VERTEX ONE
Asset Management Inc.

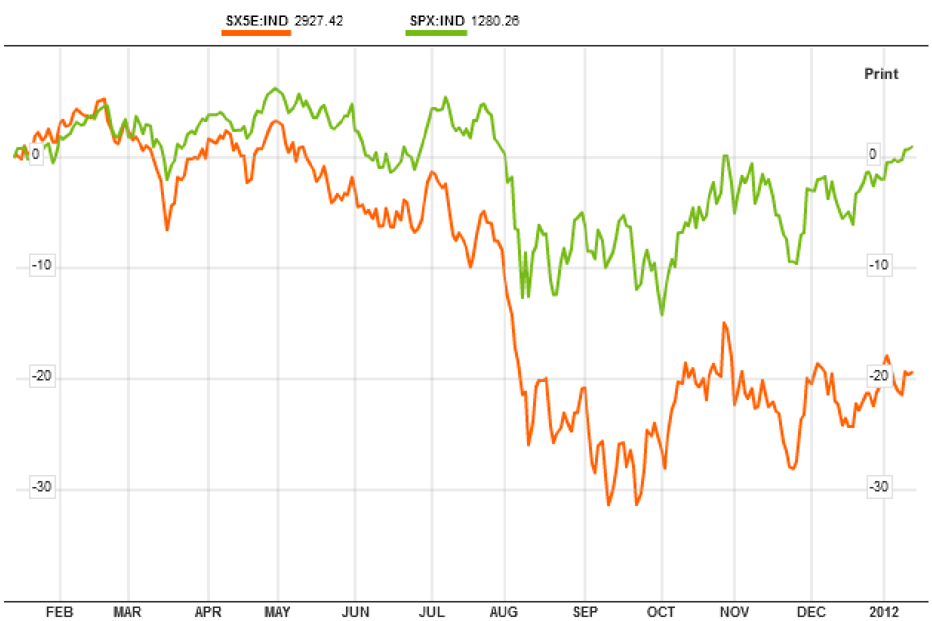
1920 – 1177 West Hastings Street
Vancouver, British Columbia V6E 2K3
www.vertexone.com
Phone: 604-681-5787
Fax: 604-681-5146

VERTEX FUND

Fourth Quarter Report, 2011

"Bull markets are born on pessimism, grown on scepticism, mature on optimism, and die on euphoria."
- John Templeton

2011 was a difficult year, the fund performed slightly worse than the TSX in 2011 down 11.7% (Class A) versus 8.7% for the index (including dividends). Our concern over the systemic consequences of Europe grew evermore real as the year progressed and by July we positioned the portfolio for a full collapse of the Euro nation. As such, we entered the second half of the year with a negative correlation to the markets. This was working very well through mid-August, as the fund was flat with the markets down double-digits. Miraculously, Europe did not blow up and was placed instead on life support. This gave enough breathing room for the American markets to rebound (illustrated below by the significant outperformance of the S&P 500 [green] to the EuroStoxx 50 [orange]). This hurt the fund as we were defensively postured.



Following the European bailout plan of 1 trillion Euros at the end of October, we removed hedges on our precious metals exposure. Remarkably, the money-printing did not have the positive effect on gold and silver we anticipated and we took losses. By mid-November we turned bullish, a little early, as half our losses in 2011 came in the last 8 weeks of the year. Despite providing a shelter of income, in aggregate our bond portfolio declined as spreads over treasuries widened.

The other half of the losses this year came from our opportunity cost in silver and its volatility that is no longer acceptable to us, so we have decided to exit our call options in February 2012. From here on in, we will take our silver exposure through our current equity exposure in the portfolio which will have less volatility.

Merger Arbitrage was the only area that performed for the Vertex Fund. We had thirteen merger arbitrage positions close in the fourth quarter. While it's obviously reassuring to see these situations reach a timely and successful conclusion, the M&A activity needed to generate new opportunities was disappointing. Even as corporate balance sheets in the US and Canada remain robust, valuations reasonable, and debt financing markets generally open for business, the volatility we've experienced since late summer has impacted the final necessary ingredient for M&A activity: CEO confidence. Our sense is that many potential acquirers are taking a wait-and-see approach and our hope is that a period of relative market calm will translate into a real uptick in acquisition activity. One bright spot has been the continued interest of Chinese buyers for Canadian resource assets. This quarter saw the close of the acquisitions of Daylight Energy by Sinopec and Opti Canada by CNOOC. In addition, the acquisition of Grande Cache Coal by a Chinese and Japanese consortium was announced. The Daylight deal was ground breaking as it's the first natural gas acquisition that we have seen, as these assets are not easily transferred to Asia.

For those who did not receive our commentary on Canadian hostile takeovers (sign up to receive our Live from the Desk commentary at http://www.vertexone.com/mailing-list.html), we discussed how active and profitable the Canadian hostile-takeover environment has been since the summer. While hostile bids for US-based companies have not been a mainstay of our event-driven strategies, hostile Canadian bids have historically offered particularly attractive risk-adjusted returns. We prefer Canadian hostile transactions to US ones as it is much more difficult for the target board in Canada to block a transaction outright. This motivates the board to either find a white knight willing to pay more, or to a negotiated outcome with the acquirer, and rarely resulting in a "just-say-no" US-style defense. Three of these situations (Zarlink, Hathor, and Mosaid) closed in the fourth quarter, generating attractive returns for the Vertex Fund. Two more Canadian hostile transactions, Ruggedcom and CANMARC REIT, remain in the fund. We expect to have a very large exposure to M&A in 2012.

In the interim, we have become more optimistic as the European Central Bank announced (LTRO) long term refinance operations that in effect allow them to print money to support the buying of sovereign debt. This has meant that liquidity has opened up and bond financings are going swimmingly well, but the long-term printing of money should do well for precious metals. So far in 2012 we have turned the corner, as the market is climbing a wall of worry this year while we say good riddance to 2011. The one thing we can say with confidence is that 2012 will mark the bottom in capital markets as all the bad news is now out (except for Japan).

We took in $50 million in income this past year, which means the fund was not very tax efficient but it allowed us to hide in a poor market where many of our competitors suffered a brutal year. You can see by the following table how efficient our returns have been over the years.

Class A	Pre-Dist. NAVPS	Post-Dist. NAVPS	Distribution	Dist. As a % of NAV	1-Year Return
2011	62.83	57.04	5.79	9.20%	-11.70%
2010	73.52	71.16	2.37	3.22%	19.46%
2009	61.55	61.55	0.00	0.00%	84.18%
2008	33.42	33.42	0.00	0.00%	-40.25%
2007	60.3	55.93	4.37	7.25%	9.99%
2006	58.31	54.82	3.49	5.99%	14.72%
2005	51.01	50.83	0.18	0.35%	27.12%
2004	43.12	40.13	2.99	6.93%	20.20%
2003	35.87	35.87	0.00	0.00%	48.91%
2002	26.25	24.09	2.16	8.23%	-2.44%

For distribution information on each fund class, please visit the taxes page under the "private wealth" or "advisors" sections of our website www.vertexone.com.

As always, please call us if you would like more details on the previous analysis.

PERFORMANCE (Class A shares)

Net Asset Value	**3 Month**	**1 Year**	**3 Year+**	**5 Year+**	**10 Year+**	**Since Inception+**
$57.0447*	-6.12%	-11.70%	24.78%	5.01%	12.51%	16.87%

+annualized returns
*post-distribution

Distribution: $5.787024

Vertex One Asset Management, Inc.