

Vertex Fund

Annual Financial Statements
December 31, 2018



Independent auditor's report

To the Unitholders and Trustee of
Vertex Fund (the Fund)

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Fund's financial statements comprise:

- the statements of financial position as at December 31, 2018 and 2017;
- the statements of comprehensive income (loss) for the years then ended;
- the statements of changes in net assets attributable to holders of redeemable units for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the

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preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
April 8, 2019

Vertex Fund

Statements of Financial Position

As at December 31

| | 2018 | 2017 |
|---|-----------------------|-----------------------|
| Assets | | |
| Current assets | | |
| Investments | \$ 138,726,629 | \$ 523,197,521 |
| Investments, pledged as collateral | 72,358,105 | 28,265,223 |
| Cash | 135,001,091 | 187,452,941 |
| Cash, pledged as collateral | - | 12,846,540 |
| Due from broker | - | 399,552 |
| Accrued interest | 42,740 | 83,336 |
| Dividends receivable | 49,011 | 340,098 |
| Subscriptions receivable | 222,623 | 3,661,634 |
| Derivative financial instruments | | |
| Options | 683 | 2,161,789 |
| | <u>346,400,882</u> | <u>758,408,634</u> |
| Liabilities | | |
| Current liabilities | | |
| Securities sold short | \$ 53,731,056 | \$ 15,256,128 |
| Management fees payable (Note 10) | 592,689 | 894,365 |
| Dividends payable on securities sold short | 397,751 | 458 |
| Commission payable (Note 10) | 873,527 | 873,527 |
| Redemptions payable | 9,090,952 | 15,895,099 |
| Due to broker | 2,850,495 | 5,525,000 |
| Loan payable (Note 3) | 64,453,172 | 246,552,140 |
| Derivative financial instruments | | |
| Written Options | - | 2,147,107 |
| | <u>131,989,642</u> | <u>287,143,824</u> |
| Net Assets attributable to holders of redeemable units | <u>\$ 214,411,240</u> | <u>\$ 471,264,810</u> |
| Net Assets attributable to holders of redeemable units per Class | | |
| Class A | \$ 81,246,593 | \$ 155,816,795 |
| Class B | \$ 32,543,897 | \$ 79,601,020 |
| Class F | <u>\$ 100,620,750</u> | <u>\$ 235,846,995</u> |
| Net Assets attributable to holders of redeemable units per unit | | |
| Class A | \$ 45.85 | \$ 68.42 |
| Class B | \$ 6.52 | \$ 9.83 |
| Class F | <u>\$ 43.56</u> | <u>\$ 65.00</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 Fund

Statements of Comprehensive Income (Loss)

For the years ended December 31

| | 2018 | 2017 |
|---|----------------------|-------------------|
| Investment income | | |
| Foreign exchange gain (loss) on cash | (1,932,071) \$ | 23,812,273 |
| Change in unrealized foreign exchange gain (loss) on cash | (186,247) | (8,330,608) |
| Change in unrealized foreign exchange gain (loss) on loan payable | (10,823,900) | 3,980,393 |
| Net gain (loss) on investments and derivatives | | |
| Dividends | 3,068,541 | 9,370,600 |
| Dividends, paid on shorts | (1,242,267) | (2,232,398) |
| Interest for distribution purposes | 2,086,279 | 2,070,080 |
| Net realized gain (loss) | 20,791,169 | (3,207,600) |
| Net change in unrealized depreciation | (117,845,252) | (8,444,954) |
| Net gains/losses on financial instruments at fair value through profit or loss | (106,083,748) | 17,017,786 |
| Expenses (Note 10) | | |
| Management fees | 4,534,391 | 7,145,900 |
| Securities borrowing fees (Note 3) | 1,595,815 | 1,251,012 |
| Securityholder reporting costs | 245,272 | 226,293 |
| Other administrative expenses | 71,046 | 67,929 |
| Audit fees | 131,321 | 123,448 |
| Custody fees | 2,279 | 7,151 |
| Legal fees | 5,642 | 33,904 |
| Trustee fees | 5,723 | 4,887 |
| Interest expense on loan payable | 3,754,425 | 1,966,240 |
| Transaction costs | 2,470,738 | 2,676,019 |
| Withholding tax | (83,412) | 472,896 |
| Total expenses | 12,733,240 | 13,975,679 |
| (Decrease) increase in net assets attributable to holders of redeemable units | (118,816,988) | 3,042,107 |
| (Decrease) increase in net assets attributable to holders of redeemable units per Class | | |
| Class A | \$ (43,520,751) \$ | 1,908,484 |
| Class B | \$ (19,171,559) \$ | (1,015,589) |
| Class F | \$ (56,124,678) \$ | 2,149,212 |
| (Decrease) increase in net assets attributable to holders of redeemable units per Class per unit (Note 15) | | |
| Class A | \$ (21.07) \$ | 0.73 |
| Class B | \$ (2.93) \$ | (0.09) |
| Class F | \$ (19.09) \$ | 0.47 |

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

Vertex Fund

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

| | Class A | | Class B | |
|---|---------------------|----------------------|----------------------|----------------------|
| | 2018 | 2017 | 2018 | 2017 |
| Net Assets attributable to holders of redeemable units, beginning of year | \$ 155,816,795 | \$ 214,962,643 | \$ 79,601,020 | \$ 130,419,597 |
| (Decrease) increase in net assets attributable to holders of redeemable units | (43,520,751) | 1,908,484 | (19,171,559) | (1,015,589) |
| Capital transactions (Note 9) | | | | |
| Proceeds from issuance of redeemable units | 456,426 | 2,311,742 | 429,664 | 3,878,193 |
| Redemption of redeemable units | (31,505,877) | (63,366,074) | (28,315,228) | (53,681,181) |
| | <u>(31,049,451)</u> | <u>(61,054,332)</u> | <u>(27,885,564)</u> | <u>(49,802,988)</u> |
| Net Assets attributable to holders of redeemable units, end of year | \$ 81,246,593 | \$ 155,816,795 | \$ 32,543,897 | \$ 79,601,020 |
| | Class F | | Total | |
| | 2018 | 2017 | 2018 | 2017 |
| Net Assets attributable to holders of redeemable units, beginning of year | \$ 235,846,995 | \$ 368,167,635 | \$ 471,264,810 | \$ 713,549,875 |
| (Decrease) increase in net assets attributable to holders of redeemable units | (56,124,678) | 2,149,212 | (118,816,988) | 3,042,107 |
| Capital transactions (Note 9) | | | | |
| Proceeds from issuance of redeemable units | 10,408,206 | 16,188,224 | 11,294,296 | 22,378,159 |
| Redemption of redeemable units | (89,509,773) | (150,658,076) | (149,330,878) | (267,705,331) |
| | <u>(79,101,567)</u> | <u>(134,469,852)</u> | <u>(138,036,582)</u> | <u>(245,327,172)</u> |
| Net Assets attributable to holders of redeemable units, end of year | \$ 100,620,750 | \$ 235,846,995 | \$ 214,411,240 | \$ 471,264,810 |

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

Vertex Fund

Statements of Cash Flows

For the years ended December 31

| | 2018 | 2017 |
|---|-----------------------|----------------------|
| Operating activities | | |
| (Decrease) increase in net assets attributable to holders of redeemable units | (118,816,988) \$ | 3,042,107 |
| Adjustment for non-cash items: | | |
| Net change in unrealized depreciation on investments and derivatives | 117,845,252 | 8,444,954 |
| Net realized (gain) loss on investments and derivatives | (20,791,169) | 3,207,600 |
| Change in unrealized foreign exchange (gain) loss on cash | 186,247 | 8,330,608 |
| Change in unrealized foreign exchange (gain) loss on loan payable | 10,823,900 | (3,980,393) |
| | <u>(10,752,758)</u> | <u>19,044,876</u> |
| Changes in operating assets and liabilities: | | |
| Decrease in accrued interest | 40,596 | 1,046,792 |
| Decrease in dividends receivable | 291,087 | 730,962 |
| Decrease in management fee payable | (301,676) | (309,775) |
| Increase (decrease) in dividends payable on securities sold short | 397,293 | (2,611) |
| Decrease (Increase) in cash, pledged as collateral | 12,846,540 | (4,692,956) |
| | <u>13,273,840</u> | <u>(3,227,588)</u> |
| Proceeds on disposition of investments and derivatives, including proceeds received on shorts | 862,002,240 | 1,742,174,986 |
| Purchase of investments and derivatives, including cover for shorts | (582,464,339) | (1,495,967,233) |
| | <u>279,537,901</u> | <u>246,207,753</u> |
| Net cash from operating activities | <u>282,058,983</u> | <u>262,025,041</u> |
| Financing activities | | |
| Proceeds from issuance of redeemable units** | 9,698,200 | 7,482,403 |
| Redemption of redeemable units** | (151,099,918) | (258,178,326) |
| Decrease (Increase) in loan payable | (192,922,868) | 125,532,745 |
| | <u>(334,324,586)</u> | <u>(125,163,178)</u> |
| Net cash provided to financing activities | <u>(334,324,586)</u> | <u>(125,163,178)</u> |
| Decrease (Increase) in Cash | <u>(52,265,603)</u> | <u>136,861,863</u> |
| Change in unrealized foreign exchange (gain) loss on cash | <u>(186,247)</u> | <u>(8,330,608)</u> |
| Cash, Beginning of year | <u>187,452,941</u> | <u>58,921,686</u> |
| Cash, End of year | <u>135,001,091</u> \$ | <u>187,452,941</u> |
| Supplemental Information (included in operating activities) | | |
| Cash interest expense paid on loan | 3,754,425 | 1,966,240 |
| Cash dividend paid on short positions | 844,974 | 2,235,009 |
| Cash received from interest, net of withholding taxes | 2,126,875 | 3,116,872 |
| Cash received from dividends, net of withholding taxes | 3,443,040 | 9,628,666 |

** The amounts of proceeds and redemptions exclude non cash items such as switches and exchanges between classes for the year ending December 31, 2018 amounting to \$5,035,107 (December 31, 2017 amounting to \$12,577,041)

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

Vertex Fund

 Schedule of Investments
 As at December 31, 2018

| Number of Shares/ Par Value | Description | Coupon Rate % | Maturity Date | Average Cost \$ | Fair Value \$ | % of Total |
|--------------------------------|---|---------------|---------------|-------------------|-------------------|--------------|
| LONG | | | | | | |
| BONDS | | | | | | |
| Corporate Bonds | | | | | | |
| 1,000,000 | CannaRoyalty Corp.* | 8.000% | 12-Jul-21 | 1,000,000 | 1,004,900 | |
| 31,910,419 | Intermap Technologies Corp., Zero Coupon* | 0.000% | 1-Sep-20 | 38,235,470 | 21,764,626 | |
| 10,000,000 | Mirant Corp.* | 2.500% | 15-Sep-21 | - | - | |
| | Total Corporate Bonds | | | <u>39,235,470</u> | <u>22,769,526</u> | <u>10.62</u> |
| | TOTAL BONDS | | | <u>39,235,470</u> | <u>22,769,526</u> | <u>10.62</u> |
| STOCKS | | | | | | |
| ENERGY | | | | | | |
| 6,855,140 | Ascendant Resources Inc. | | | 4,328,320 | 2,776,332 | |
| 1,984,020 | Ascendant Resources Inc., Warrants, (07Mar22) | | | - | 198,402 | |
| 7,131,183 | Blockchain Power Trust | | | 3,422,968 | 748,774 | |
| 800,000 | Bukit Energy Inc.* | | | 800,000 | - | |
| 223,000 | Bukit Energy Inc., Preferred, Series 'A', Convertible* | | | 501,750 | - | |
| 4,000,200 | Calston Exploration Inc.* | | | 1,000,050 | 70,996 | |
| 560,000 | Canadian International Oil Corp., Warrants, Restricted* | | | - | 246,400 | |
| 4,166,667 | CBM Asia Development Corp.* | | | 750,000 | 417 | |
| 265,600 | Cuda Oil and Gas Inc.* | | | 637,440 | 302,784 | |
| 301,458 | Enesco PLC, Class 'A' | | | 2,670,606 | 1,465,120 | |
| 1,819,571 | Kelt Exploration Ltd. | | | 13,271,946 | 8,442,809 | |
| 5,987,363 | Lilis Energy Inc. | | | 5,553,056 | 11,198,309 | |
| 20,794,978 | Petroshale Inc. | | | 20,623,726 | 23,706,275 | |
| 668,330 | Razor Energy Corp. | | | 2,004,990 | 1,503,743 | |
| 4,166,667 | Sagres Energy Inc.* | | | 250,000 | - | |
| 4,427,083 | Transeastern Power Trust, Warrants, (05Jan20) | | | - | 22,135 | |
| 10,385,000 | United Hydrocarbon International Corp.* | | | 411,666 | 1,059,270 | |
| 806,452 | Vertex Energy Inc., Warrants, (24Dec20)* | | | - | - | |
| | TOTAL ENERGY | | | <u>56,226,518</u> | <u>51,741,766</u> | <u>24.14</u> |
| MATERIALS | | | | | | |
| 35,450 | Advantage Lithium Corp., Warrants, (17Feb19)* | | | - | - | |
| 295,080 | Allegiant Gold Ltd., Subscription Receipts | | | 103,278 | 91,475 | |
| 245,000 | Altiplano Minerals Ltd., Warrants, (31Jan19)* | | | - | - | |
| 2,000,000 | Artis Exploration Ltd. | | | 2,000,000 | 7,500,000 | |
| 1,500,000 | Benchmark Metals Inc., Warrants, (08Jun20)* | | | 270,000 | 22,500 | |
| 39,150 | BioAmber Inc., Warrants, (27Jan22)* | | | - | - | |
| 860,000 | Bravada Gold Corp., Warrants* | | | - | - | |
| 88,000 | Cresco Labs Inc. | | | 748,000 | 814,000 | |
| 657,040 | Declan Cobalt Inc. | | | 164,260 | 114,982 | |
| 344,000 | Declan Resources Inc., Warrants, (01Aug19)* | | | - | - | |
| 250,000 | Franchise Cannabis Corp.* | | | 250,000 | 250,000 | |
| 64,039 | Franco-Nevada Corp. | | | 5,540,453 | 6,130,453 | |
| 98,175 | Kutcho Copper Corp., Warrants, (14Dec20)* | | | - | - | |
| 350,000 | LSC Lithium Corp., Warrants, (09Nov20)* | | | - | - | |
| 100,000 | M2 Cobalt Corp., Warrants, (15Dec19)* | | | - | - | |
| 100,000 | Northern Graphite Corp., Warrants* | | | - | - | |
| 755,000 | Osisko Gold Royalties Ltd., Warrants, (18Feb22) | | | 10,125 | 279,350 | |
| 733,350 | PolyMet Mining Corp., Warrants, (31Mar19)* | | | - | 1 | |
| 431,010 | Prize Mining Corp., Warrants, (11Apr19)* | | | - | - | |
| 2,822,953 | Sherritt International Corp. | | | 3,602,682 | 1,270,329 | |
| 1,592,917 | Sirios Resources Inc. | | | 461,946 | 223,008 | |
| 250,000 | Stina Resources Ltd., Warrants, (27Sep20)* | | | - | - | |
| | TOTAL MATERIALS | | | <u>13,150,744</u> | <u>16,696,098</u> | <u>7.79</u> |
| INDUSTRIAL | | | | | | |
| 494,500 | Cobalt Power Group Inc., Warrants, (07Mar20)* | | | - | - | |
| 2,273,554 | CoolEdge Lighting Inc., Preferred* | | | 3,457,000 | 189,335 | |
| 4,774,637 | CoolEdge Lighting Inc., Preferred, Class 'B'* | | | 5,513,250 | 397,618 | |
| 5,651,005 | Intermap Technologies Ltd. | | | 6,519,173 | 777,647 | |
| | TOTAL INDUSTRIAL | | | <u>15,489,423</u> | <u>1,364,600</u> | <u>0.64</u> |
| CONSUMER DISCRETIONARY | | | | | | |
| 239,876 | Brookfield Business Partners L.P. | | | 7,374,075 | 9,974,044 | |
| 2,979,486 | Diversified Royalty Corp. | | | 7,532,963 | 8,431,945 | |
| 500,000 | Heavy Earth Resources Inc. | | | 198,612 | - | |
| 32,605 | Teekay Offshore Partners L.P., 7.25%, Preferred, Class 'A', Perpetual | | | 755,996 | 700,624 | |
| | TOTAL CONSUMER DISCRETIONARY | | | <u>15,861,646</u> | <u>19,106,613</u> | <u>8.91</u> |

(See accompanying notes to the financial statements.)

Vertex Fund

Schedule of Investments

As at December 31, 2018 (continued)

| Number of Shares/ Par Value | Description | Average Cost \$ | Fair Value \$ | % of Total |
|---|--|---------------------|---------------------|----------------|
| HEALTH CARE | | | | |
| 51,900 | Acreage Finco B.C. Ltd., Subscription Receipts | 1,718,150 | 1,346,224 | |
| 71,400 | Cansortium Inc., Subscription Receipts* | 328,244 | 341,163 | |
| 185,600 | Curaleaf Holdings Inc., Subordinate Voting Shares | 2,125,120 | 1,198,976 | |
| 101,900 | Green Thumb Industries Inc. | 2,044,739 | 1,115,805 | |
| 175,000 | MSI Methylation Sciences Inc.* | 175,000 | 29,750 | |
| 423,572 | MSI Methylation Sciences Inc., Preferred, Class 'A', Series '1'* | 391,185 | 72,007 | |
| 216,100 | Planet 13 Holdings Inc. | 389,638 | 321,989 | |
| 32,500 | Planet 13 Holdings Inc., Warrants, (04Dec21) | - | 7,800 | |
| 2,833,334 | Sport Endurance Inc., Private Placement | 282,901 | 696,252 | |
| 1,416,667 | Sport Endurance Inc., Warrants, (10Dec20) | - | 58,021 | |
| 22,300 | Vireo Health Inc., Warrants, (20Mar19)* | - | - | |
| 22,300 | Vireo Health LLC, Preferred, Series 'D'* | 1,316,241 | 1,369,978 | |
| 419,699 | Vision Critical Inc., Preferred, Class 'B', Series* | 1,468,947 | 1,544,492 | |
| 138,888 | Xanthic Biopharma Inc.* | - | 395,831 | |
| | TOTAL HEALTH CARE | 10,240,165 | 8,498,288 | 3.96 |
| FINANCIALS | | | | |
| 150,000 | AMCI Acquisition Corp. | 1,973,550 | 2,037,561 | |
| 363,728 | Bitcoin Investment Trust* | 4,316,722 | 1,896,865 | |
| 7,000 | Black Ridge Acquisition Corp. | 94,423 | 95,946 | |
| 75,000 | Boxwood Merger Corp. | 986,775 | 1,016,733 | |
| 100,000 | Canaccord Genuity Growth Corp., Class 'A' | 427,000 | 350,000 | |
| 130,000 | Canaccord Genuity Growth Corp., Subscription Receipts* | 392,737 | 408,195 | |
| 399,500 | Cannabis Strategies Acquisition Corp., Rights, (21Dec25) | 612,200 | 479,400 | |
| 212,314 | Cannabis Strategies Acquisition Corp., Warrants, (21Dec25) | 1,195,376 | 796,178 | |
| 150,000 | CannaRoyalty Corp. | 1,119,565 | 967,500 | |
| 80,000 | CF Finance Acquisition Corp. | 1,068,080 | 1,092,160 | |
| 60,000 | Chardan Healthcare Acquisition Corp. | 802,770 | 824,854 | |
| 84,000 | Churchill Capital Corp. | 1,107,974 | 1,160,529 | |
| 70,200 | Federal Street Acquisition Corp., Class 'A', Warrants, (24Jul22) | - | 76,670 | |
| 112,500 | FinTech Acquisition Corp. III | 1,483,616 | 1,540,458 | |
| 676,750 | Guardian Capital Group Ltd., Class 'A' | 7,352,538 | 14,929,105 | |
| 344,700 | iAnthus Capital Holdings Inc. | 2,446,196 | 1,895,850 | |
| 50,000 | Megalith Financial Acquisition Corp. | 651,350 | 688,061 | |
| 782,142 | Mjardin Group Inc.* | 1,243,875 | 4,024,007 | |
| 6,330,000 | Pres Initial Capital Aggregator LLC* | 2,690,836 | 1 | |
| 1,047,068 | Pres Initial Capital Aggregator LLC, Warrants, (01May22)* | - | - | |
| 80,000 | Schultze Special Purpose Acquisition Corp. | 1,071,520 | 1,089,430 | |
| 1,882,259 | Social Capital Hedosophia Holdings Corp. | 24,931,079 | 26,287,621 | |
| 1,248,724 | Social Capital Hedosophia Holdings Corp., Warrants, (25Sep22) | 2,758,631 | 1,227,426 | |
| 312,500 | Spartan Energy Acquisition Corp. | 4,144,380 | 4,266,250 | |
| 52,000 | TKK Symphony Acquisition Corp. | 684,372 | 716,293 | |
| 61,483 | U.S. Well Services Inc., Warrants, (09Nov23) | - | 50,362 | |
| | TOTAL FINANCIALS | 63,555,565 | 67,917,455 | 31.68 |
| COMMUNICATIONS SERVICES | | | | |
| 1,257,589 | Kew Media Group Inc., Warrants, (20Mar22) | 1,807,587 | 628,795 | |
| | TOTAL COMMUNICATIONS SERVICES | 1,807,587 | 628,795 | 0.29 |
| INFORMATION TECHNOLOGY | | | | |
| 150,000 | Ambit Energy* | 77,476 | 28,669 | |
| 127,500 | Harvest Enterprises Inc., Subscription Receipts | 1,094,348 | 919,886 | |
| 212,500 | HIVE Blockchain Technologies Ltd., Warrants, (14Nov19) | - | 6,375 | |
| 200,000 | InfoCast Corp.* | 15,963 | - | |
| 1,508,544 | KAB Distribution Inc.* | - | - | |
| 360,942 | Litelink Technologies Inc. | 126,330 | 70,384 | |
| 83,542 | Red Hat Inc. | 19,634,200 | 20,032,012 | |
| 850,000 | StorageNetworks Inc.* | - | - | |
| 250,000 | Versus Systems Inc., Warrants, (04Apr20)* | - | - | |
| | TOTAL INFORMATION TECHNOLOGY | 20,948,317 | 21,057,326 | 9.82 |
| UTILITIES | | | | |
| 1,946,667 | Stream Asset Financial L.P.* | 1,946,667 | 1,304,267 | |
| | TOTAL UTILITIES | 1,946,667 | 1,304,267 | 0.61 |
| TOTAL STOCKS | | | | |
| | | 199,226,632 | 188,315,208 | 87.84 |
| TOTAL INVESTMENTS | | | | |
| | | 238,462,102 | 211,084,734 | 98.46 |
| OPTIONS | | | | |
| Call Options | | | | |
| 500 | Activision Blizzard Inc., January 2019, \$80.00 USD | 397,630 | 683 | 0.00 |
| | Total Call Options | 397,630 | 683 | 0.00 |
| | TOTAL OPTIONS | 397,630 | 683 | 0.00 |
| TOTAL LONG | | | | |
| | | 238,859,732 | 211,085,417 | 98.46 |
| TOTAL SHORT (Schedule 1) | | | | |
| | | (65,444,715) | (53,731,056) | (25.07) |
| TOTAL INVESTMENTS BEFORE TRANSACTION COSTS | | | | |
| | | 173,415,017 | 157,354,361 | 73.39 |
| Transaction Costs (Note 2) | | | | |
| | | (464,436) | | |
| TOTAL INVESTMENTS | | | | |
| | | 172,950,581 | 157,354,361 | 73.39 |
| CASH | | | | |
| | | | 135,001,091 | 62.96 |
| LOAN PAYABLE | | | | |
| | | | (64,453,172) | (30.06) |
| OTHER ASSETS, LESS LIABILITIES | | | | |
| | | | (13,491,040) | (6.29) |
| TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS | | | | |
| | | | 214,411,240 | 100.00 |

*Denotes manually priced securities using a fair valuation model

Vertex Fund

Schedule of Investments

As at December 31, 2018 (continued)

Schedule 1

| Number of Shares | Description | Proceed \$ | Fair Value \$ | % of Total |
|-------------------------------|---|---------------------|---------------------|----------------|
| SHORT | | | | |
| STOCKS | | | | |
| CONSUMER DISCRETIONARY | | | | |
| (10,000) | 2U Inc. | (627,790) | (678,777) | |
| (20,000) | Carter's Inc. | (2,135,486) | (2,228,552) | |
| (275,000) | Hudson's Bay Co. | (2,370,456) | (2,004,750) | |
| (192,700) | Yellow Pages Ltd. | (1,424,194) | (1,173,544) | |
| | TOTAL CONSUMER DISCRETIONARY | (6,557,926) | (6,085,623) | (2.84) |
| CONSUMER STAPLES | | | | |
| (110,000) | Weis Markets Inc. | (6,789,380) | (7,175,218) | |
| | TOTAL CONSUMER STAPLES | (6,789,380) | (7,175,218) | (3.35) |
| HEALTH CARE | | | | |
| (990,000) | Aurora Cannabis Inc. | (8,846,225) | (6,712,200) | |
| (100,000) | CannTrust Holdings Inc. | (622,810) | (657,000) | |
| | TOTAL HEALTH CARE | (9,469,035) | (7,369,200) | (3.44) |
| FINANCIALS | | | | |
| (80,000) | Assured Guaranty Ltd. | (4,111,196) | (4,180,788) | |
| (363,728) | Bitcoin Investment Trust | (5,292,615) | (1,968,866) | |
| (335,000) | Deutsche Bank AG, Registered | (3,689,012) | (3,727,338) | |
| (1,335,000) | Prospect Capital Corp. | (11,537,990) | (11,500,240) | |
| | TOTAL FINANCIALS | (24,630,813) | (21,377,232) | (9.97) |
| EXCHANGE-TRADED FUNDS | | | | |
| (725,000) | Horizons Medical Marijuana Life Sciences ETF, Class 'A' | (12,222,384) | (10,403,750) | |
| (100,000) | United States Oil Fund L.P. | (1,287,376) | (1,318,783) | |
| | TOTAL EXCHANGE-TRADED FUNDS | (13,509,760) | (11,722,533) | (5.47) |
| INFORMATION TECHNOLOGY | | | | |
| (2,500,000) | Nortel Networks Corp. | (4,487,801) | (1,250) | |
| | TOTAL INFORMATION TECHNOLOGY | (4,487,801) | (1,250) | - |
| | TOTAL STOCKS | (65,444,715) | (53,731,056) | (25.07) |
| | TOTAL SHORT | (65,444,715) | (53,731,056) | (25.07) |

(See accompanying notes to the financial statements.)

Vertex Fund

Notes to Financial Statements

December 31, 2018

1. Establishment of the Fund

Vertex Fund (the “Fund”) was created on December 3, 2001 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 Custodian of the Fund. The Fund commenced operations on January 1, 2002, and Class BB and Class FF commenced operations on May 5, 2009. Effective January 31, 2010, the class BB units were merged with the class B units and the class FF units were merged with the class F units. There is no limit to the number of Units or the number of Classes of Units that may be issued subject to any determination to the contrary made by the Manager.

The investment objective of the Fund is to maximize returns on an absolute basis. The Fund searches for investment opportunities on a global basis and unlike many hedge funds, the Fund does not use futures and net short sales is restricted to 15% of total portfolio assets.

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 annual financial statements were authorized for issue by the Manager on April 8, 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

Vertex Fund

Notes to Financial Statements

December 31, 2018

through profit or loss. Derivative contracts that have a negative fair value are presented as liabilities at fair value through profit or loss.

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 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) Income 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

Vertex Fund

Notes to Financial Statements

December 31, 2018

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

Fair value measurement

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

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.

Vertex Fund

Notes to Financial Statements

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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 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.

Forward contracts

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

Options

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

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

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Notes to Financial Statements

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- 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 (Loss).

Foreign currency translation

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

Securities 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 in the ‘Net gain (loss) on investments and derivatives’.

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 of 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 FED effective rate fluctuates and is marked daily, ranging between 2.25% to 2.50% (December 31, 2017 – 1.25% to 1.50%) for the year ending December 31, 2018. 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, 2018, the Fund borrowed a minimum of US\$47,421,047 (CAD\$64,739,214) and a maximum of US\$199,184,710

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(CAD\$245,515,074) [December 31, 2017 – minimum US\$21,224,165 (CAD\$26,393,310) and a maximum of US\$204,435,219 (CAD\$280,526,007)] under this loan facility. As at December 31, 2018, there were US\$47,211,523 (CAD\$64,453,172) borrowings [December 31, 2017 – US\$196,143,309 (CAD\$246,552,140)]. During the year ended December 31, 2018, the Fund paid US\$2,900,345 (CAD\$3,754,425) [December 31, 2017 - US\$1,519,586 (CAD\$1,966,240)] of interest.

Securities lending

The Fund engages in securities lending transactions. The Fund will receive collateral of at least 102% of the value of securities on loan. Collateral will generally be comprised of securities guaranteed by the Government of Canada or a province or territory of Canada, or by other governments with appropriate credit ratings, or by financial institutions, but may include commercial paper with an approved credit rating and or convertible securities. As at December 31, 2018, the aggregate dollar value of portfolio securities lent was \$nil (December 31, 2017 - \$nil). As at December 31, 2018, the collateral held under securities transactions was \$nil (December 31, 2017 - \$nil). Income earned from securities lending is included in securities lending income in the Statements of Comprehensive Income (Loss). There were no income earned from securities lending during the years ended December 31, 2018 and 2017.

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 (Loss) 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 three 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 unit back to the Fund. Redeemable units are issued and redeemed at the holder's option at prices based on the Fund's net asset value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets attributable to the holders of each class of redeemable units with the total number of outstanding redeemable units for each respective class. Investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit (NAV) for transactions with unitholders. As at December 31, 2018 and December 31, 2017, there were no differences between the Fund's net asset value per security and its net assets per security calculated in accordance with IFRS.

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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 IAS 32 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 (loss) nor does it recognize any deferred tax assets or liabilities in the Statements of Financial Position. As at December 31, 2018, the Fund had \$15,855,707 (December 31, 2017 - \$19,540,833) of unused capital losses which have no expiry and \$8,463,548 (December 31, 2017 - \$8,463,548) of non-capital losses which will expire in 2036.

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 (Loss).

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.

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

Vertex Fund

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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.

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.

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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, 2018 and December 31, 2017.

Financial Assets at fair value as at December 31, 2018

| | Level 1 | Level 2 | Level 3 | Total |
|---------------|-----------------------|---------------------|----------------------|-----------------------|
| Stocks - Long | \$ 166,313,608 | \$ 395,830 | \$ 17,505,956 | \$ 184,215,394 |
| Bonds - Long | - | - | 22,769,526 | 22,769,526 |
| Rights | 479,400 | - | - | 479,400 |
| Warrants | 122,558 | 3,228,956 | 268,900 | 3,620,414 |
| Options | 683 | - | - | 683 |
| | <u>\$ 166,916,249</u> | <u>\$ 3,624,786</u> | <u>\$ 40,544,382</u> | <u>\$ 211,085,417</u> |

Financial Liabilities at fair value as at December 31, 2018

| | Level 1 | Level 2 | Level 3 | Total |
|----------------|------------------------|----------------|----------------|------------------------|
| Stocks - Short | \$ (53,731,056) | \$ - | \$ - | \$ (53,731,056) |
| | <u>\$ (53,731,056)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (53,731,056)</u> |

Financial Assets at fair value as at December 31, 2017

| | Level 1 | Level 2 | Level 3 | Total |
|---------------|-----------------------|----------------------|----------------------|-----------------------|
| Stocks - Long | \$ 432,507,441 | \$ 7,334,999 | \$ 29,426,951 | \$ 469,269,391 |
| Bonds - Long | - | 2,722,935 | 22,992,566 | 25,715,501 |
| Warrants | 54,486,629 | 1,702,681 | 288,542 | 56,477,852 |
| Options | 2,161,789 | - | - | 2,161,789 |
| | <u>\$ 489,155,859</u> | <u>\$ 11,760,615</u> | <u>\$ 52,708,059</u> | <u>\$ 553,624,533</u> |

Financial Liabilities at fair value as at December 31, 2017

| | Level 1 | Level 2 | Level 3 | Total |
|----------------|------------------------|----------------|-------------------|------------------------|
| Stocks - Short | \$ (15,254,878) | \$ - | \$ (1,250) | \$ (15,256,128) |
| Options | (2,147,107) | - | - | (2,147,107) |
| | <u>\$ (17,401,985)</u> | <u>\$ -</u> | <u>\$ (1,250)</u> | <u>\$ (17,403,235)</u> |

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

The Fund uses the following techniques to determine the Level 2 fair value measurements:

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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 the investments 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 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.

Level 3 fair value measurements and sensitivity analysis

Equities

Equities held long classified within Level 3 with fair value at December 31, 2018 of \$10,863,469, (December 31, 2017 - \$17,927,283) and equities sold short classified within level 3 with the fair value of \$nil (December 31, 2017 - \$1,250) consists of private equity positions. The Fund utilizes comparable trading multiples in arriving at the valuation for these positions. Management determines comparable public companies (peers) based on industry, size, developmental stage and strategy. Management then calculates a trading multiple for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by either its Revenue, Proved and Probable PV10 or Assets. The trading multiple is then discounted for consideration such as illiquidity and differences between the comparable companies based on company-specific facts and circumstances. In one position we used a legal settlement discount for determining its sensitivity analysis. The remaining equities with fair value of \$6,642,487 (December 31, 2017 - \$11,498,418) use broker quotes, grey

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markets and costs are not included in the sensitivity analysis, there will be no effect on its estimated value.

Bonds

Bonds classified within Level 3 with fair value at December 31, 2018 of \$21,764,626, (December 31, 2017 - \$22,049,816) consists of corporate bonds. The Fund values these instruments using the net debt to EBITDA. The Fund considers liquidity, credit and market risk factors, and adjusts the valuation model as deemed necessary. The remaining bonds with fair value of \$1,004,900 (December 31, 2017 - 942,750) use broker quotes, grey markets and costs are not included in the sensitivity analysis, there will be no effect on its estimated value.

Warrants

Warrants classified within Level 3 with fair value at December 31, 2018 of \$246,400, (December 31, 2017 - \$288,542) have significant unobservable inputs, as the underlying securities trade infrequently or are privately held. As observable prices are not available for the underlying securities, the Manager uses Black Scholes as a valuation technique to derive the fair value of warrants. The remaining warrants with fair value of \$22,500 use broker quotes, grey markets and costs are not included in the sensitivity analysis, there will be no effect on its estimated value

The following table presents the sensitivity analysis for level 3 securities with significant unobservable inputs as at December 31, 2018 and December 31, 2017.

| Description | Fair Value at December 31, 2018 | Valuation Techniques | Unobservable Inputs | Weighted average input | Reasonably possible shift +/- (absolute value) | Change in the valuation (+/-) |
|-------------------------------|---------------------------------|------------------------------|-----------------------------|------------------------|--|-------------------------------|
| Equities: (Long and Short) | \$10,863,469 | Comparable trading multiples | EV/Revenue | 3.29% | 0.25 | +/- \$ 142,377 |
| | | | EV/Proved and Probable PV10 | 0.50% | 0.25 | +/- \$3,748,219 |
| | | | EV/Assets Discount Rate | 0.76% | 0.25 | +/- \$96,491 |
| | | Discount Cash Flow | Discount Yield | 19.8% | 1% | +\$66,116/- 60,759 |
| | | Legal Settlement | Legal Settlement Discount | 75% | 15% | +/- \$71,829 |
| Debt Securities | \$21,764,626 | Net debt to EBITDA | Discount Rate | 28.79% | 1.0% | +\$594,383/- \$618,858 |
| Warrants | \$246,400 | Black Scholes | Volatility | 42.2% | 1% | + \$11,196/- \$8,198 |

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| Description | Fair Value at December 31, 2017 | Valuation Techniques | | Unobservable Inputs | Weighted average input | Reasonably possible shift +/- (absolute value) | Change in the valuation (+/-) |
|----------------------------|---------------------------------|------------------------------|--|-------------------------|------------------------|--|-------------------------------|
| Equities: (Long and Short) | \$17,927,283 | Comparable trading multiples | | Sales Multiple | 3.6 | 1 | +/- \$429,684 |
| | | | | Discount Rate | 1.1% | 1% | +/- \$360,469 |
| | | | | Flowing Barrel Multiple | 108,000 | 1,000 | +/- \$1,122 |
| Debt Securities | \$22,049,816 | Discount Rate | | Discount Rate | 26% | 1 | +/- \$915,146 |
| Warrants | \$288,542 | Black Scholes | | Volatility | 30 Vol | 1 Vol | +/- \$14,414 |

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

Reconciliation of Level 3 fair value measurements

The following is a reconciliation of Level 3 fair value measurements from December 31, 2017 to December 31, 2018:

| | Fair value measurements using level 3 inputs | | | | |
|---|--|----------------------|------------------|----------------------|----------------------|
| | Warrants | Equities - Long | Equities - Short | Bonds - Long | Total |
| Balance at December 31, 2017 | \$ 288,542 | \$ 29,426,951 | \$ (1,250) | \$ 22,992,566 | \$ 52,706,809 |
| Sales | - | (10,678,416) | - | (5,060,816) | (15,739,232) |
| Purchases | 270,000 | 7,648,102 | - | 1,000,000 | 8,918,102 |
| Transfers in | - | - | - | - | - |
| Transfers out | - | - | 1,250 | - | 1,250 |
| Gains (Losses) | | | | | |
| Realized | - | 3,792,598 | - | (255,563) | 3,537,035 |
| Unrealized | (289,642) | (12,683,279) | - | 4,093,339 | (8,879,582) |
| Balance at December 31, 2018 | \$ 268,900 | \$ 17,505,956 | \$ - | \$ 22,769,526 | \$ 40,544,382 |
| Total change in unrealized gain (loss) during the period for assets held at December 31, 2018 | \$ (289,642) | \$ (8,277,415) | \$ - | \$ 3,867,810 | \$ (4,699,247) |

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

| | Fair value measurements using level 3 inputs | | | | |
|---|--|-----------------|------------------|----------------|-----------------|
| | Warrants | Equities - Long | Equities - Short | Bonds - Long | Total |
| Balance at December 31, 2016 | \$ 9,731,447 | \$ 46,731,547 | \$ (1,250) | \$ 72,939,629 | \$ 129,401,373 |
| Sales | - | (5,618,940) | - | (47,225,346) | (52,844,286) |
| Purchases | - | 1,786,922 | - | 5,316,379 | 7,103,301 |
| Restructuring in | - | - | - | - | - |
| Restructuring out | - | - | - | - | - |
| Transfers in | - | 2,690,836 | - | - | 2,690,836 |
| Transfers out | (9,482,753) | (5,285,594) | - | - | (14,768,347) |
| Gains (Losses) | | | | | |
| Realized | - | 1,617,421 | - | 1,479,013 | 3,096,434 |
| Unrealized | 39,848 | (12,495,241) | - | (9,517,109) | (21,972,502) |
| Balance at December 31, 2017 | \$ 288,542 | \$ 29,426,951 | \$ (1,250) | \$ 22,992,566 | \$ 52,706,809 |
| Total change in unrealized gain (loss) during the year for assets held at December 31, 2017 | \$ 288,536 | \$ (2,587,461) | \$ - | \$ (8,893,203) | \$ (11,192,128) |

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

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

| | Transfer from level 1 to level 2 | Transfer from level 2 to level 1 |
|-----------------|----------------------------------|----------------------------------|
| | 2017 | 2017 |
| Equities - Long | - | 1,286,927 |

The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

7. Offsetting of Financial Instruments

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

The following table presents the recognized financial instruments that are offset, or subject to enforceable master netting arrangements or other similar agreements but not offset, as at December 31, 2018 and December 31, 2017, and shows in the 'Net' column what the net impact would be on the Fund's Statements of Financial Position if all set-off rights were exercised.

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| Financial Assets and Liabilities as at December 31, 2018 | Amounts Offset (\$) | | | Amounts Not Offset (\$) | | Net |
|---|-------------------------------|--------------------------------------|-------------|--------------------------|--|-----|
| | Gross Assets (Liabilities) | Gross Assets (Liabilities) Offset | Net Amounts | Financial Instruments | Cash Collateral Received (Pledged) | |
| Derivative assets | - | - | - | - | - | - |
| Derivative liabilities | - | - | - | - | - | - |
| Total | - | - | - | - | - | - |

| Financial Assets and Liabilities as at December 31, 2017 | Amounts Offset (\$) | | | Amounts Not Offset (\$) | | Net |
|---|-------------------------------|--------------------------------------|-------------|--------------------------|--|------------|
| | Gross Assets (Liabilities) | Gross Assets (Liabilities) Offset | Net Amounts | Financial Instruments | Cash Collateral Received (Pledged) | |
| Derivative assets | - | - | - | - | 12,846,540 | 12,846,540 |
| Derivative liabilities | - | - | - | - | - | - |
| Total | - | - | - | - | 12,846,540 | 12,846,540 |

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.

There was no interest in unconsolidated structured entities as at December 31 2018 and 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

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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 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 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 during the year:

| | December 31, 2018 | | |
|-----------------------------|--------------------------|------------------|------------------|
| | Class A | Class B | Class F |
| Units - Beginning of year | 2,277,515 | 8,096,561 | 3,628,687 |
| Redeemable units issued | 6,686 | 55,442 | 171,098 |
| Redeemable units reinvested | - | - | - |
| Redeemable units redeemed | (512,167) | (3,159,747) | (1,489,711) |
| Units - End of year | <u>1,772,034</u> | <u>4,992,256</u> | <u>2,310,074</u> |
| | December 31, 2017 | | |
| | Class A | Class B | Class F |
| Units - Beginning of year | 3,190,806 | 13,323,677 | 5,752,158 |
| Redeemable units issued | 34,430 | 397,134 | 256,401 |
| Redeemable units reinvested | - | - | - |
| Redeemable units redeemed | (947,721) | (5,624,250) | (2,379,872) |
| Units - End of year | <u>2,277,515</u> | <u>8,096,561</u> | <u>3,628,687</u> |

Certain directors and/or related parties of the Fund held 1.40% of the Fund units at December 31, 2018 (December 31, 2017 – 1.67%).

10. Fees and expenses

a) Management fees

Pursuant to the terms of a 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:

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

Class B: 1/12 of 2% (2% 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 \$4,534,391 were incurred for the year ended December 31, 2018 (December 31, 2017 – \$7,145,900) of which \$592,689 (December 31, 2017 - \$894,365) were outstanding at year end.

b) Performance fees

The Manager is entitled to a performance fee equal to 20% 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 \$nil were incurred for the year ended December 31, 2018 (December 31, 2017 - \$nil) of which \$nil (December 31, 2017 - \$nil) 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 record-keeper, 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).

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d) Commission expense

The commission expense resulted from an agreement (the “Agreement”) with unrelated third parties (the “Third Parties”) in relation to an investment in a portfolio company (the “Position”) in the principal amount of US\$12,500,000 (the “Investment”).

Under this agreement, the Third Parties shall assist and support the Manager in the negotiation and execution of specific investment transactions and in return, upon the repayment of the Investment in full, the Third Parties shall be entitled to a commission amounting to 35% of any amount realized on the investment in excess of the principal amount.

During the year ended December 31, 2018, the commission expense and amount payable to the Third Parties in respect of realized and unrealized gains related to this investment amounted to \$nil and \$873,527, respectively.

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 \$250,933 (December 31, 2017 - \$317,910) in soft dollar commissions during the year.

12. Financial risk management

The Fund’s financial instruments consist of investments, investments pledge as collateral, cash, due from broker, accrued interest and dividends receivable, subscriptions receivable, other assets and liabilities, securities sold short, dividends payable on securities sold short, management fees payable, accounts payable and accrued liabilities, due to broker and redemptions payable. As a result, the Fund is exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which it invests. The Manager maintains a risk management practice that includes quarterly monitoring of the returns based risk profile of the Fund. The purpose of such practices is to minimize the potential adverse effect of each risk on the Fund’s financial performance while being consistent with the Fund’s investment objective. The risks include market risk (including 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 (other than interest rates and foreign currency exchange rates). 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

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market positions on a daily basis and positions are maintained within established ranges. As at December 31, 2018 and December 31, 2017, the overall market exposures were as follows:

| | At December 31, 2018 | | At December 31, 2017 | |
|------------------------------|---------------------------------|-------------------------|---------------------------------|-------------------------|
| | Fair Value | % Net Assets | Fair Value | % Net Assets |
| Equity securities (Long) | \$ 188,315,208 | 87.84% | \$ 525,747,243 | 111.57% |
| Derivative assets | | | | |
| Option contracts | 683 | 0.00% | 2,161,789 | 0.46% |
| Total market exposure | \$ 188,315,891 | 87.84% | \$ 527,909,032 | 112.03% |

| | At December 31, 2018 | | At December 31, 2017 | |
|------------------------------|---------------------------------|-------------------------|---------------------------------|-------------------------|
| | Fair Value | % Net Assets | Fair Value | % Net Assets |
| Equity securities (Short) | \$ (53,731,056) | (25.07%) | \$ (15,256,128) | (3.24%) |
| Derivative liabilities | | | | |
| Option contracts | - | - | (2,147,107) | (0.46%) |
| Total market exposure | \$ (53,731,056) | (25.07%) | \$ (17,403,235) | (3.70%) |

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, 2018, 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 \$6,729,242 (December 31, 2017 - \$25,525,290). Actual results may differ from this sensitivity analysis and those results could be material.

b) Interest rate risk

As at December 31, 2018, 10.62% (December 31, 2017 – 5.46%) of the Fund's investment portfolio includes interest bearing corporate bonds, as well as cash and (30.06%) (December

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31, 2017 – (52.31%)) loans payable. As a result,. 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 and the fair values of its interest bearing investments.

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, 2018 | | | | |
| Financial Assets | | | | |
| Bonds* | \$ - | \$ 22,769,526 | \$ - | \$ 22,769,526 |
| Financial Liabilities | | | | |
| Loan payable | \$ (64,453,172) | \$ - | \$ - | \$ (64,453,172) |
| <hr/> | | | | |
| | Less than 1 year | 1 - 5 years | More than 5 years | Total |
| As at December 31, 2017 | | | | |
| Financial Assets | | | | |
| Bonds* | \$ 2,578,028 | \$ 20,415,717 | \$ 2,721,756 | \$ 25,715,501 |
| Financial Liabilities | | | | |
| Loan payable | \$ (246,522,140) | \$ - | \$ - | \$ (246,522,140) |

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

At December 31, 2018, should interest rates have increased or decreased by 25 basis points with all other variables remaining constant, the decrease or increase in net assets for the year would amount to approximately \$90,867 (December 31, 2017 - \$136,554). Actual results may differ from this sensitivity analysis and those results could be material. The Fund’s Managers review the interest rate exposure on a regular basis.

c) Currency risk

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

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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, 2018 and December 31, 2017, if the Canadian dollar strengthened or weakened by 5% in relation to all other currencies, with all other variables held constant the decrease or increase respectively in net assets would approximately amount to values as disclosed in the table below:

| As at December 31, 2018 | | | | | | |
|-------------------------|------------------------|-------------------------|------------------------------------|-----------------------|---|-----------------------|
| | Monetary exposure ** | Non-monetary exposure * | Assets Hedged by forward contracts | Net currency exposure | % of Net assets attributable to holders of redeemable units | 5% Decrease /increase |
| Euro Currency | \$ 15,623 | - | \$ - | \$ 15,623 | 0.01% | \$ 781 |
| US Dollar | \$ (45,616,276) | 51,218,394 | \$ - | \$ 5,602,118 | 2.61% | \$ 280,106 |
| Total | \$ (45,600,653) | \$ 51,218,394 | \$ - | \$ 5,617,741 | 2.62% | \$ 280,887 |

| As at December 31, 2017 | | | | | | |
|-------------------------|-------------------------|-------------------------|------------------------------------|-----------------------|---|-----------------------|
| | Monetary exposure ** | Non-monetary exposure * | Assets Hedged by forward contracts | Net currency exposure | % of Net assets attributable to holders of redeemable units | 5% Decrease /increase |
| Euro Currency | \$ 15,064 | - | \$ - | \$ 15,064 | 0.00% | \$ 753 |
| US Dollar | \$ (207,735,271) | 203,024,229 | \$ - | \$ (4,711,042) | -1.00% | \$ (235,552) |
| Total | \$ (207,720,207) | \$ 203,024,229 | \$ - | \$ (4,695,978) | -1.00% | \$ (234,799) |

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

** The monetary exposure is net of loan payables, 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. The 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 of. The Fund may, from time to time, invest in derivative contracts traded over the counter or in unlisted securities, which are not traded in an organized market and may be illiquid. As a result, the Fund may not be able to quickly liquidate its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer. Investments held as at December 31, 2018 that may be subject to liquidity risk have

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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, 2018 and December 31, 2017 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 year.

| | On demand | Less than 3 months | 3 - 12 months | More than 12 months | Total |
|---|---------------|--------------------------|------------------|---------------------------|---------------|
| As at December 31, 2018 | | | | | |
| Liabilities | | | | | |
| Financial liabilities at fair value | | | | | |
| Securities sold short | \$ 53,731,056 | \$ - | \$ - | \$ - | \$ 53,731,056 |
| Management fees payable | - | 592,689 | - | - | 592,689 |
| Dividends and interest payable on securities sold short | - | 397,751 | - | - | 397,751 |
| Accounts payable and accrued liabilities | - | - | - | 873,527 | 873,527 |
| Redemption payable | - | 9,090,952 | - | - | 9,090,952 |
| Due to broker | - | 2,850,495 | - | - | 2,850,495 |
| Loans payable | 64,453,172 | - | - | - | 64,453,172 |
| Redeemable units | 214,411,240 | - | - | - | 214,411,240 |

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| | On demand | Less than 3 months | 3 - 12 months | More than 12 months | Total |
|---|---------------|--------------------------|------------------|---------------------------|---------------|
| As at December 31, 2017 | | | | | |
| Liabilities | | | | | |
| Financial liabilities at fair value | | | | | |
| Securities sold short | \$ 15,256,128 | \$ - | \$ - | \$ - | \$ 15,256,128 |
| Written options | - | 1,210,642 | 936,465 | - | 2,147,107 |
| Management fees payable | - | 894,365 | - | - | 894,365 |
| Dividends and interest payable on securities sold short | - | 458 | - | - | 458 |
| Accounts payable and accrued liabilities | - | - | - | 873,527 | 873,527 |
| Redemption Payable | - | 15,895,099 | - | - | 15,895,099 |
| Due to broker | - | 5,525,000 | - | - | 5,525,000 |
| Loans payable | 246,552,140 | - | - | - | 246,552,140 |
| Redeemable units | 471,264,810 | - | - | - | 471,264,810 |

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 manager performs 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, 2018 and December 31, 2017 are disclosed below:

| Rating | Percentage of net assets | |
|--------------|--------------------------|-------------------|
| | December 31, 2018 | December 31, 2017 |
| AA/Aa | 0.00% | 0.00% |
| A/A | 0.00% | 0.00% |
| BBB/Bbb | 0.00% | 0.00% |
| Below BBB | 0.00% | 0.58% |
| N/R | 10.62% | 4.88% |
| Total | 10.62% | 5.46% |

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All transactions in listed securities are settled for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold/lent is only made once the broker has received/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.

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

As at December 31, 2018 and December 31, 2017, the Fund’s net assets were also exposed to credit risk arising from forward contracts. The credit rating of the counterparties as at December 31, 2018 and December 31, 2017 were:

| Rating | Percentage of net assets | |
|---------------|---------------------------------|--------------------------|
| | December 31, 2018 | December 31, 2017 |
| AA/A+/A | 0.00% | 0.00% |
| Total | 0.00% | 0.00% |

(f) Concentration risk

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

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| Portfolio by Category | Percentage of net assets (%) | |
|--|------------------------------|-------------------|
| | As at | As at |
| | December 31, 2018 | December 31, 2017 |
| Long - Bonds - Corporate Bonds | 10.62 | 5.46 |
| Long - Stocks - Energy | 24.14 | 32.64 |
| Long - Stocks - Materials | 7.79 | 8.44 |
| Long - Stocks - Industrial | 0.64 | 7.45 |
| Long - Stocks - Consumer Discretionary | 8.91 | 14.84 |
| Long - Stocks - Consumer Staples | - | 0.38 |
| Long - Stocks - Health Care | 3.96 | 3.50 |
| Long - Stocks - Financials | 31.68 | 35.17 |
| Long - Stocks - Information Technology | 9.82 | 4.10 |
| Long - Stocks - Communications Services | 0.29 | 1.67 |
| Long - Stocks - Utilities | 0.61 | 3.37 |
| Long - Call Options | - | 0.46 |
| Short - Stocks - Materials | - | (0.32) |
| Short - Stocks - Consumer Discretionary | (2.84) | (2.92) |
| Short - Stocks - Consumer Staples | (3.35) | - |
| Short - Stocks - Health Care | (3.44) | - |
| Short - Stocks - Financials | (9.97) | - |
| Short - Stocks - Exchange Traded Funds | (5.47) | - |
| Short - Put Options | - | (0.46) |
| Cash, Including Cash Pledged as Collateral | 62.96 | 42.50 |
| Other Assets, Less Liabilities | (6.29) | (3.97) |
| Loan Payable | (30.06) | (52.31) |
| | <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 (decrease) in net assets attributable to holders of redeemable units per unit

The increase (decrease) in net assets attributable to holders of redeemable units per unit for the years ended December 31, 2018 and December 31, 2017 is calculated as follows:

| Class A | December 31, 2018 | December 31, 2017 |
|--|-------------------|-------------------|
| Increase (decrease) in net assets attributable to holders of redeemable units | \$ (43,520,751) | \$ 1,908,484 |
| Weighted average units outstanding during the period | 2,065,296 | 2,599,594 |
| Increase (decrease) in net assets attributable to holders of redeemable units per unit | (21.07) | 0.73 |

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| Class B | December 31, 2018 | December 31, 2017 |
|--|--------------------------|--------------------------|
| Increase (decrease) in net assets attributable to holders of redeemable units | \$ (19,171,559) | \$ (1,015,589) |
| Weighted average units outstanding during the period | 6,553,309 | 10,685,875 |
| Increase (decrease) in net assets attributable to holders of redeemable units per unit | (2.93) | (0.10) |

| Class F | December 31, 2018 | December 31, 2017 |
|--|--------------------------|--------------------------|
| Increase (decrease) in net assets attributable to holders of redeemable units | \$ (56,124,678) | \$ 2,149,212 |
| Weighted average units outstanding during the period | 2,940,574 | 4,599,783 |
| Increase (decrease) in net assets attributable to holders of redeemable units per unit | (19.09) | 0.47 |