

4th Quarter Report to Vertex Fund Limited Partners, January 21, 1999

Dear Limited Partner:

| <u>1998</u> | <u>Net Asset Value</u> | <u>Year to Date Performance</u> |
|--------------|------------------------|---------------------------------|
| February 9 | \$10.00 | |
| March 31 | \$11.72 | 17.20% |
| June 30 | \$11.85 | 18.50% |
| September 30 | \$9.42 | -5.80% |
| December 31 | \$10.58 | 5.80% |

In 1998 the TSE was down 1.6% during the year mainly due to the weakness seen in commodity markets due to the economic weakness seen in Asia and Russia. In October the US Federal Reserve Bank lowered interest rates to stop Global markets from heading into a liquidity crisis. The corporate bond market has ceased to function with not a buyer in sight and market makers refused to bid on bonds under the penalty of losing their jobs. Thirty countries followed the Federal Reserve in lowering interest rates (over 100 times) over the next 60 days.

This large amount of liquidity pushed the market to new highs once again and in our opinion created a huge bubble in equity valuations, especially those in the Internet realm. These expensive valuations have led us to focus on bottom up stock picking like Celestica while taking advantage of arbitrage situations on takeovers in Southam, Provigo, Oshawa Group and RedBrick in the US. These arbitrage situations on takeovers allow us to earn a modest return over a short period of time.

We are also introducing a watermark to the fund in 1999. This benchmark will be reset yearly at year-end so performance fees are only earned on incremental yearly gains. The new benchmark for 1999 is \$10.58 per unit. For example, if 1999 turned out to be a negative year for the fund the benchmark would stay at \$10.58.

We look forward to our next report where we will be able to report our one-year numbers. In the interim you will receive the audited financial statements for the fund as well as the tax fillings needed for Revenue Canada.

Thank you for your patronage over the past year, and for the referrals you have sent our way. We will strive to maintain the high level of service you have come to expect, and look forward to a prosperous 1999!

Please call us or email us if you have any questions.

Sincerely,

Vertex One Asset Management
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