

## VERTEX FUND

### Third Quarter Report, 2004

#### “The Axis of Evil”

Some of you may know me but probably not many. I'm Tim Logie and to make a long story short my job description at Vertex One is quite simple: work with the team to discover ways to create wealth for our clients.

Since you're not reading this letter for my life story, let's get to the title. A few months after 9/11, George W. Bush coined the term “axis of evil” on National Television to describe a circumstance involving Iran, Iraq and North Korea. It was the echo of an expression used during World War II; the media ran with it and the public ate it up. In Canada, we have a stock version of the axis of evil which includes truly “bad” companies such as Nortel, Celestica and Ballard. A short time later in early 2002, after Bush annexed three more countries (Syria, Libya and Cuba) into his axis of evil, it was only appropriate that *our* axis should be expanded to include such companies as Stelco and Air Canada.

As they've gotten their just desserts, it's not pertinent to even mention Nortel, Celestica or Ballard at this point. It is timely, however, to talk about Stelco and Air Canada as both are scheduled to come out of bankruptcy (CCAA) in the next few months. To this day we talk about how bad management was and how the environment within these companies was even worse. Wait a second....doesn't Air Canada still have the same CEO? Has anything really changed? Interestingly enough, your Vertex Fund is participating in the restructured Stelco and Air Canada. Now don't worry. I know you're thinking that the working environment hasn't gotten any better (in fact, it's probably worse) and management?...well that hasn't gotten any better either, but here's the thing - there's opportunity in the restructuring. These aren't two great new companies (and probably never will be), but there might be a chance to earn a greater than expected return for the fund as previous bankruptcy restructuring provided in the case of Microcell, Redback Networks and Algoma.

A new Air Canada will have less debt, attracting new shareholders also interested in a restructured company that has reduced costs. Oil prices remain high but we hope that other institutions will buy the stock because they like (or need) more exposure to larger capitalization names. Can the new company compete with the likes of Westjet, Canjet and JetsGo? Does it need to for the stock to move up? Only time will tell if Air Canada can compete. In the interim, investors will speculate on the turnaround and most likely move the price upwards given that not one institution or mutual fund currently owns the stock. The key in behavioral finance is to own an asset before it's in vogue.

Stelco, mentioned earlier as part of the “axis”, has changed its evil ways and now sits on the other side of evil. Here, lucky new management comes into an environment at a time when the market price for steel is taking off into the stratosphere. Steel companies are making money hand over fist. Check out one of the Vertex Fund’s best performers – Algoma. Does anyone remember their last bankruptcy restructuring? Or how about their first? The stock sits at \$22 per share today. Stelco could have earnings equivalent to its share price for this quarter even with its high costs and aged equipment. Management warned that their shares might have no value, but for a company that is fighting for time in a CCAA proceeding, it’s what we expect them to say. The bottom line is that they are the Canadian Airlines of the steel business; they can’t do much but they keep churning along until someone buys them out.

Since these annexed evildoers declared bankruptcy and successfully destroyed investor wealth, the axis of evil needed to replace them. So here is a new member to keep the tradition strong: Biovail, a candidate with the same bad management that the axis of evil embraces. There is room for one or two more companies if anyone has some ideas. If you want to know more, or vote on the next member, you can always call for a chat.

Just as a side note, our heavy energy weighting in Esprit Exploration, Penn West Petroleum and Paramount Energy helped our performance considerably. These Alberta based companies all benefited from eliminating the tax collector by converting from a common share structure into a unit trust.

With that, I’ll sign off and wish everyone well. Things have never looked better at Vertex One and I hope to talk to more of you in the future.

Tim Logie

The **Vertex Fund** returned 33.73% for the year ended September 30, 2004.

<b>Net Asset Value</b>	<b>Rate of Return</b>					
	<b><u>3 Mos.</u></b>	<b><u>1 Yr.</u></b>	<b><u>2 Yrs.*</u></b>	<b><u>3 Yrs.*</u></b>	<b><u>4 Yrs.*</u></b>	<b><u>5 Yrs.*</u></b>
<b>\$40.1506</b>	<b>9.98%</b>	<b>33.73%</b>	<b>30.11%</b>	<b>18.15%</b>	<b>14.64%</b>	<b>24.43%</b>

\*Annualized