquest Energy Corp. (TRQ: TSX) *

Terraquest, which was incorporated in January, 2002, is a full-cycle exploration and development company with a large undeveloped land base and current production of 200 barrels of energy per day in Alberta. Terraquest is in a unique position with an initial asset base of approximately 90,000 net acres of undeveloped land. Terraquest raised \$2.5 million in an over-subscribed Special Warrants issue to fund its 2002 capital expenditure program.

Virtus Energy Ltd. (VEL: CDNX)

Virtus Energy is a Calgary based emerging oil and natural gas company with producing properties in Western Canada. Virtus Energy's management team was previously at Encal Energy.

Investment Advisors

While portfolio managers are key to the success of any mutual fund, it is particularly critical in a sector specific fund – such as Tuscarora Energy Growth Fund – that the team identifying investment opportunities and building the portfolio have a broad and deep network of industry contacts.

Frank Mersch and Norm Lamarche, principals of Tuscarora Investment Management Inc. and partners at Front Street Capital, have decades of experience investing in Canada’s oil patch and a well-deserved reputation for understanding and backing business models that succeed. They are frequently approached by major oil and gas industry entrepreneurs and management teams looking for input and funding. This means they – and as a result, the Fund’s shareholders – get first access to many of the most promising growth companies before other investors.



Frank Mersch

Prior to establishing Tuscarora Capital Inc., Norm Lamarche was a portfolio manager with Altamira Management Ltd. where he managed the Altamira Resource Fund. From 1991 to 1995, when it grew from \$3 million to \$1.1 billion and provided investors an average annual return of 31%, it was the top performing resource fund in Canada. Since 1998, Norm has managed, among other funds, more than \$250 million in the Canada Dominion Resource Flow-Through Limited Partnerships I through VIII – the best performing flow-through funds in Canada.

Frank Mersch established Casurina Limited Partnership, one of Canada’s largest privately managed hedge funds, in 1999. Casurina LP has provided its limited partners a cumulative return of more than 90% since inception. Previously, he was a partner and the Senior Equities Manager at Altamira where he managed the Altamira Equity Fund from 1987 to 1998. During that period, this fund, which was heavily weighted towards the resource sector, grew to \$2.5 billion, one of Canada’s largest. As portfolio manager, Frank achieved the best 10-year plus return average in Canada, with a very impressive 19% average annual growth over 12 years.



Norm Lamarche

With Tuscarora Energy Growth Fund, Frank and Norm, key players in Canada’s energy industry and with experience from the last round of substantial growth in the 1980s and early 1990s, have come together as a portfolio management team for the first time in nearly a decade.

“Business writers anointed Mersch as ‘the Wayne Gretzky of Canadian mutual fund managers’ during the days from 1987 to 1998, when he managed the Altamira Equity Fund to 19 per cent annual returns.”

(Toronto Star, 2002)

“(Frank Mersch is) a proven performer and (with Tuscarora Energy Growth Fund) he’s going back to his roots, the area he plays the best, which is small cap energy and small cap mining plays... and he’s working with another proven oil manager, Norm Lamarche.”

(Report on Business Television, 2002)

Auditors' Report

To the Shareholders of Tuscarora Energy Growth Fund Inc.

We have audited the statement of financial position and venture investment portfolio of Tuscarora Energy Growth Fund Inc. (the "Fund") as at March 31, 2002 and the statements of income and retained earnings and of changes in net assets for the period since incorporation, November 1, 2001, to March 31, 2002. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2002 and the results of its operations and the changes in its net assets for the period since incorporation, November 1, 2001, to March 31, 2002 in accordance with Canadian generally accepted accounting principles..



Chartered Accountants
Toronto, Ontario

August 13, 2002

Management's Responsibility for Financial Reporting

The accompanying financial statements of Tuscarora Energy Growth Fund Inc. are the responsibility of management. These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles using management's best estimates and judgments, where appropriate.

Management has established a system of internal accounting and administrative controls to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that financial records are properly maintained for the preparation of reliable financial statements.

The Board of Directors discharges its responsibility for the financial statements primarily through its Audit Committee, which comprises members of the Board of Directors. The Audit Committee meets with management and with the external auditors to discuss the results of the audit examination with respect to the adequacy of internal accounting controls and to review the financial statements of the Fund. The Audit Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors. These financial statements have been approved by the Board of Directors and have been audited by Deloitte & Touche LLP, Chartered Accountants, in accordance with Canadian generally accepted audited standards. Deloitte & Touche LLP has full and unrestricted access to the Audit Committee.



GARY SELKE
Chief Executive Officer



FRANK PORTUGAIS
Chief Financial Officer

Statement of Financial Position

As at March 31, 2002

ASSETS

Cash	\$ 6,287,081
Venture investments, at fair value (cost: \$4,955,000)	7,738,750
Subscriptions receivable	120,225
Deferred charges, net of accumulated amortization of \$13,122 (Note 3)	989,096
TOTAL ASSETS	15,135,152

LIABILITIES

Accounts payable and accrued liabilities (Note 7)	838,590
NET ASSETS	\$ 14,296,562


SHAREHOLDERS' EQUITY

Share capital (Note 4)	\$ 13,108,997
Retained earnings	1,187,565
TOTAL SHAREHOLDERS' EQUITY	\$ 14,296,562

Number of Class A shares outstanding, Series I	833,242
Number of Class A shares outstanding, Series II	453,115
Net asset value per share, Class A - Series I	\$ 11.20
Net asset value per share, Class A - Series II	\$ 10.96

See accompanying notes

On behalf of the Board of Directors



Director



Director

Statement of Income and Retained Earnings

For the period since incorporation, November 1, 2001, to March 31, 2002

INTEREST REVENUE	\$ 564
EXPENSES	
Administrative	12,576
Amortization of deferred charges (Note 3(b))	4,058
Clearing and settlement, and back office fees	68,141
Directors' and meeting fees (Note 5(e))	8,705
Goods and Services Tax	89,547
Investment advisor fees (Notes 5(b) and 7(c))	27,753
Performance bonus, investment advisor (Notes 2 (c) and 5 (c))	345,000
Management fees (Notes 5(a) and 7(a))	13,877
Marketing and printing	784,711
Professional fees	204,959
Service (trail) fees (Note 3(d))	2,329
Sponsor's fees (Notes 5(d) and 7(c))	4,163
	1,565,819
NET INVESTMENT LOSS	(1,565,255)
UNREALIZED APPRECIATION OF INVESTMENTS	2,783,750
NET INCOME	\$ 1,218,495
NET INCOME PER CLASS A SHARE, SERIES I*	\$ 1.44
NET INCOME PER CLASS A SHARE, SERIES II*	\$ 1.44
RETAINED EARNINGS, BEGINNING OF PERIOD	\$ -
NET INCOME	1,218,495
PREMIUM ON REDEMPTION OF CLASS A SHARES (Note 4(c))	(21,866)
AMORTIZATION OF DEFERRED CHARGES (Note 3(a))	(9,064)
RETAINED EARNINGS, END OF PERIOD	\$ 1,187,565

* From the date of the initial issuance of both Series I and Series II.

See accompanying notes

Statement of Changes in Net Assets

For the period since incorporation, November 1, 2001, to March 31, 2002

CHANGES DURING THE PERIOD

Investment activities

Net income	\$ 1,218,495
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Capital transactions

Proceeds on issuance of Class A Shares, Series I	8,523,402
Proceeds on issuance of Class A Shares, Series II	4,692,972
Redemption of Class A Shares, Series I	(129,343)
Proceeds on issuance of Class B shares	100
Amortization of deferred charges	(9,064)
	13,078,067

INCREASE IN NET ASSETS DURING THE

PERIOD AND NET ASSETS, END OF PERIOD

\$ 14,296,562

See accompanying notes

Statement of Venture Investment Portfolio

As at March 31, 2002

	Cost	Fair Value
SHARES AND WARRANTS IN PUBLICLY-TRADED COMPANIES (HAVING QUOTED MARKET VALUES)		
Argonauts Group Ltd. (1,000,000 common shares)	\$ 2,200,000	\$ 3,750,000
Case Resources Inc. (2,416,667 common shares)	725,000	1,450,000
Impact Energy Inc. (800,000 special warrants, expiring March 28, 2003)	1,280,000	1,320,000
Virtus Energy Ltd. (1,875,000 common shares)	750,000	1,218,750
TOTAL INVESTMENTS	\$ 4,955,000	\$ 7,738,750
UNREALIZED APPRECIATION OF INVESTMENTS		\$ 2,783,750

See accompanying notes

Notes to Financial Statements

March 31, 2002

1. CORPORATE STATUS AND ACTIVITIES

Tuscarora Energy Growth Fund Inc. (the "Fund") was incorporated under the laws of Canada by articles of incorporation dated November 1, 2001. The Fund is a registered labour-sponsored venture capital corporation under the Income Tax Act (Canada) (the "Federal Act").

The Fund's investment objective is to achieve maximum capital appreciation by investing in small and medium-sized eligible business entities in a range of energy-related industries. These industries include oil and gas exploration and production, servicing and drilling, and alternative energy-related projects including fuel cell, power generation and wind power projects.

The Fund is subject to certain investment restrictions under the Federal Act (see Note 6) and, in addition, has adopted certain other investment restrictions.

The Fund commenced active operations on March 1, 2002, on the completion of the initial issuance of its Class A shares.

The sponsor of the Fund is The Newspaper Guild of Canada/Communications Workers of America (the "Sponsor").

2. SIGNIFICANT ACCOUNTING POLICIES:

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Significant accounting policies are as follows:

(a) Venture investments

Venture investments in securities having quoted market values and which are publicly traded on a recognized stock exchange, and are not otherwise restricted or thinly traded securities, are valued based on the closing quoted market price.

Venture investments in securities not having quoted market values or in restricted or thinly traded securities are valued at cost, unless a different fair value is independently determined by the Investment Advisor.

The Fund's valuation methodology is described in detail in its annual prospectus ("Valuation of Investments").

(b) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. The process of valuing investments for which no public market exists is inevitably based on inherent uncertainties, and the resulting values may differ from those that would have been used had a ready market existed for the investments. Management believes its estimates to be appropriate; however, actual results could vary materially from those estimates.

Notes to Financial Statements (continued)

March 31, 2002

(c) Provision for performance bonus

As reported in Note 5(c), Tuscarora Investment Management Inc. (the "Investment Advisor") is entitled to a performance bonus, which is payable on the realization of gains on venture investments. As at the date of the financial statements, the amount payable, if any, is recorded as a liability and charged to operations in the period that liability is due. In addition, the Fund records a provision for the amount of performance bonus that might otherwise become payable at a future date on the realized and unrealized appreciation in the eligible investments of the Fund. The Fund charges that provision to operations in the period in which the appreciation of the eligible investments is recognized for accounting purposes.

3. DEFERRED CHARGES AND SERVICE FEES

- (a) Deferred charges represent initial sales commissions at the rate of 6%, which are payable to dealers by the Fund on the issuance of all Class A shares. Such sales commissions are amortized by the Fund using the straight-line method, over a period of eight years from the date of issuance of such shares. The Fund charges the amortization of the 6% deferred sales commissions to retained earnings.
- (b) On the issuance of Class A, Series I shares, an additional initial sales commission is calculated at the rate of 4% and is payable to dealers by the Fund in lieu of the annual service (trail) fees otherwise payable to dealers before the eighth anniversary of issue of the Class A, Series I shares. The Fund amortizes the additional 4% deferred sales commissions on Class A, Series I shares on a straight-line basis over a period of eight years from the date of issuance of such shares. The Fund charges the amortization of this 4% deferred sales commissions to operations.
- (c) Holders of Class A Shares, who redeem their shares prior to eighth anniversary of the date of issuance thereof, are charged an early redemption fee. The early redemption fee is applied first against the remaining unamortized deferred charges related to such redeemed shares, with any resulting gain or loss included in operations in the period in which redemption occurs.
- (d) Service (trail) fees, attributable to Class A, Series II shares, are calculated at the annual rate of 0.50% and are charged to operations.

4. SHARE CAPITAL

(a) Authorized

Unlimited number of Class A shares, voting and participating, issuable in series and only to individuals and qualifying trusts at \$10 per share until March 1, 2002 and continuously thereafter at the net asset value per share, redeemable and transferable with restrictions. The holders of these shares are entitled to elect one of the seven directors of the Fund.

Notes to Financial Statements (continued)

March 31, 2002

Unlimited number of Class B shares issuable only to the sponsor of the Fund, or such other organizations, entities or persons as are permitted under the Federal Act to hold Class B Shares. The holders of these shares are entitled to elect six of the seven directors of the Fund.

(b) Fees on redemption of Class A shares

Subject to certain restrictions, a shareholder may redeem all or part of the Class A Shares held at the net asset value per Class A share.

For the Class A Shares, Series I, a redemption fee is charged in the amount of up to 10% of the original issue price, calculated as being 1.25% of the original issue price times the number of years or part years remaining until the eighth anniversary of the date of issue.

For the Class A Shares, Series II, a redemption fee is charged in the amount of up to 6% of the original issue price, calculated as being 0.75% of the original issue price times the number of years or part years remaining until the eighth anniversary of the date of issue.

(c) Class A shares issued and redeemed for cash

	Series I		Series II		Total
	Number	\$	Number	\$	\$
Issued during the period	843,942	8,523,401	453,115	4,692,973	13,216,374
Redeemed during the period	(10,700)	(107,477)	–	–	(107,477)
Balances, March 31, 2002	833,242	8,415,924	453,115	4,692,973	13,108,897

(d) Class B Shares issued for cash

On November 2, 2001, 100 Class B Shares were issued to the Sponsor for consideration of \$100 cash.

(e) Premium on redemption of Class A shares

During the period, 10,700 Class A, Series I Shares were redeemed at the relevant net asset value on the date of redemption, for cash consideration totalling \$129,343. The excess of the redemption amount over the weighted-average stated capital value as at the date of redemption, being \$21,866, was charged to retained earnings as a premium on the redemption of Class A Shares.

Notes to Financial Statements (continued)

March 31, 2002

5. EXPENSES

(a) Fund Manager

The Fund has entered into an agreement (the "Management Agreement") with Front Street Capital Inc. (the "Manager") to manage the business and affairs of the Fund. The Manager will be paid fees, calculated and paid monthly in arrears, consisting of an annual management fee of (i) 1% of the net asset value of the Fund plus (ii) one-third per year for each of the first three years of the Fund, of the aggregate amount advanced from Front Street Capital partnership pursuant to a funding agreement to establish the Fund (the "Additional Expense").

The Additional Expense shall continue to be paid to the Manager until the later of February 28, 2005 and when the advance has been fully repaid. The Additional Expense, in the amount of \$183,705, has been charged to operations in the period ended March 31, 2002 to the following expense items: Marketing (\$134,902), Clearing and settlement, and back office fees (\$15,045), and Professional fees (\$33,758).

(b) Investment Advisor

The Fund has retained Tuscarora Investment Management Inc. to provide advice on and manage the Fund's investments. The Fund will pay fees, calculated and paid monthly in arrears, consisting of an annual investment advisory fee of 2% of the net asset value of the Fund.

(c) Performance Bonus

In addition, the Investment Advisor will be entitled to a performance bonus (the "Performance Bonus") based on realized gains and cumulative performance of the eligible investments. Such investments represent those made in eligible businesses as defined by the Federal Act and exclude liquid investments.

Before any Performance Bonus is paid by the Fund on the realization of an investment, the eligible investments must have:

- (i) earned sufficient income to generate a rate of return on eligible investments in excess of a cumulative annualized threshold return of 6%. The income on eligible investments includes investment gains and losses (realized and unrealized) earned and incurred since the inception of the Fund;
- (ii) earned income from eligible investments which provides a cumulative investment return at an average annual rate in excess of 6% since the date of the investment; and
- (iii) fully recouped an amount equal to all principal invested in eligible investments.

Subject to all of the above, the Performance Bonus will be an amount equal to the lesser of (i) 20% of all income earned from the eligible investment, and (ii) the portion of the amount calculated in (i) that does not reduce returns to shareholders on the Investment Portfolio below a cumulative annualized threshold return of 6%.

Notes to Financial Statements (continued)

March 31, 2002

Realized gains and losses on the partial disposition of eligible investments are included with the realized gains and losses on the total disposition of eligible investments and form part of the calculation for the determination of the Performance Bonus. However, the Fund will not pay the Performance Bonus on any partial disposition of an eligible investment unless and until the Fund receives (from all dispositions of that eligible investment on a cumulative basis) an amount equal to at least the full amount of the principal invested in the entire eligible investment.

(d) Sponsor

The Sponsor is entitled to an annual fee of 0.30% of the net asset value of the Fund, calculated and charged monthly in arrears.

(e) Directors

External directors are entitled to a basic annual fee of \$5,000 each, plus certain meeting fees.

6. INCOME AND OTHER TAXES

Under the Federal Act, no income taxes are payable by the Fund on dividends received from Canadian corporations. In addition, income taxes payable on capital gains will be fully refundable on a formula basis when shares of the Fund are redeemed or capital gains dividends are paid or deemed to be paid by the Fund to its shareholders. Income taxes payable on investment income earned by the Fund will be partially refundable upon the payment or deemed payment of dividends by the Fund. The Fund will record the refundable portion of its income taxes as an asset, as it intends to recover all of its refundable income taxes through the payment or deemed payment of dividends to its shareholders.

For the period ended March 31, 2002, the Fund has incurred a non-capital loss in the amount of approximately \$1,279,000, which is being carried forward and is available until 2009 to reduce taxable income in future years. The potential income tax benefit related to this loss has not been recognized in the financial statements.

The Fund has no capital losses.

The Federal Act sets minimum levels of qualifying eligible investments required to be made by the Fund. If the Fund were to fail to meet required minimum level of qualifying venture investments, the Fund would be subject to prescribed taxes and penalties.

Notes to Financial Statements (continued)

March 31, 2002

7. RELATED PARTY TRANSACTIONS

The nature of the relationships between the Fund and the Manager, the Investment Advisor and the Sponsor has been reported in Notes 5(a), 5(b), 5(c) and 5(d) respectively. The transactions occurring in the period between the Fund and these related parties are as follows:

- (a) Management fees payable to the Manager, in the amount of \$13,877, have been charged to operations and are included in accounts payable and accrued liabilities as at March 31, 2002.
- (b) Investment Advisor's fees payable to the Investment Advisor, in the amount of \$27,753, have been charged to operations and are included in accounts payable and accrued liabilities as at March 31, 2002.

In addition, for the period ended March 31, 2002, the Fund has charged to operations a provision for a Performance Bonus in the amount of \$345,000. This provision is included in accounts payable and accrued liabilities as at that date. Such Performance Bonus is payable to the Investment Advisor under the terms described in Note 5(c).

- (c) Sponsor's fees payable to the Sponsor, in the amount of \$4,163, have been charged to operations and are included in accounts payable and accrued liabilities as at March 31, 2002.

During the period, the Fund issued 107,500 Class A, Series I shares for cash, based on the initial offering price or the net asset value on the date of issuance, as the case may be, to certain directors of the manager and the Investment Advisor and their immediate families.

8. MANAGEMENT EXPENSE RATIO

For the five-month period year ended March 31, 2002, the annualized net expenses of the Fund, including Goods and Services Taxes and the amortization of deferred charges, as a percentage of the average net asset value of the Fund was 53.7%. The components of the annualized management expense ratio are as follows:

Investment advisor's fees	2.0%
Manager's fees	1.0%
Sponsor's fees	0.3%
Marketing, printing and professional fees	29.5%
Performance bonus, investment advisor	10.3%
Others	10.6%
	53.7%

Marketing, printing, professional fees and the performance bonus have not been annualized.

9. STATEMENT OF PORTFOLIO TRANSACTIONS

The Fund will provide, without charge, a statement of portfolio transactions (unaudited) upon request by any shareholder to the Fund at 87 Front Street, Suite 400, Toronto, ON, M5E 1B8.

Corporate Information

Tuscarora Energy Growth Fund

Tuscarora Energy Growth Fund was incorporated under the Canada Business Corporations Act by Articles of Incorporation dated November 1, 2001. Tuscarora Energy Growth Fund is sponsored by the Sponsor and is a registered labour-sponsored venture capital corporation under the Income Tax Act (Canada).

Address

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Toll free: 1-800-513-2832
Fax: 416-364-8893
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Fund codes

FSC100 (Series I)
FSC101 (Series II)
FSC102 (Series III)

Manager

Front Street Capital Inc.

Investment Advisor

Tuscarora Investment Management Inc.

Sponsor

The Newspaper Guild of Canada/
Communications Workers of America

Auditors

Deloitte & Touche LLP

Legal counsel

Fraser Milner Casgrain LLP

Custodian

TD Trust Company

Administrator

AdminSource Inc. – a wholly-owned subsidiary of AGF (Registrar and transfer agency, responsible for record-keeping, shareholder reporting, transaction processing and general administration.)

Annual Meeting of Shareholders

The annual meeting of shareholders will be held at 10:00am on Tuesday, September 17 at Fraser Milner Casgrain, 1 First Canadian Place, 100 King Street West, 39th Floor, Toronto, Ontario

Board of Directors

Gary P. Selke

Toronto, Ontario
Chief Executive Officer of the Fund
Chief Executive Officer of Front Street Capital

Arnold Amber ⁽¹⁾

Toronto, Ontario
Executive Producer with CBC Television News

Gordon Holder ⁽²⁾

Ottawa, Ontario
Writer and Copy Editor, The Ottawa Citizen

Jan Ravensbergen ⁽²⁾

Montreal, Quebec
Financial and Business Journalist, The Gazette, Montreal

James A. Hutton ⁽¹⁾

West Vancouver, British Columbia
President, Canada Dominion Resources Group

Stanley Archdekin ⁽¹⁾

Toronto, Ontario
Chairman, Centerfire Capital Corporation

Graham Turner ⁽²⁾

Toronto, Ontario
Partner, Fraser Milner Casgrain LLP

(1) Member of the Audit Committee/Valuation Committee

(2) Member of the Investment Committee

