

INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

June 30, 2011

**VERTEX ENHANCED INCOME FUND**

Integrity | Service | Performance | Independence



This interim management report of fund performance contains financial highlights but does not contain the complete semi-annual financial statements of the investment fund. You can get a copy of the semi-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](http://www.vertexone.com)

or

SEDAR at [www.sedar.com](http://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

### Results of Operation

The Fund ended the first six months of 2011 with returns of 3.23% for Class B shares and 3.57% for Class F shares.

There was much that happened in the first two quarters of 2011. Renewed concerns with sovereign debt in Europe and waning economic numbers in the US brought instability to the markets. In the first quarter, there was the takeover of two convertible issues in the portfolio, Western Financial and Consolidated Thompson. Both resulted in 40% profits, all at capital gains tax rates, plus interest and dividends. Volatility led to a plethora of opportunity to write calls at attractive premiums on names such as AGF, BCE, Plum Creek Timber, Seadrill, and Pitney Bowes to mention just a few. These stocks not only held attractive option premiums but offered dividend yields on average in excess of 5%.

Fibrex, the old SFK Pulp Fund completed its partial redemption of their 7% convertibles which we purchased dirt cheap when the fund commenced operation back in the fall of 2009. Although the many gifts of 2009 and 2010 weren't available to the same extent in the first half of 2011, different opportunities still arose. Many firms that issued debt at distressed levels during the panic are in much better shape. These firms were now refinancing their expensive debt with less expensive debt (lower yield) by paying us back (with an early redemption premium) and issuing new bonds. We win both ways as the new debt is still being issued at very attractive interest rates at a time when firms are much stronger. So, we are both a seller of the old bonds and a buyer of new debt depending upon the issuer. However, the same thing cannot be said about government balance sheets. Rarely do we hang with consensus, but in the area of government bonds, we're going with the headlines and sitting on the sidelines. Government finances around the globe are in shockingly poor shape and only time will tell whether austerity or a return to growth will ease the burden.

In the second quarter, for the first time in 12 months, high yield bonds saw net outflows as investors moved to a "risk off" trade out of risky assets. This was more of a general move than high yield specific, as commodities and equities also saw outflows, while treasuries seemed to be the only asset class that benefited. We will see if the "risk on" trade comes back over the summer or whether this is the start of a larger move. A very similar situation last spring led to a strong market in the second half of the year. With a long-only fund, negative returns are tough to avoid when the macro environment is negative, but we can control the beta of the fund.

The funds main bond theme remains cash flow businesses. MBAs will tell you that on the first day of accounting class they learn that "Cash Flow is King", and there is a good reason for it. Warren Buffet built his empire on the concept of investing in steady cash flow businesses. Las Vegas bonds always trade with high yields indicating a perception of high risk; meanwhile, gambling is a cash flow business that is amazingly consistent (based on the law of large numbers). So, we see the actual risk as low and owning the debt of casinos is a great way to take advantage of the old proverb "the house always wins". This is why we love these bonds and have positions in no less than five Las Vegas casino operators.

Another cash flow theme is cash stores. Here's a stat that few probably know: nearly 2% of the customers at cheque cashing stores make over \$100,000 per year. Another business based on the law of large numbers, they can accurately predict losses due to non-payment and therefore have very consistent earnings. It just so happens that there was a flood of them to issue new bonds this year and we participated in four of them. Considering that they were paying 20% for their funding

costs, the 10.50%-10.75% coupons are a win-win for bondholders and the companies themselves. Most states and provinces now have stable legislation in place for cash lending operations and we continue to look for more investments in the space.

We do not foresee any changes to the management of the Fund in the near future, nor do we see a 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 One Asset 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.

### Related Party Transactions

During the period ended June 30, 2011, the fund incurred performance fees in the amount of \$983,964 and management fees in the amount of \$653,864 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 June 30.

### The Fund's Net Assets per Unit <sup>(3)</sup>

	06/30/2011 Class F	06/30/2011 Class B	2010 Class F	2010 Class B	2009 Class F	2009 Class B
<b>Net Assets, beginning of period <sup>(1)</sup></b>	<b>\$11.47</b>	<b>\$11.45</b>	<b>\$10.59</b>	<b>\$10.55</b>	<b>\$10.00 <sup>(4)</sup></b>	<b>\$10.00 <sup>(4)</sup></b>
<b>Increase (decrease) from operations:</b>						
Total revenue	0.42	0.43	0.79	0.79	0.11	0.16
Total expenses	(0.20)	(0.24)	(0.28)	(0.38)	(0.07)	(0.11)
Realized gains (losses) for the period	0.34	0.37	0.63	0.63	(0.03)	(0.04)
Unrealized gains (losses) for the period	(0.40)	(0.36)	0.64	0.56	0.82	0.94
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	<b>0.16</b>	<b>0.20</b>	<b>1.78</b>	<b>1.60</b>	<b>0.83</b>	<b>0.95</b>
<b>Distributions :</b>						
From income (excluding dividends)	0.17	0.13	0.31	0.23	-	-
From dividends	0.04	0.03	0.07	0.05	0.04	0.04
From capital gains	-	-	0.62	0.62	-	-
Return of capital	-	-	-	-	-	-
<b>Total annual distributions <sup>(1)(2)</sup></b>	<b>0.21</b>	<b>0.16</b>	<b>1.00</b>	<b>0.90</b>	<b>0.04</b>	<b>0.04</b>
<b>Net Assets, end of period</b>	<b>\$ 11.61</b>	<b>\$11.61</b>	<b>\$11.47</b>	<b>\$11.45</b>	<b>\$10.59</b>	<b>\$10.55</b>

- (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

	06/30/2011 Class F	06/30/2011 Class B	2010 Class F	2010 Class B	2009 Class F	2009 Class B
Total net asset value (\$ 000's) <sup>(1)</sup>	53,473	69,499	29,528	44,546	5,761	10,338
Number of units outstanding <sup>(1)</sup>	4,582,732	5,958,988	2,564,039	3,875,037	541,719	975,778
Management expense ratio (%) <sup>(2)</sup>	3.38	4.04	2.30	3.24	2.59	3.65
Management expense ratio before waivers or absorptions (%)	3.38	4.04	2.49	3.51	5.42	6.60
Portfolio turnover rate (%) <sup>(3)</sup>	40.97	40.97	75.41	75.41	3.81	3.81
Trading expense ratio (%) <sup>(4)</sup>	0.11	0.11	0.12	0.12	0.49	0.49
Net asset value per unit (\$)	11.67	11.66	11.52	11.50	10.64	10.59

- (1) The information is provided as at June 30 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.

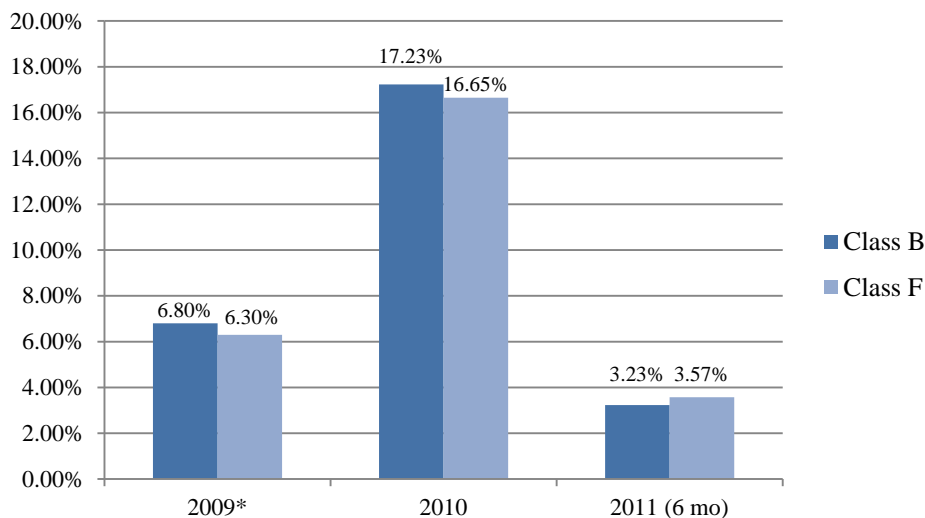
Performance fees will be calculated and accrued (and become payable) daily, such that, to the extent possible, the unit price each day will reflect any performance fees payable at the end of such day. The Net Asset Value per Unit for each Class on the last business day of any quarter for which a performance 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 June 30, 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

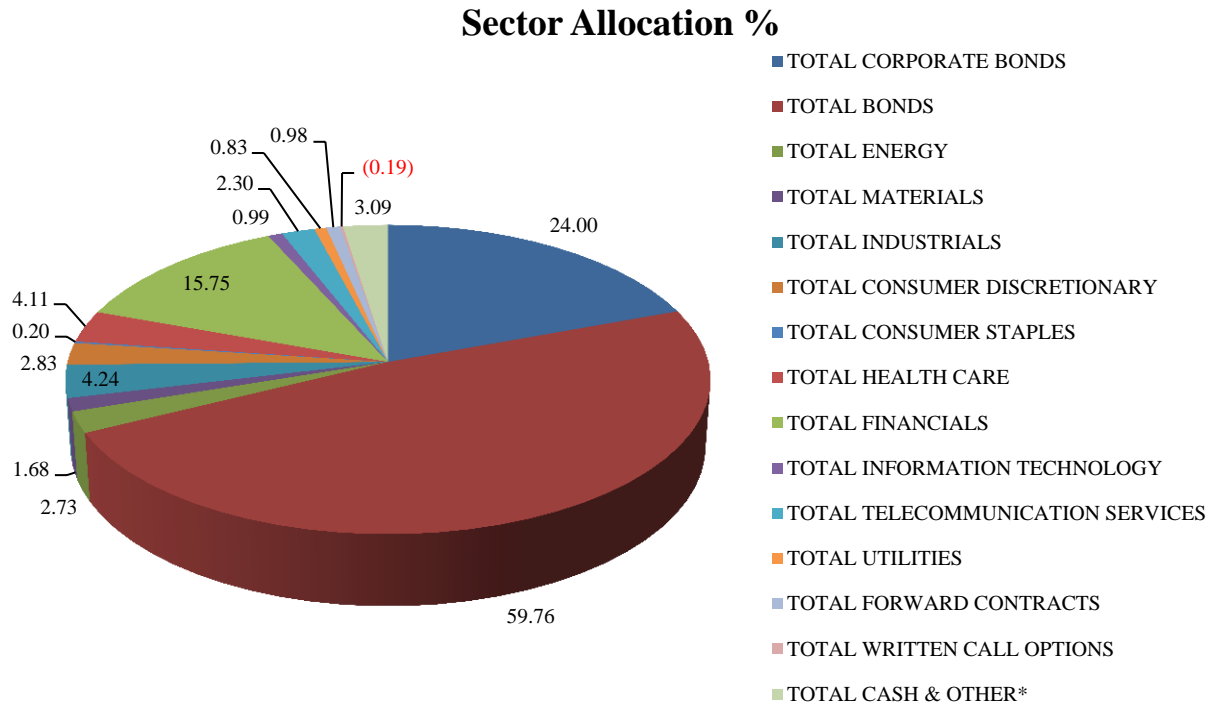
**Summary of Investment Portfolio**

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 September 30, 2011.

<b>Top 25 Holdings</b>	
<b>Issuers</b>	<b>% of Net Asset Value</b>
ACE Cash Express Inc. 11.00% 02/01/19	2.58%
Mandalay Resort Group 7.63% 07/15/13	2.51%
ING Capital Funding Trust III 3.85% 12/29/49	2.46%
Seaspan Corp. PFD	2.20%
Synovus Financial Corp. 4.88% 02/15/13	2.13%
Detour Gold Corp. 5.50% 11/30/17	2.00%
Skylink Aviation Inc. 12.25% 03/15/16	1.75%
Stoneheath Re 6.87% 10/15/49	1.70%
Citigroup Inc. PFD	1.66%
Interactive Network Inc/FriendFinder Networks Inc. 14.00% 09/30/13	1.51%
SanDisk Corp. 1.00% 05/15/13	1.50%
ATP Oil & Gas Corp. 11.88% 05/01/15	1.49%
ZFS Finance USA Trust II 6.45% 12/15/65	1.49%
Extendicare Real Estate Investment Trust	1.43%
Wachovia Capital Trust III 5.57% 12/31/49	1.42%
Local TV Finance LLC 9.25% 06/15/15	1.39%
LBG Capital 8.00% 06/15/49	1.38%
Speedy Cash Inc 10.75% 10/15/18	1.35%
Jaguar Mining Inc. 4.50% 11/01/14	1.32%
Eastman Kodak Co. 7.25% 11/15/13	1.27%
Central European Media Enterprises Ltd. 5.00% 11/15/15	1.23%
Circus&Eldor/Silver Leg 10.13% 03/01/12	1.22%
Jack Cooper Holdings Corp. 12.75% 12/15/15	1.22%
Bank of Montreal	1.22%
Goldman Sachs Capital II 5.79% 12/29/49	1.17%

Net Asset Value = \$ 122,397,701

The following chart sets out the sector allocations of the Fund’s portfolio as at June 30, 2011.



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