

MANAGEMENT REPORT OF FUND PERFORMANCE

December 31, 2017

VERTEX ENHANCED INCOME FUND

Active | Unconstrained | Opportunistic | Absolute



This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-866-681-5787, by writing to us at:

Vertex One Asset Management Inc.
Suite 3200 – 1021 West Hastings Street
Vancouver, BC
V6E 0C3

or by visiting our website at

www.vertexone.com

or

SEDAR at www.sedar.com

Security holders may also contact us using one of these methods to request a copy of the investments fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

MANAGEMENT DISCUSSION AND FUND PERFORMANCE

Investment Objective and Strategies

The Fundamental investment objective of the Vertex Enhanced Income Fund (the “Fund”) is to provide preservation of capital while providing high income by investing primarily in Canadian and United States bonds, debentures, and equities. The secondary objective is to provide capital growth. The Fund will invest largely in high yield and convertible bonds, preferred shares, high-yielding equities (up to a 25% weighting) and government debt including federal, provincial, state and municipal issues. One of the unique features of the Fund is the use of covered call writing. It is used to enhance yield derived from the equity component of the Fund and decrease volatility. The covered call writing strategy consists of the sale of a call option while simultaneously owning the underlying security. Returns are generated from both the collection of option premiums and increases in the underlying stock held. Protection to the downside is equal to the amount of the option premium collected. The investments of the Fund are subject to the following restrictions:

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

The Fund was created on September 14, 2009 and commenced operation on September 21, 2009.

Risks

At the end of Quarter 2, the market had been plagued by the poor velocity of money, also known as *risk off*. IPO’s slowed to the point of being virtually nonexistent during the first three months of 2016, high yield bonds were priced as if they could not refinance within the next three years and secondary equity issues fell dormant. Fortunately, this state of atrophy does not last forever. Eventually, a large IPO (Twilio) comes along and spurs investor enthusiasm. As a result, more companies filed IPO papers, there was the highest primary and secondary issuance of bonds in six months and a multitude of large cap equities issued new shares. There is a “waterfall” effect as the velocity of money improves for large-cap, then mid-cap, and then finally small cap equities. Each step is a higher level of comfort for riskier assets. The Fund’s equity weight currently stands at 20%, diversified across: financial, mining, oil & gas, insurance and telecommunications. We continue to hold a reduced allocation to preferred equity. With an asset mix of 75% high-yield bonds, 20% equity, and 5% preferred equity.

Results of Operation

The Fund ended the year of 2017 with returns of 3.08% for Class B shares and 3.91% for Class F shares.

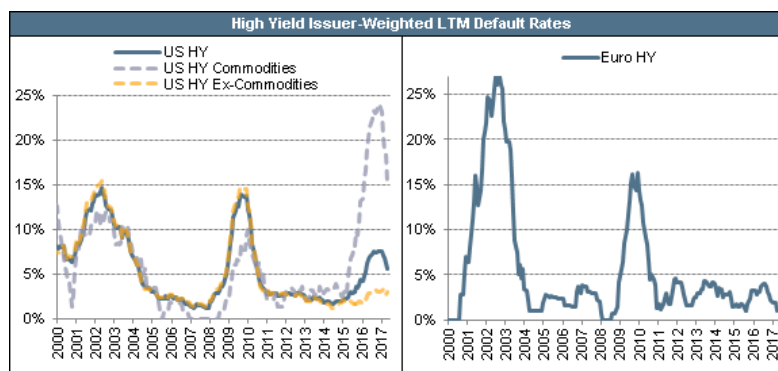
The equity portfolio returned 150 bps for the quarter, largely on the back of our copper producers, (Freeport-McMoRan and BHP Billiton) and the offshore drillers (Diamond Offshore and Noble Corp). Our equity weight is close to the 25% upper limit (24.65%). We will continue to keep it at the high-end for diversification and enhanced return.

The bond portfolio returned negative (65 bps) for the quarter. A few of our restructurings proved challenging and we wrote down the value of a few of our private securities:

- We were wrong with our assumptions on a restructuring of one of our securities and sold the security down.
- We continue to hold another restructuring security as we think the first offer from the company undercuts the value of the positive cash flow – plenty of growth opportunities in the pipeline.
- We wrote down the value of one of our private notes; we continue to negotiate with the company and like how current management has cleaned up the structure, while moving forward with positive steps to accrete value to stakeholders.

Our weight in bonds is 64.25%, with 9.5% of that total being convertible bonds where correlation leans toward equity. Our duration is extremely short, therefore we are well protected should interest rates rise significantly. Although we couldn't have predicted the high yield and commodity rout in 2015, the fund generated a return of 9.5% annualized for the past two years and 5.8% annualized since inception.

Default rates in the high-yield market have been low, save for the commodity sector (see below image). With historically low interest rates and investor demand for debt, many commodity companies took on more debt (risk) than they should have. The rewards far outweighed the risk and management teams literally bet the farm. A strategy that worked until commodity prices crashed and crippled cash flow. What emerged from the wreckage were situations where new, conservative management teams have taken over asset-rich companies, and this is where we think the opportunity lies. New management will rebuild companies to be profitable in the current pricing environment, while their securities are still valued by the old regime's failure.



Source: CreditSights
Commodities includes Energy, Metals and Mining

Your Enhanced Income Fund remains an excellent diversifier away from traditional bond funds and equities. The most important factor in portfolio construction and risk reduction is how different assets work together to reduce risk, as it’s hard to predict which economic factors will drive returns in the short term. Our portfolio management process within the fund itself takes this approach as sometimes our best ideas fail, while others perform incredibly well. Knowing we don’t know is everything in investing.

There were no material changes to the management of the fund.

Basis of presentation and adoption of IFRS

The Fund's financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (“IASB”).

Related Party Transactions

During the year ended December 31, 2017, the Fund incurred management fees in the amount of \$1,102,012 payable to its manager, Vertex One Asset Management Inc. There was no performance fee paid by the Fund during the year.

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 years ending December 31,

The Fund’s Net Assets per Unit ⁽³⁾

Class B	2017	2016	2015	2014	2013
Net Assets, beginning of year ⁽¹⁾	\$9.56	\$9.03	\$11.11	\$11.73	\$11.03
Increase (decrease) from operations:					
Total revenue	0.60	0.82	0.91	1.02	0.82
Total expenses	(0.21)	(0.21)	(0.21)	(0.28)	(0.35)
Realized gains (losses) for the year	0.70	(0.11)	(1.14)	(0.21)	(0.13)
Unrealized gains (losses) for the year	(0.74)	0.60	(0.74)	(0.59)	0.85
Total increase (decrease) from operations ⁽¹⁾	0.35	1.10	(1.18)	(0.06)	1.19
Distributions :					
From income (excluding dividends)	0.40	0.65	0.71	0.69	0.47
From dividends	0.03	0.03	0.04	0.04	0.06
From capital gains	-	-	-	-	-
Return of capital	0.05	-	-	-	-
Total annual distributions ⁽¹⁾⁽²⁾	0.48	0.68	0.75	0.73	0.53
Net Assets, end of year	9.38	9.56	9.03	\$11.11	\$11.73

Class F	2017	2016	2015	2014	2013
Net Assets, beginning of year ⁽¹⁾	\$9.55	\$8.95	\$8.95	\$11.77	\$11.03
Increase (decrease) from operations:					
Total revenue	0.61	0.82	0.92	1.03	0.82
Total expenses	(0.13)	(0.13)	(0.13)	(0.20)	(0.31)
Realized gains (losses) for the year	0.70	(0.11)	(1.15)	(0.21)	(0.13)
Unrealized gains (losses) for the year	(0.83)	0.66	(0.70)	(0.61)	0.85
Total increase (decrease) from operations ⁽¹⁾	0.35	1.24	(1.06)	0.01	1.23
Distributions :					
From income (excluding dividends)	0.40	0.65	0.88	0.77	0.47
From dividends	0.04	0.03	0.05	0.05	0.06
From capital gains	-	-	-	-	-
Return of capital	0.04	-	-	-	-
Total annual distributions ⁽¹⁾⁽²⁾	0.48	0.68	0.93	0.82	0.53
Net Assets, end of year	\$9.45	\$9.55	\$8.95	\$8.95	\$11.77

(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 year.

(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 may differ from the net asset value calculated for Fund pricing purposes. An explanation of these differences, if any, is disclosed in Note 2 of the notes to the financial statements.

(4) For financial years beginning on or after January 1, 2013, the financial highlights are derived from the Fund's financial statements prepared in accordance with International Financial Reporting Standards. The December 31, 2013 information has been restated for comparison purposes only. For financial years prior to 2013, the financial highlights were derived from the Fund's financial statements prepared in accordance with previous Canadian generally accepted accounting principles.

Ratios and Supplemental Data ⁽⁵⁾

Class B	2017	2016	2015	2014	2013
Total net asset value (\$ 000's) ⁽¹⁾	27,991	47,727	64,495	140,664	106,778
Number of units outstanding ⁽¹⁾	2,985,253	4,993,155	7,141,563	12,695,949	9,104,575
Management expense ratio (%) ⁽²⁾	2.07	2.18	1.89	1.97	2.74

Management expense ratio before waivers/absorption (%)	2.07	2.18	1.89	1.97	2.74
Portfolio turnover rate (%) ⁽³⁾	77.82	39.7	26.8	102.01	98.81
Trading expense ratio (%) ⁽⁴⁾	0.08	0.07	0.07	0.18	0.17
Net asset value per unit (\$)	9.38	9.56	9.03	11.08	11.73

Class F	2017	2016	2015	2014	2013
Total net asset value (\$ 000's) ⁽¹⁾	53,280	54,685	57,767	127,773	109,539
Number of units outstanding ⁽¹⁾	5,640,943	5,725,384	6,452,840	11,497,692	9,306,771
Management expense ratio (%) ⁽²⁾	1.26	1.37	1.08	1.23	2.41
Management expense ratio before waivers or absorptions (%)	1.26	1.37	1.08	1.23	2.41
Portfolio turnover rate (%) ⁽³⁾	77.82	39.7	26.8	102.01	98.81
Trading expense ratio (%) ⁽⁴⁾	0.08	0.07	0.07	0.18	0.17
Net asset value per unit (\$)	9.45	9.55	8.95	11.11	11.77

- (1) The information is provided as at December 31 of the year shown.
- (2) Management expense ratio is based on total expenses for the stated year and is expressed as an annualized percentage of daily average net assets during the year.
- (3) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a Fund's portfolio turnover in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Fund.
- (4) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the year.
- (5) This information is derived from the Fund's audited annual financial statements. The net assets presented in the financial statements may differ from the net asset value calculated for Fund pricing purposes. An explanation of these differences, if any, is disclosed in Note 2 of the notes to the financial statements
- (6) For financial years beginning on or after January 1, 2013, and the immediately preceding financial year, the financial highlights are derived from the Fund's financial statements prepared in accordance with International Financial Reporting Standards. The December 31, 2013 information has been restated for comparison purposes only. For financial years prior to 2013, the financial highlights were derived from the Fund's financial statements prepared in accordance with previous Canadian generally accepted accounting principles

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 the Fund.

The management fee may vary from Class to Class and will be deducted as an expense of the Class in the calculation of the net profits of such Class. The management fee for each of the existing classes of Units is as follows:

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

The Fund received services in consideration of the management fees as follows:

Services Provided	Class B	Class F
Distribution related costs	50.00%	0.00%
Portfolio Advisor and Management Services	50.00%	100.00%

Performance Fees

Each class of Units will pay to Vertex One Asset Management Inc., a performance fee 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 year 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 (or its successor indices, as applicable)

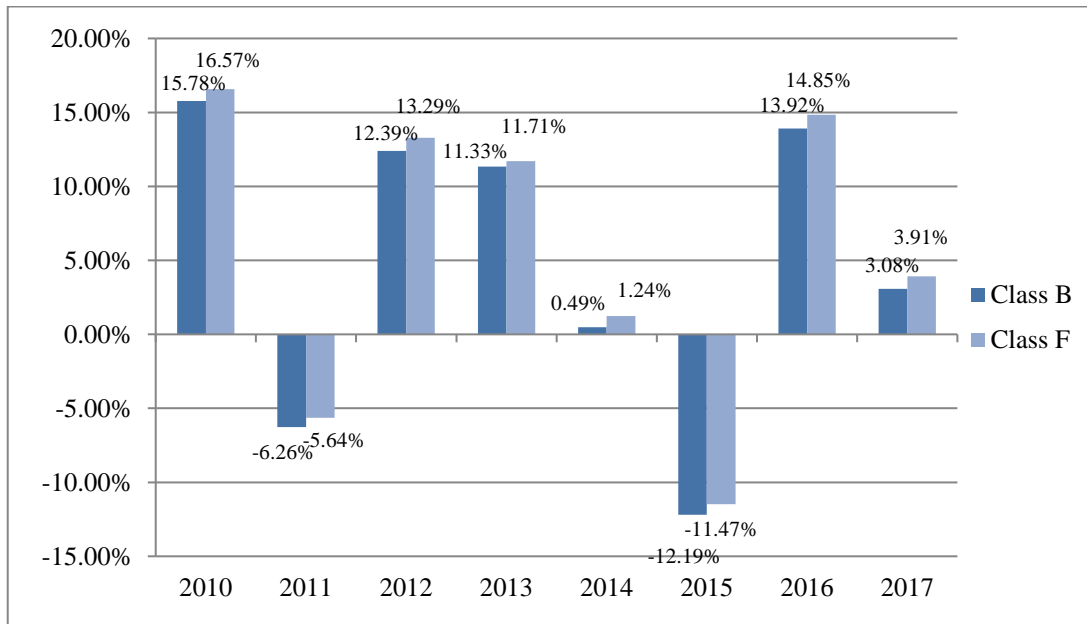
If at any time the performance of a class is less than its benchmark, then no performance fee will be payable until the performance of such class relative to its benchmark has exceeded the amount of the deficiency.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the years 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 for the seven-year period December 2010 to 2017. 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.



Annual Compound Return

The following table illustrates the annual compound total return for Class B and F units of the Fund for the years shown. As a basis of performance comparison, the annual compound return of the Fund is compared to that of its Benchmark consisting of 20% S&P/TSX Composite Total Return Index, 20% S&P/TSX Preferred Share Index and 60% PC Mid-Term Overall Bond Index. Since the Fund does not necessarily invest in the same securities or in the same proportion as the Index, the performance of the Fund is not expected to equal the performance of the Index.

	1-Year	3-Year	Since Inception
Enhanced Income Fund Class B	3.08%	1.03%	5.00%
Enhanced Income Fund Class F	3.91%	1.85%	5.76%
Benchmark	6.05%	3.55%	4.15%

The Fund was created on September 14, 2009 and commenced operations on September 21, 2009. Return since the date operations commenced is not an annualized number.

During the year ended December 31, 2017, your investment in the Fund experienced a return below that of its Benchmark for the 1-Year and 3-Year period. The Fund’s return exceeds that of the Benchmark since the Fund’s inception. Performance will vary by class largely due to the extent that fees and expenses may differ between classes. Index returns are displayed for references purposes only and are not meant to be a proxy for the returns of the Fund. The Fund does not aim to replicate the composition of either Index and as such its performance may differ.

Summary of Investment Portfolio

The major portfolio categories and top holdings (up to 25) of the Fund at the end of the year are indicated in the following tables. The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund and the next quarterly update will be in the Quarterly Portfolio Disclosure as at March 31, 2018.

Top 25 Holdings	
Issuers	% of Net Asset Value
Voya Financial Inc., Variable Rate, Callable, 5.650%, 2053/05/15	2.48%
Community Financing and Leasing Inc., Preferred, Series '1'	2.40%
HSBC Bank PLC, Series '1M', Variable Rate, Perpetual, 1.774%, 2049/06/29	2.33%
Taseko Mines Ltd., Callable, 8.750%, 2022/06/15	2.22%
Freeport-McMoRan Inc., Class 'B'	2.22%
USB Realty Corp., Variable Rate, Perpetual, 2.310%, 2049/12/29	2.10%
Genworth Holdings Inc., Variable Rate, Callable, 3.18%, 2066/11/15	2.09%
Harland Clarke Holdings Corp., Callable, 9.250%, 2021/03/01	1.97%
Agawa Investments Ltd., 10.000%, 2025/08/07	1.88%
Diamond Offshore Drilling Inc.	1.82%
Imperial Metals Corp., Callable, 7.000%, 2019/03/15	1.75%
Community Choice Financial Inc., Callable, 10.750%, 2019/05/01	1.70%
BHP Billiton Ltd., ADR	1.60%
Royal Bank of Scotland Group PLC (The), Series 'U', Floating Rate, Perpetual	1.54%
Resolute Forest Products Inc., Callable, 5.875%, 2023/05/15	1.53%
ILFC E-Capital Trust II, Variable Rate, Callable, 4.610%, 2065/12/21	1.50%
TGC Lending Inc., 6.000%, 2020/05/31	1.47%
Pattern Energy Group Inc., Convertible, 4.000%, 2020/07/15	1.42%
Catalyst Paper Corp., Term Loan, 12.000% 2021/10/31	1.41%
Seagate Hdd Cayman, Callable, 4.250%, 2022/03/01	1.41%
American Energy Permian Holdings LLC, Callable, 8.000%, 2020/06/15	1.41%
Noble Corp. PLC	1.40%
GrafTech International Ltd., Callable, 6.375%, 2020/11/15	1.40%
Hub Holdings LLC / Hub Holdings LLC, Callable, 8.125%, 2019/07/15	1.40%
CNG Holdings Inc., Callable, 9.375%, 2020/05/15	1.36%

Net Asset Value = \$81,270,358

The following chart sets out the sector allocations of the Fund's portfolio as at December 31, 2017.

