

Vertex Arbitrage Fund

Annual Financial Statements
December 31, 2017



April 4, 2018

Independent Auditor's Report

To the Unitholders of Vertex Arbitrage 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 the year 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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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 year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licenced Public Accountants

Vertex Arbitrage Fund

Statements of Financial Position

As at December 31

	2017	2016
Assets		
Current assets		
Investments	\$ 51,676,350	\$ 42,636,063
Investments, pledged as collateral	\$ 22,100,109	70,275,108
Cash	\$ 96,770,086	114,375,114
Due from broker	1,335,684	1,028,722
Accrued interest	24,087	191,625
Dividends receivable	114,519	69,829
Subscriptions receivable	16,488,401	6,857,161
Derivative financial instruments		
Options	106,276	804,845
	<u>188,615,512</u>	<u>236,238,467</u>
Liabilities		
Current liabilities		
Securities sold short	\$ 20,618,295	\$ 47,491,219
Management fees payable (Note 10)	139,222	104,366
Accrued performance fees (Note 10)	-	362,100
Interest payable on securities sold short	356	-
Dividends payable on securities sold short	49,801	188,636
Loan payable (Note 3)	45,742,017	62,024,915
Redemptions payable	3,393,242	2,445,457
Due to broker	1,746,075	499,230
Derivative financial instruments		
Written Options	433,755	120,648
	<u>72,122,763</u>	<u>113,236,571</u>
Net Assets attributable to holders of redeemable units	<u>\$ 116,492,749</u>	<u>\$ 123,001,896</u>
Net Assets attributable to holders of redeemable units per Class		
Class B	\$ 12,267,302	\$ 13,245,894
Class F	<u>\$ 104,225,447</u>	<u>\$ 109,756,002</u>
Net Assets attributable to holders of redeemable units per unit		
Class B	\$ 10.48	\$ 10.66
Class F	<u>\$ 10.41</u>	<u>\$ 10.59</u>

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 Arbitrage Fund

Statements of Comprehensive Income

For the years ended December 31

	2017	2016
Investment income		
Foreign exchange gain (loss) on cash	\$ 2,524,214	\$ (284,795)
Change in unrealized foreign exchange loss on cash	(3,360)	(1,913)
Change in unrealized foreign exchange gain (loss) on loan payable	798,163	997,231
Net gain (loss) on investments and derivatives		
Dividends	1,347,576	1,215,399
Dividends, paid on shorts	(892,596)	(1,510,864)
Interest for distribution purposes	1,169,039	931,761
Interest, paid on shorts	(20,871)	(7,982)
Net realized gain	5,851,299	7,640,592
Net change in unrealized depreciation	(3,305,603)	(658,081)
Total investment income	7,467,861	8,321,348
Expenses (Note 10)		
Management fees	1,417,968	1,092,589
Securities borrowing fees	334,923	234,444
Performance fees	863,856	934,418
Securityholder reporting costs	73,961	91,414
Other administrative expenses	27,237	17,162
Audit fees	33,193	30,917
Custody fees	7,680	-
Legal fees	5,913	5,147
Trustee fees	4,468	5,745
Interest expense on loan payable	863,921	299,453
Transaction costs (Note 3)	440,437	467,719
Withholding tax	(5,818)	165,702
	4,067,739	3,344,710
Net investment income before absorbed expenses	3,400,122	4,976,638
Expenses absorbed by manager (Note 5)	-	-
Increase in net assets attributable to holders of redeemable units	3,400,122	4,976,638
Increase in net assets attributable to holders of redeemable units per Class		
Class B	\$ 284,837	\$ 589,804
Class F	\$ 3,115,285	\$ 4,386,834
Increase in net assets attributable to holders of redeemable units per Class per unit		
Class B	\$ 0.23	\$ 0.51
Class F	\$ 0.30	\$ 0.57

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

Vertex Arbitrage 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	\$ 13,245,894	\$ 10,889,726		
Increase in net assets attributable to holders of redeemable units	284,837	589,804		
Capital transactions (Note 9)				
Proceeds from issuance of redeemable units	3,308,650	6,905,116		
Redemption of redeemable units	(4,572,079)	(5,134,064)		
Reinvestment of distributions to holders of redeemable units	446,243	386,144		
	<u>(817,186)</u>	<u>2,157,196</u>		
Distributions to holders of redeemable units (Note 3)				
From net realized gains	(446,243)	(390,832)		
	<u>(446,243)</u>	<u>(390,832)</u>		
Net Assets attributable to holders of redeemable units, end of year	\$ 12,267,302	\$ 13,245,894		
	Class F		Total	
	2017	2016	2017	2016
Net Assets attributable to holders of redeemable units, beginning of year	\$ 109,756,002	\$ 64,667,224	\$ 123,001,896	\$ 75,556,950
Increase in net assets attributable to holders of redeemable units	3,115,285	4,386,834	3,400,122	4,976,638
Capital transactions (Note 9)				
Proceeds from issuance of redeemable units	60,715,298	57,095,421	64,023,948	64,000,537
Redemption of redeemable units	(69,361,138)	(16,258,148)	(73,933,217)	(21,392,212)
Reinvestment of distributions to holders of redeemable units	3,712,202	4,876,399	4,158,445	5,262,543
	<u>(4,933,638)</u>	<u>45,713,672</u>	<u>(5,750,824)</u>	<u>47,870,868</u>
Distributions to holders of redeemable units (Note 3)				
From net realized gains	(3,712,202)	(5,011,728)	(4,158,445)	(5,402,560)
	<u>(3,712,202)</u>	<u>(5,011,728)</u>	<u>(4,158,445)</u>	<u>(5,402,560)</u>
Net Assets attributable to holders of redeemable units, end of year	\$ 104,225,447	\$ 109,756,002	\$ 116,492,749	\$ 123,001,896

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

Vertex Arbitrage 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	\$ 3,400,122	\$ 4,976,638
Adjustment for non-cash items:		
Net change in unrealized appreciation on investments and derivatives	3,305,603	658,081
Net realized gain on investments and derivatives	(5,851,299)	(7,640,592)
Change in unrealized foreign exchange (gain) loss on cash	3,360	1,913
Change in unrealized foreign exchange loss on loan payable	(798,163)	(997,231)
	<u>59,623</u>	<u>(3,001,191)</u>
Changes in operating assets and liabilities:		
Decrease (increase) in accrued interest	167,538	(173,467)
Increase in dividends receivable	(44,690)	(17,089)
Increase in management fee payable	34,856	37,839
Increase in interest payable on securities sold short	356	-
Decrease (Increase) in dividends payable on securities sold short	(138,835)	152,003
Decrease (Increase) in accrued performance fees	(362,100)	201,603
	<u>(342,875)</u>	<u>200,889</u>
Proceeds on disposition of investments and derivatives, including proceeds received on shorts	735,232,265	794,107,412
Purchase of investments and derivatives, including cover for shorts	(718,473,222)	(802,242,828)
	<u>16,759,043</u>	<u>(8,135,416)</u>
Net cash from (provided to) operating activities	<u>16,475,791</u>	<u>(10,935,718)</u>
Financing activities		
Proceeds from issuance of redeemable units**	52,058,770	56,819,561
Redemption of redeemable units**	(70,651,494)	(17,258,197)
Distributions paid net of reinvestments	-	(140,017)
Loan Payable	(15,484,735)	15,695,154
Net cash provided to (from) financing activities	<u>(34,077,459)</u>	<u>55,116,501</u>
Decrease (Increase) in Cash	<u>(17,601,668)</u>	<u>44,180,783</u>
Change in unrealized foreign exchange (gain) loss on cash	<u>(3,360)</u>	<u>(1,913)</u>
Cash, Beginning of period	<u>114,375,114</u>	<u>70,196,244</u>
Cash, End of period	<u>\$ 96,770,086</u>	<u>\$ 114,375,114</u>
Supplemental Information (included in operating activities)		
Cash interest paid on short positions	(20,871)	(7,982)
Cash dividend paid on short positions	1,031,431	1,358,861
Cash received from interest, net of withholding taxes	1,336,577	758,294
Cash received from dividends, net of withholding taxes	1,308,704	1,032,608

** The amounts of proceeds and redemptions exclude non cash items such as switches and exchanges between classes for December 31, 2017 amounting to \$2,333,938 (December 31, 2016 - \$3,685,109)

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

Vertex Arbitrage Fund

Schedule of Investments

As at December 31, 2017

Number of Shares/ Par Value	Description	Coupon Rate %	Maturity Date	Average Cost \$	Fair Value \$	% of Total
LONG						
BONDS						
Corporate Bonds						
1,460,000	Orbital ATK Inc., Callable	5.250%	1-Oct-21	1,887,547	1,887,983	
	Total Corporate Bonds			1,887,547	1,887,983	1.62
	TOTAL BONDS			1,887,547	1,887,983	1.62
STOCKS						
CONSUMER DISCRETIONARY						
70,500	CalAtlantic Group Inc.			4,682,983	4,997,196	
55,700	Imvescor Restaurant Group Inc.			227,950	241,181	
55,000	Osprey Energy Acquisition Corp.			667,366	668,190	
7,408	Scripps Networks Interactive Inc.			797,013	795,046	
33,160	Time Warner Inc.			4,217,462	3,812,664	
14,800	Tribune Media Co., Class 'A'			823,837	790,095	
	TOTAL CONSUMER DISCRETIONARY			11,416,611	11,304,372	9.70
CONSUMER STAPLES						
90	Metro Inc., Class 'A'			3,772	3,623	
	TOTAL CONSUMER STAPLES			3,772	3,623	0.00
ENERGY						
177,710	AltaGas Ltd., Subscription Receipts			5,078,459	5,041,633	
	TOTAL ENERGY			5,078,459	5,041,633	4.33
FINANCIALS						
101,100	Alignvest Acquisition II Corp., Class 'A'			999,335	990,780	
47,500	Alignvest Acquisition II Corp., Class 'A', Warrants, (04Jul22)			9,500	33,250	
60,000	Big Rock Partners Acquisition Corp.			768,450	771,909	
75,000	Cannabis Strategies Acquisition Corp.			750,000	745,500	
72,000	Capitol Investment Corp. IV			914,580	907,303	
122,476	Central Fund of Canada Ltd.			2,031,177	2,062,961	
70,000	CM Seven Star Acquisition Corp.			899,710	876,380	
90,000	Electrum Special Acquisition Corp.			1,151,041	1,166,370	
50,000	Electrum Special Acquisition Corp., Warrants, (11Jun21)			-	25,454	
48,332	Exela Technologies Inc., Warrants, (01Jan23)			25,346	35,844	
62,400	Federal Street Acquisition Corp.			785,959	804,369	
-	First Horizon National Corp.			-	-	
55,000	GigCapital Inc.			707,740	691,350	
25,300	Global Partner Acquisition Corp.			324,642	318,021	
9,750	Global Partner Acquisition Corp., Warrants, (13Aug20)			6,368	13,236	
48,000	Gores Holdings II Inc.			629,904	625,081	
72,500	Haymaker Acquisition Corp.			928,036	902,212	
40,000	Hennessy Capital Acquisition Corp. III			530,320	521,655	
29,000	Hunter Maritime Acquisition Corp.			376,606	355,417	
15,500	Hunter Maritime Acquisition Corp., Warrants, (11Oct21)			-	5,865	
89,000	Industrea Acquisition Corp.			1,105,736	1,127,680	
83,000	Kayne Anderson Acquisition Corp.			1,103,236	1,039,137	
80,000	Legacy Acquisition Corp.			1,024,600	999,566	
37,000	Leisure Acquisition Corp.			469,752	460,904	
59,000	Matlin & Partners Acquisition Corp.			794,612	747,563	
35,000	Mosaic Acquisition Corp.			436,818	446,549	
63,350	National Energy Services Reunited Corp.			869,289	792,328	
63,350	National Energy Services Reunited Corp., Warrants, (05Jun22)			-	66,094	
42,800	Pensare Acquisition Corp.			535,428	555,212	
-	Podlatch Corp.			-	-	
72,000	Regalwood Global Energy Ltd.			914,112	900,515	
4,500	Saban Capital Acquisition Corp.			59,472	59,506	
90,000	Sentinel Energy Services Inc.			1,151,148	1,127,906	
19,450	Silver Run Acquisition Corp. II, Class 'A'			250,662	242,286	
14,433	Silver Run Acquisition Corp. II, Warrants, (27Apr22)			-	26,851	
70,000	Social Capital Hedosophia Holdings Corp.			876,607	932,694	
90,200	TPG Pace Energy Holdings Corp.			1,235,064	1,155,356	
78,300	TPG Pace Holdings Corp.			1,022,990	1,011,297	
66,000	Vantage Energy Acquisition Corp.			880,869	845,383	
	TOTAL FINANCIALS			24,569,109	24,389,784	20.94
HEALTH CARE						
13,300	Advanced Accelerator Applications SA, ADR			1,375,991	1,364,531	
2,427	Becton, Dickinson & Co.			660,036	652,989	
27,500	Ignyta Inc.			925,253	922,952	
14,300	NeuroDerm Ltd.			697,084	698,333	
	TOTAL HEALTH CARE			3,658,364	3,638,805	3.12
INDUSTRIALS						
65,200	Aecon Group Inc.			1,292,696	1,300,088	
10,700	Orbital ATK Inc.			1,772,310	1,768,662	
26,100	Rockwell Collins Inc.			4,262,101	4,449,380	
	TOTAL INDUSTRIALS			7,327,107	7,518,130	6.45

Vertex Arbitrage Fund

Schedule of Investments

As at December 31, 2017 (continued)

Number of Shares/ Par Value	Description	Average Cost \$	Fair Value \$	% of Total
INFORMATION TECHNOLOGY				
24,170	Cavium Inc.	2,585,146	2,546,897	
15,800	Dell Technologies Inc., Class 'V'	1,128,171	1,614,270	
54,000	NXP Semiconductors NV	7,459,788	7,947,835	
18,600	Pure Technologies Ltd.	164,796	167,028	
	TOTAL INFORMATION TECHNOLOGY	11,337,901	12,276,030	10.55
MATERIALS				
15,400	Monsanto Co.	2,365,301	2,260,604	
37,500	Osisko Mining Inc.	157,500	127,125	
573,355	Sirios Resources Inc.	166,273	180,607	
	TOTAL MATERIALS	2,689,074	2,568,336	2.20
TELECOMMUNICATIONS				
25,000	Kew Media Group Inc., Warrants, (20Mar22)	2,500	34,375	
55,500	Trilogy International Partners Inc.	549,337	347,985	
13,800	Trilogy International Partners Inc., Warrants, (07Feb22)	6,762	8,556	
	TOTAL TELECOMMUNICATIONS	558,599	390,916	0.34
UTILITIES				
116,820	Alterra Power Corp.	921,079	934,560	
96,200	Calpine Corp.	1,807,131	1,829,571	
40,100	Dynegy Inc.	613,175	597,308	
62,295	Hydro One Ltd.	1,401,665	1,395,408	
	TOTAL UTILITIES	4,743,050	4,756,847	4.08
	TOTAL STOCKS	71,382,046	71,888,476	61.71
	TOTAL INVESTMENTS	73,269,593	73,776,459	63.33
OPTIONS				
Call Options				
18	Akorn Inc., January 2018, \$30.00 USD	7,848	6,335	
313	Monsanto Co., January 2018, \$125.00 USD	31,539	3,541	
40	Time Warner Inc., January 2018, \$105.00 USD	2,591	478	
	Total Call Options	41,978	10,354	0.01
Put Options				
42	Advanced Accelerator Applications SA, ADR, April 2018, \$55.00 USD	1,105	264	
3	Advanced Accelerator Applications SA, ADR, April 2018, \$65.00 USD	59	377	
23	NXP Semiconductors NV, January 2018, \$92.50 USD	7,514	217	
70	Straight Path Communications Inc., Class 'B', January 2018, \$110.00 USD	4,827	220	
189	Time Warner Inc., January 2018, \$95.00 USD	56,209	94,435	
130	Calpine Corp., January 2018, \$14.00 USD	1,735	409	
	Total Put Options	71,449	95,922	0.08
	TOTAL OPTIONS	113,427	106,276	0.09
	TOTAL LONG	73,383,020	73,882,735	63.42
	TOTAL SHORT (Schedule 1)	(19,864,154)	(21,052,050)	(18.07)
	TOTAL INVESTMENTS BEFORE TRANSACTION COSTS	53,518,866	52,830,685	45.35
	Transaction Costs (Note 2)	(26,093)		
	TOTAL INVESTMENTS	53,492,773	52,830,685	45.35
	CASH		96,770,086	83.07
	LOAN PAYABLE		(45,742,017)	(39.27)
	OTHER ASSETS, LESS LIABILITIES		12,633,995	10.85
	TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS		116,492,749	100.00

Vertex Arbitrage Fund

Schedule of Investments

As at December 31, 2017 (continued)

Schedule 1

Number of Shares	Description		Proceeds \$	Fair Value \$	% of Total	
SHORT						
BONDS						
Corporate Bonds						
(1,332,000)	Hydro One Ltd., Convertible	4.000%	29-Jul-19	(497,313)	(495,504)	
	Total Corporate Bonds			(497,313)	(495,504)	(0.43)
	TOTAL BONDS			(497,313)	(495,504)	(0.43)
STOCKS						
CONSUMER DISCRETIONARY						
(5,557)	Discovery Communications Inc., Series 'C'			(149,565)	(147,876)	
(62,395)	Lennar Corp., Class 'A'			(4,679,621)	(4,959,946)	
(1,238)	Lennar Corp., Class 'B'			(56,046)	(80,423)	
(3,513)	MTY Food Group Inc.			(185,945)	(197,079)	
(3,354)	Sinclair Broadcast Group Inc., Class 'A'			(160,891)	(159,575)	
	TOTAL CONSUMER DISCRETIONARY			(5,232,068)	(5,544,899)	(4.76)
ENERGY						
(160,820)	AltaGas Ltd.			(4,597,128)	(4,602,668)	
	TOTAL ENERGY			(4,597,128)	(4,602,668)	(3.95)
HEALTH CARE						
(15,000)	Akorn Inc.			(579,443)	(607,697)	
(2,430)	Becton, Dickinson & Co.			(597,297)	(653,848)	
	TOTAL HEALTH CARE			(1,176,740)	(1,261,545)	(1.08)
INDUSTRIALS						
(6,775)	United Technologies Corp.			(960,700)	(1,086,408)	
	TOTAL INDUSTRIALS			(960,700)	(1,086,408)	(0.93)
INFORMATION TECHNOLOGY						
(52,586)	Marvell Technology Group Ltd.			(1,446,712)	(1,419,180)	
(10,422)	VMware Inc., Class 'A'			(1,075,053)	(1,641,749)	
	TOTAL INFORMATION TECHNOLOGY			(2,521,765)	(3,060,929)	(2.63)
MATERIALS						
(37,636)	iShares Silver Trust			(753,230)	(756,462)	
(37,500)	Osisko Mining Inc.			(169,579)	(127,125)	
	TOTAL MATERIALS			(922,809)	(883,587)	(0.76)
TELECOMMUNICATIONS						
(14,418)	AT&T Inc.			(723,409)	(704,639)	
	TOTAL TELECOMMUNICATIONS			(723,409)	(704,639)	(0.60)
UTILITIES						
(43,130)	Innergex Renewable Energy Inc.			(613,796)	(621,072)	
(26,132)	Vistra Energy Corp.			(627,550)	(601,774)	
(4,300)	WGL Holdings Inc.			(475,668)	(463,974)	
	TOTAL UTILITIES			(1,717,014)	(1,686,820)	(1.45)
MUTUAL FUND CORP & TRUST						
(8,308)	SPDR Gold Trust			(1,267,876)	(1,291,296)	
				(1,267,876)	(1,291,296)	(1.11)
	TOTAL STOCKS			(19,119,509)	(20,122,791)	(17.27)
	TOTAL INVESTMENTS			(19,616,822)	(20,618,295)	(17.70)
OPTIONS						
Call Options						
(106)	Calpine Corp., March 2018, \$15.00 USD			(3,591)	(3,331)	
(102)	NXP Semiconductors NV, April 2018, \$115.00 USD			(71,164)	(76,928)	
(368)	NXP Semiconductors NV, January 2018, \$110.00 USD			(160,402)	(351,558)	
(112)	Advanced Accelerator Applications SA, ADR, January 2018, \$85.00 USD			(5,498)	(1,056)	
	Total Call Options			(240,655)	(432,873)	(0.37)
Put Options						
(39)	Lennar Corp., Class 'A', January 2018, \$55.00 USD			(6,677)	(882)	
	Total Put Options			(6,677)	(882)	
	TOTAL OPTIONS			(247,332)	(433,755)	(0.37)
	TOTAL SHORT			(19,864,154)	(21,052,050)	(18.07)

Vertex Arbitrage Fund

Notes to Financial Statements

December 31, 2017

1. Establishment of the Fund

Vertex Arbitrage Fund (the "Fund") was created on October 31, 2013 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, CIBC Mellon is the Trustee and Co-Custodian of the Fund. The Fund commenced operations on October 31, 2013. The Fund offers an unlimited number of Class B and Class F Units.

The Fund invests in securities in Canada, the United States and in other foreign jurisdictions. The investment objective of the Fund is to generate consistent, positive returns, with low volatility and low correlation to equity markets. The Fund attempts to achieve its investment objective by using risk arbitrage strategies, short selling and trading in options. Leveraging is restricted to 30% of the net asset value of the Fund.

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 4, 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 makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are classified as financial liabilities held for trading. The Fund does not classify any derivatives as hedges in a hedging relationship.

Vertex Arbitrage Fund

Notes to Financial Statements

December 31, 2017

(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.

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.

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. Dividend expense on short sales of equity securities is included within gain (loss) on investments and derivatives. 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

Vertex Arbitrage Fund

Notes to Financial Statements

December 31, 2017

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

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.

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.

Collateral

Cash collateral provided by the Fund is identified in the Statements of Financial Position as 'cash, pledged as collateral', if any. For collateral other than cash, if the party to whom the collateral is provided has the right by contract or custom to sell or re-pledge the collateral, the Fund classifies that asset in its Statements of Financial Position separately from other assets and identifies the asset as

Vertex Arbitrage Fund

Notes to Financial Statements

December 31, 2017

pledged collateral. Where the party to whom the collateral is provided does not have the right to sell or re-pledge, the collateral provided is disclosed in the notes to the financial statements.

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;
- 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’.

Vertex Arbitrage Fund

Notes to Financial Statements

December 31, 2017

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. It may also enter short positions to hedge against long positions. 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 sold 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 fair value through profit or loss as described above under recognition. Dividends and interest on these securities sold short are payable to the purchaser and are recognized as 'Dividends, paid on shorts' and 'Interest, paid on shorts', respectively. Withholding taxes, if applicable, are shown separately.

Under the terms of the prime brokerage service level agreement with Toronto Dominion Securities Inc. (TDSI), the margin for the investments sold short can be represented by a combination of cash, government debt securities and high quality common shares. To the extent that the Fund is indebted to TDSI, an equivalent amount on securities is desegregated. Desegregated assets can be used by TDSI in the regular course of its business, including rehypothecation. See note 12 for further details on security borrowing agreement.

Loan Payable

Pursuant to an agreement with TDSI, the Fund maintains a 365-day revolving loan facility. The loan facility provides for borrowing at the US Federal Credit Union (U.S FED) funds effective rate, plus 0.25%. The U.S. FED effective rate fluctuates and is marked daily, ranging between 1.25% to 1.50% (December 31, 2016 - 0% to 0.25%) for the year ending December 31, 2017. The loan was made in accordance with Investment Industry Regulatory Organization of Canada ("IIROC") guidelines associated with margin borrowing purposes where qualifying principal cash and security borrowing and lending agreements are subject to margin requirements that reflect the risk of loss associated with such arrangements. The securities held with TDSI form collateral for the loan facility. The amounts due to TDSI are payable on demand. During the year ended December 31, 2017, the Fund borrowed a minimum of US\$36,273,800 (CAD\$45,860,965) and a maximum of US\$66,162,042 (CAD\$86,913,767) [December 31, 2016 - minimum US\$21,287,445 (CAD\$27,639,868) and a maximum of US\$54,560,316 (CAD\$72,860,279)] under this loan facility. As at December 31, 2017, there were US\$36,389,830 (CAD\$45,742,017) borrowings [December 31, 2016 - US\$46,251,008 (CAD\$62,024,915)]. During the year ended December 31, 2017, the Fund paid US\$225,880 (CAD\$299,453) [December 31, 2016 - US\$225,880 (CAD\$299,453)] of interest.

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

Increase in net assets attributable to holders of redeemable units per unit in the Statements of Comprehensive Income represents the increase 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.

Vertex Arbitrage Fund

Notes to Financial Statements

December 31, 2017

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 at the end of any month. 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 share 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 share at the time of issue or redemption. The Fund's net asset value per share 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 share (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.

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 and December 31, 2016, the Fund had \$nil of unused capital losses which have no expiry and \$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.

Vertex Arbitrage Fund

Notes to Financial Statements

December 31, 2017

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, 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.

Vertex Arbitrage Fund

Notes to Financial Statements

December 31, 2017

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
Stocks - Long	\$ 71,511,825	127,125	-	\$ 71,638,950
Bonds - Long	-	1,887,983	-	1,887,983
Warrants	249,525	-	-	249,525
Options	106,276	-	-	106,276
	<u>\$ 71,867,626</u>	<u>\$ 2,015,108</u>	<u>\$ -</u>	<u>\$ 73,882,734</u>
	Financial Liabilities at fair value as at December 31, 2017			
	Level 1	Level 2	Level 3	Total
Stocks - Short	\$ (20,122,791)	-	-	\$ (20,122,791)
Bonds - Short	-	(495,504)	-	(495,504)
Options	(433,755)	-	-	(433,755)
	<u>\$ (20,556,546)</u>	<u>\$ (495,504)</u>	<u>\$ -</u>	<u>\$ (21,052,050)</u>

Vertex Arbitrage Fund
Notes to Financial Statements
December 31, 2017

Financial Assets at fair value as at December 31, 2016				
	Level 1	Level 2	Level 3	Total
Stocks - Long	\$ 96,024,565	\$ 6,407,114	\$ -	\$ 102,431,679
Bonds - Long	-	10,442,350	-	10,442,350
Warrants	-	37,142	-	37,142
Options	804,845	-	-	804,845
	<u>\$ 96,829,410</u>	<u>\$ 16,886,606</u>	<u>\$ -</u>	<u>\$ 113,716,016</u>
Financial Liabilities at fair value as at December 31, 2016				
	Level 1	Level 2	Level 3	Total
Stocks - Short	\$ (47,491,219)	\$ -	\$ -	\$ (47,491,219)
Options	(120,648)	-	-	(120,648)
	<u>\$ (47,611,867)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (47,611,867)</u>

All fair value measurements above are recurring. 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.

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 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

Vertex Arbitrage Fund
Notes to Financial Statements
December 31, 2017

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

There were no level 3 securities held for assets and liabilities as at December 31, 2017 and December 31, 2016.

Reconciliation of Level 3 fair value measurements

There were no level 3 securities held for assets and liabilities as at December 31, 2017.

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			
	Equities - long	Equities - short	Options - Short	Total
Balance at December 31, 2015	\$ 238,841	\$ (132,000)	\$ -	\$ 106,841
Sales	(243,285)	-	-	(243,285)
Purchases	-	125,900	-	125,900
Gains (Losses)				-
Realized	11,545	-	4,911	16,456
Unrealized	(7,100)	6,100	(4,911)	(5,911)
Balance at December 31, 2016	\$ -	\$ -	\$ -	\$ -
Total change in unrealized gain (loss) during the year for assets held at December 31, 2016	\$ (7,100)	\$ 6,100	\$ (4,911)	(5,911)

There were no transfers between levels 1 and 2 for assets and liabilities held at December 31, 2017.

The following were the transfers between Levels 1 and 2 for assets and liabilities held at December 31, 2016:

	Transfer from level 1 to level 2	Transfer from level 2 to level 1
	2016	2016
Equities - Long	\$ 4,210,364	\$ -
	2016	2016
Warrants	\$ 37,142	\$ -

Vertex Arbitrage Fund
Notes to Financial Statements
December 31, 2017

7. Financial instruments by category

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

	Net gains (losses)	
	December 31, 2017	December 31, 2016
Financial assets/liabilities at FVTPL		
HFT	\$ (1,101,717)	\$ (1,230,547)
Designated at inception	5,247,201	8,839,460
Total	\$ 4,145,484	\$ 7,608,913

8. Interest in unconsolidated structured entities

The Fund has determined that its investments in underlying funds, securitizations, asset-backed securities and mortgage-backed securities, if any, are unconsolidated structured entities. The determination is based on the fact that decision making about the underlying funds, securitizations, asset-backed securities and mortgage-backed securities is not governed by the voting right or other similar right held by the Fund.

The Fund may invest in underlying funds whose investment objectives range from achieving short-term to long-term income and capital growth potential. Underlying funds may use leverage in a manner consistent with their respective investment objectives and as permitted by Canadian securities regulatory authorities. Underlying funds finance their operations by issuing redeemable units which are puttable at the holders' option and entitles the holder to a proportionate value in the respective fund's Net Assets. The change in fair value of each of the underlying funds during the periods is included in "Change in unrealized appreciation (depreciation)" in the Statement of Comprehensive Income (Loss).

The Fund does not provide and has not committed to providing any additional significant financial or other support to the unconsolidated structured entities other than its investments in the unconsolidated structured entities.

The tables below set out interests held by the Fund in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the financial assets held:

As at December 31, 2017

 Holding 	 % of Net Assets 	 Country or Establishment & Principal Place of Business 	 % of Ownership Interest
iShares Silver Trust	-0.65%	United States	-0.01%
SPDR Gold Trust	-1.11%	United States	0.00%

There were no investments in unconsolidated structured entities as at December 31, 2016.

Vertex Arbitrage Fund
Notes to Financial Statements
December 31, 2017

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 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.

9. Redeemable units

Redeemable units transactions includes amounts representing unit subscriptions, unit redemptions, undistributed net income, undistributed realized gains (losses) on the sale of investments and derivatives and unrealized appreciation (depreciation) in the value of investments and derivatives. Units are redeemable at the end of any month. 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 12, 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 for the year:

	December 31, 2017		December 31, 2016	
	Class B	Class F	Class B	Class F
Units - Beginning of year	1,242,684	10,362,438	1,037,796	6,121,746
Redeemable units issued	309,552	5,686,485	645,897	5,277,827
Redeemable units reinvested	42,624	356,953	36,384	462,599
Redeemable units redeemed	(424,214)	(6,397,918)	(477,393)	(1,499,734)
Units - End of year	1,170,647	10,007,958	1,242,684	10,362,438

Certain directors and/or related parties of the Fund held 0.18% of the Fund units at December 31, 2017 (December 31, 2016 - 0.17%).

10. Fees and expenses

a) Management fees

Pursuant to the terms of the management agreement, the Fund pays the Manager a monthly management fee for services, including the provision of key management personnel, calculated as a percentage of the Net Asset Value (NAV) of each class of units that comprise the Fund on the last business day of the month. The management fee may vary from class to class and will be deducted as an expense of the Fund in the calculation of the net profits of the Fund. The management fee for each of the classes of units is as follows:

Vertex Arbitrage Fund

Notes to Financial Statements

December 31, 2017

Class B: 1/12 of 1.5% (1.5% per annum) of the NAV of Class B Units of the Fund on the last business day of the month plus applicable taxes.

Class F: 1/12 of 1% (1% per annum) of the NAV of Class F Units of the Fund on the last business day of the month plus applicable taxes.

Management fees amounting to \$1,417,968 were incurred for the year ended December 31, 2017 (December 31, 2016 - \$1,083,553) of which \$139,222 (December 31, 2016 - \$104,366) were outstanding at year end.

b) Performance fees

The Manager is entitled to a performance fee equal to 15% of the amount by which the performance of the Fund exceeds the previous high-water mark for each class of units. The performance fee is accrued monthly and is payable for each calendar quarter, provided that the high-water mark is exceeded, as referred to below. The performance fee plus applicable taxes will be payable by the Fund within 10 business days from the quarter-end. Upon the redemption of units of a particular class, the accrued portion of the performance fee allocated to the redeemed units for that class will be payable by the Fund within 10 business days of the end of the month in which the units were redeemed.

The highest quarter-end NAV per unit for each class of units from time to time establishes a high-water mark for each class of units which must be exceeded in subsequent quarters for the performance fee applicable to each class of units to be payable.

No change in the Manager's performance fee payment policy will be made without at least 60 days' notice to the unitholders. The Manager has reserved the right to change the period for which any performance fee may be paid by the Fund to the Manager.

Performance fees amounting to \$863,856 were incurred for the year ended December 31, 2017 (December 31, 2016 - \$943,455) of which \$nil (December 31, 2016 - \$362,100) were outstanding at year end.

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, certain expenses were absorbed during the year in the amount of \$nil (December 31, 2016 - \$nil).

Vertex Arbitrage Fund
Notes to Financial Statements
December 31, 2017

11. Soft dollar commissions

Soft dollar commissions relate to amounts paid to brokers in exchange for research or other services provided to the manager. The Fund paid \$6,853 (December 31, 2016 - \$3,375) in soft dollar commissions during the year.

12. Financial risk management

The Fund’s financial instruments consist of investments, investments pledged as collateral, cash, accrued interest and dividends receivable, subscriptions receivable, other assets, accrued performance fees, accrued management fees, accounts payable and accrued liabilities, due to/from broker, redemptions payable and loan payable. 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 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 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 at December 31, 2017 and December 31, 2016, the overall market exposures were as follows:

	At December 31, 2017		At December 31, 2016	
	Fair Value	% Net Assets	Fair Value	% Net Assets
Equity securities (Long)	\$ 71,888,476	61.71%	\$ 102,468,821	83.31%
Derivative assets				
Option contracts	106,276	0.09%	804,845	0.66%
Total market exposure	\$ 71,994,752	61.80%	\$ 103,273,666	83.97%

Vertex Arbitrage Fund
Notes to Financial Statements
December 31, 2017

	At December 31, 2017		At December 31, 2016	
	Fair Value	% Net Assets	Fair Value	% Net Assets
Equity securities (Short)	\$ (20,122,791)	(17.27%)	\$ (47,491,219)	(38.61%)
Derivative liabilities				
Option contracts	(433,755)	(0.37%)	(120,648)	(0.07%)
Total market exposure	\$ (20,556,546)	(17.64%)	\$ (47,611,867)	(38.68%)

Short selling risk is the risk of loss related to short selling transactions. The Fund will profit from a short sale transaction if the value of the borrowed security declines in value from the time the Fund sells the stock to the time the Fund closes out its short position. There is no certainty that the security price will decline, and unlike long positions, where the risk of loss is limited to the amount of the initial investment, short positions may be closed out at a price that would result in a significant loss for the Fund. The Fund's discretion may be limited in an open short sale transaction. For example, the lender may recall the security unexpectedly, or go bankrupt thereby jeopardizing the recoverability of collateral. As well, the Fund may encounter difficulty repurchasing the security should that security's liquidity become compromised in the marketplace. The Fund mitigates such risk by shorting only liquid securities, and by depositing the appropriate collateral against the short positions.

As of December 31, 2017, if 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 \$2,571,910 (December 31, 2016 - \$2,783,090). Actual results may differ from this sensitivity analysis and those results could be material.

b) Interest rate risk

As at December 31, 2017, 1.19% (December 31, 2016 – 8.49%) of the Fund's investment portfolio includes interest bearing corporate bonds and foreign bonds, as well as cash. As a result, the Fund is 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 financial assets and liabilities at fair value, 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*	\$ -	\$ 1,392,479	\$ -	\$ 1,392,479
Financial Liabilities				
Loan payable	\$ (45,742,017)	\$ -	\$ -	\$ (45,742,017)

Vertex Arbitrage Fund
Notes to Financial Statements
December 31, 2017

	Less than 1 year	1 - 5 years	More than 5 years	Total
As at December 31, 2016				
Financial Assets				
Bonds*	\$ -	\$ 5,573,726	\$ 4,868,624	\$ 10,442,350
Financial Liabilities				
Loan payable	\$ (62,024,915)	\$ -	\$ -	\$ (62,024,915)

* 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 increase or decrease in net assets for the year would amount to approximately \$14,275 (December 31, 2016 - \$112,230). 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, options and loans 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 tables below:

As at December 31, 2017					
	Monetary exposure	Non-monetary exposure *	Net currency exposure	% of Net assets attributable to holders of redeemable units	5% Decrease /increase
US Dollar	\$ (44,386,128)	\$ 45,434,452	\$ 1,048,325	0.90%	\$ 52,416
Total	\$ (44,386,128)	\$ 45,434,452	\$ 1,048,325	0.90%	\$ 52,416

Vertex Arbitrage Fund
Notes to Financial Statements
December 31, 2017

As at December 31, 2016					
	Monetary exposure	Non-monetary exposure *	Net currency exposure	% of Net assets attributable to holders of redeemable units	5% Decrease /increase
US Dollar	\$ (59,077,074)	\$ 60,363,121	\$ 1,286,047	1.05%	\$ 64,302
Total	\$ (59,077,074)	\$ 60,363,121	\$ 1,286,047	1.05%	\$ 64,302

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

* The monetary exposure is net of loan payable, if any.

d) 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. Fund's exposure to liquidity risk is concentrated in the cash redemptions of units, loan payable and securities sold short 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. 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.

Vertex Arbitrage Fund
Notes to Financial Statements
December 31, 2017

	On demand	Less than 3 months	3 - 12 months	More than 12 months	Total
As at December 31, 2017					
Liabilities					
Financial liabilities at fair value					
Securities sold short	\$ -	\$ 20,618,295	\$ -	\$ -	\$ 20,618,295
Written options	-	433,755	-	-	433,755
Management fees payable	-	139,222	-	-	139,222
Interest payable on securities sold short	-	356	-	-	356
Dividends payable on securities sold short	-	49,801	-	-	49,801
Loan payable	-	45,742,017	-	-	45,742,017
Due to broker	-	1,746,075	-	-	1,746,075
Redemptions payable	-	3,393,242	-	-	3,393,242
Redeemable units	116,492,749	-	-	-	116,492,749

	On demand	Less than 3 months	3 - 12 months	More than 12 months	Total
As at December 31, 2016					
Liabilities					
Financial liabilities at fair value					
Securities sold short	\$ -	\$ 47,491,219	\$ -	\$ -	\$ 47,491,219
Written options	-	120,648	-	-	120,648
Management fees payable	-	104,366	-	-	104,366
Accrued performance fees	-	362,100	-	-	362,100
Dividends payable on securities sold short	-	188,636	-	-	188,636
Loan payable	-	62,024,915	-	-	62,024,915
Due to broker	-	499,230	-	-	499,230
Redemptions payable	-	2,445,457	-	-	2,445,457
Redeemable units	123,001,896	-	-	-	123,001,896

e) 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 managers

Vertex Arbitrage Fund
Notes to Financial Statements
December 31, 2017

perform ongoing credit evaluations based upon factors surrounding the credit risk of customers, historical trends and other information. Cash and collateral are held with a prime broker 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 at December 31, 2017 and December 31, 2016 are noted below:

Rating	Percentage of net assets	
	December 31, 2017	December 31, 2016
A/A	-0.43%	0.00%
BBB/Bbb	0.00%	3.96%
Below BBB	0.00%	4.53%
N/R	1.62%	0.00%
Total	1.19%	8.49%

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/made payment. Payment is made/received 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.

(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:

Vertex Arbitrage Fund
Notes to Financial Statements
December 31, 2017

Portfolio by Category	Percentage of Net Assets (%)	
	December 31, 2017	December 31, 2016
Long - Bonds - Corporate Bonds	1.62	8.49
Long - Stocks - Energy	4.33	14.74
Long - Stocks - Materials	2.20	4.73
Long - Stocks - Industrials	6.45	2.30
Long - Stocks - Consumer Discretionary	9.70	7.62
Long - Stocks - Consumer Staples	-	2.56
Long - Stocks - Health Care	3.12	2.29
Long - Stocks - Financials	20.94	26.86
Long - Stocks - Information Technology	10.55	17.49
Long - Stocks - Telecommunications Services	0.34	3.32
Long - Stocks - Utilities	4.08	1.40
Long - Call Options	0.01	0.63
Long - Put Options	0.08	0.03
Short - Bonds - Corporate Bonds	(0.43)	
Short - Stocks - Energy	(3.95)	(3.04)
Short - Stocks - Materials	(0.76)	(1.21)
Short - Stocks - Industrials	(0.93)	(5.75)
Short - Stocks - Consumer Discretionary	(4.76)	(1.16)
Short - Stocks - Consumer Staples	-	(1.42)
Short - Stocks - Health Care	(1.08)	(0.95)
Short - Stocks - Financials	-	(4.97)
Short - Stocks - Information Technology	(2.63)	(4.42)
Short - Stocks - Telecommunications Services	(0.60)	(1.87)
Short - Stocks - Utilities	(1.45)	(13.82)
Short - Mutual Funds	(1.11)	-
Short - Call Options	(0.37)	(0.07)
Short - Put Options	-	(0.03)
Cash	83.07	92.99
Other Assets, Less Liabilities excluding Loan Payable	10.85	3.70
Loan Payable	(39.27)	(50.44)
	<u>100.00</u>	<u>100.00</u>

13. Exemption from regulatory filing

In accordance with section 2.11 (c) of National Instrument 81-106 ("NI 81-106"), Vertex One Asset Management Inc., as manager to the Fund, has provided notice to the securities regulatory authority that it is relying on the exemption granted by section 2.11 of NI 81-106 whereby Vertex One Asset Management Inc. will not be filing the annual financial statements for the Fund with the regulator.

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

The increase 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:

Vertex Arbitrage Fund
Notes to Financial Statements
December 31, 2017

Class B	December 31, 2017	December 31 2016
Increase in net assets attributable to holders of redeemable units	\$ 284,837	\$ 589,804
Weighted average units outstanding during the year	1,239,076	1,152,901
Increase in net assets attributable to holders of redeemable units per unit	\$ 0.23	\$ 0.51

Class F	December 31, 2017	December 31, 2016
Increase in net assets attributable to holders of redeemable units	\$ 3,115,285	\$ 4,386,834
Weighted average units outstanding during the year	10,326,046	7,639,691
Increase in net assets attributable to holders of redeemable units per unit	\$ 0.30	\$ 0.57