

# **Vertex Arbitrage Fund**

Semi-Annual Financial Statements  
**June 30, 2019 (Unaudited)**

\*These financial statements have not been reviewed by an independent auditor

## Vertex Arbitrage Fund

Statements of Financial Position

As at June 30, 2019 and December 31, 2018

	June 30, 2019 (unaudited)	December 31, 2018
<b>Assets</b>		
<b>Current assets</b>		
Investments	\$ 41,207,636	\$ 59,384,409
Investments, pledged as collateral	19,211,088	7,669,256
Cash	71,838,728	87,856,796
Due from broker	4,297,200	-
Accrued interest	16,740	69,350
Dividends receivable	97,256	98,440
Subscriptions receivable	-	2,052,875
Derivative financial instruments		
Options	95,492	165,301
	<u>136,764,140</u>	<u>157,296,427</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Securities sold short	\$ 14,481,257	\$ 5,515,032
Management fees payable (Note 9)	76,300	86,262
Accrued performance fees (Note 9)	61,040	72,689
Dividends payable on securities sold short	8,401	21,819
Loan payable (Note 3)	44,715,468	56,707,977
Redemptions payable	-	2,677,728
Due to broker	4,860,147	-
Derivative financial instruments		
Written Options	4,603	30,437
	<u>64,207,216</u>	<u>65,111,944</u>
<b>Net Assets attributable to holders of redeemable units</b>	<b>\$ 72,556,924</b>	<b>\$ 92,184,483</b>
<b>Net Assets attributable to holders of redeemable units per Class</b>		
Class B	\$ 5,797,909	\$ 7,024,174
Class F	\$ 66,759,015	\$ 85,160,309
<b>Net Assets attributable to holders of redeemable units per unit</b>		
Class B	\$ 10.88	\$ 10.78
Class F	\$ 10.89	\$ 10.77

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 periods ended June 30 (unaudited)

	2019	2018
<b>Investment income</b>		
Foreign exchange loss on cash	\$ (155,474)	\$ (1,579,662)
Change in unrealized foreign exchange gain (loss) on cash	(5,025)	1,696
Change in unrealized foreign exchange gain (loss) on loan payable	2,289,322	(1,278,706)
Net gain (loss) on investments and derivatives		
Dividends	208,354	640,155
Dividends, paid on shorts	(95,061)	(395,045)
Interest for distribution purposes	719,813	614,111
Interest, paid on shorts	-	(5,364)
Net realized gain	1,531,583	2,654,559
Net change in unrealized (depreciation) appreciation	(2,107,734)	3,395,231
<b>Total investment income</b>	<b>2,385,778</b>	<b>4,046,975</b>
<b>Expenses (Note 9)</b>		
Management fees	457,602	646,283
Securities borrowing fees	36,789	122,074
Performance fees	175,188	217,326
Securityholder reporting costs	23,627	31,267
Other administrative expenses	17,678	34,827
Audit fees	27,555	28,154
Legal fees	468	-
Trustee fees	2,235	3,192
Interest expense on loan payable	613,566	516,773
Transaction costs (Note 3)	90,531	157,086
Withholding tax	13,105	36,901
<b>Total expenses</b>	<b>1,458,344</b>	<b>1,793,883</b>
<b>Net investment income before absorbed expenses</b>	<b>927,434</b>	<b>2,253,092</b>
<b>Increase in net assets attributable to holders of redeemable units</b>	<b>927,434</b>	<b>2,253,092</b>
<b>Increase in net assets attributable to holders of redeemable units per Class</b>		
Class B	\$ 63,547	\$ 182,938
Class F	\$ 863,887	\$ 2,070,154
<b>Increase in net assets attributable to holders of redeemable units per Class per unit</b>		
Class B	\$ 0.10	\$ 0.18
Class F	\$ 0.13	\$ 0.21

(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 periods ended June 30 (unaudited)

	Class B			
	2019	2018		
Net Assets attributable to holders of redeemable units, beginning of the period	\$ 7,024,174	\$ 12,267,302		
Increase in net assets attributable to holders of redeemable units	63,547	182,938		
<b>Capital transactions (Note 8)</b>				
Redemption of redeemable units	(1,289,812)	(2,885,013)		
	<u>(1,289,812)</u>	<u>(2,885,013)</u>		
Net Assets attributable to holders of redeemable units, end of the period	<u>\$ 5,797,909</u>	<u>\$ 9,565,227</u>		
			Total	
	Class F		2019	
	2019	2018		
Net Assets attributable to holders of redeemable units, beginning of the period	\$ 85,160,309	\$ 104,225,447	\$ 92,184,483	\$ 116,492,749
Increase in net assets attributable to holders of redeemable units	863,887	2,070,154	927,434	2,253,092
<b>Capital transactions (Note 8)</b>				
Proceeds from issuance of redeemable units	5,811,833	14,184,037	5,811,833	14,184,037
Redemption of redeemable units	(25,077,014)	(33,098,042)	(26,366,826)	(35,983,055)
	<u>(19,265,181)</u>	<u>(18,914,005)</u>	<u>(20,554,993)</u>	<u>(21,799,018)</u>
Net Assets attributable to holders of redeemable units, end of the period	<u>\$ 66,759,015</u>	<u>\$ 87,381,596</u>	<u>\$ 72,556,924</u>	<u>\$ 96,946,823</u>

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

## Vertex Arbitrage Fund

Statements of Cash Flows

For the periods ended June 30 (unaudited)

	2019	2018
<b>Operating activities</b>		
Increase in net assets attributable to holders of redeemable units	\$ 927,434	\$ 2,253,092
Adjustment for non-cash items:		
Net change in unrealized depreciation (appreciation) on investments and derivatives	2,107,734	(3,395,231)
Net realized gain on investments and derivatives	(1,531,583)	(2,654,559)
Change in unrealized foreign exchange (gain) loss on cash	5,025	(1,696)
Change in unrealized foreign exchange (gain) loss on loan payable	(2,289,322)	1,278,706
	<u>(780,712)</u>	<u>(2,519,688)</u>
Changes in operating assets and liabilities:		
Decrease in accrued interest	52,610	24,076
Decrease (increase) in dividends receivable	1,184	(144,915)
Decrease in management fee payable	(9,962)	(29,521)
Increase (decrease) in interest payable on securities sold short	-	(356)
Decrease (Increase) in dividends payable on securities sold short	(13,418)	25,421
Decrease (Increase) in accrued performance fees	(11,649)	232,119
	<u>18,765</u>	<u>106,824</u>
Proceeds on disposition of investments and derivatives, including proceeds received on shorts	156,149,352	269,875,724
Purchase of investments and derivatives, including cover for shorts	(140,517,415)	(277,948,009)
	<u>15,631,937</u>	<u>(8,072,285)</u>
<b>Net cash from (provided to) operating activities</b>	<u>14,869,990</u>	<u>(10,485,149)</u>
<b>Financing activities</b>		
Proceeds from issuance of redeemable units**	7,809,900	30,527,749
Redemption of redeemable units**	(28,989,746)	(39,231,608)
Loan Payable	(9,703,187)	14,797,078
<b>Net cash provided to (from) financing activities</b>	<u>(30,883,033)</u>	<u>6,093,219</u>
<b>Decrease in Cash</b>	(16,013,043)	(4,391,930)
<b>Change in unrealized foreign exchange (gain) loss on cash</b>	(5,025)	1,696
<b>Cash, Beginning of period</b>	<u>87,856,796</u>	<u>96,770,086</u>
<b>Cash, End of period</b>	<u>\$ 71,838,728</u>	<u>\$ 92,379,852</u>
<b>Supplemental Information (included in operating activities)</b>		
Cash interest expense paid on loan payable	613,566	516,773
Cash interest paid on short positions	-	(5,364)
Cash dividend paid on short positions	108,479	369,624
Cash received from interest, net of withholding taxes	772,423	638,187
Cash received from dividends, net of withholding taxes	196,433	458,339

\*\* The amounts of proceeds and redemptions exclude non cash items such as switches and exchanges between classes for the year ending June 30, 2019 amounting to \$54,808 (June 30, 2018 -\$144,689 )

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

## Vertex Arbitrage Fund

Schedule of Investments Portfolio

As at June 30, 2019 (unaudited)

Number of Shares/ Par Value	Description	Coupon Rate %	Maturity Date	Average Cost \$	Fair Value \$	% of Total
<b>LONG</b>						
<b>BONDS</b>						
<b>Corporate Bonds</b>						
470,000	Tribune Media Co., Callable	5.875%	15-Jul-22	638,810	629,275	
	<b>Total Corporate Bonds</b>			638,810	629,275	0.87
	<b>TOTAL BONDS</b>			638,810	629,275	0.87
<b>STOCKS</b>						
<b>COMMUNICATION SERVICES</b>						
26,786	Tribune Media Co., Class 'A'			1,629,237	1,621,287	
24,509	Zayo Group Holdings Inc.			1,077,593	1,056,271	
	<b>TOTAL COMMUNICATION SERVICES</b>			2,706,830	2,677,558	3.69
<b>CONSUMER DISCRETIONARY</b>						
50,300	Caesars Entertainment Corp.			770,692	778,588	
26,000	WestJet Airlines Ltd.			797,140	799,240	
	<b>TOTAL CONSUMER DISCRETIONARY</b>			1,567,832	1,577,828	2.17
<b>CONSUMER STAPLES</b>						
	<b>TOTAL CONSUMER STAPLES</b>			-	-	0.00
<b>ENERGY</b>						
35,500	Anadarko Petroleum Corp.			3,388,883	3,280,266	
16,651	Buckeye Partners L.P.			915,196	895,108	
	<b>TOTAL ENERGY</b>			4,304,079	4,175,374	5.75
<b>FINANCIALS</b>						
37,100	Acamar Partners Acquisition Corp.			487,717	485,357	
24,700	Act II Global Acquisition Corp.			332,474	327,340	
14,200	Alberton Acquisition Corp.			185,282	194,510	
17,000	Allegro Merger Corp.			223,338	244,663	
42,000	AMCI Acquisition Corp.			553,843	561,836	
25,800	Andina Acquisition Corp. III			342,907	347,324	
46,300	B. Riley Principal Merger Corp.			615,408	604,503	
26,900	Boxwood Merger Corp.			354,281	362,837	
26,400	Canaccord Genuity Growth II Corp., Class 'A'			79,200	82,896	
49,600	Capitol Investment Corp. IV			658,283	677,519	
26,900	CF Finance Acquisition Corp.			359,506	367,240	
14,200	ChaSerg Technology Acquisition Corp.			183,833	190,233	
6,100	Churchill Capital Corp. II			81,281	81,081	
27,300	Collier Creek Holdings			361,911	378,958	
24,700	Crescent Acquisition Corp.			331,141	325,079	
27,200	DFB Healthcare Acquisitions Corp.			341,469	371,336	
24,700	Diamond Eagle Acquisition Corp.			331,301	325,400	
49,400	DiamondPeak Holdings Corp.			650,404	651,770	
38,100	Far Point Acquisition Corp.			509,782	533,864	
46,300	FinTech Acquisition Corp. III, Class 'A'			576,701	594,802	
13,900	FinTech Acquisition Corp. III, Class 'A', Warrants, (01Dec23)			24,094	24,756	
59,811	First Data Corp., Class 'A'			1,812,754	2,120,271	
19,100	Forum Merger II Corp.			253,239	265,417	
27,200	Gigacapital2 Inc.			363,691	357,979	
20,500	Gordon Pointe Acquisition Corp.			253,503	284,565	
14,400	Gores Holdings III Inc.			189,785	198,664	
30,900	Gores Metropolis Inc.			407,006	423,779	
37,200	Graf Industrial Corp.			484,583	498,601	
14,500	GS Acquisition Holdings Corp.			187,529	199,379	
37,100	GX Acquisition Corp.			497,326	487,786	
37,100	Haymaker Acquisition Corp. II			492,669	496,046	
12,400	Health Sciences Acquisitions Corp.			166,321	172,173	
37,100	Hennessy Capital Acquisition Corp. IV			493,331	501,876	
12,400	Insurance Acquisition Corp.			164,808	168,068	
24,700	Landcadia Holdings II Inc.			332,808	323,459	
32,200	Legacy Acquisition Corp.			412,498	439,175	
21,100	Leisure Acquisition Corp.			273,519	287,920	
34,600	Leo Holdings Corp.			442,281	496,149	
37,100	Leo Holdings Corp., Class 'A'			510,579	498,961	
32,700	LF Capital Acquisition Corp.			435,384	446,208	
18,500	Megalith Financial Acquisition Corp.			243,179	250,140	
109,900	Mercer Park Brand Acquisition Corp., Class 'A'			1,447,548	1,424,804	
54,950	Mercer Park Brand Acquisition Corp., Class 'A', Warrants, (13May27)			-	100,744	
37,100	Monocle Acquisition Corp.			493,883	500,370	
42,000	Mosaic Acquisition Corp.			569,441	576,564	
12,400	Mudrick Capital Acquisition Corp.			156,352	170,666	
24,800	Nebula Acquisition Corp.			314,759	335,323	
22,100	Oaktree Cap Group LLC			1,458,515	1,433,740	
14,600	Opes Acquisition Corp.			189,135	197,886	

## Vertex Arbitrage Fund

Schedule of Investments Portfolio

As at June 30, 2019 (unaudited) (continued)

Number of Shares/ Par Value	Description	Average Cost \$	Fair Value \$	% of Total
20,600	Pivotal Acquisition Corp., Class 'A'	276,517	273,814	
53,300	Pure Acquisition Corp.	684,516	746,151	
27,200	Regalwood Global Energy Ltd.	345,331	374,007	
43,200	RMG Acquisition Corp.	573,113	567,989	
26,900	Schultze Special Purpose Acquisition Corp.	358,750	358,610	
101,050	Social Capital Hedosophia Holdings Corp.	1,340,674	1,406,132	
18,400	South Mountain Merger Corp.	242,687	240,957	
48,400	Spartan Energy Acquisition Corp.	635,274	647,766	
19,200	SunTrust Banks Inc.	1,552,400	1,580,260	
27,900	TCF Financial Corp.	750,138	759,593	
20,800	Thunder Bridge Acquisition Ltd.	280,935	284,099	
28,400	Tiberius Acquisition Corp.	371,870	390,880	
24,700	Tortoise Acquisition Corp.	325,040	325,885	
7,600	Total System Service Inc.	1,264,686	1,276,617	
24,000	TPG Pace Holdings Corp., Class 'A'	321,900	326,864	
8,000	TPG Pace Holdings Corp., Class 'A', Warrants, (18Aug22)	-	16,553	
14,500	Trident Acquisitions Corp.	186,844	197,005	
37,100	Trine Acquisition Corp.	495,304	490,701	
20,300	Trinity Merger Corp.	261,686	282,586	
79,500	Tuscan Holdings Corp.	1,061,444	1,103,558	
24,400	Twelve Seas Investment Co.	328,605	339,980	
29,300	VectoIQ Acquisition Corp.	375,043	405,953	
21,465	Worldpay Inc.	3,390,375	3,444,818	
	<b>TOTAL FINANCIALS</b>	<b>36,053,714</b>	<b>37,230,795</b>	<b>51.32</b>
	<b>HEALTH CARE</b>			
7,000	Allergan PLC	1,538,416	1,534,806	
16,800	Array BioPharma Inc.	1,036,613	1,019,280	
26,400	Celgene Corp.	3,228,748	3,195,847	
	<b>TOTAL HEALTH CARE</b>	<b>5,803,777</b>	<b>5,749,933</b>	<b>7.92</b>
	<b>INDUSTRIALS</b>			
1,180	L3 Technologies Inc.	308,035	378,854	
	<b>TOTAL INDUSTRIALS</b>	<b>308,035</b>	<b>378,854</b>	<b>0.52</b>
	<b>INFORMATION TECHNOLOGY</b>			
11,400	Cypress Semiconductor Corp.	339,091	332,018	
15,600	Medidata Solutions Inc.	1,864,881	1,849,027	
5,200	Mellanox Technologies Ltd.	821,668	753,625	
14,900	Red Hat Inc.	3,527,529	3,663,628	
6,045	Tableau Software Inc.	1,327,791	1,314,252	
	<b>TOTAL INFORMATION TECHNOLOGY</b>	<b>7,880,960</b>	<b>7,912,550</b>	<b>10.91</b>
	<b>UTILITIES</b>			
10,100	Crius Energy Trust	80,472	86,557	
	<b>TOTAL UTILITIES</b>	<b>80,472</b>	<b>86,557</b>	<b>0.12</b>
	<b>TOTAL STOCKS</b>	<b>58,705,699</b>	<b>59,789,449</b>	<b>82.40</b>
	<b>TOTAL INVESTMENTS</b>	<b>59,344,509</b>	<b>60,418,724</b>	<b>83.27</b>
	<b>Put Options</b>			
91	Anadarko Petroleum Corp., August 2019, \$57.50 USD	7,322	5,363	
156	Anadarko Petroleum Corp., November 2019, \$62.50 USD	13,694	31,155	
6	Celgene Corp., July 2019, \$75.00 USD	2,259	39	
15	Celgene Corp., October 2019, \$75.00 USD	913	1,159	
140	Celgene Corp., October 2019, \$80.00 USD	13,436	14,667	
26	Celgene Corp., October 2019, \$82.50 USD	2,611	3,558	
154	Cypress Semiconductor Corp., January 2020, \$20.00 USD	11,519	20,167	
42	Mellanox Technologies Ltd., December 2019, \$95.00 USD	7,220	16,225	
52	Red Hat Inc., August 2019, \$150.00 USD	66,152	2,043	
43	Red Hat Inc., January 2020, \$165.00 USD	2,952	985	
2	Tribune Media Co., Class 'A', January 2020, \$40.00 USD	107	131	
	<b>Total Put Options</b>	<b>128,185</b>	<b>95,492</b>	<b>0.13</b>
	<b>TOTAL OPTIONS</b>	<b>128,185</b>	<b>95,492</b>	<b>0.13</b>
	<b>TOTAL LONG</b>	<b>59,472,694</b>	<b>60,514,216</b>	<b>83.40</b>

**Vertex Arbitrage Fund**Schedule of Investments Portfolio  
As at June 30, 2019 (unaudited) (continued)

Number of Shares/ Par Value	Description	Average Cost \$	Fair Value \$	% of Total
	TOTAL SHORT (Schedule 1)	(14,146,324)	(14,485,860)	(19.96)
	TOTAL INVESTMENTS BEFORE TRANSACTION COSTS	45,326,370	46,028,356	63.44
	Transaction Costs (Note 2)	(20,373)		
	TOTAL INVESTMENTS	45,305,997	46,028,356	63.44
	CASH		71,838,728	99.01
	LOAN PAYABLE		(44,715,468)	(61.63)
	OTHER ASSETS, LESS LIABILITIES		(594,692)	(0.82)
	TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS		72,556,924	100.00

\*Denotes manually priced securities using a fair valuation model



## Vertex Arbitrage Fund

Schedule of Investments Portfolio

As at June 30, 2019 (unaudited) (continued)

### Schedule 1

Number of Shares	Description	Proceeds \$	Fair Value \$	% of Total
	<b>SHORT</b>			
	<b>STOCKS</b>			
	<b>CONSUMER DISCRETIONARY</b>			
(4,710)	Eldorado Resorts Inc.	(276,531)	(284,159)	
	<b>TOTAL CONSUMER DISCRETIONARY</b>	<u>(276,531)</u>	<u>(284,159)</u>	<u>(0.39)</u>
	<b>ENERGY</b>			
(9,527)	Occidental Petroleum Corp.	(706,590)	(627,297)	
	<b>TOTAL ENERGY</b>	<u>(706,590)</u>	<u>(627,297)</u>	<u>(0.86)</u>
	<b>FINANCIALS</b>			
(24,865)	BB&T Corp.	(1,572,097)	(1,599,769)	
(11,901)	Brookfield Asset Management Inc., Class 'A'	(752,381)	(744,649)	
(14,176)	Chemical Financial Corp.	(757,430)	(763,173)	
(18,123)	Fiserv Inc.	(1,858,445)	(2,163,499)	
	<b>TOTAL FINANCIALS</b>	<u>(4,940,353)</u>	<u>(5,271,090)</u>	<u>(7.26)</u>
	<b>HEALTH CARE</b>			
(5,022)	AbbVie Inc.	(459,134)	(478,247)	
(26,400)	Bristol-Myers Squibb Co.	(1,661,350)	(1,567,846)	
(15,100)	Celgene Corp., Rights*	(47,684)	(44,492)	
	<b>TOTAL HEALTH CARE</b>	<u>(2,168,168)</u>	<u>(2,090,585)</u>	<u>(2.88)</u>
	<b>INDUSTRIALS</b>			
(1,584)	Harris Corp.	(321,747)	(392,318)	
	<b>TOTAL INDUSTRIALS</b>	<u>(321,747)</u>	<u>(392,318)</u>	<u>(0.54)</u>
	<b>INFORMATION TECHNOLOGY</b>			
(19,917)	Fidelity National Information Services Inc.	(3,107,097)	(3,199,778)	
(6,157)	Global Payments Inc.	(1,277,556)	(1,291,112)	
(6,668)	salesforce.com Inc.	(1,340,663)	(1,324,918)	
	<b>TOTAL INFORMATION TECHNOLOGY</b>	<u>(5,725,316)</u>	<u>(5,815,808)</u>	<u>(8.02)</u>
	<b>TOTAL STOCKS</b>	<u>(14,138,705)</u>	<u>(14,481,257)</u>	<u>(19.95)</u>
	<b>OPTIONS</b>			
	<b>Call Options</b>			
(58)	Medidata Solutions Inc., October 2019, \$95.00 USD	(2,418)	(2,658)	
(49)	Mellanox Technologies Ltd., December 2019, \$125.00 USD	(4,766)	(1,765)	
	<b>Total Call Options</b>	<u>(7,184)</u>	<u>(4,423)</u>	<u>(0.01)</u>
	<b>Put Options</b>			
(11)	Cypress Semiconductor Corp., July 2019, \$22.00 USD	(435)	(180)	
	<b>Total Put Options</b>	<u>(435)</u>	<u>(180)</u>	<u>-</u>
	<b>TOTAL OPTIONS</b>	<u>(7,619)</u>	<u>(4,603)</u>	<u>(0.01)</u>
	<b>TOTAL SHORT</b>	<u>(14,146,324)</u>	<u>(14,485,860)</u>	<u>(19.96)</u>

# **Vertex Arbitrage Fund**

## **Notes to Financial Statements**

### **June 30, 2019 (Unaudited)**

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#### **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 accounting**

These financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) as issued 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 interim financial statements were authorized for issue by the Manager on August 29, 2019.

#### **3. Significant accounting policies**

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

###### *a) Classification*

###### *i. Assets*

The Fund classifies its investments based on both Fund’s business model for managing those financial assets and contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets’ performance and to make decisions. The Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. The contractual cash flows of the Fund’s debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund’s business model’s objective. Consequently, all investment are measured at fair value through profit or loss.

###### *ii. Liabilities*

The fund makes short sales in which borrowed security is sold on anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are held for trading and are consequently classified as financial liabilities at fair value through profit or loss. Derivative contracts that have a negative fair value are presented as liabilities at fair value through profit or loss.

# **Vertex Arbitrage Fund**

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#### *iii. Other financial assets and other financial liabilities*

Other financial assets (held for collection) and other financial liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, where appropriate at the contract's effective interest rate. Due to their short-term nature, the fair value of other financial assets and financial liabilities carried at amortized cost approximates their carrying amount

As such, the Fund classifies all of its investment portfolio as financial assets or liabilities as fair value through profit or loss.

The Fund's policy requires the Manager and the Board of Directors 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 and derivatives.

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

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

#### *c) Revenue Recognition*

Dividend income from financial assets at fair value through profit or loss is recognized in the Statements of Comprehensive Income within dividend income when the Fund's right to receive payments is established. Interest on debt securities at fair value through profit or loss is recognized in the Statements of Comprehensive Income as interest income for distribution purposes which represents the coupon interest on debt instruments held by the Fund determined on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities. Net realized gain (loss) and net change in unrealized appreciation (depreciation) of investments are determined on an average

# **Vertex Arbitrage Fund**

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cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds. Transaction costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss. They include fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognized in profit or loss as an expense.

#### **Fair value measurement**

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 pledged collateral. Where the

# **Vertex Arbitrage Fund**

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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**

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#### **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.

#### **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 2.25% to 2.50% (December 31, 2018 – 2.25% to 2.50%) for the period ending June 30, 2019. 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 period ended June 30, 2019, the Fund borrowed a minimum of US\$28,400,144 (CAD\$38,093,114) and a maximum of US\$42,367,906 (CAD\$56,334,487) [December 31, 2018 – minimum US\$33,193,961 (CAD\$41,248,476) and a maximum of US\$53,397,933 (CAD\$68,894,013)] under this loan facility. As at June 30, 2019, there were US\$34,145,675 (CAD\$44,715,468) borrowings [December 31, 2018 – US\$41,538,219 (CAD\$56,707,977)]. During the period ended June 30, 2019, the Fund paid US\$459,347 (CAD\$613,566) [June 30, 2018 – US\$404,169 (CAD\$516,773)] of interest.

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

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

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

The Fund issues two classes of redeemable units, which are redeemable at the holder’s option and do not have identical rights. Such units are classified as financial liabilities. Redeemable units can be put back

# **Vertex Arbitrage Fund**

## **Notes to Financial Statements**

### **June 30, 2019 (Unaudited)**

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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 June 30, 2019 and December 31, 2018, 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, 2018 and December 31, 2017, 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.

#### **4. Adoption of IFRS 9**

##### **IFRS 9, Financial Instruments**

IFRS 9 'Financial Instruments' became effective for annual periods beginning on or after January 1, 2018. It addresses the classification, measurement and derecognition of financial assets and liabilities and replaces the multiple classification and measurement models in IAS 39.

# **Vertex Arbitrage Fund**

## **Notes to Financial Statements**

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Classification and measurement of debt assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and contractual cash flows under the instrument solely represent payments of principal and interest (SPPI). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt instruments must be recognized at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. IFRS 9 also introduces a new expected credit loss (ECL) impairment model.

IFRS 9 has been applied retrospectively by the Fund and did not result in a change to measurement of financial instruments as outlined in note 3. The Fund's investment portfolio previously designated as FVTPL or held for trading are now classified as fair value through profit or loss and other financial assets held for collection previously classified as loans and receivables are now classified at amortized cost. There were no material impact on the adoption from application of the new impairment model. There were no other standards, amendment to standards or interpretations that are effective for annual periods beginning January 1, 2018 that have a material effect on the financial statements of the Fund.

#### **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.



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**Notes to Financial Statements**  
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**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 June 30, 2019 and December 31, 2018.

<b>Financial Assets at fair value as at June 30, 2019</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Stocks - Long	\$ 50,972,969	8,674,428	-	\$ 59,647,397
Bonds - Long	-	629,275	-	629,275
Warrants	125,499	16,553	-	142,052
Options	20,030	75,462	-	95,492
	<u>\$ 51,118,498</u>	<u>\$ 9,395,718</u>	<u>\$ -</u>	<u>\$ 60,514,216</u>

<b>Financial Liabilities at fair value as at June 30, 2019</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Stocks - Short	\$ (14,436,765)	-	-	\$ (14,436,765)
Rights	-	(44,492)	-	\$ (44,492)
Options	(2,658)	(1,945)	-	(4,603)
	<u>\$ (14,439,423)</u>	<u>\$ (46,437)</u>	<u>\$ -</u>	<u>\$ (14,485,860)</u>

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<b>Financial Assets at fair value as at December 31, 2018</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Stocks - Long	\$ 63,099,385	-	-	\$ 63,099,385
Bonds - Long	-	3,737,153	-	3,737,153
Rights	41,512	-	-	41,512
Warrants	175,615	-	-	175,615
Options	165,301	-	-	165,301
	<b>\$ 63,481,813</b>	<b>\$ 3,737,153</b>	<b>\$ -</b>	<b>\$ 67,218,966</b>

<b>Financial Liabilities at fair value as at December 31, 2018</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Stocks - Short	\$ (5,515,032)	-	-	\$ (5,515,032)
Options	(30,437)	-	-	(30,437)
	<b>\$ (5,545,469)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (5,545,469)</b>

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 at each 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**  
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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 June 30, 2019 and December 31, 2018.

**Reconciliation of Level 3 fair value measurements**

There were no level 3 securities held for assets and liabilities as at June 30, 2019 and December 31, 2018.

The following were the transfers between Levels 1 and 2 for assets and liabilities held at June 30, 2019:

	<b>Transfer from level 1 to level 2</b>		<b>Transfer from level 2 to level 1</b>
	<b>June 30, 2019</b>		<b>June 30, 2019</b>
Equities - Long	\$ 7,528,706	\$	-
	<b>Transfer from level 1 to level 2</b>		<b>Transfer from level 2 to level 1</b>
	<b>June 30, 2019</b>		<b>June 30, 2019</b>
Options	\$ 2,174	\$	-

There were no transfers between Levels 1 and 2 for assets and liabilities held at December 31, 2018.

**7. 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. There were no investments in unconsolidated structured entities as at June 30, 2019 and December 31, 2018.

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**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.

**8. Redeemable units**

Redeemable units transactions include amounts representing unit subscriptions, unit redemptions, and units reinvested. Units are redeemable monthly. 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 11, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being managed by investing the majority of assets in investments that can be readily disposed. The following table summarizes the changes in the number of redeemable units during the period:

	June 30, 2019		June 30, 2018	
	Class B	Class F	Class B	Class F
Units - Beginning of period	651,573	7,910,397	1,170,647	10,007,958
Redeemable units issued	-	534,523	-	1,352,960
Redeemable units redeemed	(118,638)	(2,314,153)	(274,648)	(3,144,187)
Units - End of period	532,935	6,130,767	895,999	8,216,731

Certain directors and/or related parties of the Fund held 0.17% of the Fund units at June 30, 2019 (December 31, 2018 - 0.24%).

**9. 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:

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.

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

Management fees amounting to \$457,602 were incurred for the period ended June 30, 2019 (June 30, 2018 - \$646,283) of which \$ 76,300 (December 31, 2018 - \$86,262) were outstanding at period 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 \$175,188 were incurred for the period ended June 30, 2019 (June 30, 2018– \$217,326) of which \$61,040 (December 31, 2018 – \$72,689) were outstanding at period 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 period in the amount of \$nil (June 30, 2018 – \$nil).

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**10. 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 \$2,943 (June 30, 2018 – \$4,847) in soft dollar commissions during the period.

**11. 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 June 30, 2019 and December 31, 2018, the overall market exposures were as follows:

	<b>At June 30, 2019</b>		<b>At December 31, 2018</b>	
	<b>Fair Value</b>	<b>% Net Assets</b>	<b>Fair Value</b>	<b>% Net Assets</b>
Equity securities (Long)	\$ 59,789,449	82.40%	\$ 63,316,512	68.69%
Derivative assets				
Option contracts	95,492	0.13%	165,301	0.18%
<b>Total market exposure</b>	<b>\$ 59,884,941</b>	<b>82.54%</b>	<b>\$ 63,481,813</b>	<b>68.87%</b>

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	At June 30, 2019		At December 31, 2017	
	Fair Value	% Net Assets	Fair Value	% Net Assets
Equity securities (Short)	\$ (14,481,257)	(19.96%)	\$ (5,515,032)	(5.99%)
Derivative liabilities				
Option contracts	(4,603)	(0.01%)	(30,437)	(0.03%)
<b>Total market exposure</b>	<b>\$ (14,485,860)</b>	<b>(19.96%)</b>	<b>\$ (5,545,469)</b>	<b>(6.03%)</b>

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 June 30, 2019, 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 \$2,269,954 (December 31, 2018 – \$2,896,817). Actual results may differ from this sensitivity analysis and those results could be material.

**b) Interest rate risk**

As at June 30, 2019, 0.87% (December 31, 2018 – 4.05%) 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
<b>As at June 30, 2019</b>				
<b>Financial Assets</b>				
Bonds*	\$ -	\$ 629,275	\$ -	\$ 629,275
<b>Financial Liabilities</b>				
Loan payable	\$(44,715,468)	\$ -	\$ -	\$(44,715,468)

**Vertex Arbitrage Fund**  
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	Less than 1 year	1 - 5 years	More than 5 years	Total
<b>As at December 31, 2018</b>				
<b>Financial Assets</b>				
Bonds*	\$ -	\$ 2,965,044	\$ 772,109	\$ 3,737,153
<b>Financial Liabilities</b>				
Loan payable	\$(56,707,977)	\$ -	\$ -	\$ (56,707,977)

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

At June 30, 2019, 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 \$4,340 (December 31, 2018 - \$25,253). 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 June 30, 2019 and December 31, 2018, 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:

<b>As at June 30, 2019</b>					
	Monetary exposure	Non-monetary exposure *	Net currency exposure	% of Net assets attributable to holders of redeemable units	5% Decrease /increase
US Dollar	\$ (44,484,447)	\$ 44,430,388	\$ (54,059)	-0.07%	\$ (2,703)
Total	\$ (44,484,447)	\$ 44,430,388	\$ (54,059)	-0.07%	\$ (2,703)



**Vertex Arbitrage Fund**  
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As at December 31, 2018					
	Monetary exposure	Non-monetary exposure *	Net currency exposure	% of Net assets attributable to holders of redeemable units	5% Decrease /increase
US Dollar	\$ (52,980,071)	\$ 54,254,752	\$ 1,274,681	1.38%	\$ 63,734
Total	\$ (52,980,071)	\$ 54,254,752	\$ 1,274,681	1.38%	\$ 63,734

\* 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 June 30, 2019 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 June 30, 2019 and December 31, 2018 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**  
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	On demand	Less than 3 months	3 - 12 months	More than 12 months	Total
<b>As at June 30, 2019</b>					
<b>Liabilities</b>					
Financial liabilities at fair value					
Securities sold short	\$ -	\$ 14,481,257	\$ -	\$ -	\$ 14,481,257
Written options	-	4,603	-	-	4,603
Management fees payable	-	76,300	-	-	76,300
Accrued performance fees	-	61,040	-	-	61,040
Dividends payable on securities sold short	-	8,401	-	-	8,401
Loan payable	44,715,468	-	-	-	44,715,468
Due to broker	-	4,860,147	-	-	4,860,147
Redeemable units	72,556,924	-	-	-	72,556,924
<hr/>					
	On demand	Less than 3 months	3 - 12 months	More than 12 months	Total
<b>As at December 31, 2018</b>					
<b>Liabilities</b>					
Financial liabilities at fair value					
Securities sold short	\$ -	\$ 5,515,032	\$ -	\$ -	\$ 5,515,032
Written options	-	30,437	-	-	30,437
Management fees payable	-	86,262	-	-	86,262
Accrued performance fees	-	72,689	-	-	72,689
Dividends payable on securities sold short	-	21,819	-	-	21,819
Loan payable	56,707,977	-	-	-	56,707,977
Redemptions payable	-	2,677,728	-	-	2,677,728
Redeemable units	92,184,483	-	-	-	92,184,483

**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 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.

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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 June 30, 2019 and December 31, 2018 are noted below:

Rating	Percentage of net assets	
	June 30, 2019	December 31, 2018
A/A	0.00%	0.16%
Below BBB	0.87%	3.89%
<b>Total</b>	<b>0.87%</b>	<b>4.05%</b>

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**  
**June 30, 2019 (Unaudited)**

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<b>Portfolio by Category</b>	<b>Percentage of Net Assets (%)</b>	
	<b>June 30, 2019</b>	<b>December 31, 2018</b>
Long - Bonds - Corporate Bonds	0.87	4.05
Long - Stocks - Consumer Discretionary	2.17	4.28
Long - Stocks - Consumer Staples	-	1.04
Long - Stocks - Energy	5.75	5.10
Long - Stocks - Financials	51.32	36.29
Long - Stocks - Health Care	7.92	4.82
Long - Stocks - Industrials	0.52	2.54
Long - Stocks - Information Technology	10.91	10.05
Long - Stocks - Materials	-	0.22
Long - Stocks - Telecommunications Services	3.69	1.81
Long - Stocks - Utilities	0.12	2.55
Long - Put Options	0.13	0.18
Short - Stocks - Consumer Discretionary	(0.39)	-
Short - Stocks - Energy	(0.86)	(0.47)
Short - Stocks - Financials	(7.26)	-
Short - Stocks - Health Care	(2.88)	(0.21)
Short - Stocks - Industrials	(0.54)	(0.12)
Short - Stocks - Information Technology	(8.02)	(1.11)
Short - Stocks - Materials	-	(2.44)
Short - Stocks - Telecommunications Services	-	(1.64)
Short - Call Options	(0.01)	(0.03)
Cash	99.01	95.31
Other Assets, Less Liabilities excluding Loan Payable	(0.82)	(0.69)
Loan Payable	(61.63)	(61.52)
	<u>100.00</u>	<u>100.00</u>

**12. 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.

**13. 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 periods ended June 30, 2019 and June 30, 2018 is calculated as follows:

**Vertex Arbitrage Fund**  
**Notes to Financial Statements**  
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<b>Class B</b>	<b>June 30, 2019</b>		<b>June 30, 2018</b>	
Increase in net assets attributable to holders of redeemable units	\$	63,547	\$	182,938
Weighted average units outstanding during the period		631,421		998,664
Increase in net assets attributable to holders of redeemable units per unit	\$	0.10	\$	0.18

  

<b>Class F</b>	<b>June 30, 2019</b>		<b>June 30, 2018</b>	
Increase in net assets attributable to holders of redeemable units	\$	863,887	\$	2,070,153
Weighted average units outstanding during the period		6,905,485		9,680,424
Increase in net assets attributable to holders of redeemable units per unit	\$	0.13	\$	0.21