

# **Vertex Managed Value Portfolio**

Semi-Annual Financial Statements  
**June 30, 2018 (Unaudited)**

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

## Vertex Managed Value Portfolio

Statements of Financial Position

As at June 30, 2018 and December 31, 2017

	June 30, 2018 (unaudited)	December 31, 2017
<b>Assets</b>		
<b>Current assets</b>		
Investments	\$ 262,854,618	\$ 255,631,461
Cash	90,444	832,176
Accrued interest	856,820	217,025
Dividends receivable	67,147	74,901
Subscriptions receivable	-	1,495,723
Derivative financial instruments		
Options	7,057,600	4,696,843
	<u>270,926,629</u>	<u>262,948,129</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Management fees payable (Note 9)	\$ 257,804	\$ 263,400
Accrued performance fees (Note 9)	2,506,654	531,555
Redemptions payable	-	2,893,757
Derivative financial instruments		
Written Options	-	55,987
	<u>2,764,458</u>	<u>3,744,699</u>
<b>Net Assets attributable to holders of redeemable units</b>	<b>\$ 268,162,171</b>	<b>\$ 259,203,430</b>
<b>Net Assets attributable to holders of redeemable units per Class</b>		
Class A	\$ 146,095,075	\$ 138,636,375
Class B	\$ 20,019,888	\$ 18,525,494
Class F	<u>\$ 102,047,208</u>	<u>\$ 102,041,561</u>
<b>Net Assets attributable to holders of redeemable units per unit</b>		
Class A	\$ 29.10	\$ 26.77
Class B	\$ 11.11	\$ 10.26
Class F	<u>\$ 30.39</u>	<u>\$ 27.95</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 Managed Value Portfolio**

Statements of Comprehensive Income

**For the periods ended June 30 (unaudited)**

	2018	2017
<b>Investment income</b>		
Foreign exchange gain (loss) on cash	\$ 30,292	\$ (467,608)
Change in unrealized foreign exchange gain (loss) on cash	(56)	398,782
Net gain (loss) on investments and derivatives		
Dividends	816,404	1,052,045
Interest for distribution purposes	257,417	719,539
Net realized gain	13,666,193	30,404,521
Net change in unrealized appreciation (depreciation)	10,927,670	(57,998,795)
<b>Total investment income</b>	<u>25,697,920</u>	<u>(25,891,516)</u>
<b>Expenses (Note 9)</b>		
Management fees	1,477,396	1,511,168
Securities borrowing fees (Note 9)	6,979	-
Performance fees	2,343,428	-
Securityholder reporting costs	38,682	30,718
Other administrative expenses	39,153	38,299
Audit fees	43,005	39,433
Custody fees	24,955	25,098
Legal fees	4,672	2,701
Trustee fees	3,103	2,642
Interest expense	114	111
Transaction costs	65,823	262,075
Withholding tax	12,064	44,247
	<u>4,059,374</u>	<u>1,956,492</u>
<b>Net investment income</b>	21,638,546	(27,848,008)
<b>Increase (Decrease) in net assets attributable to holders of redeemable units</b>	<u>21,638,546</u>	<u>(27,848,008)</u>
<b>Increase (Decrease) in net assets attributable to holders of redeemable units per Class</b>		
Class A	\$ 11,729,613	\$ (14,607,443)
Class B	\$ 1,527,792	\$ (2,104,573)
Class F	\$ 8,381,141	\$ (11,135,992)
<b>Increase (Decrease) in net assets attributable to holders of redeemable units per Class per unit</b>		
Class A	\$ 2.91	\$ (2.71)
Class B	\$ 0.85	\$ (1.12)
Class F	\$ 2.38	\$ (2.89)

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

## Vertex Managed Value Portfolio

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units  
For the periods ended June 30 (unaudited)

	Class A		Class B	
	2018	2017	2018	2017
Net Assets attributable to holders of redeemable units, beginning of period	\$ 138,636,375	\$ 148,205,008	\$ 18,525,494	\$ 19,304,732
Increase (Decrease) in net assets attributable to holders of redeemable units	11,729,613	(14,607,443)	1,527,792	(2,104,573)
<b>Capital transactions (Note 8)</b>				
Proceeds from issuance of redeemable units	2,683,438	4,939,022	1,662,889	1,163,435
Redemption of redeemable units	(6,954,351)	(14,299,057)	(1,696,287)	(882,854)
	(4,270,913)	(9,360,035)	(33,398)	280,581
Net Assets attributable to holders of redeemable units, end of period	\$ 146,095,075	\$ 124,237,530	\$ 20,019,888	\$ 17,480,740
	Class F		Total	
	2018	2017	2018	2017
Net Assets attributable to holders of redeemable units, beginning of period	\$ 102,041,561	\$ 104,359,506	\$ 259,203,430	\$ 271,869,246
Increase (Decrease) in net assets attributable to holders of redeemable units	8,381,141	(11,135,992)	21,638,546	(27,848,008)
<b>Capital transactions (Note 8)</b>				
Proceeds from issuance of redeemable units	4,872,422	11,755,537	9,218,749	17,857,994
Redemption of redeemable units	(13,247,916)	(11,522,794)	(21,898,554)	(26,704,705)
	(8,375,494)	232,743	(12,679,805)	(8,846,711)
Net Assets attributable to holders of redeemable units, end of period	\$ 102,047,208	\$ 93,456,257	\$ 268,162,171	\$ 235,174,527

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

## Vertex Managed Value Portfolio

Statements of Cash Flows

For the periods ended June 30 (unaudited)

	2018	2017
<b>Operating activities</b>		
Increase (Decrease) in net assets attributable to holders of redeemable units	\$ 21,638,546	\$ (27,848,008)
Adjustment for non-cash items:		
Net change in unrealized (appreciation) depreciation on investments and derivatives	(10,927,670)	57,998,795
Net realized gain on investments and derivatives	(13,666,193)	(30,404,521)
Change in unrealized foreign exchange (gain) loss on cash (bank overdraft)	56	(398,782)
	<u>(2,955,261)</u>	<u>(652,516)</u>
Changes in operating assets and liabilities:		
Increase (decrease) in accrued interest	(639,795)	3,533
Decrease in dividends receivable	7,754	1,687
(Decrease) increase in management fee payable	(5,596)	23,854
Increase (Decrease) in accrued performance fees	1,975,099	(11,923,016)
	<u>1,337,462</u>	<u>(11,893,942)</u>
Proceeds on disposition of investments and derivatives, including proceeds received on shorts	31,759,128	82,200,102
Purchase of investments and derivatives, including cover for shorts	(16,805,166)	(76,556,946)
	<u>14,953,962</u>	<u>5,643,156</u>
<b>Net cash from (provided to) operating activities</b>	<u>13,336,163</u>	<u>(6,903,302)</u>
<b>Financing activities</b>		
Proceeds from issuance of redeemable units**	9,997,670	19,680,018
Redemption of redeemable units**	(24,075,509)	(21,261,939)
<b>Net cash provided to financing activities</b>	<u>(14,077,839)</u>	<u>(1,581,921)</u>
<b>Decrease in Cash</b>	<u>(741,676)</u>	<u>(8,485,223)</u>
<b>Change in unrealized foreign exchange (gain) loss on cash (bank overdraft)</b>	<u>(56)</u>	<u>398,782</u>
<b>Cash*, Beginning of period</b>	<u>832,176</u>	<u>8,668,282</u>
<b>Cash*, End of period</b>	<u>\$ 90,444</u>	<u>\$ 581,841</u>
<b>Supplemental Information (included in operating activities)</b>		
Cash paid for interest	114	111
Cash received from interest, net of withholding taxes	(382,378)	723,072
Cash received from dividends, net of withholding taxes	812,094	1,009,485

\* Cash includes cash pledged as collateral, if any

\*\* The amounts of proceeds and redemptions exclude non cash items such as switches and exchanges between classes for June 30, 2018 amounting to \$716,802 (June 30, 2017 - \$2,046,153)

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

## Vertex Managed Value Portfolio

Schedule of Investments

As at June 30, 2018 (Unaudited)

Number of Shares/ Par Value	Description	Coupon Rate %	Maturity Date	Average Cost \$	Fair Value \$	% of Total
<b>BONDS</b>						
<b>Corporate Bonds</b>						
2,257,390	1784761 Alberta Ltd.	12.000%	1-Aug-19	2,257,390	-	
250,000	ACGT DNA Technologies Corp.	10.000%	30-Jun-19	250,000	250,000	
2,101,006	Agawa Investments Ltd.	10.000%	7-Aug-25	2,101,006	1,903,511	
1,250,000	Dynasty Metals & Mining Inc.	12.000%	15-Sep-18	1,489,071	1,292,104	
370,000	Enerpulse Technologies, Convertible	6.000%	19-Feb-18	462,889	49	
500,000	Gran Colombia Gold Corp., Sinkable	8.250%	30-Apr-24	641,550	624,459	
202,274	Inca One Gold Corp.	12.000%	31-Aug-26	-	-	
63,220	Interactive Network Inc. / FriendFinder Networks Inc.	14.000%	20-Dec-18	76,250	49,867	
2,500,000	Offshore Group Investment Ltd., Escrow	7.500%	1-Nov-19	-	-	
400,000	Rockshield Engineered Wood Products ULC	18.000%	15-Sep-17	400,000	352,000	
150,000	Rockshield Engineered Wood Products ULC	18.000%	31-Dec-49	150,000	39,600	
143,366	Rockshield Engineered Wood Products ULC	30.000%	28-Feb-18	143,366	143,366	
374,540	Rockshield Engineered Wood Products ULC, Convertible	30.000%	31-Jan-18	374,540	374,540	
1,417,500	TGC Lending Inc.	6.000%	31-May-20	1,417,500	1,151,293	
	<b>Total Corporate Bonds</b>			<b>9,763,562</b>	<b>6,180,789</b>	<b>2.30</b>
<b>Provincial Bonds &amp; Guarantees</b>						
124,000	Province of Newfoundland and Labrador, Zero Coupon	0.000%	17-Apr-21	109,197	115,973	
	<b>Total Provincial Bonds &amp; Guarantees</b>			<b>109,197</b>	<b>115,973</b>	<b>0.04</b>
	<b>TOTAL BONDS</b>			<b>9,872,759</b>	<b>6,296,762</b>	<b>2.34</b>
<b>STOCKS</b>						
<b>CONSUMER DISCRETIONARY</b>						
152,238	Beazer Homes USA Inc.			3,091,212	2,952,060	
14,319	Century Communities Inc.			351,306	593,912	
54,100	REV Group Inc.			1,543,767	1,209,795	
	<b>TOTAL CONSUMER DISCRETIONARY</b>			<b>4,986,285</b>	<b>4,755,767</b>	<b>1.77</b>
<b>ENERGY</b>						
193,380	Athabasca Oil Corp.			219,033	348,084	
41,279,910	Blackbird Energy Inc.			9,425,138	16,511,964	
21,532,143	Blackbird Energy Inc., Warrants (19May21)			237,459	3,875,786	
14,500	Bonterra Energy Corp.			220,448	247,660	
215,580	Chinook Energy Inc.			70,105	43,116	
1,990,000	Colonial Coal International Corp.			298,500	686,550	
26,332	Delphi Energy Corp.			27,780	23,172	
205,521	Diamond Offshore Drilling Inc.			4,085,121	5,636,125	
688,228	EnSCO PLC, Class 'A'			5,379,878	6,568,695	
70,800	Hornbeck Offshore Services Inc.			477,311	368,586	
1,369,251	Ikkuma Resources Corp.			467,007	451,853	
1,280,484	InPlay Oil Corp.			2,376,485	2,368,895	
1,785,715	International Frontier Resources Corp.			500,000	428,572	
350,184	Kelt Exploration Ltd.			2,228,700	3,127,143	
1,873,532	Leucrotta Exploration Inc.			2,517,978	3,672,123	
200,000	Nabors Industries Ltd.			1,534,233	1,685,381	
1,099,615	Noble Corp. PLC			7,609,691	9,150,704	
7,280	Now Inc.			95,081	127,577	
23,480	Obsidian Energy Ltd.			37,502	34,985	
2,964	Oil States International Inc.			95,348	125,082	
1,289,781	Painted Pony Energy Ltd.			5,817,873	2,940,701	
189,773	Patterson-UTI Energy Inc.			4,017,640	4,490,730	
4,981,393	Pine Cliff Energy Ltd.			2,290,269	1,768,395	
132,541	Precision Drilling Corp.			612,898	576,553	
66,666,666	Return Energy Inc.			5,000,000	5,000,000	
66,666,666	Return Energy Inc., Warrants, (27Dec22)			-	1	
336,000	Rowan Companies PLC, Class 'A'			6,140,834	7,164,737	
7,280	Superior Energy Services Inc.			91,654	93,218	
5,333,643	Surge Energy Inc.			14,008,011	12,694,070	
898,300	Transocean Ltd.			13,414,162	15,871,969	
3,329,295	Trinidad Drilling Ltd.			7,092,770	6,225,782	
4,465	Vantage Drill International			522,420	1,470,413	
775,438	Yangarra Resources Ltd.			747,306	4,295,927	
	<b>TOTAL ENERGY</b>			<b>97,742,759</b>	<b>118,074,549</b>	<b>44.04</b>
<b>FINANCIAL SERVICES</b>						
534,902	Boff Holding Inc.			14,198,025	28,768,277	
234,923	CatchMark Timber Trust Inc., Class 'A'			3,381,192	3,931,553	
925,000	Enerpulse Technologies Inc.			-	4,864	
	<b>TOTAL FINANCIAL SERVICES</b>			<b>17,579,217</b>	<b>32,704,694</b>	<b>12.20</b>

## Vertex Managed Value Portfolio

Schedule of Investments

As at June 30, 2018 (Unaudited) (continued)

Number of Shares/ Par Value	Description	Average Cost \$	Fair Value \$	% of Total
<b>HEALTH CARE</b>				
2,397	Gilead Sciences Inc.	222,454	223,232	
	<b>TOTAL HEALTH CARE</b>	222,454	223,232	0.08
<b>INDUSTRIALS</b>				
75,000	Century Communities Inc.	1,574,652	3,110,791	
245,267	Prairie Provident Resources Inc.	528,584	96,880	
	<b>TOTAL INDUSTRIALS</b>	2,103,236	3,207,671	1.20
<b>INFORMATION TECHNOLOGY</b>				
7,528	Arrow Electronics Inc.	720,160	745,022	
47,393	CalAmp Corp.	943,795	1,459,811	
209,842	Flextronics International Ltd.	3,180,812	3,892,509	
26,149	Skyworks Solutions Inc.	1,694,602	3,322,516	
288,087	Unisys Corp.	3,133,702	4,885,663	
	<b>TOTAL INFORMATION TECHNOLOGY</b>	9,673,071	14,305,521	5.33
<b>MATERIALS</b>				
1,200,000	1038050 B.C. Ltd.	1,200,000	84,000	
2,516,665	Altair Resources Inc.	585,083	113,250	
250,000	Altair Resources Inc., Warrants, (16Jan20)	-	-	
1,666,665	Altair Resources Inc., Warrants, (18Apr20)	-	167	
5,000,001	BTU Metals Corp.	200,000	150,000	
79,113	Canfor Corp.	1,134,553	2,503,135	
1,000,000	Colonial Coal International Corp., Warrants, (02Mar20)	-	45,000	
136	Community Vehicle Financing & Leasing Inc.	7	1	
25,550	Community Vehicle Financing & Leasing Inc., Preferred, Series 'I'	2,225,913	2,063,163	
1,936,468	Conifex Timber Inc	12,382,693	11,386,430	
3,787,696	Copper Mountain Mining Corp.	6,766,454	4,696,743	
3,761,220	Core Gold Inc.	1,058,738	1,241,203	
1,500,000	Core Gold Inc., Warrants, (15Sep18)	-	270,000	
1,880,610	Core Gold Inc., Warrants, (01Feb20)	-	-	
3,330,872	Diamcor Mining Inc.	2,901,016	1,293,253	
715,500	Diamcor Mining Inc., Warrants, (30Dec17)	-	-	
144,550	Diamcor Mining Inc., Warrants, (31Aug19)	-	-	
588,236	Diamcor Mining Inc., Warrants, (09Jun20)	-	1	
217,150	Diamcor Mining Inc., Warrants, (28May21)	-	-	
62,000	Gran Colombia Gold Corp., Warrants, (30Apr24)	-	73,829	
143,701	Inca One Gold Corp., Warrants, (0 Sep19)	-	-	
611,862	Interfor Corp.	4,694,314	15,449,516	
396,074	MAG Silver Corp.	3,145,993	5,624,819	
268,705	Major Drilling Group International Inc.	1,619,941	1,864,813	
1,101,801	McEwen Mining Inc.	1,364,760	2,996,899	
2,667,428	Northern Dynasty Minerals Ltd.	5,478,816	1,898,416	
3,291,706	Red Eagle Mining Corp.	1,856,510	608,966	
1,097,235	Red Eagle Mining Corp., Warrants, (07Aug22)	-	1	
617	Rubix Lending Co. Inc., Class 'B'	6	6	
319,969	Schnitzer Steel Industries Inc., Class 'A'	8,053,387	14,175,811	
5,139,464	Taseko Mines Ltd.	6,910,766	7,195,250	
3,564,085	Western Forest Products Inc.	6,058,484	9,551,750	
	<b>TOTAL MATERIALS</b>	67,637,434	83,286,422	31.07
	<b>TOTAL STOCKS</b>	199,944,456	256,557,856	95.69
	<b>OPTIONS</b>		203,629,365	
	<b>Call Options</b>			
110	Diamond Offshore Drilling Inc., January 2019, \$12.50 USD	24,417	124,004	
100	Diamond Offshore Drilling Inc., January 2019, \$15.00 USD	35,388	84,138	
3,510	Diamond Offshore Drilling Inc., January 2019, \$17.50 USD	1,152,306	2,122,634	
3,300	Enco PLC, January 2019, \$7.00 USD	385,031	563,985	
1,800	Noble Corp. PLC, January 2019, \$4.00 USD	230,152	627,088	
8,500	Noble Corp. PLC, January 2019, \$5.00 USD	883,357	2,044,938	
4,200	Transocean Ltd., January 2019, \$12.00 USD	974,258	1,490,813	
	<b>Total Call Options</b>	3,684,909	7,057,600	2.63
	<b>TOTAL OPTIONS</b>	3,684,909	7,057,600	2.63
	<b>TOTAL LONG</b>	213,502,124	269,912,218	100.66
	<b>TOTAL NET INVESTMENTS BEFORE TRANSACTION COSTS</b>	213,502,124	269,912,218	100.66
	<b>Transaction Costs (Note 2)</b>	(429,504)		
	<b>TOTAL INVESTMENTS</b>	213,072,620	269,912,218	100.66
	<b>CASH</b>		90,444	0.03
	<b>OTHER ASSETS, LESS LIABILITIES</b>		(1,840,491)	(0.69)
	<b>TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>	213,072,620	268,162,171	100.00

\*Denotes manually priced securities using a fair valuation model

# Vertex Managed Value Portfolio

## Notes to Financial Statements

June 30, 2018 (Unaudited)

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### 1. Establishment of the Fund

The Vertex Managed Value Portfolio (the “Fund”) was created on March 31, 1998 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 and CIBC Mellon is the Trustee and Custodian of the Fund. The Fund commenced operations on April 3, 1998. Effective June 1, 2007, the name of the Fund was changed from Vertex Balanced Fund. The Fund currently offers an unlimited number of Class A, Class B and Class F Units.

The Fund will employ a variety of investment strategies to achieve its investment objectives. More specifically, the assets of the Fund will be invested, under the discretion of the Manager, in a diversified portfolio of equity and fixed income securities to provide unitholders with an opportunity for capital appreciation and high current income. The Manager will vary its asset allocation to adapt to prevailing economic conditions. The Fund’s long term asset allocation policy is targeted towards a balanced portfolio of equities and fixed income securities.

### 2. Basis of presentation and adoption of IFRS

These financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (“IASB”). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit and loss

The interim financial statements were authorized for issue by the Manager on August 21, 2018.

### 3. Significant accounting policies

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

##### *a) Classification*

The classification of a financial instrument depends upon its characteristics as well as the purpose for which it was acquired. This initial classification is not subsequently changed except in very limited circumstances.

Financial instruments include financial assets and liabilities such as debt and equity securities, open-ended investment funds and derivatives. The Fund classifies and measures financial instruments in accordance with IFRS 9, Financial Instruments (“IFRS 9”). Upon initial recognition, financial instruments are classified as fair value through profit or loss (“FVTPL”).

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



# Vertex Managed Value Portfolio

## Notes to Financial Statements

June 30, 2018 (Unaudited)

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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 in the period in which they arise.

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

### *c) Revenue Recognition*

Dividend income from financial assets at fair value through profit or loss is recognized in the Statements of Comprehensive Income within dividend income when the Fund's right to receive payments is established. Interest on debt securities at fair value through profit or loss is recognized in the Statements of Comprehensive Income as interest income for distribution purposes which represents the coupon interest on debt instruments held by the Fund determined on an accrual basis. Dividend expense on short sales of equity securities is included within gain (loss) on investments and derivatives. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities except for zero coupon bonds which are amortized. Net realized gain (loss) and net change in unrealized appreciation (depreciation) of investments are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds. Transaction costs are costs incurred to acquire financial assets or 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 recognised 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

# **Vertex Managed Value Portfolio**

## **Notes to Financial Statements**

**June 30, 2018 (Unaudited)**

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within the bid-ask spread that is most representative of fair value based on specific facts and circumstances.

The value of any security which is not listed or traded on an exchange, but which is listed or traded on another market, including an over-the-counter market, being a marketplace other than an exchange where securities are normally purchased and sold and quotations are in common use in respect thereof, shall be determined in the same manner as a listed security by reference to prices on that market.

Warrants if listed on a recognized exchange are valued at the latest available close price. If the warrants are not listed, but a secondary market exists then the independent broker prices (if available), who trade in such market will be used. If no secondary market exists, the warrants will be valued using the Black Scholes option pricing model.

The value of any security or property for which, in the opinion of the Manager the published market quotations are not readily available shall be the fair value as determined by the Manager based on valuation techniques. The fair value of certain securities are determined by using valuation models that are based, in part, on assumptions that are not supported by observable market inputs. These methods and procedures may include, but are not limited to, performing comparisons with prices of comparable or similar securities, discounted cash flow analysis, obtaining valuation related information from issuers and/or other analytical data relating to the investment and using other available indicators of value. These values are independently assessed internally to ensure that they are reasonable. However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interests may be materially different from the values that would have been used had a ready market for the investment existed. The fair values of such securities are affected by the perceived credit risks of the issuer, predictability of cash flows and the length of time to maturity.

### **Cash**

Cash is comprised of cash on deposit.

### **Collateral**

Cash collateral provided by the Fund is identified in the Statements of Financial Position as ‘cash, pledged as collateral’, if any. For collateral other than cash, if the party to whom the collateral is provided has the right by contract or custom to sell or re-pledge the collateral, the Fund classifies that asset in its Statements of Financial Position separately from other assets and identifies the asset as pledged collateral. Where the party to whom the collateral is provided does not have the right to sell or re-pledge, the collateral provided is disclosed in the notes to the financial statements.

### **Options**

Option premiums paid or received by the Fund are, so long as the options are outstanding, reflected in the Schedule of Investments. Exchange traded options are valued at their last traded market price where the last traded market price falls within the day’s bid ask spread. In cases where the last traded price is not within the day’s bid-ask spread, the Manager determines the point within the bid-ask spread that is

# **Vertex Managed Value Portfolio**

## **Notes to Financial Statements**

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most representative of fair value based on specific facts and circumstances. Over the counter options are valued using industry-accepted modeling techniques on each valuation day.

Unlisted options are valued using the Black Scholes model.

Realized gains and losses relating to purchased options may arise from:

- i) Expiration of purchased options – realized losses will arise equal to the premium paid;
- ii) Exercise of the purchased options – for put options, realized gains will arise up to the intrinsic value of the option net of premiums paid and for call options, the premium will be added to the cost base of the security purchased; or
- iii) Closing of the purchased options – realized gains or losses will arise equal to the proceeds from selling the options to close the position, net of any premium paid.

Realized gains and losses relating to written options may arise from:

- i) Expiration of the written options – realized gains will arise equal to the premium received;
- ii) Exercise of the written options – for call option, realized gains or losses will arise equal to the sum of the premium received and the realized gain or loss from the disposition of the related portfolio investment at the exercise price of the option and for put option, the premium will be deducted from the cost base of the security purchased; or
- iii) Closing of the written options – realized gains or losses will arise equal to the cost of purchasing options to close the position net of any premium received.

Realized gains and losses related to options are included in “Net realized gain (loss) on investments and derivatives” in the Statements of Comprehensive Income.

### **Foreign currency translation**

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

### **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

# Vertex Managed Value Portfolio

## Notes to Financial Statements

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approved credit rating and or convertible securities. As at June 30, 2018, the aggregate dollar value of portfolio securities lent and the collateral held under securities transactions were \$nil of equity (December 31, 2017 – \$nil) and \$nil of government debt securities (December 31, 2017 – \$nil ) respectively. Income earned from securities lending is included in securities lending income in the Statements of Comprehensive Income. There were no income earned from securities lending during the periods ended June 30, 2018 and June 30, 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 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 June 30, 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.

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.

# Vertex Managed Value Portfolio

## Notes to Financial Statements

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### Notional distribution

The Fund may make notional distribution at the discretion of the Manager. During the year ended December 31, 2017, notional distributions in the amount of \$nil (December 31, 2016: \$443,670) was made to the unitholders from net investment income and capital gains. The distribution was deemed as paid and immediately following this payment, the number of Units were automatically reinvested and consolidated so that the Class Net Asset Value per Unit after the reinvestment is the same as it was immediately before the amount was considered to have been declared due and payable by the Fund. Refer to note 8 for details.

### Taxation

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). All of the Fund's net income for tax purposes and sufficient net capital gains realized in any period are required to be distributed to unitholders such that no income tax is payable by the Fund. As a result, the Fund has determined that it is in substance not taxable and therefore does not record income taxes in the Statements of Comprehensive Income nor does it recognize any deferred tax assets or liabilities in the Statements of Financial Position. As at December 31, 2017, the Fund had \$nil (December 31, 2016 - \$nil) of unused capital losses which have no expiry and \$nil (December 31, 2016 - \$nil) of non-capital losses.

The Fund currently incurs withholding taxes imposed by certain countries on investment income and capital gains. Such income and gains are recorded on a gross basis and the related withholding taxes are shown as a separate expense in the Statements of Comprehensive Income.

## 4. Future Accounting Change

### IFRS 9 Transition

Effective January 1, 2018, the Fund adopted IFRS 9 Financial Instruments. The new standard requires financial assets to be carried at amortized cost or fair value, with changes in fair value recognized in fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVOCI) based on the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Assessment and decision on the business model approach used is an accounting judgement.

Upon transition to IFRS 9, the Fund's financial assets and financial liabilities were classified as FVTPL. This classification differs from the classification under the previous IAS 39, therefore there were changes in categorization of certain financial assets and financial liabilities upon transition to IFRS 9. Effective January 1, 2018, all financial assets that had previously been designated as FVTPL and all financial assets and liabilities that were previously classified as financial assets and financial liabilities at amortized cost were reclassified as FVTPL. Derivative assets and derivative liabilities that were previously considered as held-for-trading financial instruments and were classified as FVTPL remain unchanged upon transition to IFRS 9.

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## Notes to Financial Statements

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There were no changes in the measurement attributes for any of the financial assets and financial liabilities upon transition to IFRS 9.

### 5. Critical accounting estimates and judgments

The preparation of financial statements requires management to make judgments in applying its accounting policies and to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual amounts could differ from those estimates.

#### **Fair value measurement of securities not quoted in an active market**

The Fund holds financial instruments that are not quoted in active markets. 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.

#### **Classification and measurement of investments and application of the fair value option**

In classifying and measuring financial instruments held by the Fund, the Manager is required to make significant judgments about whether or not the business of the Fund is to invest on a total return basis for the purpose of applying the fair value option for financial assets under IFRS 9. The Manager has assessed the Fund's business model, the manner in which all financial instruments are managed and performance evaluated as a group on a fair value basis, and concluded that FVTPL in accordance with IFRS 9 provides the most appropriate measurement and presentation of the Fund's financial instruments.

### 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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June 30, 2018 (Unaudited)

Level 2- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3- unobservable inputs for the asset or liability.

The Fund's financial instruments which are recorded at fair value have been categorized based upon this fair value hierarchy. The following fair value hierarchy table presents information about the Fund's financial instruments measured at fair value as at June 30, 2018 and December 31, 2017.

#### Financial Assets at fair value as June 30, 2018

	Level 1	Level 2	Level 3	Total
Equities - long	\$ 250,145,901	-	\$ 2,147,170	\$ 252,293,071
Bonds - long	-	790,299	5,506,463	6,296,762
Warrants	3,949,615	315,170	-	4,264,785
Options	7,057,600	-	-	7,057,600
	\$ 261,153,116	\$ 1,105,469	\$ 7,653,633	\$ 269,912,218

#### Financial Assets at fair value as at December 31, 2017

	Level 1	Level 2	Level 3	Total
Equities - long	\$ 238,319,911	\$ 5,033,333	\$ 2,274,166	\$ 245,627,410
Bonds - long	-	178,631	5,832,273	6,010,904
Warrants	3,768,125	225,023	-	3,993,148
Options	4,696,843	-	-	4,696,843
	\$ 246,784,879	\$ 5,436,987	\$ 8,106,439	\$ 260,328,305

#### Financial Liabilities at fair value as at December 31, 2017

	Level 1	Level 2	Level 3	Total
Options	(55,987)	-	-	(55,987)
	\$ (55,987)	\$ -	\$ -	\$ (55,987)

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:

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

# Vertex Managed Value Portfolio

## Notes to Financial Statements

June 30, 2018 (Unaudited)

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not identical, instruments and transaction prices in markets that are not active for similar, but not identical, instruments.

Bonds - The fair value of bonds are determined by obtaining the quoted market prices or executable dealer quotes for identical or similar instruments in inactive markets, or other inputs that are observable or can be corroborated by observable market data. In addition, the Fund also values these instruments using the net present value of estimated future cash flows.

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 and the other inputs are observable.

### Level 3 fair value measurements and sensitivity analysis

#### Equities

Equities classified within Level 3 with fair value at June 30, 2018 of \$2,147,163, (December 31, 2017 - \$2,274,160) and 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 its earnings before interest, taxes, depreciation and amortization (EBITDA). The trading multiple is then discounted for consideration such as illiquidity and differences between the comparable companies based on company-specific facts and circumstances

#### Bonds

Bonds classified within Level 3 with fair value at June 30, 2018 of \$5,506,463, (December 31, 2017 - \$5,823,667) consists of corporate bonds. The Fund values these instruments using the net debt to EBITDA. The Fund also considers liquidity, credit and market risk factors, and adjusts the valuation model as deemed necessary.

#### Warrants

Warrants classified within Level 3 with fair value at June 30, 2018 of \$nil, (December 31, 2017 - nil) have significant unobservable inputs, as the underlying securities trade infrequently or are privately



## Vertex Managed Value Portfolio

### Notes to Financial Statements

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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 the underlying securities.

The following table presents the sensitivity analysis for level 3 securities with significant unobservable inputs as at June 30, 2018 and December 31, 2017.

Description	Fair Value at June 30, 2018	Valuation Techniques		Unobservable Inputs	Weighted average input	Reasonably possible shift +/- (absolute value)	Change in the valuation (+/-)
Equities	\$2,147,163	Comparable trading multiples		Sales Multiple	3.6	1.0	+/- \$601,475
Debt Securities	\$5,506,463	Net debt to EBITDA		Net debt to EBITDA	6.9	1.0	+/- \$319,823
				Discount Rate	17.9	1.0	+/- \$26,401
				Per Acre Multiple	1,485	50.0	+/- \$116,150

Description	Fair Value at December 31, 2017	Valuation Techniques		Unobservable Inputs	Weighted average input	Reasonably possible shift +/- (absolute value)	Change in the valuation (+/-)
Equities	\$2,274,166	Comparable trading multiples		Sales Multiple	3.6	1.0	+/- \$641,189
Debt Securities	\$5,823,273	Net debt to EBITDA		Net debt to EBITDA	6.9	1.0	+/- \$350,563
				Discount Rate	17.9	1.0	+/- \$28,666
				Per Acre Multiple	1,485	50.0	+/- \$116,150

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.

## Vertex Managed Value Portfolio

### Notes to Financial Statements

#### June 30, 2018 (Unaudited)

A sensitivity analysis for Level 3 positions at June 30, 2018 for warrants amounting to \$nil (December 31, 2017 - \$nil) and were not presented as it was deemed the impact of reasonable changes in inputs would not be significant.

#### Reconciliation of Level 3 fair value measurements

The following is a reconciliation of Level 3 fair value measurements from December 31, 2017 to June 30, 2018:

	<b>Fair value measurements using level 3 inputs</b>			
	<b>Warrants</b>	<b>Equities - long</b>	<b>Bonds - long</b>	<b>Total</b>
<b>Balance at December 31, 2017</b>	\$ -	\$ 2,274,166	\$ 5,832,273	\$ 8,106,439
Sales	-	-	(1,081,206)	(1,081,206)
Purchases	-	-	184,951	184,951
Gains (Losses)				
Realized	-	-	165,296	165,296
Unrealized	-	(126,996)	405,149	278,153
<b>Balance at June 30, 2018</b>	<b>\$ -</b>	<b>\$ 2,147,170</b>	<b>\$ 5,506,463</b>	<b>\$ 7,653,633</b>
Total change in unrealized gain (loss) during the year for assets held at June 30, 2018	\$ -	\$ (126,996)	\$ 124,494	\$ (2,502)

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

	<b>Fair value measurements using level 3 inputs</b>			
	<b>Warrants</b>	<b>Equities - long</b>	<b>Bonds - long</b>	<b>Total</b>
<b>Balance at December 31, 2016</b>	\$ 213,017	\$ 1,200,002	\$ 12,009,971	\$ 13,422,990
Sales	-	-	(3,731,328)	(3,731,328)
Purchases	-	-	982,955	982,955
Restructuring in	-	2,225,919	-	2,225,919
Restructuring out	-	(6)	(2,225,913)	(2,225,919)
Transfers out	(213,015)	-	-	(213,015)
Gains (Losses)				
Realized	-	-	(955,029)	(955,029)
Unrealized	(2)	(1,151,749)	(248,383)	(1,400,134)
<b>Balance at December 31, 2017</b>	<b>\$ -</b>	<b>\$ 2,274,166</b>	<b>\$ 5,832,273</b>	<b>\$ 8,106,439</b>
Total change in unrealized gain (loss) during the year for assets held at December 31, 2017	\$ -	\$ (1,151,754)	\$ (1,269,052)	\$ (2,420,806)

There were no transfers between Levels 1 and 2 for assets and liabilities held at June 30, 2018:

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June 30, 2018 (Unaudited)

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

	<b>Transfer from level 1 to level 2</b>	<b>Transfer from level 2 to level 1</b>
	<b>2017</b>	<b>2017</b>
Equities - Long	\$ -	\$ 619,736

### 7. Investment Entity

The fund has determined that it meets the definition of an "investment entity" and as a result, it measures subsidiaries, if any, at FVTPL. An investment entity is an entity that: obtains funds from one or more investors for the purposes of providing them with investment management services, commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and measures and evaluates the performance of substantially all of its investments on a fair value basis. The most significant judgement that the Fund has made in determining that it meets this definition is that fair value is the primary measurement attribute used to measure and evaluate the performance of substantially all of its investments.

### 8. Redeemable units

Redeemable units transactions include amounts representing unit subscriptions, unit redemptions, undistributed net income, undistributed realized gains (losses) on sale of investments and derivatives and unrealized appreciation (depreciation) in value of investments and derivatives. Units are redeemable at the end of any month. The Fund generally has no restrictions or specific capital requirements on the subscription and redemptions of units. In accordance with the objectives and the risk management policies outlined in note 11, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being managed by investing the majority of assets in investments that can be readily disposed. The following table summarizes the changes in the number of units during the period.

	<b>June 30, 2018</b>			June 30, 2017		
	<b>Class A</b>	<b>Class B</b>	<b>Class F</b>	Class A	Class B	Class F
Units - Beginning of period	<b>5,179,446</b>	<b>1,805,714</b>	<b>3,650,354</b>	5,478,527	1,859,511	3,724,268
Redeemable Units issued	<b>97,626</b>	<b>160,929</b>	<b>170,180</b>	179,810	111,590	415,048
Redeemable Units redeemed	<b>(256,626)</b>	<b>(163,919)</b>	<b>(462,446)</b>	(548,335)	(88,304)	(428,302)
Units - End of period	<b>5,020,446</b>	<b>1,802,724</b>	<b>3,358,088</b>	5,110,002	1,882,797	3,711,014

Certain directors and/or related parties of the Fund held 16.48% of the Fund units at June 30, 2018 (December 31, 2017 - 15.93%).

# Vertex Managed Value Portfolio

## Notes to Financial Statements

June 30, 2018 (Unaudited)

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### 9. Fees and expenses

#### a) *Management fees*

Pursuant to the terms of the management agreement, the Fund pays the Manager a monthly management fee for services, including the provision of key management personnel, calculated as a percentage of the Net Asset Value 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 existing classes of units is as follows:

Class A: 1/12 of 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 1.9% 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% per annum of the NAV of Class F Units of the Fund on the last business day of the month plus applicable taxes.

The management fees incurred for the period ended June 30, 2018 are \$1,477,396 (June 30, 2017 - \$1,511,168), of which \$257,804 (December 31, 2017 - \$263,400) were outstanding at period end.

#### b) *Performance fees*

The Fund also pays the Manager an annual performance fee (the “performance fee”) equal to 20% of the amount by which the percentage increase in net asset value per unit exceeds a threshold annualized increase of 5% (the “Hurdle Rate”) of the Net Asset Value for each class of units at the beginning of that fiscal year. The Hurdle Rate of 5% is reset on January of each new calendar year for each class of units. The performance fee is accrued monthly and is payable for each calendar year. The performance fee plus applicable taxes is payable by the Fund within 10 business days from the year-end. Upon 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 month in which the units were redeemed.

There were \$2,343,427 in performance fees incurred for the period ended June 30, 2018 (June 30, 2017 - nil), of which \$2,506,654 (December 31, 2017 - \$531,555) were outstanding at period end. The Manager has reserved the right to change the period for which any performance fee may be paid by the Fund to the Manager.

#### c) *Other fees and expenses*

The Fund is responsible for the payment of all fees and expenses relating to its operation, including the fees and expenses of the recordkeeper, audit, accounting, administration (other than advertising and promotional expenses which are paid for by the Manager), and legal fees and expenses, custody and safekeeping charges, all costs and expenses associated with the qualification for sale of units, providing

# Vertex Managed Value Portfolio

## Notes to Financial Statements

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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).

### 10. Soft dollar commissions

Soft dollar commissions relate to amounts paid to brokers in exchange for research or other services provided to the Manager. There were \$9,858 soft dollar commissions paid (June 30, 2017 - \$270) during the period

### 11. Financial risk management

The Fund's financial instruments consist of investments, cash, accrued interest and dividends receivable, subscriptions receivable, accrued performance fees, accrued management fees, accounts payable and accrued liabilities, due to/from 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 market positions on a daily basis and positions are maintained within established ranges.

As of June 30, 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 \$13,180,773 (December 31, 2017 - \$12,713,071). Actual results may differ from this sensitivity analysis and those results could be material.

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## Notes to Financial Statements

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**(b) Interest rate risk**

As at June 30, 2018, 2.34% (December 31, 2017 – 2.31%) of the Fund’s investment portfolio includes interest bearing corporate bonds and strip bonds. As a result, the Fund was subject to interest rate risk due to fluctuations in the prevailing level of market interest rates which could impact the Fund’s cash flows.

The table below summarizes the Fund’s exposure to interest rate risk. It includes the Fund’s assets and liabilities at fair values, categorized by the earlier of contractual re-pricing or maturity dates.

	Less than 1 year	1 - 5 years	More than 5 years	Total
<b>As at June 30, 2018</b>				
<b>Financial Assets</b>				
Bonds*	\$ 2,461,926	\$ 1,267,266	\$ 2,567,570	\$ 6,296,762
<b>As at December 31, 2017</b>				
<b>Financial Assets</b>				
Bonds*	\$ 2,434,230	\$ 1,633,564	\$ 1,943,110	\$ 6,010,904

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

At June 30, 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 \$23,605 (December 31, 2017 - \$35,818). Actual results may differ from this sensitivity analysis and those results could be material. The Fund’s Manager reviews 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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### Notes to Financial Statements

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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 June 30, 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 June 30, 2018						
	Monetary exposure	Non-monetary exposure	Net currency exposure	% of Net assets attributable to holders of redeemable units	5% Decrease /increase	
Euro	\$ 1	\$ -	1	0.00%	\$ 0	
US Dollar	2,826,876	131,402,746	\$ 134,229,622	50.06%	6,711,481	
Total	\$ 2,826,877	\$ 131,402,746	\$ 134,229,624	50.06%	\$ 6,711,481	

  

As at December 31, 2017						
	Monetary exposure	Non-monetary exposure	Net currency exposure	% of Net assets attributable to holders of redeemable units	5% Decrease /increase	
Euro	\$ 1	\$ -	1	0.00%	\$ 0	
US Dollar	2,260,036	122,703,021	\$ 124,963,057	46.60%	6,248,153	
Total	\$ 2,260,037	\$ 122,703,021	\$ 124,963,058	46.60%	\$ 6,248,153	

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

#### (d) 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 custodian bearing a credit rating of Aa3 or better.

# Vertex Managed Value Portfolio

## Notes to Financial Statements

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The Fund invests in debt securities, which have an investment grade as rated primarily by Dominion Bond Rating Service and Standard & Poor's. Ratings for securities that subject the Fund to credit risk are noted below:

Rating	Percentage of net assets	
	Jun-18 2018	December 31, 2017
A/A	0.04%	0.04%
BBB/Bbb	0.00%	0.00%
Below BBB	0.00%	0.00%
Unrated	2.30%	2.27%
<b>Total</b>	<b>2.34%</b>	<b>2.31%</b>

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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.

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 is only made once the broker has received payment. Payment is made 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.

(e) **Liquidity risk**

Liquidity risk is the risk that the Fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund's exposure to liquidity risk is concentrated in the cash redemptions of units at the monthly valuation date. The Fund invests primarily in securities that are traded in active markets and can be readily disposed. The Fund may, from time to time, invest in derivative contracts traded over the counter or in unlisted securities, which are not traded in an organized market and may be illiquid. As a result, the Fund may not be able to quickly liquidate its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer. Investments held as at June 30, 2018 that may be subject to liquidity risk have been identified on the Schedule of Investments. In addition, the Fund retains sufficient cash to maintain liquidity.

The tables below analyze the Fund's financial liabilities as at June 30, 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



## Vertex Managed Value Portfolio

### Notes to Financial Statements

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representative of the actual cash outflows as holders of the redeemable units typically retain them for a longer period.

	On demand	Less than 3 months	3 - 12 months	More than 12 months	Total
<b>As at June 30, 2018</b>					
<b>Liabilities</b>					
Option contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued performance fees	-	2,506,654	-	-	\$ 2,506,654
Management fees payable	-	257,804	-	-	257,804
Redemptions payable	-	-	-	-	-
Redeemable units	268,162,171	-	-	-	268,162,171

	On demand	Less than 3 months	3 - 12 months	More than 12 months	Total
<b>As at December 31, 2017</b>					
<b>Liabilities</b>					
Option contracts	\$ -	\$ 55,987	\$ -	\$ -	\$ 55,987
Accrued performance fees	-	531,555	-	-	\$ 531,555
Management fees payable	-	263,400	-	-	263,400
Redemptions payable	-	2,893,757	-	-	2,893,757
Due to broker	-	-	-	-	-
Redeemable units	259,203,430	-	-	-	259,203,430

**(f) Concentration risk**

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

# Vertex Managed Value Portfolio

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Portfolio by Category	Percentage of Net Assets (%)	
	As at	As at
	June 30, 2018	December 31, 2017
Bonds - Corporate Bonds	2.30	2.27
Bonds - Strip Bonds & Coupons	0.04	0.04
Stocks - Consumer Discretionary	1.77	4.19
Stocks - Energy	44.04	35.68
Stocks - Financial Services	12.20	13.29
Stocks - Health Care	0.08	0.08
Stocks - Industrials	1.20	4.14
Stocks - Information Technology	5.33	5.02
Stocks - Materials	31.07	33.90
Long - Call Options	2.63	1.81
Short - Put Options	-	(0.02)
Cash	0.03	0.33
Other Assets, Less Liabilities	(0.69)	(0.73)
	<u>100.00</u>	<u>100.00</u>

### 12. Exemption from Regulatory Filing

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

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

The increase (decrease) in net assets attributable to holders of redeemable units per unit for the periods ended June 30, 2018 and June 30, 2017 is calculated as follows:

<b>Class A</b>	<b>June 30, 2018</b>	<b>June 30, 2017</b>
Increase (decrease) in net assets attributable to holders of redeemable units	\$ 11,729,613	\$ (14,607,443)
Weighted average units outstanding during the period	5,095,909	5,399,869
Increase (decrease) in net assets attributable to holders of redeemable units per unit	2.30	(2.71)

<b>Class B</b>	<b>June 30, 2018</b>	<b>June 30, 2017</b>
Increase (decrease) in net assets attributable to holders of redeemable units	\$ 1,527,792	\$ (2,104,573)
Weighted average units outstanding during the period	1,800,368	1,883,878
Increase (decrease) in net assets attributable to holders of redeemable units per unit	\$ 0.85	(1.12)

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**Notes to Financial Statements**  
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<b>Class F</b>	<b>June 30, 2018</b>		<b>June 30, 2017</b>
Increase (decrease) in net assets attributable to holders of redeemable units	\$	8,381,141	\$ (11,135,992)
Weighted average units outstanding during the period		3,518,868	3,851,537
Increase (decrease) in net assets attributable to holders of redeemable units per unit	\$	2.38	(2.89)