

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

DECEMBER 31, 2010

## **VERTEX GROWTH FUND**

Integrity | Service | Performance | Independence



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 1-866-681-5787, by writing to us at:

Vertex One Asset Management Inc.  
Suite 1920 – 1177 West Hastings Street  
Vancouver, BC  
V6E 2K3

or by visiting our website at

[www.vertexone.com](http://www.vertexone.com)

or

SEDAR at [www.sedar.com](http://www.sedar.com)

Securityholders may also contact us using one of these methods to request a copy of the investments fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## MANAGEMENT DISCUSSION AND FUND PERFORMANCE

### Investment Objective and Strategies

The Fundamental investment objective of the Vertex Growth Fund (the “Fund”) is to achieve long term capital growth by investing in growth-oriented equity and equity-related securities of North American companies. Analysis of business cycles, industry sectors and market outlook will lead the investment decision.

To achieve the Fund’s investment objective, the manager will use fundamental analysis to identify superior investment opportunities with the potential for above average capital appreciation over the long term.

The key investment strategy places an emphasis on finding companies where event catalysts can surface to create shareholder value. The Fund may make use of the following investment strategies: the use of derivatives, investing in undervalued securities, trading in securities of distressed issuers, special warrant arbitrage, merger arbitrage, convertible arbitrage, participating in restructuring situations, leverage, short selling and other investments such as preferred shares, convertibles, corporate and sovereign debt securities.

The inception date of the Fund was September 21, 2009.

### Risk

In the first full calendar year of operation, the portfolio has adhered to all of its strategic objectives. Because of the volatile nature of many of the securities held in the portfolio the Fund is susceptible to general market declines as was the case in May and June of 2010. A change to investment themes in the Fund exposes the portfolio to potential new risks. In the second half of the year the Fund increased its exposure to silver and gold related stocks. Any changes to legislation that affects world silver markets or an investment would have an effect on the portfolio. The Fund is at risk to a political situation causing markets to drop. Changing market demographics affecting the profitability of an investment could have a negative influence on the portfolio.

Foreign currency exposure is kept to a minimum through hedging practices designed to insulate the Fund from any deviations in foreign currency that could have an impact on the Fund’s returns.

### Results of Operation

2010 was an exciting year for the Fund. Performance for the year ending December 31, 2010 for Class B units was 40.63% and for Class F units was 41.25%. Performance between Class B and Class F may not be the same due to differences in fees and expenses charged for each Class. Although significant gains throughout the year can be attributed to the strength in our resource holdings, there were other contributors completely unrelated to the materials section. Dillard’s, Inc. has been a fantastic investment, more than doubling in 2010. A clothing and home furnishing company operating 296 retail stores and 14 clearance centers across 29 states, Dillard’s was purchased for its undervalued share price. Despite a significant increase in share pricing out of the 2008 trough, the shares have remained highly undervalued. Owning 78% of its real estate, they just announced the formation of a wholly owned Real Estate Investment Trust which has pushed shares higher. Notwithstanding, we still see significant upside in share price value from here.

Vermillion Energy Inc. operates oil and gas properties around the world, notably in France. Investors have yet to appreciate the growth and potential from their French properties. Going forward, we anticipate step-change production results coming from Vermillion to push the stock higher. And while we wait we'll collect a 5% coupon, a nice remnant left from its conversion from an Income Trust to a Corporation in September.

Lastly, we couldn't go without mentioning Apple's incredible performance, not only with respect to its share price, but as a company. Much has been said about Apple throughout its history as its status has shifted from personal computer innovators in the 80s, to financial flounders in the 90s, to the renaissance of Steve Job's in the 2000's with the creation of culturally iconic peripherals. One would think that with the multi-platform success Apple has witnessed over the last decade designing elegant portable devices, their future growth would be limited. However, Apple is really just entering its next business phase, where it will envelop the general population into its operating system stealing major market share from Windows. Apple has created a universe of connectivity and platform integration that has given them the edge over all other tech companies. Whatever Steve Jobs' health situation is going forward, the company will continue to succeed because of the foundation he has laid for a cultural shift in technological preference. He has spread the brand into the personal computer, mobile, music, television, portable computing, and newsprint markets. And, unlike Google all of its devices are cooperative and profitable. The iPad along with the iPhone will drive sales for the next decade, as the iPad becomes a true PC/laptop killer over its next iterations.

The Portfolio Manager took advantage of the market rout in June, relating to worries about sovereign debt in Europe, to raise cash by performing some selling that resulted in capital losses. This event helped contribute to a high turnover rate for the year of 195%, but the capital losses realized mid-year allowed the Fund to achieve a 41.25% return (Class F) at year end without having any capital gains distribution.

We do not foresee any changes to the management of the Fund in the near future, nor do we see any shift in strategic positioning.

### **Future Accounting Changes**

#### **International Financial Reporting Standards**

The Canadian Accounting Standards Board ("AcSB") confirmed that International Financial Reporting Standards ("IFRS") will replace current Canadian accounting standards and interpretations for publicly accountable enterprises in 2011. Vertex Asset One Management has developed a changeover plan to IFRS. The key elements of the changeover plan include assessment of significant IFRS and Canadian GAAP differences, analysis and conclusion on accounting policy choices, identification of additional disclosure requirements under IFRS, and preparation of the financial statements in accordance with IFRS with comparatives.

Based on its current assessment of the differences between IFRS and Canadian GAAP, Vertex Asset One Management has presently determined that there will be no significant impact to the Net Asset or Net Asset per unit as a result of the changeover. It is expected that the impact of IFRS will be limited to additional disclosure and potentially modification to the presentation of unitholder

interests and certain other items. This present determination is subject to change if new standards or new interpretations of existing standards are issued before the changeover.

In September 2010, the AcSB approved a one year deferral of adoption of IFRS for investment companies currently applying Accounting Guideline 18, Investment Companies, which include investment funds. In January 2011, the AcSB made a decision to extend the deferral of IFRS adoption by investment companies for an additional year to January 2013. This results in a two-year deferral of IFRS adoption by investment companies compared to other publicly accountable entities. The AcSB noted in its Decision Summary that the deferral is a result of the delay in the International Accounting Standards Board's ("IASB") investment company project and that a final standard would likely not be issued before January 2012, the previous mandatory IFRS changeover date for investment companies in Canada.

Investment funds may continue to apply existing Canadian GAAP standards until fiscal years beginning on or after January 1, 2013. Accordingly, the Fund will adopt IFRS for the fiscal period beginning January 1, 2013, and will issue the first financial statements under IFRS, including comparative information, for the interim period ending June 30, 2013.

### **Sales Tax and GST Harmonization**

Effective July 1, 2010, the British Columbia and Ontario provincial governments proceeded to harmonize their Provincial Sales Tax ("PST") with the federal Goods and Services Tax ("GST") to become the new Harmonized Sales Tax ("HST"). HST is applicable to GST-taxable services charged to the Fund. HST is calculated separately for each class of the Fund in proportion to the amounts invested by residents of HST-participating provinces when compared to non-participating provinces. HST participating provinces refer to the provinces of Ontario, British Columbia, Nova Scotia, New Brunswick or Newfoundland and Labrador or any other province that in the future begins to apply HST. The net effect is the application of a "blended rate" of GST/HST to each class of the Fund and an increase in taxes applied to the Fund for services charged to the Fund.

### **Related Party Transactions**

During the period ended December 31, 2010, the fund incurred performance fees in the amount of \$671,888 and management fees (all of which were subsequently reimbursed to the fund by the manager due to the size of the fund) in the amount of \$184,744 to its manager, Vertex One Asset Management, Inc.

## 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 periods ending December 31<sup>st</sup>.

### The Fund's Net Assets per Unit <sup>(3)</sup>

|   | 2010 Class F    | 2010 Class B    | 2009 Class F                 | 2009 Class B                 |
|---|-----------------|-----------------|------------------------------|------------------------------|
| <b>Net Assets, beginning of period <sup>(1)</sup></b>           | <b>\$ 9.97</b>  | <b>\$ 9.95</b>  | <b>\$10.00<sup>(4)</sup></b> | <b>\$10.00<sup>(4)</sup></b> |
| <b>Increase (decrease) from operations:</b>                     |                 |                 |                              |                              |
| Total revenue   | 0.32            | 0.33            | 0.05                         | 0.06                         |
| Total expenses  | (0.81)          | (0.84)          | (0.06) <sup>(5)</sup>        | (0.06) <sup>(5)</sup>        |
| Realized gains (losses) for the period                          | 1.13            | 1.18            | (0.31)                       | (0.37)                       |
| Unrealized gains (losses) for the period                        | 3.37            | 3.68            | 0.62                         | 0.45                         |
| <b>Total increase (decrease) from operations <sup>(1)</sup></b> | <b>4.01</b>     | <b>4.35</b>     | <b>0.30<sup>(5)</sup></b>    | <b>0.08<sup>(5)</sup></b>    |
| <b>Distributions :</b>  |                 |                 |                              |                              |
| From income (excluding dividends)                               | -               | -               | -                            | -                            |
| From dividends  | -               | -               | 0.01                         | 0.01                         |
| From capital gains  | -               | -               | -                            | -                            |
| Return of capital   | -               | -               | -                            | -                            |
| <b>Total annual distributions <sup>(1)(2)</sup></b>             |                 |                 | <b>0.01</b>                  | <b>0.01</b>                  |
| <b>Net Assets, end of period</b>                                | <b>\$ 14.36</b> | <b>\$ 14.19</b> | <b>10.14<sup>(5)</sup></b>   | <b>10.07<sup>(5)</sup></b>   |

(1) Net assets and distributions are 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.

(2) Distributions were paid in cash/reinvested in additional units of the Fund, or both.

(3) This information is derived from the Fund's audited annual financial statements. The net assets presented in the financial statements differs from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in Note 2 of the notes to the financial statements.

(4) Fund Commenced operations on September 21, 2009

(5) 2009 figures have been restated. For more information, please see Financial Statements, Note 11.

**Ratios and Supplemental Data**

|  | 2010 Class F | 2010 Class B | 2009 Class F         | 2009 Class B         |
|--|--------------|--------------|----------------------|----------------------|
| Total net asset value (\$ 000's) <sup>(1)</sup>            | 10,637       | 14,219       | 4,104                | 1,278                |
| Number of units outstanding <sup>(1)</sup>                 | 744,917      | 1,002,343    | 406,284              | 126,699              |
| Management expense ratio (%) <sup>(2)</sup>                | 5.84         | 6.05         | 7.62 <sup>(5)</sup>  | 7.71 <sup>(5)</sup>  |
| Management expense ratio before waivers or absorptions (%) | 7.62         | 8.80         | 11.44 <sup>(5)</sup> | 12.09 <sup>(5)</sup> |
| Portfolio turnover rate (%) <sup>(3)</sup>                 | 195.23       | 195.23       | 39.30                | 39.30                |
| Trading expense ratio (%) <sup>(4)</sup>                   | 0.97         | 0.97         | 1.75                 | 1.75                 |
| Net asset value per unit (\$)                              | 14.28        | 14.19        | 10.10                | 10.08                |

- (1) The information is provided as at December 31 of the year shown.
- (2) Management expense ratio is based on total expenses for the stated year and is expressed as an annualized percentage of daily average net assets during the year.
- (3) 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 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 a Fund.
- (4) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.
- (5) 2009 figures have been restated for the purpose of computing the MER. Actual trading NAVs have not been restated. For more information, please see Financial Statements, Note 11.

**Management Fees**

In consideration of the services provided by Vertex One Asset Management Inc, the Fund pays Vertex One Asset Management Inc a management fee, monthly in arrears, and calculated daily, on each business day, as a percentage of the net asset value of each class of Units that comprise a Fund.

The management fee may vary from Class to Class and will be deducted as an expense of the Fund in the calculation of the net profits of such Fund. The management fee for each of the existing classes of Units is as follows:

**Class B:** 1/12 of 2.0% (2% per annum) of the net asset value of the Class B Units on the last business day of the preceding month.

**Class F:** 1/12 of 1.0% (1% per annum) of the net asset value of the Class F Units on the last business day of the preceding month.

The Fund received services in consideration of the management fees as follows:

| Services Provided                         | Class B | Class F |
|---|---------|---------|
| Distribution related costs                | 62.5%   | 0%      |
| Portfolio Advisor and Management Services | 37.50%  | 100%    |

## Performance Fees

In consideration of the services provided by Vertex One Asset Management Inc, the Fund pays Vertex One Asset Management Inc a performance fee equal to 20% of the amount by which the cumulative total return of the Fund exceeds the cumulative total percentage increase or decrease of the following benchmarks having the following components, and provided that the Net Asset Value per Unit for each Class of Units exceeds the high-water mark described below.

- 50% weighting – S&P 500 Total Return Index (or its successor indices, as applicable)
- 50% weighting – S&P/TSX Composite Total Return Index (or its successor indices, as applicable)

If at any time the performance of a Fund is less than its benchmark, then no performance fee will be payable until the performance of such Fund relative to its benchmark has exceeded the amount of the deficiency. Any deficiency remaining after one year will be extinguished and the performance of a Fund will be measured against its benchmark, without regard to any prior deficiency.

In addition, the highest daily Net Asset Value per Unit for each Class of Units for a day on which a performance fee is payable establishes a high-water mark for such Class of Units which must be exceeded in subsequent days for the performance fee applicable to such Class of Units to be payable.

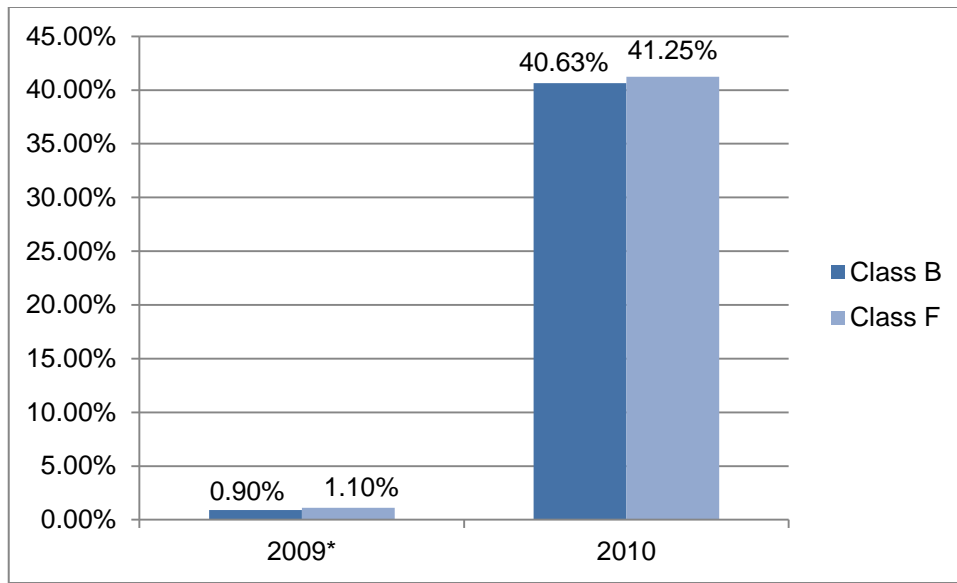
Performance fees will be calculated and accrued (and become payable) daily, such that, to the extent possible, the unit price each day will reflect any performance fees payable at the end of such day. The Net Asset Value per Unit for each Class on the last business day of any quarter for which a performance fee is paid by a Fund to Vertex One establishes a quarterly high water mark. If the Net Asset Value per Unit for each Class on the last business day of a subsequent quarter is below the previous quarterly high water mark, accrued performance fees will not be paid to Vertex One and payment will be deferred until a new quarterly high water mark is achieved.

## PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional securities of the Fund. Note that the performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. How the Fund has performed in the past does not necessarily indicate how it will perform in the future.

### Year-by-Year Returns

The following chart shows the performance of the Fund since its inception date of September 21, 2009 to December 31, 2010. The charts show you the Fund's annual historical return and how it changes each year. Annual return is the percentage change in the value of an investment from January 1 to December 31, unless otherwise noted. The charts show, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year. The returns are cumulative and include all distributions.



\*2009 returns are since inception date Sept 21, 2009

**Annual Compound Return**

The following table illustrates the annual compound total return for Class B and F units of the Fund for the periods shown. As a basis of performance comparison, the annual compound return of the Fund is compared to that of the S&P/TSX Composite Total Return. Since the Fund does not necessarily invest in the same securities or in the same proportion as the Index, the performance of the Fund is not expected to equal the performance of the Index.

|                            | <b>1-Year</b> | <b>Inception</b> |
|----------------------------|---------------|------------------|
| Growth Fund Class B        | 40.63%        | 42.00%           |
| Growth Fund Class F        | 41.25%        | 42.90%           |
| S&P/TSX Total Return Index | 17.61%        | 21.98%           |

Inception of the fund was September 21, 2009. Return since inception is not an annualized number.

During the year ended December 31, 2010, your investment in the Fund experienced a return above that of the Index noted in the above table. Performance will vary by class largely due to the extent that fees and expenses may differ between classes. Index returns are displayed for references purposes only and are not meant to be a proxy for the returns of the Fund. The Fund does not aim to replicate the composition of either Index and as such its performance may differ.

### Summary of Investment Portfolio

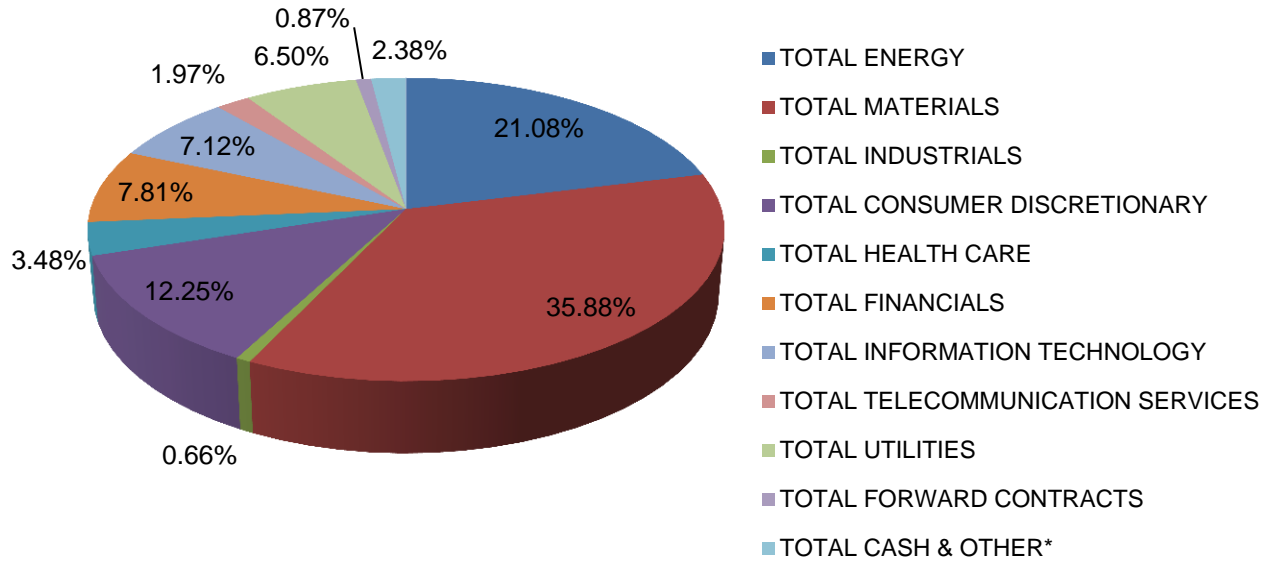
The major portfolio categories and top holdings (up to 25) of the Fund at the end of the period are indicated in the following tables. The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund and the next quarterly update will be in the Quarterly Portfolio Disclosure as at March 31, 2011.

| <b>Top 25 Holdings</b>                     |                             |
|--|-----------------------------|
| <b>Issuers</b>                             | <b>% of Net Asset Value</b> |
| AngloGold Ashanti Ltd., PFD                | 8.21%                       |
| Vermilion Energy Inc.                      | 8.18%                       |
| Parex Resources Inc.                       | 7.86%                       |
| Pan American Silver Corp.                  | 7.17%                       |
| Apple Inc.                                 | 7.14%                       |
| Silver Wheaton Corp.                       | 7.13%                       |
| Capital Power Income LP                    | 6.52%                       |
| Whistler Blackcomb Holdings Inc.           | 6.35%                       |
| Dillard's Inc., Class A                    | 5.93%                       |
| ING Groep NV, 7.20% PFD                    | 4.12%                       |
| Extendicare Real Estate Investment Trust   | 3.69%                       |
| Oncolytics Biotech Inc.                    | 3.49%                       |
| Chemtrade Logistics Income Fund            | 2.43%                       |
| Sprint Nextel Corp.                        | 1.98%                       |
| Visible Gold Mines Inc.                    | 1.66%                       |
| Oceanic Iron Ore Corp., Warrants (09Jun12) | 1.61%                       |
| Conifex Timber Inc.                        | 1.50%                       |
| Wildcat Silver Corp.                       | 1.11%                       |
| Sacre-Coeur Minerals Ltd.                  | 0.92%                       |
| Castle Resources Inc.                      | 0.83%                       |
| Oceanic Iron Ore Corp.                     | 0.72%                       |
| P1 Energy Corp.                            | 0.71%                       |
| Mart Resources Inc.                        | 0.68%                       |
| Eacom Timber Corp.                         | 0.58%                       |
| Touchstone Exploration Inc.                | 0.58%                       |

Net Asset Value = \$24,860,662

The following chart sets out the sector allocations of the Fund's portfolio as at December 31, 2010.

### Sector Allocation %



\* Cash and other, for the purpose of this chart includes other assets less liabilities.