

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

DECEMBER 31, 2010

VERTEX ENHANCED INCOME 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

or

SEDAR at 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 Enhanced Income Fund (the “Fund”) is to provide preservation of capital while providing high income by investing primarily in Canadian and United States bonds, debentures, and equities. The secondary objective is to provide capital growth.

The Fund will invest largely in high yield and convertible bonds, preferred shares, high-yielding equities (up to a 25% weighting) and government debt including federal, provincial, state and municipal issues.

One of the unique features of the Fund is the use of covered call writing. It is used to enhance yield derived from the equity component of the Fund and decrease volatility. The covered call writing strategy consists of the sale of a call option while simultaneously owning the underlying security. Returns are generated from both the collection of option premiums and increases in the underlying stock held. Protection to the downside is equal to the amount of the option premium collected.

The investments of the Fund are subject to the following restrictions:

- No more than 50% of the Fund will be exposed to foreign currencies.
- No more than 25% will be invested in common high yield equities.
- The Fund will hold a minimum of 25 securities.
- There will be no short selling of equities.
- The Fund will not invest more than 25% of the market value of its net assets in common equities.
- The Fund will not invest more than 25% of the market value of its net assets in preferred shares.

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

Risk

During the year the bond duration in the portfolio was reduced which lowers the exposure to the risk of interest rate fluctuation. High yield bonds tend to underperform with increasing interest rates as the spread widens. There is a risk of a lack of liquidity in high yield bonds, convertible bonds and convertible preferred shares during times of market turmoil. Changing market demographics can make some investments less desirable due to lowering profits for the underlying company. Legislative changes or political situations that negatively affect the financial industry in North America would have a negative impact on the Fund.

Results of Operation

The Fund began calendar year 2010 with a portfolio concentrated on investments in higher yield fixed income instruments such as corporate bonds, convertible bonds, real estate investment trusts and income trusts. As well, approximately 25% of the portfolio was invested in common equities that met the Portfolio Manager's criteria for high yield and value. A feature of the Fund is the covered call writing strategy performed over the equity portion of the portfolio. This strategy helps to greatly augment the dividend yields received by equities in the portfolio. Depending on the premium levels seen throughout the year, the percent of the equity portfolio overwritten with call options has been between 70% and 85%.

2010 was an exciting first full year of operation for the Fund. Performance for the year ending December 31, 2010 for Class B units was 16.65% and for Class F units was 17.23%. Performance between Class B and Class F may not be the same due to differences in fees and expenses charged for each Class. With so many opportunities for income it was almost overwhelming. There are income trusts; income trusts that have converted to corporations with high dividends; straight dividend yielding common stocks; preferred shares with very attractive yields; preferred shares with very attractive yields plus an option to convert to the underlying common stock; and convertible bonds and straight bonds. In addition, there are loan portfolios being traded by savvy investors around the globe. We have taken advantage of all these opportunities, with the exception of the latter. Not that we're not savvy, but we're able to find plenty of great opportunity without trying to unravel mysterious loan portfolios in foreign countries.

We were pleased with the performance of the Fund throughout the year. Outside of the market rout in May and June relating to the European sovereign debt crisis which, squeezed bond and equity markets, the Fund performed steadily throughout the year.

At the end of the year there was a development in the Fund of note, the bid for Western Financial by Desjardins. This takeover led to a juicy return. We owned the 9% convertible preferred shares. The bid was well into conversion price leading to a large gain in the Fund. As an old client of mine used to say: "better to be lucky, than smart or good looking". Regardless of the good fortune exemplified by this situation, the whole of the portfolio performed well throughout the year. Our challenge in the coming year will be to find attractive income ideas to replace those maturing or reaching full value. As mentioned, many opportunities do exist and as the economy improves so does the credit quality of our portfolio. The big risk in bond land today is longer dated bonds. Yields are low, prices are high, and inflation could come back. We have greatly reduced our exposure to this segment of the bond market for the near term. There may be a time when high grade long bonds make sense but for now the risk/return equation seems to weigh heavy on risk and light on return.

That said, with a bird's eye view of the current landscape showing high single-digit yields available in attractive credits, 2011 looks to be capable of delivering strong returns for the fund.

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 Inc. 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 \$647,304 and management fees in the amount of \$666,522 (of which \$9,211 was subsequently reimbursed to the fund by the manager due to the size of the fund) 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.

The Fund’s Net Assets per Unit ⁽³⁾

| | 2010 Class F | 2010 Class B | 2009 Class F | 2009 Class B |
|---|----------------|----------------|-------------------------------|-------------------------------|
| Net Assets, beginning of period ⁽¹⁾ | \$10.59 | \$10.55 | \$10.00 ⁽⁴⁾ | \$10.00 ⁽⁴⁾ |
| Increase (decrease) from operations: | | | | |
| Total revenue | 0.79 | 0.79 | 0.11 | 0.16 |
| Total expenses | (0.28) | (0.38) | (0.07) | (0.11) |
| Realized gains (losses) for the period | 0.63 | 0.63 | (0.03) | (0.04) |
| Unrealized gains (losses) for the period | 0.64 | 0.56 | 0.82 | 0.94 |
| Total increase (decrease) from operations ⁽¹⁾ | 1.78 | 1.60 | 0.83 | 0.95 |
| Distributions : | | | | |
| From income (excluding dividends) | 0.31 | 0.23 | - | - |
| From dividends | 0.07 | 0.05 | 0.04 | 0.04 |
| From capital gains | 0.62 | 0.62 | - | - |
| Return of capital | - | - | - | - |
| Total annual distributions ⁽¹⁾⁽²⁾ | 1.00 | 0.90 | 0.04 | 0.04 |
| Net Assets, end of period | \$11.47 | \$11.45 | \$10.59 | \$10.55 |

- (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

Ratios and Supplemental Data

| | 2010 Class F | 2010 Class B | 2009 Class F | 2009 Class B |
|--|--------------|--------------|--------------|--------------|
| Total net asset value (\$ 000's) ⁽¹⁾ | 29,528 | 44,546 | 5,761 | 10,338 |
| Number of units outstanding ⁽¹⁾ | 2,564,039 | 3,875,037 | 541,719 | 975,778 |
| Management expense ratio (%) ⁽²⁾ | 2.30 | 3.24 | 2.59 | 3.65 |
| Management expense ratio before waivers or absorptions (%) | 2.49 | 3.51 | 5.42 | 6.60 |
| Portfolio turnover rate (%) ⁽³⁾ | 75.41 | 75.41 | 3.81 | 3.81 |
| Trading expense ratio (%) ⁽⁴⁾ | 0.12 | 0.12 | 0.49 | 0.49 |
| Net asset value per unit (\$) | 11.52 | 11.50 | 10.64 | 10.59 |

- (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.

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 1.5% (1.5% 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 0.75% (0.75% 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 | 50% | 0% |
| Portfolio Advisor and Management Services | 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.

- 20% weighting – S&P/TSX Preferred Share Total Return Index (or its successor indices, as applicable)
- 20% weighting – S&P/TSX Composite Total Return Index (or its successor indices, as applicable)
- 60% weighting – Scotia McLeod Mid Term Bond 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.

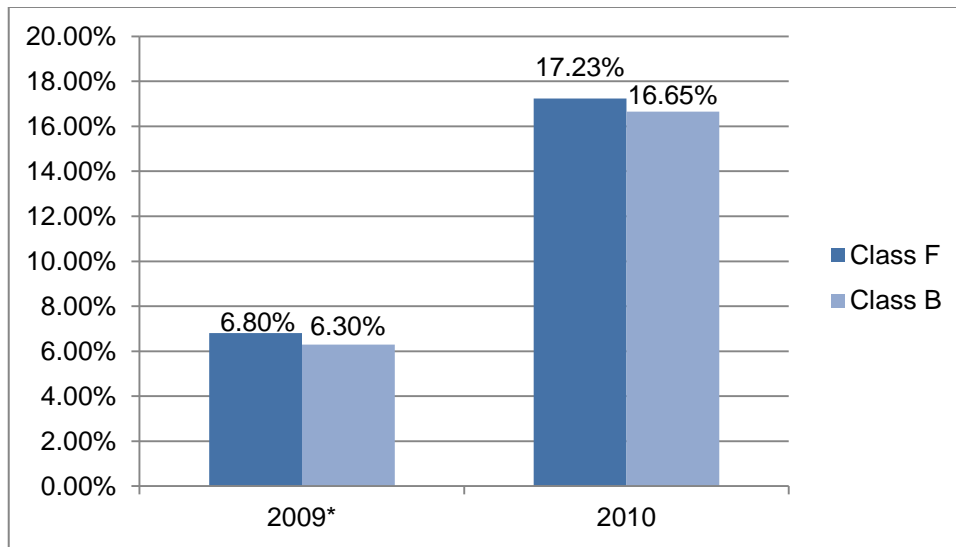
Performance fees will be calculated and accrued (and become payable) daily, such that, to the extent possible, the unit price each day will reflect any performance fees payable at the end of such day. The Net Asset Value per Unit for each Class on the last business day of any quarter for which a performance 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 Index and the Scotia McLeod Mid-Term Index. 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.

| | 1-Year | Inception |
|-----------------------------------|---------------|------------------|
| Enhanced Income Fund Class B | 16.65% | 24.40% |
| Enhanced Income Fund Class F | 17.23% | 25.60% |
| Scotia McLeod Mid-Term Bond Index | 3.22% | 2.70% |
| 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 both of the Indices 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.

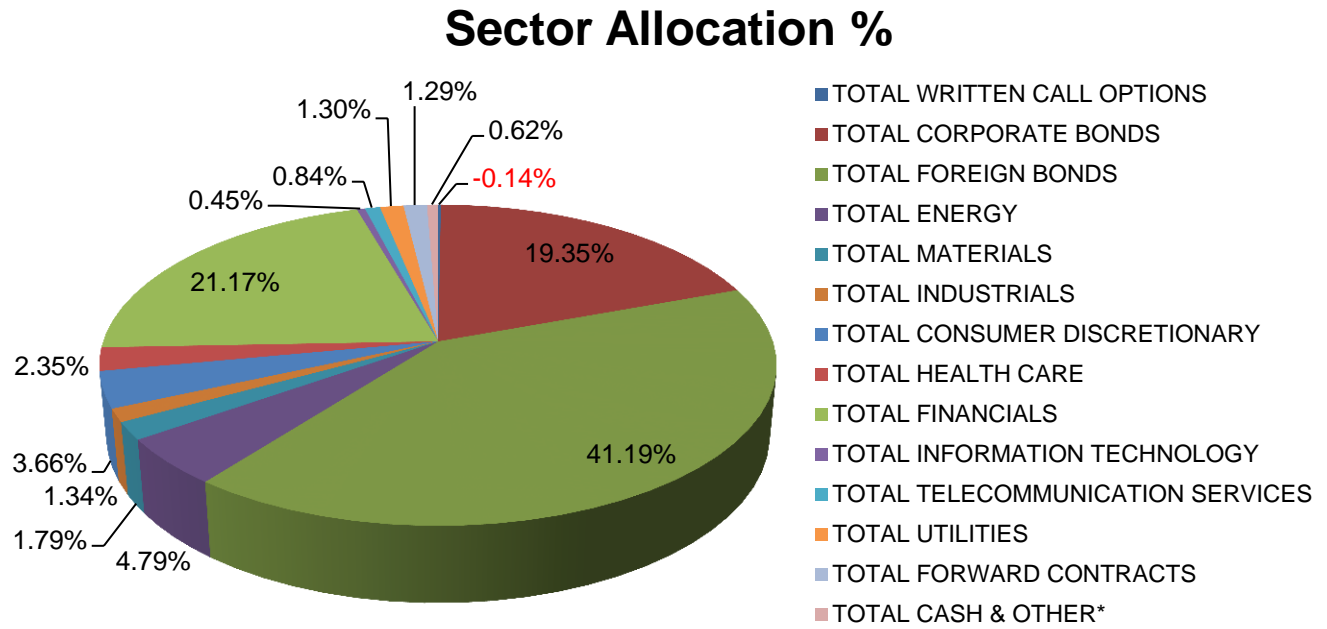
Summary of Investment Portfolio

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.

| Top 25 Holdings | |
|---|-----------------------------|
| Issuers | % of Net Asset Value |
| Citigroup, Inc. 7.25% 2014 PFD | 3.45% |
| Synovus Financial Corp. 4.875% 02/15/2013 | 3.34% |
| Regions Financial Corp. 7% 3/1/2011 | 2.55% |
| SanDisk Corp. 1% 05/15/2013 | 2.45% |
| Millar Western Forest Products Ltd. 7.75% 11/15/2013 | 2.35% |
| iPayment Inc. 9.75% 05/15/2014 | 2.33% |
| Beazer Homes USA Inc., PFD | 2.32% |
| Chorus Aviation Inc. 9.50% 12/31/2014 | 2.24% |
| Wachovia Capital Trust III 5.8% 12/31/2049 | 2.21% |
| American Casino & Entertainment Properties LLC 11% 6/15/2014 | 1.91% |
| Fibrex Inc. 7.0% 12/31/2011 | 1.90% |
| Interactive Network Inc/FriendFinder Networks Inc. 14% 09/30/2013 | 1.89% |
| Jack Cooper Holdings Corp. 12.75% 12/15/2015 | 1.88% |
| MGM Resorts International 6.75% 09/01/2012 | 1.87% |
| Bank of Montreal | 1.82% |
| Central European Media Enterprises Ltd. 3.5% 03/15/2013 | 1.79% |
| Western Financial Group Inc, PFD | 1.77% |
| Level 3 Financing Inc. 10% 02/01/2018 | 1.77% |
| Seadrill Ltd. | 1.74% |
| Canadian Imperial Bank of Commerce | 1.69% |
| XL Group PLC 6.5% 03/15/2049 | 1.61% |
| Consolidated Thompson Iron Mines Ltd. 5% 11/30/2017 | 1.54% |
| XL Group PLC, PFD | 1.52% |
| Extendicare Real Estate Investment | 1.51% |
| Appleton Papers Inc. 10.5% 06/15/2015 | 1.46% |

Net Asset Value = \$ 74,100,655

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



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