

# **Vertex Growth Fund**

**Semi-Annual Financial Statements**

**June 30, 2010 (Unaudited)**

# Vertex Growth Fund

## Statement of Net Assets

	<b>(Unaudited)</b>		<b>(Audited)</b>
	<b>June 30,</b>		<b>December 31,</b>
	<b>2010</b>		<b>2009</b>
<b>Assets</b>			
Investments at fair value	\$ 7,875,298	\$	5,133,934
Cash and cash equivalents	510,813		252,442
Due from broker	4,563,743		23,018
Accrued interest and dividends receivable	24,305		8,090
	<u>12,974,159</u>		<u>5,437,864</u>
<b>Liabilities</b>			
Accrued performance fees (note 5b)	113,401		105,479
Unrealized loss on forward contracts	292,087		-
Accounts payable and accrued liabilities	15,390		23,018
Due to broker	711,725		-
Redemptions payable	5,293		-
	<u>1,137,896</u>		<u>128,497</u>
<b>Net assets representing unitholders' equity</b>	<b>\$ 11,836,263</b>	<b>\$</b>	<b>5,309,367</b>
<b>Net assets representing unitholders' equity per class</b>			
Class B	\$ 5,676,903	\$	1,260,073
Class F	\$ 6,159,360	\$	4,049,294
<b>Net assets per unit (Note 2)</b>			
Class B	\$ 10.59	\$	9.95
Class F	\$ 10.66	\$	9.97

Approved by the Fund Manager

(signed) "John Thiessen"

John Thiessen  
**Director**

(signed) "Jeffrey McCord"

Jeffrey McCord  
**Director**

(See accompanying notes to the financial statements.)

# Vertex Growth Fund

## Statement of Operations

For the period ended June 30, 2010 (unaudited)

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<b>Investment income</b>		
Dividends (net of withholding tax: \$9,850)	\$	140,793
Interest and other income		(1,670)
		<u>139,123</u>
<b>Expenses (Note 5)</b>		
Performance fees		204,815
Security lending expense		2,357
Securityholder reporting costs		33,180
Other administrative expenses		10,363
Custody fees		5,743
Audit fees		9,750
Legal fees		8,901
IRC fees		10,250
		<u>285,359</u>
<b>Net investment loss before absorbed expenses</b>		<u>(146,236)</u>
<b>Expenses absorbed by manager (Note 5)</b>		<u>60,371</u>
<b>Net investment loss</b>		<u>(85,865)</u>
<b>Realized and unrealized gain (loss) on investments and transaction costs</b>		
Realized gain on sale of investments		302,083
Transaction costs (Note 2)		(58,076)
Unrealized depreciation on investments		(510,615)
Unrealized appreciation on foreign currency		462
<b>Net realized and unrealized gain on investments</b>		<u>(266,146)</u>
<b>Decrease in net assets from operations</b>	\$	<u>(352,011)</u>
<b>Decrease in net assets from operations per Class</b>		
Class B	\$	(271,363)
Class F	\$	(80,648)
<b>Decrease in net assets from operations per unit (Note 4)*</b>		
Class B	\$	(0.79)
Class F	\$	(0.17)

\* Based on the weighted average number of units outstanding during the period

(See accompanying notes to the financial statements.)

## Vertex Growth Fund

Statement of Changes in Net Assets

**For the period ended June 30, 2010 (unaudited)**

	<u>Class B</u>	<u>Class F</u>
Net assets, beginning of period	\$ 1,260,073	\$ 4,049,294
Decrease in net assets from operations	(271,363)	(80,648)
<b>Capital transactions (Note 4)</b>		
Proceeds from issuance of units	4,769,304	2,837,690
Redemption of units	(81,111)	(646,976)
	<u>4,688,193</u>	<u>2,190,714</u>
Net assets, end of period	\$ 5,676,903	\$ 6,159,360
	<u>Total</u>	
Net assets, beginning of period	\$ 5,309,367	
Decrease in net assets from operations	(352,011)	
<b>Capital transactions (Note 4)</b>		
Proceeds from issuance of units	7,606,994	
Redemption of units	(728,087)	
	<u>6,878,907</u>	
Net assets, end of period	\$ 11,836,263	

(See accompanying notes to the financial statements.)

# Vertex Growth Fund

## Statement of Investments

As at June 30, 2010 (Unaudited)

Number of Shares/	Description	Average Cost \$	Fair Value \$	% of Total
<b>STOCKS</b>				
<b>ENERGY</b>				
70,000	Comaplex Minerals Corp.	706,493	770,000	
166,500	Enterprise Energy Resources Ltd.	58,531	58,275	
200,000	P1 Energy Corp.	293,750	450,000	
500,000	Paramax Resources Ltd.	116,850	170,000	
110,300	Parex Resources Inc.	398,458	446,715	
200,000	Petromanas Energy Inc.	50,000	60,000	
200,000	Petromanas Energy Inc., Warrants (23Feb15)	-	27,000	
300,000	Primera Energy Resources Ltd.	105,000	99,000	
300,000	Primera Energy Resources Ltd., Warrants (14Oct10)	-	27,032	
500,000	Range Energy Resources Inc., Restricted	100,000	70,000	
500,000	Range Energy Resources Inc., Warrants (21Oct11)	-	40,061	
96,476	Sonde Resources Corp.	328,166	316,441	
100,000	Strategic Oil & Gas Ltd.	84,000	94,000	
200,000	Stream Oil & Gas Ltd.	138,960	116,000	
63,127	Tethys Petroleum Ltd.	111,874	87,115	
1,000,000	TG World Energy Corp.	187,250	110,000	
4,000,000	Touchstone Exploration Inc.	199,611	255,037	
60,000	Wavefront Technology Solutions Inc.	126,000	90,000	
30,000	Wavefront Technology Solutions Inc., Warrants (27Apr11)	-	4,542	
	<b>TOTAL ENERGY</b>	<b>3,004,943</b>	<b>3,291,218</b>	<b>43.40</b>
<b>MATERIALS</b>				
400,000	Alder Resources Ltd.	100,000	106,000	
150,000	Bayfield Ventures Corp.	64,875	57,750	
45,000	Conifex Timber Inc.	371,250	367,200	
30,000	iShares Silver Trust	579,739	580,528	
455,000	Lincoln Mining Corp.	100,100	97,825	
227,500	Lincoln Mining Corp., Warrants (01Jun12)	-	6,042	
550,000	Wildcat Silver Corp.	398,255	206,250	
	<b>TOTAL MATERIALS</b>	<b>1,614,219</b>	<b>1,421,595</b>	<b>18.75</b>
<b>INDUSTRIALS</b>				
<b>Capital Goods</b>				
400,000	Eacom Timber Corp.	206,836	212,000	
150,000	Eacom Timber Corp., Warrants (13Nov12)	-	21,653	
1,428	KHD Humboldt Wedag International AG	9,214	7,982	
64,000	Superior Plus Corp.	856,934	817,920	
	<b>Total Capital Goods</b>	<b>1,072,984</b>	<b>1,059,555</b>	<b>13.97</b>
<b>Commercial Services &amp; Supplies</b>				
500,000	Pacific Harbour Capital Ltd.	37,500	145,000	
500,000	Pacific Harbour Capital Ltd., Warrants (09June12)	-	108,266	
	<b>Total Commercial Services &amp; Supplies</b>	<b>37,500</b>	<b>253,266</b>	<b>3.34</b>
	<b>TOTAL INDUSTRIALS</b>	<b>1,110,484</b>	<b>1,312,821</b>	<b>17.31</b>
<b>FINANCIALS</b>				
<b>Banks</b>				
30,000	National Bank of Greece	627,715	427,187	
	<b>Total Banks</b>	<b>627,715</b>	<b>427,187</b>	<b>5.63</b>
	<b>TOTAL FINANCIALS</b>	<b>627,715</b>	<b>427,187</b>	<b>5.63</b>

(See accompanying notes to the financial statements)

# Vertex Growth Fund

## Statement of Investments

As at June 30, 2010 (Unaudited)

Number of Shares/ Description	Average Cost \$	Fair Value \$	% of Total
<b>INFORMATION TECHNOLOGY</b>			
<b>Technology Hardware &amp; Equipment</b>			
53,180 Comverse Technology Inc.	485,226	440,793	
<b>Total Technology Hardware &amp; Equipment</b>	<b>485,226</b>	<b>440,793</b>	<b>5.81</b>
<b>TOTAL INFORMATION TECHNOLOGY</b>	<b>485,226</b>	<b>440,793</b>	<b>5.81</b>
<b>UTILITIES</b>			
60,300 Capital Power Income LP	1,015,987	981,684	
<b>TOTAL UTILITIES</b>	<b>1,015,987</b>	<b>981,684</b>	<b>12.95</b>
<b>TOTAL STOCKS</b>	<b>7,858,574</b>	<b>7,875,298</b>	<b>103.85</b>
<b>FORWARD CONTRACTS</b>			
Sell CAD 200,000, Buy USD 201,604 @ 1.00802 - July 09, 2010	-	(10,935)	
Sell CAD 1,250,000, Buy USD 1,253,131 @ 1.00251 - July 13, 2010	-	(75,261)	
Sell CAD 400,000, Buy USD 399,561 @ 0.99890 - July 15, 2010	-	(25,528)	
Sell CAD 1,500,000, Buy USD 1,524,645 @ 1.01643 - July 20, 2010	-	(69,492)	
Sell CAD 100,000, Buy USD 99,888 @ 0.99888 - July 21, 2010	-	(6,387)	
Sell CAD 500,000, Buy USD 497,909 @ 0.99582 - July 22, 2010	-	(33,470)	
Sell CAD 200,000, Buy USD 200,324 @ 1.00162 - July 23, 2010	-	(12,229)	
Sell CAD 550,000, Buy USD 556,574 @ 1.01195 - July 29, 2010	-	(27,969)	
Sell CAD 55,000, Buy USD 57,630 @ 1.04781 - August 03, 2010	-	(828)	
Sell CAD 275,000, Buy USD 279,632 @ 1.01685 - August 13, 2010	-	(12,663)	
Sell CAD 100,000, Buy USD 103,368 @ 1.03368 - August 17, 2010	-	(2,926)	
Sell CAD 225,000, Buy USD 232,942 @ 1.03530 - August 18, 2010	-	(6,221)	
Sell CAD 150,000, Buy USD 158,549 @ 1.05700 - August 31, 2010	-	(911)	
Sell CAD 50,000, Buy USD 52,458 @ 1.04916 - September 01, 2010	-	(695)	
Sell CAD 200,000, Buy USD 206,059 @ 1.03030 - September 16, 2010	-	(6,572)	
<b>TOTAL FORWARD CONTRACTS</b>	<b>-</b>	<b>(292,087)</b>	<b>(3.85)</b>
<b>Transaction Costs (Note 2)</b>	<b>(24,271)</b>		
<b>TOTAL INVESTMENTS</b>	<b>7,834,303</b>	<b>7,583,211</b>	<b>100.00</b>

(See accompanying notes to the financial statements)

# Vertex Growth Fund

## Notes to Financial Statements

### June 30, 2010 (unaudited)

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#### 1. Establishment of trust

The Vertex Growth Fund (the "Fund") was created on September 14, 2009 under the laws of British Columbia. Vertex One Asset Management Inc. is the Investment Manager and RBC Dexia Investor Services Trust 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 achieve long-term capital growth by investing in growth-oriented equities. The Vertex Growth Fund invests primarily in equity and equity-related securities of North American companies. The Vertex Growth Fund may also invest in international companies. Investment may focus on assets in specific industry sectors and asset classes based on analysis of business cycles, industry sectors and market outlook.

#### 2. Significant accounting policies

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual amounts could differ from those estimates.

#### Valuation of investments

The valuation methods adopted pursuant to Section 3855, which are discussed below, differ from methods used by the Fund in striking its net asset value (NAV) used in the processing of unitholder transactions during the period. The NAV continues to be computed using the Fund's previous valuation policies for actively traded securities, which are that listed securities are valued at the last reported sales price on the principal exchange on which the security trades (transactional NAV).

As at June 30, 2010 and December 31, 2009 the Fund's net asset value per unit was:

Net Assets Per Unit		Net Asset Value Per Unit	
June 30, 2010	December 31, 2009	June 30, 2010	December 31, 2009
\$ 10.59	\$ 9.95	\$ 10.60	\$ 10.08
10.66	9.97	10.67	10.10

The difference between the net asset value per unit and the net assets per unit reported in the Statement of Net Assets results from the use of different valuation methodologies discussed above.

For financial statement purposes, the fair value of the Fund's investments is determined as follows:

Investments are categorized as held for trading in accordance with Section 3855. Investments are recorded at fair value, established by the bid price for a long security and ask price for short security on the recognized exchange on which it is principally traded (GAAP Net Assets). The value of any security which is not listed or traded on an exchange, but which is listed or traded on another market,

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### **June 30, 2010 (unaudited)**

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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.

The value of any security or property for which, in the opinion of the Investment Manager the published market quotations are not readily available shall be the fair value as determined by the Investment 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 comparison with prices of comparable or similar securities, obtaining valuation related information from issuers and/or other analytical data relating to the investment and using other available indication 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 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.

Investment purchase and sale transactions are recorded on trade date and realized and unrealized gains and losses on investments are determined using average cost.

#### **Other assets and liabilities**

For the purposes of categorization in accordance with Section 3862, accrued interest and dividends, amounts due from brokers, subscription receivable and other assets are designated as loans and other receivables and recorded at cost or amortized cost. Similarly, amount due to brokers, accrued expenses and other liabilities are designated as other financial liabilities and reported at cost or amortized cost.

#### **Transaction costs**

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. In accordance with Section 3855, transaction costs are expensed and are included in "Transaction costs" in the Statement of Operations. The embedded transaction costs in the cost of investment portfolio as at June 30, 2010 are disclosed in the Statement of Investment Portfolio.

#### **Recognition of income and expenses**

The accrual method of recording income and expenses is followed by the Fund with dividends being recorded on the ex-dividend date. Realized gains and losses on investments and unrealized appreciation/(depreciation) in the value of investments are calculated using the average cost of the related investments. Income, realized gain/(loss) and unrealized gain/(loss) are allocated among the classes on a pro-rata basis. Distributions received from income trusts are valued as income, capital gains or return of capital based on the best information available to the Fund. Distributions that are treated as return of capital for income tax purposes reduce the average cost of the underlying Trust.

# **Vertex Growth Fund**

## **Notes to Financial Statements**

### **June 30, 2010 (unaudited)**

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#### **Purchase and redemption of units**

The value at which units are issued or redeemed is determined by dividing the net assets at fair value of the Fund applicable to that class by the total number of units of that class outstanding on the valuation date, which is the last business day of each month or any other business day specified by the Investment Manager from time to time. For the purposes of purchase and redemption of units, the net asset value as described above is used, which differs from the net assets per unit in the Statement of Net Assets. Amounts received on the issuance of units and amounts paid on the redemption of units are added to or deducted from unitholders' equity.

#### **Foreign currency translation**

Assets and liabilities in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the period 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.

#### **Increase (decrease) in net assets from operations for each class**

Increase (decrease) in net assets from operations per unit in the Statement of Operations represents the net increase (decrease) in net assets from operations for the period, divided by the average units outstanding during the period.

#### **Forward contracts**

The Fund enters into forward contracts to manage risk or to achieve desired returns. Gain or losses are realized based on the settlement term of the forward contracts. Fair values for forward contracts are based on the gain or loss that would arise as a result of closing the position at the valuation date; these values generally reflect the estimated amount that would be received or paid to terminate the contract at the period-end date.

#### **Securities sold short**

The Fund may sell a security it does not own in anticipation of a decline in the fair value of that security. When the Fund sells a security short, it must deliver the security sold short to the purchaser at a future date. A gain, limited to the proceeds received on the security short, or a loss, unlimited in size, will be realized when the securities to cover the short sale obligation are acquired by the Fund. Securities sold short are reported in the financial statements as a liability at the current fair value of the securities using the same valuation policies as for securities owned. Dividends and interest on these securities sold short are payable to the purchaser and are recognized as an expense and include withholding taxes, if applicable.

#### **Future Accounting Changes**

At June 30, 2010 the Manager is in the process of developing a changeover plan to meet the timetable published by the Canadian Institute of Chartered Accountants (CICA) for changeover to International Financial Reporting Standards (IFRS) which will include identifying differences between the Fund's current accounting policies and those it expects to adopt under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on the NAV of the Fund. The key

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elements of the plan include the disclosures of the quantitative impact, if any, in the 2010 financial statements and the preparation of the 2011 financial statements in accordance with IFRS with comparatives. The Manager has presently determined that there will likely be no impact to net asset value per unit from the changeover to IFRS but will continue to assess based on changes to existing IFRS. The impact of IFRS on accounting policies and implementation decisions will mainly be in the areas of additional note disclosures in the financial statements of the Fund.

**3. Fair Value Disclosure**

Financial Instruments – Disclosures, establishes a fair value 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 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Investment Manager has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 Inputs that are unobservable. There is little if any market activity. Inputs into the determination of fair value require significant management judgment or estimation.

The Fund’s assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with the amendment to CICA 3862. The following fair value hierarchy table presents information about the Fund’s assets measured at fair value on a recurring basis as of June 30, 2010 and December 31, 2009.

<b>Financial Assets at fair value as at June 30, 2010</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities - Long	6,768,928		450,000	7,218,928
Warrants	-	656,370		656,370
Forward contracts	-	(292,087)	-	(292,087)
	<u>6,768,928</u>	<u>364,283</u>	<u>450,000</u>	<u>7,583,211</u>

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<b>Financial Assets at fair value as at December 31, 2009</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities - Long	4,495,184	286,500	37,500	4,819,184
Warrants	225,000	-	66,799	291,799
Forward contracts	-	22,951	-	22,951
	<u>4,720,184</u>	<u>309,451</u>	<u>104,299</u>	<u>5,133,934</u>

The following is a reconciliation of Level 3 fair value measurements from December 31, 2009 to June 30, 2010:

<b>Fair value measurements using level 3 inputs</b>		
	<b>Warrants</b>	<b>Equities - long</b>
<b>Balance at December 31, 2009 (commencement of operations)</b>	66,799	37,500
Net purchases and sales	(66,799)	256,250
Net transfers in (out)	-	-
Gains (Losses)		
Realized	-	-
Unrealized	-	156,250
<b>Balance at June 30, 2010</b>	<u>-</u>	<u>450,000</u>

The following is a reconciliation of Level 3 fair value measurements from September 21, 2009 (commencement of operations) to December 31, 2009:

<b>Fair value measurements using level 3 inputs</b>		
	<b>Warrants</b>	<b>Equities - long</b>
<b>Balance at September 21, 2009 (commencement of operations)</b>		-
Net purchases and sales		37,500
Net transfers in (out)	66,799	-
Gains (Losses)		
Realized	-	-
Unrealized	-	-
<b>Balance at December 31, 2009</b>	<u>66,799</u>	<u>37,500</u>

**Level 3 sensitivity analysis**

The Fund applies judgment in determining unobservable inputs to calculate the fair value of Level 3 financial instruments of \$450,000 as of June 30, 2010 (December 31, 2009- \$104,299). The unobservable inputs used in the valuation of these financials instruments primarily include key variables, current market conditions and recent financing by the company, if any. These securities are affected by market activity in their relevant sectors and therefore generally fluctuate similarly.

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If relevant market-related inputs increased or decreased by 5% with all other variables remaining constant, net assets would have possibly increased or decreased by approximately \$22,500 (December 31, 2009 - \$5,918).

**4. Unitholders' equity and capital management**

Unitholders' equity includes amounts representing net fund unit subscriptions, undistributed net income, undistributed realized gains (losses) on sale of investments and unrealized appreciation (depreciation) in value of investments. 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 the Financial Risk Management notes (Note 10), 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 units during the period:

	<b>2010</b>	
	<b>Class B</b>	<b>Class F</b>
Units-Beginning of period	<b>126,699</b>	<b>406,284</b>
Units issued	<b>416,633</b>	<b>237,982</b>
Units reinvested	-	-
Units redeemed	<b>(7,053)</b>	<b>(66,365)</b>
Units-End of period	<b>536,279</b>	<b>577,901</b>

**5. Fees and expenses**

**a) Management fees**

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

Class B: 2% per annum of the Net Asset Value of class B units of the Fund on the last business day of the preceding month.

Class F: 1% per annum of the Net Asset Value of class F units of the Fund on the last business day of the preceding month.

**b) Performance fees**

The Fund also pays the Investment Manager an annual performance fee (the “performance fee”) equal to 20% of the amount by which the cumulative total return of the Fund exceeds the cumulative total percentage increase or decrease of the following benchmarks having the following components and

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provided that the net asset value per unit for each class of units exceeds a high-water mark. Performance fees will be calculated and accrued daily and payable by the Fund quarterly.

50% weighting – S&P 500 Total Return Index (or its successor indices, as applicable)

50% weighting – S&P Composite Total Return 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 this Fund relative to its benchmark has exceeded the amount of the deficiency and the deficiency will carry forward for one year. In addition, the highest daily net asset value per unit for each class of units establishes a high-water mark for each class of units which must be exceeded in subsequent days for the performance fee applicable to each class of units to be payable.

The performance fees incurred for the period ended June 30, 2010 are \$204,815 of which \$113,401 were outstanding at June 30, 2010.

#### ***c) Fees and expenses***

The Fund is responsible for the payment of all fees and expenses relating to its operation, including registrar and transfer agent fees and expenses, audit, accounting, administration (other than advertising and promotional expenses which are paid for by the Investment Manager), IRC fees record keeping and legal fees and expenses, custody and safekeeping charges.

Vertex One Asset Management, manager to the fund, absorbed certain administrative expenses, securityholder reporting costs, custody fees, audit fees, IRC fees and also waived certain management and performance fees due to the size of the fund in the months following its launch date.

#### **6. Distribution of net investment income and capital gains**

Net investment income and net capital gains of the Funds are distributed to unitholders of record as of the close of business on the last valuation day in the year. Unless unitholders have requested cash, all distributions are reinvested automatically in additional units of the Fund immediately following the valuation date.

#### **7. Income taxes**

The Fund is a mutual fund trust as defined by the Income Tax Act. No provisions for income taxes are included in the financial statements as the net income and net capital gains are distributed to the unitholders and immediately reinvested in the Fund. As of December 31, 2009, there were \$135,877 of capital losses and no non capital losses to be carried forward.

#### **8. Soft dollar commissions**

Soft dollar commissions relate to amounts paid to brokers in exchange for research or other services provided to the investment manager. There were \$16,779 soft dollar commissions paid during the period.

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## **Notes to Financial Statements**

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#### **9. Securities Lending Transactions**

The Fund lends portfolio securities from time to time in order to earn additional income. Income from securities lending is recorded in investment income in the statement of operations of the Fund.

The Fund has entered into a securities lending program with its custodian, the RBC Dexia Investor Services Trust. The aggregate market value of all securities loaned by the Fund cannot exceed 100% of the assets of the Fund. The Fund receives collateral of at least 105% of the value of securities on loan. Collateral may comprise cash, shares, and obligations of or guaranteed by the Government of Canada or a province thereof, by the United States government or its agencies, or by other Organization for Economic Coordination & Development (OECD) member countries' governments.

As at June 30, 2010, there were no securities on loan and no collateral held under securities lending.

#### **10. Financial Risk Management**

The Fund's financial instruments consist of cash and investments which include accrued interest and dividends, amounts due from brokers, subscription receivable and other assets designated as loans and other receivables. 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 Investment 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 most important risks include market risk (including interest rate risk, other price 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 market price risk is managed through diversification of the investment portfolio. The Investment Manager monitors the Fund's overall market positions on a daily basis and positions are maintained within established ranges.

As of June 30, 2010, if the S&P Index (which the fund was exposed to) had increased or decreased by 5% at June 30, 2010, with all other variables held constant, this would have approximately increased or decreased net assets to amount in difference of \$393,765 (December 31, 2009 - \$255,549). Actual results may differ from this sensitivity analysis and those results could be material.

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*(b) Interest rate risk*

The majority of the Fund's financial assets are non-interest bearing; however, the Fund does hold cash and cash equivalents. 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 trading 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	Non Interest bearing	Total
<b>As at June 30, 2010</b>					
<b>Assets</b>					
Financial assets held for trading					
Equities	\$ -	-	-	\$ 7,875,298	\$ 7,875,298
Cash and cash equivalents	510,813				510,813
Accrued interest and dividend receivable	24,305				24,305
<b>Total Assets</b>	<b>535,118</b>	<b>-</b>	<b>-</b>	<b>7,875,298</b>	<b>8,410,416</b>
<b>Liabilities</b>					
Forward contracts	292,087				292,087
Accounts payable and accrued liabilities	15,390	-	-	-	15,390
Due to brokers	711,725				711,725
Redemptions payable	5,293	-	-	-	5,293
<b>Total Liabilities</b>	<b>1,024,495</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,024,495</b>
<b>Total Interest sensitivity gap</b>	<b>\$ (489,377)</b>	<b>-</b>	<b>-</b>	<b>\$ 7,875,298</b>	<b>\$ 7,385,921</b>

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	Less than 1 year	1 - 5 years	More than 5 years	Non Interest bearing	Total
<b>As at December 31, 2009</b>					
<b>Assets</b>					
Financial assets held for trading					
Equities	\$ -	-	-	\$ 5,110,983	\$ 5,110,983
Cash and cash equivalents	252,442				252,442
Forward contracts	22,951				22,951
Accrued interest and dividend receivable	8,090				8,090
Subscription receivable	20,380		-	-	20,380
<b>Total Assets</b>	<b>303,863</b>	<b>-</b>	<b>-</b>	<b>5,110,983</b>	<b>5,414,846</b>
<b>Liabilities</b>					
Accounts payable and accrued liabilities	23,018	-	-	-	23,018
<b>Total Liabilities</b>	<b>23,018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,018</b>
<b>Total Interest sensitivity gap</b>	<b>\$ 280,845</b>	<b>-</b>	<b>-</b>	<b>\$ 5,110,983</b>	<b>\$ 5,391,828</b>

*(c) Currency risk*

Currency risk is the risk that the value of investments denominated in currencies, other than the functional currency of the Fund, will fluctuate due to changes in foreign exchange rates. The Statement of Investments identifies all investments denominated in foreign currencies. The Fund holds assets and liabilities, including cash, short-term investments, equities, and options that are denominated in currencies other than the Canadian Dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in other currencies fluctuate due to changes in exchange rates. The Fund's managers review 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 table below summarizes the Fund's exposure to currency risks.

<b>Currency</b>	<b>June 30, 2010 Exposure</b>
U.S. Dollar	\$ 5,535,679

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<b>Currency</b>	<b>December 31, 2009</b>
U.S. Dollar	<b>Exposure</b> \$ 2,369,469

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As at June 30, 2010, if the exchange rate between the Canadian Dollar and the US Dollar the Fund was exposed to increased or decreased by 5%, with all other variables held constant, the decrease or increase respectively in net assets would approximately amount to values \$276,784 (December 31, 2009 - \$118,473). Actual results may differ from this sensitivity analysis and those results could be material.

*(d) Credit risk*

As at June 30, 2010 and December 31, 2009, the Fund had no significant investments in debt instruments and/or derivatives. Therefore, no impact on credit risk.

*(e) Liquidity risk*

Liquidity risk is the risk that a 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 at the monthly valuation date. The Fund invests primarily in securities that are traded in active markets and can be readily disposed. 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. The Fund retains sufficient cash and cash equivalents to maintain liquidity.