

**Fund Review** Our prediction that there would be a significant equity rally into the end of the year proved correct as the S&P 500 index continued to rally over the last few weeks. The S&P has increased by 18.9% since the October low while the TSX Composite has gained a more muted 12.4%. The underperformance of the TSX was largely due to continued weakness in precious metals. It seems that our call is correct that the equity market lows were set in August. For the month of December, the Fund returned (2.9%) as compared to (4.1%) and (1.7%) for the TSX Venture and TSX Composite respectively. We are pleased that the Fund managed to remain modestly positive for the year given the challenging market conditions as reflected by the (35.1%) return of the TSX Venture in 2011.

Our strategy of avoiding the precious metal sector has added value over the past couple of quarters as gold and silver remain entrenched in a downtrend. Both of these commodities peaked in the summer and have continued to hit new lows since that time. We have preferred to invest in other sectors with more favourable supply/demand fundamentals such as the energy sector. Oil prices have performed much better over the same period, gaining approximately 35%. However, despite the rally in oil to over \$100 per barrel, energy stocks have lagged. We believe that this will be rectified in 2012. The Fund has a 26% weighting in energy stocks.

**Outlook** Equity valuations and economic data continue to be supportive of stronger equity markets in 2012. Although this continues to be our view, it is not a view that is shared by many. The same applies to our muted view on gold. This brings to mind one of our favourite quotes

by the late John Masters, author and army colonel, which reads "You have to recognize that every 'out-front' maneuver is going to be lonely. But if you feel entirely comfortable, then you are not far enough ahead to do any good. That warm sense of everything going well is usually the body temperature of the herd. Only if you are far enough ahead to be at risk do you have a chance for large rewards".

In addition to the ongoing favourable economic data in North America, the most recent domestic equity fund flow data provided by the Investment Funds Institute of Canada shows continued outflows from equity funds. In fact, 2011 marks the 6th straight year of outflows from domestic equity funds. The equity outflows in November amounted to \$1.7 billion which brings the year to date net outflows to \$9.2 billion while at the same time, investors added a net \$7.3 billion to bond funds in pursuit of the miniscule yields. We continue to believe that fund flows will provide a powerful catalyst to equities when this trend reverses. It has been one of our fundamental views that this trend cannot continue. We maintain our positive outlook for Canadian equities.



Regards,



Steven Palmer, CFA  
President and CEO

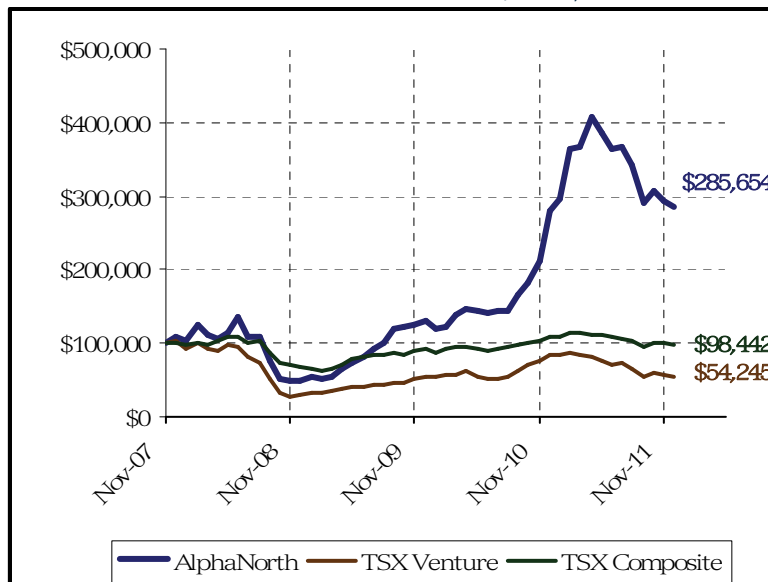
### Monthly Performance\*

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2007												7.4%	7.4%
2008	(5.0%)	21.6%	(10.1%)	(5.6%)	8.1%	19.2%	(20.7%)	0.7%	(29.1%)	(31.9%)	(4.9%)	0.7%	(53.3%)
2009	9.0%	(3.5%)	4.0%	21.2%	9.0%	14.1%	11.5%	9.0%	19.1%	1.2%	4.1%	3.7%	160.6%
2010	(8.5%)	1.7%	14.0%	6.4%	(1.6%)	(2.7%)	2.6%	(0.4%)	14.2%	11.3%	15.4%	31.9%	113.6%
2011	5.8%	23.0%	0.9%	11.7%	(5.7%)	(5.7%)	1.0%	(6.5%)	(15.6%)	5.6%	(3.8%)	(2.9%)	2.4%

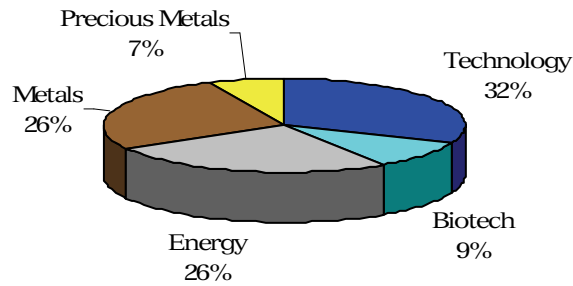
### Performance Analysis

	AlphaNorth Partners Fund	S&P/TSX Venture	S&P/TSX Composite
<b>Returns *</b>			
1 Month	(2.9%)	(4.1%)	(1.7%)
6 Month	(21.4%)	(22.0%)	(8.9%)
1 Year	2.4%	(35.1%)	(8.7%)
2 Year	47.9%	(1.2%)	3.6%
3 Year	78.6%	23.0%	13.2%
Since Inception (annualized)	29.3%	(13.9%)	(0.4%)
Since Inception (cumulative)	185.7%	(45.8%)	(1.6%)
Best Month	31.9%	11.4%	11.5%
Worst Month	(31.9%)	(35.3%)	(16.7%)
Advancing Months	63.3%	51.0%	53.1%
Standard Deviation	43.2%	36.2%	18.3%
Sharpe Ratio	0.66	(0.41)	(0.07)
Beta		0.96	1.76

### Growth of Initial Investment \$100,000



## Sector Allocation



## Fund Information

Lead Manager	Steven Palmer
Inception	December 1, 2007
Fund Type	Alternative Strategies (Long biased small cap)
Fund Status	Closed to new investors
Fund Codes	Class A— AAM100 Class D— AAM200
Assets	\$85 million +
Eligibility	Accredited Investors only
Fund Details	Management Fee Class A- 2%, Class D- 2.5% 20% Performance Fee RRSP eligible High water mark (no reset) Monthly valuation \$150k minimum investment
Sub/Redemption	Monthly, 90 day notice
Lock-up	None
Redemption Fee	Class A—none; Class D—3% yr 1, 1.5% yr 2
Auditor	Deloitte
Administration	Harmonic Fund Services
Prime Broker	Scotia Capital
Legal	Stikeman/Maples & Calder

## Investment Strategy

The AlphaNorth Partners Fund (the “Fund”) is a long biased small cap hedge fund focusing primarily on Canadian companies. The Fund’s investment objective is to maximize returns over the long term through superior selection of principally Canadian securities. AlphaNorth believes that superior long term investment returns are achievable by exploiting inefficiencies in the Canadian small cap universe through careful security selection on both a long and short basis. Fundamental analysis of companies is used in combination with technical analysis techniques, which has proven to be successful, to assist in the timing of buy/sell decisions. The firm combines both a bottom-up and top-down strategy in the selection of investments offering the best risk/reward characteristics.

## Company Profile

Founded in 2007, AlphaNorth Asset Management’s goal is to achieve superior long term returns for investors. Our value added approach combines the successful track record and investment experience of Steven Palmer and Joey Javier who have worked together as a team since 1998 in the investment industry. Presently, AlphaNorth manages the AlphaNorth Partners Fund, a long biased small cap focused hedge fund, the AlphaNorth 2010 Flow-Through LP, the AlphaNorth 2011 Flow-Through LP and the AlphaNorth Growth Fund.

### Key Personnel:

**Steven Palmer** is the President and CEO of AlphaNorth Asset Management. Mr. Palmer started his career in the investment industry in 1995 on the sell side of the business before transitioning to the buy side in 1997. Most recently, from July 1998 to August 2007 he was employed as Vice President - Canadian Equities at one of the world’s largest financial institutions where he managed the Canadian equity assets of approximately \$350 million. Mr. Palmer managed a pooled fund focused on small capitalization companies from inception in 1998 to August 2007 achieving returns that were ranked #1 in performance by a major fund ranking service in their small cap pooled fund category (35.8% annualized over 9 years as compared to 10.0% for the S&P/TSX Composite and 13.0% for the BMO Weighted Small Cap Total Return Index) over the same period. Mr. Palmer also managed a large cap fund which was ranked in the first quartile for the following time periods: one year, two year, 3 year, 4 year, 5 year and 10 year. Mr. Palmer earned a BA in Economics from the University of Western Ontario and is a CFA.

**Joey Javier** is Vice President and Secretary of AlphaNorth Asset Management. Mr. Javier started his career in the investment industry in 1997 as an Equity Trader for one of the world’s largest financial institutions where he worked together with Mr. Palmer as the equity team. Mr. Javier was responsible for all equity and money market trading as well as back-up for the fixed income portfolio manager. Mr. Javier has a BA in Economics from York University.

## Disclaimer

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