

Vertex Enhanced Income Fund

Annual Financial Statements
December 31, 2017



April 2, 2018

Independent Auditor's Report

To the Unitholders of Vertex Enhanced Income Fund
(the Fund)

We have audited the accompanying financial statements of the Fund, which comprise the statements of financial position as at December 31, 2017 and 2016 and the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) “PricewaterhouseCoopers LLP”

Chartered Professional Accountants, Licenced Public Accountants

Vertex Enhanced Income Fund

Statements of Financial Position

As at December 31

	2017	2016
Assets		
Current assets		
Investments	\$ 77,198,362	\$ 99,454,970
Cash	3,334,096	423,862
Due from broker	-	-
Accrued interest	787,978	1,712,104
Dividends receivable	53,165	99,957
Subscriptions receivable	60,462	125,000
Unrealized gain on spot contracts	21,240	
Derivative financial instruments		
Forward contracts	278,397	822,521
	<u>81,733,700</u>	<u>102,638,414</u>
Liabilities		
Current liabilities		
Management fees payable (Note 11)	79,402	156,185
Redemptions payable	295,847	62,094
Due to broker	-	-
Derivative financial instruments		
Forward contracts	29,312	6,336
Written Options	58,781	1,717
	<u>463,342</u>	<u>226,332</u>
Net Assets attributable to holders of redeemable units	<u>\$ 81,270,358</u>	<u>\$ 102,412,082</u>
Net Assets attributable to holders of redeemable units per Class		
Class B	\$ 27,990,775	\$ 47,726,690
Class F	\$ 53,279,583	\$ 54,685,392
Net Assets attributable to holders of redeemable units per unit		
Class B	\$ 9.38	\$ 9.56
Class F	\$ 9.45	\$ 9.55

Approved on behalf of the Board of Directors of Vertex One Asset Management Inc., the Investment Manager

"Signed"

John W. Thiessen
Director

"Signed"

Jeffrey McCord
Director

(The accompanying notes are an integral part of the financial statements.)

Vertex Enhanced Income Fund

Statements of Comprehensive Income

For the years ended December 31

	2017	2016
Investment income		
Foreign exchange (loss) gain on cash	\$ (1,085)	\$ 43,691
Change in unrealized foreign exchange gain (loss) on cash	(9,067)	(95,044)
Security lending income (Note 3)	-	13,867
Net gain (loss) on investments and derivatives		
Dividends	1,021,110	1,420,091
Interest for distribution purposes	5,124,799	8,170,492
Net realized gain (loss)	7,128,903	(1,281,034)
Net change in unrealized depreciation (appreciation)	(8,057,932)	7,491,254
Total investment income	5,206,728	15,763,317
Expenses (Note 11)		
Management fees	1,102,012	1,288,924
Securityholder reporting costs	206,084	407,964
Other administrative expenses	98,565	87,918
Audit fees	61,345	51,997
Custody fees	20,006	26,541
Legal fees	35,502	11,364
Trustee fees	4,938	5,818
IRC fees	18,131	7,137
Interest expense	177	1,449
Transaction costs (Note 3)	73,124	71,745
Withholding tax	51,412	51,414
	1,671,296	2,012,271
Net investment income	3,535,432	13,751,046
Increase in net assets attributable to holders of redeemable units	3,535,432	13,751,046
Increase in net assets attributable to holders of redeemable units per Class		
Class B	\$ 1,403,037	\$ 6,486,274
Class F	\$ 2,132,395	\$ 7,264,772
Increase in net assets attributable to holders of redeemable units per Class per unit		
Class B	\$ 0.35	\$ 1.11
Class F	\$ 0.35	\$ 1.24

(The accompanying notes are an integral part of the financial statements.)

Vertex Enhanced Income Fund

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units
For the years ended December 31

	Class B			
	2017	2016		
Net Assets attributable to holders of redeemable units, beginning of year	\$ 47,726,690	\$ 64,494,604		
Increase in net assets attributable to holders of redeemable units	1,403,036	6,486,274		
Capital transactions (Note 10)				
Proceeds from issuance of redeemable units	1,916,665	1,570,529		
Redemption of redeemable units	(22,603,878)	(23,982,917)		
Reinvestment of distributions to holders of redeemable units	1,496,004	2,944,494		
	<u>(19,191,209)</u>	<u>(19,467,894)</u>		
Distributions to holders of redeemable units (Note 3)				
From net investment income	(1,753,892)	(3,786,294)		
From return of capital	(193,850)	-		
	<u>(1,947,742)</u>	<u>(3,786,294)</u>		
Net Assets attributable to holders of redeemable units, end of year	<u>\$ 27,990,775</u>	<u>\$ 47,726,690</u>		
			Class F	Total
	2017	2016	2017	2016
Net Assets attributable to holders of redeemable units, beginning of year	\$ 54,685,392	\$ 57,766,738	\$ 102,412,082	\$ 122,261,342
Increase in net assets attributable to holders of redeemable units	2,132,394	7,264,772	3,535,430	13,751,046
Capital transactions (Note 10)				
Proceeds from issuance of redeemable units	13,980,617	10,052,930	15,897,282	11,623,459
Redemption of redeemable units	(16,838,989)	(19,520,936)	(39,442,867)	(43,503,853)
Reinvestment of distributions to holders of redeemable units	2,256,351	3,077,048	3,752,355	6,021,542
	<u>(602,021)</u>	<u>(6,390,958)</u>	<u>(19,793,230)</u>	<u>(25,858,852)</u>
Distributions to holders of redeemable units (Note 3)				
From net investment income	(2,700,519)	(3,955,160)	(4,454,411)	(7,741,454)
From return of capital	(235,663)	-	(429,513)	-
	<u>(2,936,182)</u>	<u>(3,955,160)</u>	<u>(4,883,924)</u>	<u>(7,741,454)</u>
Net Assets attributable to holders of redeemable units, end of year	<u>\$ 53,279,583</u>	<u>\$ 54,685,392</u>	<u>\$ 81,270,358</u>	<u>\$ 102,412,082</u>

(The accompanying notes are an integral part of the financial statements.)

Vertex Enhanced Income Fund

Statements of Cash Flows

For the years ended December 31

	2017	2016
Operating activities		
Increase in net assets attributable to holders of redeemable units	\$ 3,535,432	\$ 13,751,046
Adjustment for non-cash items:		
Net change in unrealized depreciation (appreciation) on investments and derivatives	8,036,692	(7,491,254)
Net realized gain (loss) on investments and derivatives	(7,128,903)	1,281,034
Change in unrealized foreign exchange (gain) loss on cash	9,067	95,044
	<u>4,452,288</u>	<u>7,635,870</u>
Changes in operating assets and liabilities:		
Decrease in accrued interest	924,126	565,693
Decrease in dividends receivable	46,792	15,103
(Decrease) increase in accounts payable and accrued liabilities	-	(15,387)
Decrease in management fee payable	(76,783)	(12,341)
	<u>894,135</u>	<u>553,068</u>
Proceeds on disposition of investments and derivatives, including proceeds received on shorts	94,978,531	65,535,498
Purchase of investments and derivatives, including cover for shorts	(73,026,790)	(40,845,990)
	<u>21,951,741</u>	<u>24,689,508</u>
Net cash from operating activities	<u>27,298,164</u>	<u>32,878,446</u>
Financing activities		
Proceeds from issuance of redeemable units**	14,268,778	9,148,430
Redemption of redeemable units**	(37,516,072)	(44,230,283)
Distributions paid net of reinvestments	(1,131,569)	(1,719,912)
Net cash provided to financing activities	<u>(24,378,863)</u>	<u>(36,801,765)</u>
Increase (Decrease) in Cash	2,919,301	(3,923,319)
Change in unrealized foreign exchange (gain) loss on cash	(9,067)	(95,044)
Cash, Beginning of year	<u>423,862</u>	<u>4,442,225</u>
Cash, End of year	<u>\$ 3,334,096</u>	<u>\$ 423,862</u>
Supplemental Information (included in operating activities)		
Cash paid for interest	177	1,449
Cash received from interest, net of withholding taxes	6,048,925	8,736,185
Cash received from dividends, net of withholding taxes	1,016,490	1,383,780

** The amounts of proceeds and redemptions exclude non cash items such as switches and exchanges between classes for December 31, 2017 amounting to \$1,693,042 (December 31, 2016 - \$2,558,023)

(The accompanying notes are an integral part of the financial statements.)

Vertex Enhanced Income Fund

Schedule of Investments Portfolio

As at December 31, 2017

Number of Shares/ Par Value	Description	Coupon Rate %	Maturity / Call Date	Average Cost \$	Fair Value \$	% of Total
BONDS						
Corporate Bonds						
2,558,725	1784761 Alberta Ltd.*	12.000%	01-Aug-19	2,558,725	4,439	
1,683,197	Agawa Investments Ltd.*	10.000%	07-Aug-25	1,683,197	1,524,975	
800,000	Concordia Healthcare Corp., Callable	7.000%	15-Apr-23	193,614	95,532	
750,000	Core Gold Inc.*	12.000%	15-Sep-18	900,681	612,788	
750,000	Core Gold Inc.*	12.000%	15-Sep-18	900,681	612,788	
171,818	Devalco Residential Properties Corp.*	7.000%	31-Jul-19	176,999	210,079	
250,000	Energold Drilling Corp., Series 'B', Floating Rate, Convertible*	9.500%	14-Jun-22	250,000	208,825	
900,000	ERD Express Financial Services Inc., Variable Rate*	16.010%	01-Nov-19	900,000	921,600	
171,557	Estrella International Energy Services Ltd.*	12.000%	31-Dec-18	171,557	30,022	
150,000	Genalta Power Inc.*	11.000%	31-May-18	150,000	146,438	
900,000	Golf Town Canada Inc. / Golfsmith International Holdings Inc., Callable*	10.500%	24-Jul-18	910,125	273,527	
1,200,000	Imperial Metals Corp., Callable	7.000%	15-Mar-19	1,266,838	1,425,438	
230,244	Sherritt International Corp., Callable	7.500%	24-Sep-23	230,244	188,800	
900,000	Sherritt International Corp., Callable	7.880%	11-Oct-25	882,000	733,500	
450,000	Southern Pacific Resource Corp., Callable*	8.750%	25-Jan-18	450,000	1,575	
450,000	Stornoway Diamond Corp., Convertible	6.250%	08-Jul-21	460,750	568,478	
1,400,000	Taseko Mines Ltd., Callable	8.750%	15-Jun-22	1,862,923	1,805,994	
450,000	Terrace Energy Corp., Zero Coupon, Convertible*	10.000%	02-Apr-21	450,000	29,250	
1,337,500	Tgc Lending Inc.*	6.000%	31-May-20	1,337,500	1,193,184	
	Total Corporate Bonds			15,735,834	10,587,232	13.03
Foreign Bonds						
Bermuda						
2,500,000	Seadrill Ltd.	5.630%	15-Dec-17	1,346,432	549,938	
	Total Bermuda			1,346,432	549,938	0.68
Cayman Islands						
900,000	Seagate Hdd Cayman, Callable	4.250%	01-Mar-22	1,113,448	1,146,165	
	Total Cayman Islands			1,113,448	1,146,165	1.41
United Kingdom						
473,684	Awilco Drilling PLC, Sinkable*	7.000%	09-Apr-19	598,427	595,421	
1,700,000	HSBC Bank PLC, Series '1M', Variable Rate, Perpetual	1.630%	29-Jun-18	1,368,349	1,893,164	
450,000	Lloyds Bank PLC, Perpetual, Variable Rate, Callable	12.000%	16-Dec-24	784,670	761,664	
500,000	National Westminster Bank PLC, Series 'B', Perpetual, Floating Rate, Callable	1.500%	29-Aug-49	323,261	558,548	
1,000,000	Royal Bank of Scotland Group PLC (The), Series 'U', Floating Rate, Perpetual	3.660%	30-Sep-27	1,241,472	1,253,858	
	Total United Kingdom			4,316,179	5,062,655	6.23
United States of America						
550,205	A. M. Castle & Co., Convertible	5.000%	31-Aug-22	612,476	629,363	
500,000	Alliance One International Inc., Callable	9.860%	15-Jul-21	578,904	580,577	
663,988	Ambac Assurance Corp.	5.100%	07-Jun-20	1,089,957	1,074,590	
900,000	American Energy Permian Holdings LLC, Callable	8.000%	15-Jun-20	1,206,566	1,142,613	
175,000	BPZ Resources Inc., Convertible, Escrow	6.500%	01-Mar-15	132,557	825	
1,306,173	Catalyst Paper Corp., Term Loan*	12.000%	27-Jan-22	1,488,503	1,149,302	
500,000	Cengage Learning Inc., Callable	9.500%	15-Jun-24	607,971	571,935	
700,000	CenterPoint Energy Inc., Variable Rate, Convertible, Callable	10.000%	15-Sep-29	322,761	596,836	
500,000	Cenveo Corp., Callable*	6.000%	01-Aug-19	500,100	449,378	
2,450,000	Cenveo Corp., Callable	8.500%	15-Sep-22	2,628,292	523,541	
500,000	Chesapeake Energy Corp., Convertible, Callable	5.500%	15-Sep-26	699,310	575,470	
2,266,606	Clear Channel Communications Inc.*	12.000%	01-Aug-21	-	-	
900,000	CNG Holdings Inc., Callable	9.380%	15-May-20	894,828	1,103,018	
75,704	Colt Defense LLC, Term Loan*	9.380%	15-May-20	64,609	28,548	
79,372	Colt Defense LLC, Term Loan*	9.380%	15-May-20	99,740	69,840	
1,225,000	Community Choice Financial Inc., Callable	10.750%	01-May-19	1,197,975	1,378,142	
500,000	Core Gold Inc., Convertible*	12.000%	15-Sep-18	600,454	436,808	
900,000	Creditcorp., Callable	12.000%	15-Jul-18	940,720	1,035,140	
2,250,000	Cumulus Media Holdings Inc., Callable	7.750%	01-May-19	791,105	537,368	
450,000	Cypress Semiconductor Corp., Convertible	4.500%	15-Jan-22	726,229	743,830	
2,900,000	Genworth Holdings Inc., Variable Rate, Callable	2.910%	15-Nov-66	2,052,998	1,695,064	
571,153	Goodman Networks Inc., Callable*	8.000%	11-May-22	1,108,303	576,146	
900,000	GrafTech International Ltd., Callable	6.380%	15-Nov-20	1,071,387	1,134,128	
1,250,000	Harland Clarke Holdings Corp., Callable	9.250%	01-Mar-21	1,412,463	1,598,747	
450,000	Hecla Mining Co., Callable	6.880%	01-May-21	481,895	581,912	
1,000,000	Hornbeck Offshore Services Inc., Callable	5.880%	01-Apr-20	861,404	845,333	
950,000	Hornbeck Offshore Services Inc., Callable	5.000%	01-Mar-21	641,576	632,900	
900,000	Hub Holdings LLC / Hub Holdings LLC, Callable	8.130%	15-Jul-19	1,000,148	1,134,128	
392,164	iHeartCommunications Inc., Callable	14.000%	01-Feb-21	392,941	43,133	
1,000,000	ILFC E-Capital Trust II, Variable Rate, Callable	4.920%	21-Dec-65	1,045,579	1,219,290	
327,289	Interactive Network Inc. / FriendFinder Networks Inc.*	14.000%	20-Dec-18	392,311	329,122	
450,000	Knowles Corp., Convertible	3.250%	01-Nov-21	672,306	629,993	
400,000	Micron Technology Inc., Series 'G', Convertible, Callable	3.000%	15-Nov-43	594,139	727,489	
500,000	Momentive Performance Materials Inc., Callable*	8.880%	15-Oct-20	-	-	
400,000	Nuance Communications Inc., Convertible, Callable	1.500%	01-Nov-35	501,972	520,398	
900,000	Pattern Energy Group Inc., Convertible	4.000%	15-Jul-20	1,098,102	1,153,219	
2,000,000	Quicksilver Resources Inc., Callable*	11.000%	01-Jul-21	2,294,007	62,850	
15,000	RAAM Global Energy Co., (In Default)	12.500%	01-Apr-17	16,642	295	
950,000	Resolute Forest Products Inc., Callable	5.880%	15-May-23	1,044,221	1,240,423	
450,000	Rite Aid Corp., Callable	6.130%	01-Apr-23	563,798	512,620	
500,000	SEACOR Holdings Inc., Convertible, Puttable, Callable	3.000%	15-Nov-28	557,634	596,682	
450,000	Stone Energy Corp., Callable	7.500%	31-May-22	602,269	575,549	
450,000	Synchronoss Technologies Inc., Convertible	0.750%	15-Aug-19	534,269	510,146	

Vertex Enhanced Income Fund

Schedule of Investments Portfolio

As at December 31, 2017 (continued)

Number of Shares/ Par Value	Description			Average Cost \$	Fair Value \$	% of Total
900,000	Textron Financial Corp., Variable Rate, Callable	3.150%	15-Feb-67	1,007,938	1,001,201	
500,000	Theravance Inc., Convertible	2.130%	15-Jan-23	630,539	624,572	
1,500,000	USB Realty Corp., Variable Rate, Perpetual	2.030%	29-Dec-49	1,500,405	1,704,020	
50,000	Vishay Intertechnology Inc., Convertible, Callable	2.250%	15-Nov-40	55,945	102,838	
1,500,000	Voya Financial Inc., Variable Rate, Callable	5.650%	15-May-53	1,588,193	2,012,771	
	Total United States of America			38,905,901	34,392,093	42.32
	Total Foreign Bonds			45,681,960	41,150,851	50.64
	TOTAL BONDS			61,417,794	51,738,083	63.67
	STOCKS					
	ENERGY					
36,000	Canadian International Oil Corp., Warrants, Restricted*			-	17,280	
63,392	Diamond Offshore Drilling Inc.			2,368,693	1,481,321	
45,705	Energy XXI Gulf Coast Inc.			1,360,662	329,770	
137,800	EnSCO PLC			3,011,147	1,023,698	
1,430	Gastar Exploration USA Inc., 10.75%, Preferred, Series 'B', Perpetual, Callable			36,585	33,937	
46,875	Genalta Power Inc., Warrants, (12Apr17)*			-	-	
200,326	Noble Corp. PLC			2,780,921	1,138,180	
14,000	NuStar Logistics L.P., Preferred, Variable Rate, Callable			453,814	439,950	
157,100	Surge Energy Inc.			326,360	328,339	
	TOTAL ENERGY			10,338,182	4,792,475	5.90
	MATERIALS					
6,356	A. M. Castle & Co.			8	29,641	
22,500	BHP Billiton Ltd., ADR			1,208,091	1,300,712	
2,278,124	Catalyst Paper Corp.*			1,018,981	793,015	
23,400	Community Vehicle Financing & Leasing Inc., Preferred, Series '1'			2,049,148	1,946,880	
153	Community Vehicle Financing & Leasing Inc.*			8	99,450	
1,200,000	Core Gold Inc., Warrants, (15Sep18)*			-	144,000	
300,000	Core Gold Inc., Warrants, (15Sep18)*			-	36,000	
50,000	Energold Drilling Corp., Warrants, (14Jun22)*			-	-	
75,550	Freeport-McMoRan Inc., Class 'B'			1,788,672	1,800,562	
10,000	Norbord Inc.			441,435	425,500	
698	Rubix Lending Co. Inc., Class 'B'			7	7	
16,865	Sherritt International Corp., Warrant, (29Jul21)*			-	17,708	
34,663	SunCoke Energy Partners L.P.			778,587	760,321	
	TOTAL MATERIALS			7,284,937	7,353,796	9.04
	INDUSTRIAL					
107,500	CanWel Building Materials Group Ltd.			650,688	792,275	
6,737	Colt Defense LLC, Restricted, Class 'A'			35,645	42,342	
12,160	Colt Defense LLC, Restricted, Class 'B'			10,053	22,928	
1,410	Jack Cooper Enterprises Inc.*			18	2,481	
4,008	Jack Cooper Enterprises Inc., Warrants, (26Apr27)*			-	7,053	
	TOTAL INDUSTRIAL			696,404	867,079	1.07
	CONSUMER STAPLES					
45,000	Electronic Cigarettes International Group Ltd., Warrants, (28Feb19)*			-	-	
34,065	S&W Seed Co.			182,679	166,997	
200,000	S&W Seed Co., Warrants, (30Jun20)*			-	123,186	
	TOTAL CONSUMER STAPLES			182,679	290,183	0.36
	CONSUMER DISCRETIONARY					
20,691	Affinion Group Holdings Inc.*			568,961	312,103	
14,000	M.D.C. Holdings Inc.			550,116	561,024	
	TOTAL CONSUMER DISCRETIONARY			1,119,077	873,127	1.07
	FINANCIALS					
34,500	Banc of California Inc.			779,460	895,518	
121,535	Banco Santander SA, ADR			1,068,048	999,113	
18,047	Canadian Western Bank			525,327	708,345	
65,000	CatchMark Timber Trust Inc., Class 'A'			818,625	1,072,787	
20,500	CI Financial Corp.			561,922	610,285	
22,500	Delphi Financial Group Inc., Preferred, Variable Rate, Callable			670,161	623,983	
23,658	Manulife Financial Corp.			593,246	620,313	
2,927	Paragon Offshore Ltd.*			316,481	58,868	
16,816	Popular Inc., 8.25%, Preferred, Series 'B', Perpetual*			452,826	529,500	
2,110,000	Pres Initial Capital Aggregator LLC*			896,945	450,886	
349,023	Pres Initial Capital Aggregator LLC, Warrants, (01May22)*			-	6,581	
13,013	Sun Life Financial Inc.			647,451	675,114	
83,243	True North Commercial REIT			498,099	558,561	
	TOTAL FINANCIALS			7,828,591	7,809,854	9.61
	INFORMATION TECHNOLOGY					
1,523	Eastman Kodak Co., Warrants, (03Sep18)			15,736	13	
1,523	Eastman Kodak Co., Warrants, (03Sep18)			14,554	19	
8,000	Microsoft Corp.			791,201	860,190	
11,500	Oracle Corp.			704,254	683,456	
22,500	Thomson Reuters Corp., Preferred, Series 'IT', Floating Rate			361,724	373,500	
	TOTAL INFORMATION TECHNOLOGY			1,887,469	1,917,178	2.36
	TELECOMMUNICATION SERVICES					
34,137	Goodman Networks Inc.*			342,408	21,455	
40,615	Goodman Networks Inc., Preferred, Series 'A1', Variable Rate*			401,957	204,212	
	TOTAL TELECOMMUNICATION SERVICES			744,365	225,667	0.28

Vertex Enhanced Income Fund

Schedule of Investments Portfolio

As at December 31, 2017 (continued)

Number of Shares/ Par Value	Description	Average Cost \$	Fair Value \$	% of Total
UTILITIES				
40,800	Atlantic Power Preferred Equity Ltd., Preferred, Series '2', Variable Rate, Perpetual	620,254	765,000	
135,000	Polaris Infrastructure Inc., Warrants, (27Mar18)*	-	-	
786,000	Stream Asset Financial L.P.*	786,000	565,920	
	TOTAL UTILITIES	<u>1,406,254</u>	<u>1,330,920</u>	<u>1.64</u>
	TOTAL STOCKS	<u>31,487,958</u>	<u>25,460,279</u>	<u>31.33</u>
	TOTAL INVESTMENTS	<u>92,905,752</u>	<u>77,198,362</u>	<u>95.00</u>
FORWARD CONTRACTS				
	Buy CAD 2,527,654, Sell USD 2,000,000 @ 1.26383 - January 02, 2018	-	13,654	
	Buy CAD 2,528,657, Sell USD 2,000,000 @ 1.26433 - January 02, 2018	-	14,657	
	Buy CAD 5,052,748, Sell USD 4,000,000 @ 1.26319 - January 02, 2018	-	24,748	
	Buy CAD 6,317,685, Sell USD 5,000,000 @ 1.26354 - January 02, 2018	-	32,685	
	Buy CAD 6,318,885, Sell USD 5,000,000 @ 1.26378 - January 02, 2018	-	33,885	
	Buy CAD 3,828,803, Sell USD 3,000,000 @ 1.27628 - January 03, 2018	-	57,803	
	Buy CAD 5,052,316, Sell USD 4,000,000 @ 1.26308 - January 03, 2018	-	24,316	
	Buy CAD 6,189,641, Sell USD 4,900,000 @ 1.26319 - January 04, 2018	-	30,437	
	Buy CAD 6,315,210, Sell USD 5,000,000 @ 1.26304 - January 04, 2018	-	30,308	
	Buy CAD 2,518,172, Sell USD 2,000,000 @ 1.25909 - January 05, 2018	-	4,251	
	Buy CAD 5,033,044, Sell USD 4,000,000 @ 1.25826 - January 05, 2018	-	5,201	
	Buy CAD 6,291,255, Sell USD 5,000,000 @ 1.25825 - January 05, 2018	-	6,452	
	Total Unrealized gain on forward contracts	<u>-</u>	<u>278,397</u>	<u>0.34</u>
	Buy CAD 3,767,193, Sell USD 3,000,000 @ 1.25573 - January 04, 2018	-	(3,748)	
	Buy CAD 2,511,560, Sell USD 2,000,000 @ 1.25578 - January 05, 2018	-	(2,361)	
	Buy CAD 2,512,912, Sell USD 2,000,000 @ 1.25646 - January 05, 2018	-	(1,009)	
	Buy CAD 7,533,714, Sell USD 6,000,000 @ 1.25562 - January 09, 2018	-	(7,578)	
	Buy CAD 7,533,954, Sell USD 6,000,000 @ 1.25566 - January 09, 2018	-	(7,338)	
	Buy CAD 7,534,014, Sell USD 6,000,000 @ 1.25567 - January 09, 2019	-	(7,278)	
	Total Unrealized loss on forward contracts	<u>-</u>	<u>(29,312)</u>	<u>(0.04)</u>
	TOTAL WRITTEN OPTIONS (Schedule 1)	<u>(28,028)</u>	<u>(58,781)</u>	<u>(0.07)</u>
	TOTAL NET INVESTMENTS BEFORE TRANSACTION COSTS	<u>92,877,724</u>	<u>77,388,666</u>	<u>95.23</u>
	Transaction Costs (Note 2)	(38,388)		
	TOTAL NET INVESTMENTS	<u>92,839,336</u>	<u>77,388,666</u>	<u>95.23</u>
	CASH		3,334,096	4.10
	OTHER ASSETS, LESS LIABILITIES		547,596	0.67
	TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS	<u>92,839,336</u>	<u>81,270,358</u>	<u>100.00</u>

*Denotes manually priced securities using a fair valuation model

Vertex Enhanced Income Fund

Schedule of Investments Portfolio

As at December 31, 2017 (continued)

Number of Shares/ Par Value	Description	Proceeds \$	Fair Value \$	% of Total
Schedule 1				
OPTIONS				
Call Options, Written				
(90)	BHP Billiton Ltd., ADR, January 2018, \$42.50 USD	(8,917)	(42,197)	
(100)	Canadian Western Bank, January 2018, \$40.00 CAD	(2,400)	(4,000)	
(45)	Manulife Financial Corp., January 2018, \$27.00 CAD	(1,620)	(450)	
(90)	M.D.C. Holdings Inc., January 2018, \$32.00 CAD	(7,991)	(7,071)	
(100)	Norbord Inc., January 2018, \$44.00 CAD	(4,400)	(4,500)	
(45)	Sun Life Financial Inc., January 2018, \$53.00 CAD	(2,700)	(563)	
Total Call Options, Written		(28,028)	(58,781)	(0.07)
TOTAL OPTIONS		(28,028)	(58,781)	(0.07)

Vertex Enhanced Income Fund

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1. Establishment of the Fund

The Vertex Enhanced Income Fund (the "Fund") was created on September 14, 2009 under the laws of British Columbia. The address of the Fund's registered office is 1200 Waterfront Centre, 200 Burrard Street, PO Box 48600, Vancouver, BC, V7X 1T2. Vertex One Asset Management Inc. is the Manager and CIBC Mellon is the Trustee and Custodian of the Fund. The Fund commenced operations on September 21, 2009. The Fund currently offers an unlimited number of Class B and Class F Units.

The investment objective of the Fund is to provide preservation of capital while providing high level of income by investing primarily in Canadian and United States bonds and debentures. The Fund's secondary objective is to provide capital growth.

2. Basis of presentation and adoption of IFRS

These financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit and loss.

The annual financial statements were authorized for issue by the Manager on April 2, 2018.

3. Significant accounting policies

Financial assets and financial liabilities at fair value through profit or loss

a) Classification

The Fund classifies its investments in debt and equity securities, and derivatives, as financial assets or financial liabilities at fair value through profit or loss (FVTPL).

This category has two sub-categories: financial assets or financial liabilities held for trading; and those designated at fair value through profit or loss at inception.

(i) Financial assets and liabilities held for trading

A financial asset or financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if on initial recognition is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives are also categorized as held for trading. The Fund does not classify any derivatives as hedges in a hedging relationship.

(ii) Financial assets and liabilities designated at fair value through profit or loss at inception

Financial assets and financial liabilities designated at fair value through profit or loss at inception are financial instruments that are not classified as held for trading but are managed, and their performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's investments are so designated.

The Fund's policy requires the Manager to evaluate the information about these financial assets and liabilities on a fair value basis together with other related financial information.

Vertex Enhanced Income Fund

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b) Recognition, derecognition and measurement

Regular purchases and sales of investments are recognized on the trade date – the date on which the Fund commits to purchase or sell the investment. Financial assets and financial liabilities are initially recognized at fair value. Transaction costs related to financial instruments at FVTPL are expensed as incurred in the Statements of Comprehensive Income.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

When the Fund purchases an option, an amount equal to fair value which is based on the premium paid is recorded as an asset. When the Fund writes an option, an amount equal to fair value which is based on the premium received by the Fund is recorded as a liability. When options are closed, the difference between the premium and the amount paid or received, net of brokerage commissions, or the full amount of the premium if the option expires worthless, is recognized as a gain or loss and is presented in the Statements of Comprehensive Income within net realized gain (loss) on investments and derivatives.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the ‘financial assets or financial liabilities at fair value through profit or loss’ category are presented in the Statements of Comprehensive Income within changes in unrealized appreciation (depreciation) in value of investments and derivatives in the period in which they arise.

All other financial assets and liabilities are measured at amortized cost due to their short term nature.

c) Revenue Recognition

Dividend income from financial assets at fair value through profit or loss is recognized in the Statements of Comprehensive Income within dividend income when the Fund’s right to receive payments is established. Interest on debt securities at fair value through profit or loss is recognized in the Statements of Comprehensive Income as interest income for distribution purposes which represents the coupon interest on debt instruments held by the Fund determined on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities except for zero coupon bonds which are amortized. Net realized gain (loss) and net change in unrealized appreciation (depreciation) of investments are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds. Transaction costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss. They include fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognized in profit or loss as an expense.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For financial statement purposes, investments traded on a recognized exchange, are recorded at fair value, established by last traded market price where the last traded market price falls within the day’s bid ask spread. In circumstances where the last traded price is not within that day’s bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on specific facts and circumstances.

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The value of any security which is not listed or traded on an exchange, but which is listed or traded on another market, including an over-the-counter market, being a marketplace other than an exchange where securities are normally purchased and sold and quotations are in common use in respect thereof, shall be determined in the same manner as a listed security by reference to prices on that market.

Warrants if listed on a recognized exchange are valued at the latest available close price. If the warrants are not listed, but a secondary market exists then the independent broker prices (if available), who trade in such market will be used. If no secondary market exists, the warrants will be valued using the Black Scholes option pricing model.

The value of any security or property for which, in the opinion of the Manager the published market quotations are not readily available shall be the fair value as determined by the Manager based on valuation techniques. The fair value of certain securities are determined by using valuation models that are based, in part, on assumptions that are not supported by observable market inputs. These methods and procedures may include, but are not limited to, performing comparisons with prices of comparable or similar securities, discounted cash flow analysis, obtaining valuation related information from issuers and/or other analytical data relating to the investment and using other available indicators of value. These values are independently assessed internally to ensure that they are reasonable. However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interests may be materially different from the values that would have been used had a ready market for the investment existed. The fair values of such securities are affected by the perceived credit risks of the issuer, predictability of cash flows and the length of time to maturity.

Cash

Cash is comprised of cash on deposit.

Forward contracts

The Fund enters into forward contracts to manage risk or to achieve desired returns. Gains or losses are realized based on the settlement term of the forward contracts. These forward contracts are valued based on the difference between the contract rate and the current market prices for the underlying asset, adjusted to reflect credit risk and other relevant factors as applicable. The unrealized gain or loss is reflected in the Statements of Financial Position as Forward contracts.

Options

Option premiums paid or received by the Fund are, so long as the options are outstanding, reflected in the Schedule of Investments. Exchange traded options are valued at their last traded market price where the last traded market price falls within the day's bid-ask spread. In cases where the last traded price is not within the day's bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on specific facts and circumstances. Over the counter options are valued using industry-accepted modeling techniques on each valuation day. Unlisted options are valued using the Black Scholes model.

Realized gains and losses relating to purchased options may arise from:

- i) Expiration of purchased options – realized losses will arise equal to the premium paid;

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- ii) Exercise of the purchased options – for put options, realized gains will arise up to the intrinsic value of the option net of premiums paid and for call options, the premium will be added to the cost base of the security purchased; or
- iii) Closing of the purchased options – realized gains or losses will arise equal to the proceeds from selling the options to close the position, net of any premium paid.

Realized gains and losses relating to written options may arise from:

- i) Expiration of the written options – realized gains will arise equal to the premium received;
- ii) Exercise of the written options – for call option, realized gains or losses will arise equal to the sum of the premium received and the realized gain or loss from the disposition of the related portfolio investment at the exercise price of the option and for put option, the premium will be deducted from the cost base of the security purchased; or
- iii) Closing of the written options – realized gains or losses will arise equal to the cost of purchasing options to close the position net of any premium received.

Realized gains and losses related to options are included in “Net realized gain (loss) on investments and derivatives” in the Statements of Comprehensive Income.

Foreign currency translation

The Fund’s subscriptions and redemptions are denominated in Canadian dollars which is also its functional and presentation currency. Assets and liabilities in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the year end. Purchases and sales of investments and income and expenses are translated into Canadian dollars at the rate of exchange prevailing at the transaction date. Foreign exchange gains and losses relating to cash are presented as ‘foreign exchange gain (loss) on cash’ and those related to investments and derivatives are included in ‘net realized gain (loss) on investments and derivatives’ and ‘change in unrealized (depreciation) appreciation in value investments and derivatives’.

Securities lending

The Fund engages in securities lending transactions. The Fund will receive collateral of at least 102% of the value of securities on loan. Collateral will generally be comprised of securities guaranteed by the Government of Canada or a province or territory of Canada, or by other governments with appropriate credit ratings, or by financial institutions, but may include commercial paper with an approved credit rating and or convertible securities. As at December 31, 2017, the aggregate dollar value of portfolio securities lent was \$nil government debt securities (December 31, 2016 - \$nil). As at December 31, 2017, the collateral held under securities transactions was \$nil government debt securities (December 31, 2016 - \$nil) respectively. Income earned from securities lending is included in securities lending income in the Statements of Comprehensive Income.

The following table presents reconciliation of the gross amount generated from the securities lending transactions of the Fund to the revenue from securities lending disclosed in the Statements of Comprehensive Income.

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	December 31, 2017		December 31, 2016	
	\$	% of Gross securities lending revenue	\$	% of Gross securities lending revenue
Gross securities lending revenue	-	-	33,017	100
Withholding taxes	-	-	(9,905)	(30)
Agent fees - Bank of New York Mellon Corp. (The)	-	-	(9,245)	(28)
Securities lending revenue	-	-	13,867	42

Increase (decrease) in net assets attributable to holders of redeemable units for each Class

Increase (decrease) in net assets attributable to holders of redeemable units per unit in the Statements of Comprehensive Income represents the increase (decrease) in net assets attributable to holders of redeemable units for the year per class, divided by the weighted average units outstanding during the year for that class.

Net Assets attributable to holders of redeemable units and related per unit amounts

The Fund issues two classes of redeemable units, which are redeemable at the holder's option and do not have identical rights. Such units are classified as financial liabilities. Redeemable units can be put back to the Fund at any dealing date for cash equal to a proportionate share of the Fund's net asset value attributable to the unit class. Units are redeemable daily. The redeemable units are carried at the redemption amount that is payable at the Statements of Financial Position date if the holder exercises the right to put the unit back to the Fund. Redeemable units are issued and redeemed at the holder's option at prices based on the Fund's net asset value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets attributable to the holders of each class of redeemable units with the total number of outstanding redeemable units for each respective class. Investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit (NAV) for transactions with unitholders. As at December 31, 2017 and December 31, 2016, there were no differences between the Fund's net asset value per security and its net assets per security calculated in accordance with IFRS.

A separate NAV is calculated for each Class of units of the Fund by taking the Class' proportionate share of the Fund's common assets less that Class' proportionate share of the Fund's common liabilities and deducting from this amount all liabilities that relate solely to a specific Class. The NAV per unit for each Class is determined by dividing the NAV of each Class by the number of units of that Class outstanding on the valuation date.

Classification of redeemable units issued by the Fund

Under IFRS, IAS 32 requires that units or shares of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as financial liability. The Fund's units do not meet the criteria in IAS32 for classification as equity and therefore, have been classified as financial liabilities.

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Taxation

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). All of the Fund's net income for tax purposes and sufficient net capital gains realized in any period are required to be distributed to unitholders such that no income tax is payable by the Fund. As a result, the Fund has determined that it is in substance not taxable and therefore does not record income taxes in the Statements of Comprehensive Income nor does it recognize any deferred tax assets or liabilities in the Statements of Financial Position. As at December 31, 2017, the Fund had \$29,894,245 (December 31, 2016 - \$33,572,454) of unused capital losses which have no expiry and \$nil (December 31, 2016 - \$nil) of non-capital losses.

The Fund currently incurs withholding taxes imposed by certain countries on investment income and capital gains. Such income and gains are recorded on a gross basis and the related withholding taxes are shown as a separate expense in the Statements of Comprehensive Income.

4. Future Accounting Change

IFRS 9, Financial Instruments

The final version of IFRS 9, Financial instruments, was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

During 2017, the Fund performed a high-level impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Fund in the future. Overall, the standard is not expected to have a material impact on the measurement basis of the financial assets held by the Fund since majority of the financial assets are measured at fair value through profit or loss. No impact on the Net Assets and the results of the Fund is expected from the adoption of IFRS 9.

5. Critical accounting estimates and judgments

The preparation of financial statements requires management to make judgments in applying its accounting policies and to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual amounts could differ from those estimates.

Fair value measurement of derivatives and securities not quoted in an active market

The Fund holds financial instruments that are not quoted in active markets, including derivatives. Fair values of such instruments are determined using valuation techniques and may be determined using reputable pricing sources. Broker quotes as obtained from the pricing sources may be indicative and not executable. Where no market data is available, the Fund may value positions using its own models,

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which are usually based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by the Manager, independent of the party that created them. The models used for private equity securities are based mainly on earnings multiples adjusted for a lack of marketability as appropriate.

Models use observable data, to the extent practicable. However, areas such as credit risk, volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Fund considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. See Note 6 for more information on the fair value measurement of the Fund's financial statements.

Classification and measurement of investments and application of the fair value option

In classifying and measuring financial instruments held by the Fund, the Manager is required to make significant judgments about whether or not the business of the Fund is to invest on a total return basis for the purpose of applying the fair value option for financial assets under IAS 39, Financial Instruments – Recognition and Measurement (IAS 39). The most significant judgments made include the determination that certain investments are held-for-trading and that the fair value option can be applied to those that are not.

6. Fair value disclosure

The Fund classifies fair value measurements within a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows.

Level 1- quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3- unobservable inputs for the asset or liability.

The Fund's financial instruments which are recorded at fair value have been categorized based upon this fair value hierarchy. The following fair value hierarchy table presents information about the Fund's financial instruments measured at fair value as at December 31, 2017 and December 31, 2016.

	Financial Assets at fair value as at December 31, 2017			
	Level 1	Level 2	Level 3	Total
Equities - long	\$ 2,225,034	\$ 284,535	\$ 3,923,909	\$ 6,433,478
Bonds - long	-	44,623,985	7,114,098	51,738,083
Warrants	3	320,894	30,914	351,811
Forward contracts - long	-	278,397	-	278,397
	<u>\$ 2,225,037</u>	<u>\$ 45,507,811</u>	<u>\$ 11,068,921</u>	<u>\$ 58,801,769</u>

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Financial Liabilities at fair value as at December 31, 2017

	Level 1	Level 2	Level 3	Total
Forward contracts - short	\$ -	\$ (29,312)	\$ -	\$ (29,312)
Options - short	(58,781)			(58,781)
	\$ (58,781)	\$ (29,312)	\$ -	\$ (88,093)

Financial Assets at fair value as at December 31, 2016

	Level 1	Level 2	Level 3	Total
Equities - long	\$ 25,684,638	\$ 277,478	\$ 639,932	\$ 26,602,048
Bonds - long	-	61,578,687	10,770,648	72,349,335
Warrants	14,093	-	489,494	503,587
Forward contracts - long	-	822,521	-	822,521
	\$ 25,698,731	\$ 62,678,686	\$ 11,900,074	\$ 100,277,491

Financial Liabilities at fair value as at December 31, 2016

	Level 1	Level 2	Level 3	Total
Forward contracts - short	\$ -	\$ (6,336)	\$ -	\$ (6,336)
Options - short	(1,717)	-	-	(1,717)
	\$ (1,717)	\$ (6,336)	\$ -	\$ (8,053)

Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3. Likewise, if an investment classified as Level 2 or Level 3, subsequently becomes actively traded and/or have a quoted price available, it is transferred into Level 1. The Fund uses the following techniques to determine the Level 2 fair value measurements:

Equities - The fair value of equities are determined using inputs other than quoted prices included in level 1 that are observable for the asset or liability directly or indirectly. This includes transaction prices in markets that are not active for identical instruments, quoted prices in markets for similar, but not identical, instruments and transaction prices in markets that are not active for similar, but not identical, instruments.

Bonds - The fair value of bonds are determined by obtaining the quoted market prices or executable dealer quotes for identical or similar instruments in inactive markets, or other inputs that are observable or can be corroborated by observable market data. In addition, the Fund also values these instruments using the net present value of estimated future cash flows.

Forward contracts - The fair value of forward foreign exchange contracts is determined using the forward exchange rates at the measurement date, with the resulting value discounted back to present value.

Options and other over-the-counter derivatives - Options and other over-the-counter derivatives are classified as level 1 when they are exchange traded and prices are readily available on the market. Where they are not traded, the Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each year end date. Valuation techniques used for these non-standardized financial instruments such as options and other over-the-counter derivatives, include the use of

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comparable recent arm's length transactions, reference to other instruments that are substantially the same, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs. Where the inputs are observable, the options and other over-the-counter derivatives are classified into level 2. Where the inputs are not observable, they are classified into level 3.

Warrants - The fair value of warrants are valued using the Black Scholes options pricing model. The warrants are classified as Level 2 where the underlying security is listed and the other inputs are observable.

Level 3 fair value measurements and sensitivity analysis

Equities

Equities classified within Level 3 with fair value at December 31, 2017 of \$2,264,783, (December 31, 2016 - \$639,932) and consists of private equity positions. The Fund utilizes comparable trading multiples in arriving at the valuation for these positions. Management determines comparable public companies (peers) based on industry, size, developmental stage and strategy. Management then calculates a trading multiple for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by its earnings before interest, taxes, depreciation and amortization (EBITDA). The trading multiple is then discounted for consideration such as illiquidity and differences between the comparable companies based on company-specific facts and circumstances. In addition, Level 3 equities will be valued at quotations supplied by third party broker dealers and other pricing vendors. The Manager does not alter the broker quotes as the quotes are obtained from accredited brokers. However, the quotes as well as the brokers are monitored periodically to make sure for quotes are representative of fair market values.

Bonds

Bonds classified within Level 3 with fair value at December 31, 2017 of \$5,823,604, (December 31, 2016 - \$10,770,648) consists of corporate bonds. The Fund values these instruments using the net debt to EBITDA. The Fund considers liquidity, credit and market risk factors, and adjusts the valuation model as deemed necessary.

Warrants

Warrants classified within Level 3 with fair value December 31, 2017 of \$30,914, (December 31, 2016 - \$489,494) have significant unobservable inputs, as the underlying securities trade infrequently or are privately held. As observable prices are not available for the underlying securities, the Manager uses Black Scholes as a valuation technique to derive the fair value of the underlying securities.

The following table presents the sensitivity analysis for level 3 securities with significant unobservable inputs as at December 31, 2017 and December 31, 2016

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Description	Fair Value at December 31, 2017	Valuation Techniques		Unobservable Inputs	Weighted average input	Reasonably possible shift +/- (absolute value)	Change in the valuation (+/-)
Equities:	\$2,264,783	Comparable trading multiples		Enterprise Values to EBITDA	11.7	1	+/- \$192,320
		Per Flowing Barrel		Per Flowing Barrel Multiple	48,000	1	+/- \$48,374
Debt Securities	\$5,823,604	Net debt to EBITDA		Net debt to EBITDA	7.1	1	+/- \$626,557
		Discount		Discount	8%	2%	+/- \$21,024
		Per Acre		Per Acre Multiple	275	10	+/- \$50,000
Warrants	\$30,914	Black Scholes		Volatility	30 Vol	1 Vol	+/- \$393

Description	Fair Value at December 31, 2016	Valuation Techniques		Unobservable Inputs	Weighted average input	Reasonably possible shift +/- (absolute value)	Change in the valuation (+/-)
Equities:	\$639,932	Comparable trading multiples		Enterprise Values to EBITDA	12.0	1	+/- \$53,238
Debt Securities	\$10,770,648	Net debt to EBITDA		Net debt to EBITDA	5.5	1	+/- \$1,958,300
Warrants	\$489,494	Black Scholes		Volatility	30 Vol	1 Vol	+/- \$7,734

The change in valuation disclosed in the above table shows the direction an increase or decrease in the respective input variables would have on the valuation result. For equity securities, increases in EBITDA multiple and control premium inputs would each lead to an increase in estimated value. However, an increase in the discount for lack of marketability would lead to a decrease in value. For debt securities, increases in the cost of capital and profitability of default would both lead to a decrease in the estimated value. For investments that use broker quotes, grey markets and cost, there will be no effect on its estimated value.

Reconciliation of Level 3 fair value measurements

The following is a reconciliation of Level 3 fair value measurements from December 31, 2016 to December 31, 2017:

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	Fair value measurements using level 3 inputs			
	Warrants	Equities - long	Bonds - long	Total
Balance at December 31, 2016	\$ 489,494	\$ 639,932	\$ 10,770,648	\$ 11,900,074
Sales	-	(7)	(3,444,262)	(3,444,269)
Purchases	-	3,965,081	1,488,503	5,453,584
Transfers in	-	-	250,000	250,000
Transfers out	(407,893)	-	(471,582)	(879,475)
Gains (Losses)				
Realized	-	(15)	(271,626)	(271,641)
Unrealized	(50,687)	(681,082)	(1,207,583)	(1,939,352)
Balance at December 31, 2017	\$ 30,914	\$ 3,923,909	\$ 7,114,098	\$ 11,068,921
Total change in unrealized gain (loss) during the year for assets held at December 31, 2017	\$ (49,710)	\$ (681,102)	\$ (1,498,884)	\$ (2,229,696)

The following is a reconciliation of Level 3 fair value measurements from December 31, 2015 to December 31, 2016:

	Fair value measurements using level 3 inputs			
	Warrants	Equities - long	Bonds - long	Total
Balance at December 31, 2015	\$ 527,575	\$ 6,986,825	\$ 19,634,827	\$ 27,149,227
Sales	-	(5,778,380)	(3,158,141)	(8,936,521)
Purchases	-	201,842	270,722	472,564
Transfers out	-	-	(77,673)	(77,673)
Gains (Losses)				
Realized	-	1,507,523	158,913	1,666,436
Unrealized	(38,081)	(2,277,878)	(6,058,000)	(8,373,959)
Balance at December 31, 2016	\$ 489,494	\$ 639,932	\$ 10,770,648	\$ 11,900,074
Total change in unrealized gain (loss) during the year for assets held at December 31, 2016	\$ 219,547	\$ (952,708)	\$ (5,542,572)	\$ (6,275,733)

During the year ended December 31, 2016, the Fund reclassified a bond from Level 3 to Level 1 as one security carried out a private placement and recapitalization transaction and the external price became observable.

The following were the transfers between Levels 1 and 2 for assets and liabilities held at December 31, 2017:

	Transfer from level 1 to level 2	Transfer from level 2 to level 1
	2017	2017
Equities - Long	\$ -	\$ 277,477

There were no transfers between Levels 1 and 2 for assets and liabilities held at December 31, 2016.

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7. Financial instruments by category

The following table presents the net gains (losses) on financial instruments at FVTPL by category for the years ended December 31, 2017 and December 31, 2016.

	Net gains (losses)	
	December 31, 2017	December 31, 2016
Financial assets/liabilities at FVTPL		
HFT	\$ 4,399,001	\$ 3,007,679
Designated at inception	807,132	12,704,643
Total	\$ 5,206,133	\$ 15,712,322

8. Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the Statements of Financial Position where the Fund currently has a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. In the normal course of business, the Fund enters into various master netting agreements or other similar arrangements that do not meet the criteria for offsetting in the Statements of Financial Position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of the contracts.

The following table presents the recognized financial instruments that are offset, or subject to enforceable master netting arrangements or other similar agreements but not offset, as at December 31, 2017 and December 31, 2016, and shows in the 'Net' column what the net impact would be on the Fund's Statements of Financial Position if all set-off rights were exercised.

Financial Assets and Liabilities as at December 31, 2017	Amounts Offset (\$)			Amounts Not Offset (\$)		Net
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Received (Pledged)	
Derivative assets	278,397	-	278,397	(29,312)	-	249,085
Derivative liabilities	(29,312)	-	(29,312)	29,312	-	-
Total	249,085		249,085			249,085

Financial Assets and Liabilities as at December 31, 2016	Amounts Offset (\$)			Amounts Not Offset (\$)		Net
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Received (Pledged)	
Derivative assets	822,521	-	822,521	(6,336)	-	816,185
Derivative liabilities	(6,336)	-	(6,336)	6,336	-	-
Total	816,185		816,185			816,185

9. Investment Entity

The fund has determined that it meets the definition of an "investment entity" and as a result, it measures subsidiaries, if any, at FVTPL. An investment entity is an entity that: obtains funds from one or more investors for the purposes of providing them with investment management services, commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and measures and evaluates the performance of

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substantially all of its investments on a fair value basis. The most significant judgement that the Fund has made in determining that it meets this definition is that fair value is the primary measurement attribute used to measure and evaluate the performance of substantially all of its investments.

10. Redeemable units

Redeemable units transactions include amounts representing unit subscriptions, unit redemptions, undistributed net income, undistributed realized gains (losses) on sale of investments and derivatives and unrealized appreciation (depreciation) in value of investments and derivatives. Units are redeemable daily. The Fund generally has no restrictions or specific capital requirements on the subscription and redemptions of units. In accordance with the objectives and the risk management policies outlined in note 13, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being managed by investing the majority of assets in investments that can be readily disposed. The following table summarizes the changes in the number of redeemable units during the period:

	December 31, 2017		December 31, 2016	
	Class B	Class F	Class B	Class F
Units-Beginning of year	4,993,155	5,725,384	7,141,563	6,452,840
Redeemable Units issued	197,847	1,441,265	172,270	1,107,291
Redeemable Units reinvested	156,424	235,588	320,002	334,673
Redeemable Units redeemed	(2,362,173)	(1,761,294)	(2,640,680)	(2,169,420)
Units-End of year	2,985,253	5,640,943	4,993,155	5,725,384

Certain directors and/or related parties of the Fund held 1.39% of the Fund units at December 31, 2017 (December 31, 2016 – 1.02%).

11. Fees and expenses

a) Management fees

Pursuant to the terms of a management agreement, the Fund pays to the Manager, monthly in arrears, a base management fee for services, including the provision of key management personnel. The management fee may vary from class to class and for each of the existing classes of units is as follows:

Class B: 1/365 of 1.5% (1.5% per annum) of the NAV of the Class B Units on the preceding business day plus applicable taxes.

Class F: 1/365 of 0.75% (0.75% per annum) of the NAV of the Class F Units on the preceding business day plus applicable taxes.

The management fees incurred for the year ended December 31, 2017 were \$1,102,012 (December 31, 2016- \$1,288,924) of which \$79,402 (December 31, 2016 – \$156,185) were outstanding as at year end.

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b) Performance fees

Each class of Units will pay to Vertex One, the Manager, a performance fee, plus applicable taxes that is equal to 20% of the amount by which the total return of the class of units exceeds the total percentage increase or decrease of the following benchmarks having the following components, for the period since the performance fee was last paid.

- 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 – DEX Mid Term Total Return Bond Index (formerly, the Scotia McLeod Mid Term Bond Index) (or its successor indices, as applicable)

If at any time the performance of the Fund is less than its benchmark, then no performance fee will be payable until the performance of the Fund relative to its benchmark has exceeded the amount of the deficiency.

The performance fees incurred for the year ended December 31, 2017 were \$nil (December 31, 2016 - \$nil) of which \$nil (December 31, 2016 – \$nil) were outstanding as at year end. The Manager has reserved the right to change the period for which any performance fee may be paid by the Fund to the Manager.

c) Other fees and expenses

The Fund is responsible for the payment of all fees and expenses relating to its operation, including the fees and expenses of the recordkeeper, audit, accounting, administration (other than advertising and promotional expenses which are paid for by the Manager), record keeping and legal fees and expenses, custody and safekeeping charges, all costs and expenses associated with the qualification for sale of units, providing financial and other reports to Unitholders and convening and conducting meetings of Unitholders, all taxes, assessments or other governmental charges levied against the Fund, interest and all brokerage and other fees relating to the purchase and sale of the assets of the Fund. The Manager will pay for all expenses associated with the identification and management of the Fund's investments (other than direct expenses such as interest charges on margin borrowings and brokerage fees, which are the responsibility of the Fund).

At the discretion of the Manager, there were no expenses absorbed during the year ended December 31, 2017 and December 31, 2016.

12. Soft dollar commissions

Soft dollar commissions relate to amounts paid to brokers in exchange for research or other services provided to the Manager. There were \$13,069 (December 31, 2016 - \$11,683) soft dollar commissions paid during the year.

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13. Financial Risk Management

The Fund's financial instruments consist of investments, cash, accrued interest and dividends receivable, subscriptions receivable, other assets/liabilities, accrued management fees, accounts payable and accrued liabilities, due to/from broker and redemptions payable. As a result, the Fund is exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which it invests. The Manager maintains a risk management practice that includes quarterly monitoring of the returns based risk profile of the Fund. The purpose of such practices is to minimize the potential adverse effect of each risk on the Fund's financial performance while being consistent with the Fund's investment objective. The risks include market risk (including other price risk, interest rate risk, and currency risk), credit risk and liquidity risk. These risks and related risk management practices employed by the Fund are discussed below:

(a) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The investments of the Fund are subject to normal market fluctuations and the risks inherent in investment in financial markets. The maximum risk resulting from financial instruments held by the Fund is determined by the fair value of the financial instruments. The Manager moderates this risk through a careful selection of securities within specified limits and the Fund's other price risk is managed through diversification of the investment portfolio. The Manager monitors the Fund's overall market positions on a daily basis and positions are maintained within established ranges.

As of December 31, 2017, if the market price of the Fund's net equity position and option investments had increased or decreased by 5%, with all other variables held constant, this would have approximately increased or decreased net assets by \$1,270,075. (December 31, 2016 – \$1,355,196). Actual results may differ from this sensitivity analysis and those results could be material.

(b) Interest rate risk

As at December 31, 2017, 63.67% (December 31, 2016 – 70.65%) of the Fund's investment portfolio consists of interest bearing Canadian corporate bonds and foreign bonds. As a result, the Fund was subject to interest rate risk due to fluctuations in the prevailing level of market interest rates which could impact the Fund's cash flows.

The table below summarizes the Fund's exposure to interest rate risk. It includes the Fund's assets and liabilities at fair values, categorized by the earlier of contractual re-pricing or maturity dates.

	Less than 1 year	1 - 5 years	More than 5 years	Total
As at December 31, 2017				
Financial Assets				
Bonds*	\$ 5,922,430	\$ 26,997,167	\$ 18,818,486	\$ 51,738,083

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	Less than 1 year	1 - 5 years	More than 5 years	Total
As at December 31, 2016				
Financial Assets				
Bonds*	\$ 7,101,115	\$ 43,343,825	\$ 21,904,396	\$ 72,349,335

* The amount of bonds is net of short securities, if any

At December 31, 2017, should interest rates have increased or decreased by 25 basis points with all other variables remaining constant, the decrease or increase in net assets for the year would amount to approximately \$453,676 (December 31, 2016 - \$509,577). Actual results may differ from this sensitivity analysis and those results could be material. The Fund's managers review the interest rate exposure on a regular basis.

(c) Currency risk

Currency risk is the risk that the value of net investments denominated in currencies, other than Canadian Dollars, the functional currency of the Fund, will fluctuate due to changes in foreign exchange rates. The Fund holds assets and liabilities, including cash, short-term investments, equities, and options that are denominated in currencies other than the Canadian Dollar. It is therefore exposed to currency risk, as the value of and cash flows associated with the securities denominated in other currencies fluctuate due to changes in exchange rates. The Fund's manager reviews the currency positions of the Fund on a regular basis and the Fund may enter into foreign exchange forward contracts for hedging purposes to reduce its foreign currency exposure or to establish exposure to foreign currencies.

The currency risk reflects the net impact after taking into consideration the forward contracts. Actual results may differ from this sensitivity analysis and those results could be material. As at December 31, 2017 and December 31, 2016, if the Canadian dollar strengthened or weakened by 5% in relation to all other currencies, with all other variables held constant the decrease or increase respectively in net assets would approximately amount to values as disclosed in the table below:

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As at December 31, 2017

	Monetary exposure	Non-monetary exposure *	Assets Hedged by forward contracts	Net currency exposure	% of Net assets attributable to holders of redeemable units	5% Decrease /increase
US Dollar	\$ 48,189,827	\$ 38,559,519	\$ (89,118,332)	\$ (2,368,986)	-2.91%	\$ (118,449)
Total	\$ 48,189,827	\$ 38,559,519	\$ (89,118,332)	\$ (2,368,986)	-2.91%	\$ (118,449)

As at December 31, 2016

	Monetary exposure	Non-monetary exposure *	Assets Hedged by forward contracts	Net currency exposure	% of Net assets attributable to holders of redeemable units	5% Decrease /increase
US Dollar	\$ 61,947,858	\$ 21,749,968	\$ (86,295,187)	\$ (2,597,361)	-2.53%	\$ (129,868)
Total	\$ 61,947,858	\$ 21,749,968	\$ (86,295,187)	\$ (2,597,361)	-2.53%	\$ (129,868)

* The non-monetary exposure is net of short securities, if any.

(d) Credit risk

Credit risk is the risk that a loss could arise when a security issuer or counterparty to a financial instrument is unable to meet its financial obligations. The Fund's main credit risk is from corporate bonds, and derivative contracts. To maximize the credit quality of its investments, the Fund's manager performs ongoing credit evaluations based upon factors surrounding the credit risk of customers, historical trends and other information. Cash is held with a custodian bearing a credit rating of Aa3 or better.

The Fund invests in debt securities, which have an investment grade as rated primarily by Dominion Bond Rating Service and Standard & Poor's. Ratings for securities that subject the Fund to credit risk are noted below:

Portfolio by rating category

Rating	Percentage of net assets	
	December 31, 2017	December 31, 2016
A/A	0.00%	0.00%
BBB/Bbb	5.16%	8.26%
Below BBB	41.77%	46.29%
N/R	16.74%	16.10%
Total	63.67%	70.65%

The Fund also engages in securities lending transactions. The credit risk related to securities lending transactions is limited by the fact that the value of cash or securities held as collateral by the Fund in connection with these transactions is at least 102 percent of the fair value of the securities loaned. The collateral and loaned securities are marked to market on each business day. The aggregate dollar value of portfolio securities lent and collateral held under securities transactions is stated in Note 3.

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All transactions in listed securities are settled for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold/lent is only made once the broker has received payment. Payment is made on securities purchased/borrowed once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

As at December 31, 2017 and December 31, 2016 the Fund's net assets were also exposed to credit risk arising from derivative contracts. The credit rating of the counterparties as at December 31, 2017 and December 31, 2016 was:

Portfolio by rating category	Percentage of net assets	
	December 31, 2017	December 31, 2016
Rating		
AA/A/A-	0.31%	0.79%
Total	0.31%	0.79%

(e) *Liquidity risk*

Liquidity risk is the risk that the Fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund's exposure to liquidity risk is concentrated in the cash redemptions of units and securities sold short at the daily valuation date. The Fund invests primarily in securities that are traded in active markets and can be readily disposed of. The Fund may, from time to time, invest in derivative contracts traded over the counter or in unlisted securities, which are not traded in an organized market and may be illiquid. As a result, the Fund may not be able to quickly liquidate its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer. Investments held as at December 31, 2017 that may be subject to liquidity risk have been identified on the Schedule of Investments. In addition, the Fund retains sufficient cash to maintain liquidity.

The tables below analyze the Fund's financial liabilities as at December 31, 2017 and December 31, 2016 into relevant groupings based on contractual maturity dates. The amounts are contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant. The net assets attributable to holders of redeemable units are redeemable on demand. However, the Manager does not expect that the contractual maturity disclosed below will be representative of the actual cash outflows as holders of the redeemable units typically retain them for a longer period.

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	On demand	Less than 3 months	3 - 12 months	More than 12 months	Total
As at December 31, 2017					
Liabilities					
Financial liabilities held for trading					
Forward contracts	\$ -	\$ 29,312	\$ -	\$ -	\$ 29,312
Written options	-	58,781	-	-	58,781
Accrued management fees	-	79,402	-	-	79,402
Due to broker	-	22,604,760	-	-	22,604,760
Redemptions payable	-	295,847	-	-	295,847
Redeemable units	81,270,358	-	-	-	81,270,358

	On demand	Less than 3 months	3 - 12 months	More than 12 months	Total
As at December 31, 2016					
Liabilities					
Financial liabilities held for trading					
Forward contracts	\$ -	\$ 6,336	\$ -	\$ -	\$ 6,336
Written options	-	1,717	-	-	1,717
Accrued management fees	-	156,185	-	-	156,185
Redemptions payable	-	62,094	-	-	62,094
Redeemable units	102,412,082	-	-	-	102,412,082

(f) Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. The following is a summary of the Fund's concentration risk:

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Portfolio by Category	Percentage of Net Assets (%)	
	As at	As at
	December 31, 2017	December 31, 2016
Bonds - Corporate Bonds	13.03	24.62
Bonds - Bermuda	0.68	-
Bonds - Cayman Island	1.41	-
Bonds - United Kingdom	6.23	2.63
Bonds - United States of America	42.32	43.40
Stocks - Energy	5.90	4.31
Stocks - Materials	9.04	3.44
Stocks - Industrial	1.07	0.14
Stocks - Consumer Staples	0.36	0.60
Stocks - Consumer Discretionary	1.07	2.68
Stocks - Financials	9.61	11.51
Stocks - Information Technology	2.36	0.01
Stocks - Telecommunications	0.28	2.56
Stocks - Utilities	1.64	1.22
Forward Contracts -Unrealized Gain	0.34	0.80
Forward Contracts -Unrealized Loss	(0.04)	(0.01)
Written Options	(0.07)	-
Cash	4.10	0.41
Other Assets, Less Liabilities	0.67	1.68
	<u>100.00</u>	<u>100.00</u>

14. Increase (decrease) in net assets attributable to holders of redeemable units per unit

The increase (decrease) in net assets attributable to holders of redeemable units per unit for the years ended December 31, 2017 and December 31, 2016 is calculated as follows:

Class B	December 31, 2017	December 31, 2016
Increase (decrease) in net assets attributable to holders of redeemable units	\$ 1,403,037	\$ 6,486,274
Weighted average units outstanding during the year	4,048,387	5,844,049
Increase (decrease) in net assets attributable to holders of redeemable units per unit	0.35	1.11

Class F	December 31, 2017	December 31, 2016
Increase (decrease) in net assets attributable to holders of redeemable units	\$ 2,132,395	\$ 7,264,772
Weighted average units outstanding during the year	6,109,321	5,860,182
Increase (decrease) in net assets attributable to holders of redeemable units per unit	\$ 0.35	\$ 1.24