

# **Vertex Liquid Alternative Fund Plus**

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

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

## Vertex Liquid Alternative Fund Plus

Statement of Financial Position

As at June 30, 2019

	<b>June 30, 2019</b>
	<b>(unaudited)</b>
<b>Assets</b>	
<b>Current assets</b>	
Investments	\$ 76,393,743
Accrued interest	560
Subscriptions receivable	443,700
Derivative financial instruments	
Forward purchase	28,460,660
	<u>105,298,663</u>
<b>Liabilities</b>	
<b>Current liabilities</b>	
Management fees payable (Note 9)	\$ 45,212
Accrued performance fees (Note 9)	43,388
Leverage (Note 3)	22,620,808
Redemptions payable	41,611
Accounts payable and accrued liabilities	55,366
Due to broker	1,500,000
Derivative financial instruments	
Forward purchase	28,324,999
	<u>52,631,384</u>
<b>Net Assets attributable to holders of redeemable units</b>	<b>\$ 52,667,279</b>
<b>Net Assets attributable to holders of redeemable units per Class</b>	
Class B	\$ 4,747,801
Class F	<u>\$ 47,919,478</u>
<b>Net Assets attributable to holders of redeemable units per unit</b>	
Class B	\$ 10.06
Class F	<u>\$ 10.09</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 Liquid Alternative Fund Plus

Statement of Comprehensive Income

For the period from January 17, 2019 (commencement of operations) to June 30, 2019 (unaudited)

	2019
<b>Investment income</b>	
Net gain (loss) on investments and derivatives	
Dividends	-
Dividends, paid on shorts	-
Interest for distribution purposes	\$ 6,530
Other Income /other	(148,725)
Income from options	
Net change in unrealized appreciation on investments and derivatives	494,404
<b>Net gains/losses on financial instruments at fair value through profit or loss</b>	<u>352,209</u>
<b>Expenses (Note 9)</b>	
Management fees	124,006
Securities borrowing fees	11
Performance fees	59,628
Other administrative expenses	49,924
Interest expense on leverage	65,177
<b>Total expenses</b>	<u>298,746</u>
<b>Net investment income before absorbed expenses</b>	53,463
<b>Expenses absorbed by manager (Note 5)</b>	<u>48,898</u>
<b>Increase in net assets attributable to holders of redeemable units</b>	<u>102,361</u>
<b>Increase in net assets attributable to holders of redeemable units per Class</b>	
Class B	\$ 725
Class F	<u>\$ 101,636</u>
<b>Increase in net assets attributable to holders of redeemable units per Class per unit</b>	
Class B	\$ -
Class F	<u>\$ 0.04</u>

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

**Vertex Liquid Alternative Fund Plus**

Statement of Changes in Net Assets Attributable to Holders of Redeemable Units

**For the period from January 17, 2019 (commencement of operations) to June 30, 2019 (unaudited)**

	<u>Class B</u>	
	2019	
Net Assets attributable to holders of redeemable units, beginning of the period	\$ -	
Increase in net assets attributable to holders of redeemable units	725	
<b>Capital transactions (Note 8)</b>		
Proceeds from issuance of redeemable units	4,776,993	
Redemption of redeemable units	<u>(29,917)</u>	
	<u>4,747,076</u>	
Net Assets attributable to holders of redeemable units, end of the period	<u>\$ 4,747,801</u>	
	<u>Class F</u>	<u>Total</u>
	2019	2019
Net Assets attributable to holders of redeemable units, beginning of the period	\$ -	\$ -
Increase in net assets attributable to holders of redeemable units	101,636	102,361
<b>Capital transactions (Note 8)</b>		
Proceeds from issuance of redeemable units	48,791,116	53,568,109
Redemption of redeemable units	<u>(973,274)</u>	<u>(1,003,191)</u>
	<u>47,817,842</u>	<u>52,564,918</u>
Net Assets attributable to holders of redeemable units, end of the period	<u>\$ 47,919,478</u>	<u>\$ 52,667,279</u>

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

## Vertex Liquid Alternative Fund Plus

Statement of Cash Flows

For the period from January 17, 2019 (commencement of operations) to June 30, 2019 (unaudited)

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	2019
<b>Operating activities</b>	
Increase in net assets attributable to holders of redeemable units	\$ 102,361
Adjustment for non-cash items:	
Net change in unrealized depreciation on investments and derivatives	(494,404)
	<u>(392,043)</u>
Changes in operating assets and liabilities:	
Increase in accrued interest	(560)
Increase in accounts payable and accrued liabilities	55,366
Increase in management fee payable	45,212
Increase in accrued performance fees	43,388
	<u>143,406</u>
Purchase of investments and derivatives, including cover for shorts	<u>(74,535,000)</u>
	<u>(74,535,000)</u>
<b>Net cash used in operating activities</b>	<u>(74,783,637)</u>
<b>Financing activities</b>	
Proceeds from issuance of redeemable units**	53,103,425
Redemption of redeemable units**	(940,596)
Increase in leverage	22,620,808
	<u>74,783,637</u>
<b>Net cash from financing activities</b>	<u>74,783,637</u>
<b>Increase (Decrease) in Cash</b>	-
<b>Change in unrealized foreign exchange gain (loss) on cash</b>	-
<b>Cash, Beginning of the period</b>	<u>-</u>
<b>Cash, End of the period</b>	<u>\$ -</u>
<b>Supplemental Information (included in operating activities)</b>	
Cash paid for interest on leverage	65,177
Cash received from interest, net of withholding taxes	5,970

\*\* The amounts of proceeds and redemptions exclude non cash items such as switches and exchanges between classes for the period ending June 30, 2019 amounting to \$20,984.

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

**Vertex Liquid Alternative Fund Plus**

Schedule of Investments Portfolio

As at June 30, 2019 (unaudited)

Number of Shares/ Par Value	Description	Average Cost \$	Fair Value \$	% of Total
	<b>EQUITIES</b>			
	<b>MUTUAL FUNDS</b>			
7,531,523	Vertex Liquid Alternative Fund, Class 'O'	76,035,000	76,393,743	
	<b>TOTAL MUTUAL FUNDS</b>	<u>76,035,000</u>	<u>76,393,743</u>	<u>145.05</u>
	<b>TOTAL EQUITIES</b>	<u>76,035,000</u>	<u>76,393,743</u>	<u>145.05</u>
	<b>FORWARD PURCHASE</b>			
	Vertex Liquid Alternative Fund, Class 'O', Forward Purchase Payment Date January 23, 2024 (Notional Value \$28,825,000)		28,460,660	
	<b>Total Unrealized gain on forward purchase</b>		<u>28,460,660</u>	<u>54.04</u>
	<b>TOTAL INVESTMENTS</b>	<u>76,035,000</u>	<u>104,854,403</u>	<u>199.09</u>
	<b>OTHER ASSETS, LESS LIABILITIES</b>		<u>(52,187,124)</u>	<u>(99.09)</u>
	<b>TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>		<u>52,667,279</u>	<u>100.00</u>

# Vertex Liquid Alternative Fund Plus

## Notes to Financial Statements

June 30, 2019 (Unaudited)

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### 1. Establishment of the Fund

Vertex Liquid Alternative Fund Plus (the “Fund”) was created on January 11, 2019 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 17, 2019. 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 generate consistent, positive returns, with lower volatility and low correlation to equity markets by providing levered exposure to the Vertex Liquid Alternative Fund (“VLAFF”).

The Fund falls within the definition of an “alternative mutual fund” set out in NI 81-102 as it is permitted to use strategies generally prohibited by other types of mutual funds, such as the ability to invest more than 10% of its NAV in securities of a single issuer, either directly or through the use of specified derivatives, the ability to borrow cash, up to 30% of its NAV, to use for investment purposes, the ability to sell securities short (the combined level of cash borrowing and short selling is limited to 50% of its NAV in aggregate), and the ability to use leverage through the use of cash borrowing, short selling and specified derivatives. The maximum aggregate exposure to these sources of leverage, as calculated in accordance with section 2.9.1 of NI 81-102, shall not exceed 300% of the fund’s NAV.

### 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 semi annual financial statements were authorized for issue by the Manager on August 29, 2019.

### 3. Significant accounting policies

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

##### a) Classification

##### i. Assets

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

# Vertex Liquid Alternative Fund Plus

## Notes to Financial Statements

June 30, 2019 (Unaudited)

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Fund's business model's objective. Consequently, all investment are measured at fair value through profit or loss.

*ii. Liabilities*

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

*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.

# Vertex Liquid Alternative Fund Plus

## Notes to Financial Statements

June 30, 2019 (Unaudited)

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### *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 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 Liquid Alternative Fund Plus

## Notes to Financial Statements

June 30, 2019 (Unaudited)

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### Cash

Cash is comprised of cash on deposit.

### 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
- 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).

### Forward Purchase

The fund has entered into Forward Purchase to manage risk or to achieve desired returns. Gains or losses are realized based on the settlement term of the forward purchase. The forward purchase is valued each

# **Vertex Liquid Alternative Fund Plus**

## **Notes to Financial Statements**

**June 30, 2019 (Unaudited)**

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day by applying the value of the collateral portfolio versus the value of the underlying holdings of the forward purchase, 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 purchase.

### **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'.

### **Leverage**

Leverage occurs when the Fund's notional exposure to underlying assets is greater than the amount invested, and may not exceed 300% of the Fund's NAV. Notional exposure equals to the total of the following: (i) the aggregate market value of the Fund's long positions; (ii) the aggregate market value of physical short sales on equities, fixed income securities or other portfolio assets; and (iii) the aggregate notional value of the Fund's specified derivatives positions excluding any specified derivatives used for hedging purposes. The calculation excludes cash and other net assets of the Fund.

During the period from the Fund's inception to June 30, 2019, the Fund's leverage position ranged from 0.08% to 99.57% of the Fund's NAV. The low end of the range occurred at the time of the Fund's launch, when its strategies were first implemented. The high end of the range was reached when the Fund achieved steady-state after launch. The primary sources of leverage were positions in underlying fund and forward purchase.

### **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

# **Vertex Liquid Alternative Fund Plus**

## **Notes to Financial Statements**

**June 30, 2019 (Unaudited)**

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rating and or convertible securities. As at June 30, 2019, the aggregate dollar value of portfolio securities lent was \$nil. As at June 30, 2019, the collateral held under securities transactions was \$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 period ended June 30, 2019.

### **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 two classes of redeemable units, which are redeemable at the holder's option and do not have identical rights. Such units are classified as financial liabilities. Redeemable units can be put back to the Fund at any dealing date for cash equal to a proportionate share of the Fund's net asset value attributable to the unit class. Units are redeemable daily. 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, 2019, 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 Liquid Alternative Fund Plus

## Notes to Financial Statements

June 30, 2019 (Unaudited)

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### 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 June 30, 2019, the Fund had \$nil of unused capital losses which have no expiry and \$nil of non-capital losses.

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

# Vertex Liquid Alternative Fund Plus

## Notes to Financial Statements

June 30, 2019 (Unaudited)

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### 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.

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

Level 3- unobservable inputs for the asset or liability.

The Fund's financial instruments which are recorded at fair value have been categorized based upon this fair value hierarchy. The following fair value hierarchy table presents information about the Fund's financial instruments measured at fair value as at June 30, 2019.

	Financial Assets at fair value as at June 30, 2019			
	Level 1	Level 2	Level 3	Total
Stocks - Long	\$ 76,393,743	\$ -	\$ -	\$ 76,393,743
Forward purchase	-	135,661	-	135,661
	<u>\$ 76,393,743</u>	<u>\$ 135,661</u>	<u>\$ -</u>	<u>\$ 76,529,404</u>

# Vertex Liquid Alternative Fund Plus

## Notes to Financial Statements

June 30, 2019 (Unaudited)

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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 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**

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

### **Reconciliation of Level 3 fair value measurements**

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

## **7. Interest in unconsolidated structured entities**

The Fund has determined that its investments in underlying funds, securitizations, asset-backed securities and mortgage-backed securities, if any, are unconsolidated structured entities. The determination is based

# Vertex Liquid Alternative Fund Plus

## Notes to Financial Statements

June 30, 2019 (Unaudited)

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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.

As at June 30, 2019

<b> Holding </b>	<b> % of Net Assets </b>	<b> Country of Establishment &amp; Principal Place of Business </b>	<b> % of Ownership Interest </b>
Vertex Liquid Alternative Fund, Class 'O'	145.05%	Canada	59.31%

### Investment Entity

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

### 8. Redeemable units

Redeemable units transactions include amounts representing unit subscriptions, unit redemptions, and units reinvested. Units are redeemable daily. 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:

# Vertex Liquid Alternative Fund Plus

## Notes to Financial Statements

June 30, 2019 (Unaudited)

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	June 30, 2019	
	Class B	Class F
Units - Beginning of period	-	-
Redeemable units issued	474,943	4,844,532
Redeemable units reinvested	-	-
Redeemable units redeemed	(2,966)	(96,539)
Units - End of period	471,977	4,747,993

### 9. Fees and expenses

#### a) *Management fees*

As consideration for the services provided by Vertex One, the Fund pays Vertex One a management fee, monthly in arrears. The management fee is calculated daily, on each business day, as a percentage of the NAV of each class of Units that comprise the Fund. The management fee may vary from class to class and will be deducted as an expense of each Fund in the calculation of the net profits of such Fund. The management fee for each of the existing classes of Units is as follows:

Class B: 1/365 of 2% (2% per annum) of the aggregate NAV of the Class B Units on the preceding business day, plus applicable taxes.

Class F: 1 1/365 of 1% (1% per annum) of the aggregate NAV of the Class F Units on the preceding business day plus applicable taxes.

Management fees amounting to \$124,006 were incurred for the period ended June 30, 2019 of which \$45,212 were outstanding at period end.

#### b) *Performance fees*

The Manager is entitled to a performance fee in relation to each Class B Units and Class F Units that is equal to 15% of the amount by which the total return of the class of Units exceeds the previous high water mark for each applicable class of Units. Any day a performance fee is paid for the Fund, a high water mark is set, which is equal to the NAV of such Fund on such date, after deducting all fees and expenses. No further performance fee will be paid until the NAV, adjusted for any distributions since the high water mark was last set, exceeds this high water mark value. This high water mark is perpetual and cannot be reset. Deficiencies to the high water mark accrue for each day the Fund does not exceed the high water mark and performance fees will not be accrued until the class of Units of the Fund has exceeded the high water mark.

Performance fees for all Funds will be calculated and accrued (and become payable) daily, and such accrued fees will be paid by the Fund quarterly such that, to the extent possible, the Unit price each day will reflect any performance fees payable at the end of such day. The Manager reserves the right to change the period for which any performance fee may be paid by a Fund to Vertex One, the Manager. Performance fees are subject to applicable taxes.

# Vertex Liquid Alternative Fund Plus

## Notes to Financial Statements

June 30, 2019 (Unaudited)

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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.

There is no performance fee associated with Class O Units of the Fund.

Performance fees amounting to \$59,628 were incurred for the period ended June 30, 2019 of which \$43,388 were outstanding at period end.

### *c) Other fees and expenses*

The Fund is responsible for the payment of all fees and expenses relating to its operation, including the fees and expenses of the 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).

At the discretion of the Manager, certain expenses were absorbed during the period in the amount of \$48,898.

### **10. Soft dollar commissions**

Soft dollar commissions relate to amounts paid to brokers in exchange for research or other services provided to the Manager. The Fund paid \$nil in soft dollar commissions during the period.

### **11. 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. The investments of the Fund are subject to normal market

# Vertex Liquid Alternative Fund Plus

## Notes to Financial Statements

June 30, 2019 (Unaudited)

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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, 2019, if the market price of 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 \$3,744,687. Actual results may differ from this sensitivity analysis and those results could be material.

### *b) Interest rate risk*

As at June 30, 2019, the Fund does not hold any interest bearing corporate bonds. As a result, the Fund had no significant exposure 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 Fund was exposed to indirect interest risk to the extent the underlying fund invests in such instruments.

The table below summarizes the underlying fund's exposure to interest rate risk as at June 30, 2019.

	Less than 1 year	1 - 5 years	More than 5 years	Total
<b>As at June 30, 2019</b>				
<b>Financial Assets</b>				
Bonds*	\$ -	\$ 658,731	\$ -	\$ 658,731

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

At June 30, 2019, should interest rates have increased or decreased by 25 basis points with all other variables remaining constant, the decrease or increase in net assets for the year would amount to approximately \$4,544. 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 does not hold assets and liabilities, including cash, short-term investments, equities, and options that are denominated in currencies other than the Canadian Dollar. It is therefore not 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

# Vertex Liquid Alternative Fund Plus

## Notes to Financial Statements

June 30, 2019 (Unaudited)

regular basis and the Fund may enter into foreign exchange forward contracts for hedging purposes to reduce its foreign currency exposure or to establish exposure to foreign currencies.

### 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 daily 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 June 30, 2019 that may be subject to liquidity risk have been identified on the Schedule of Investments. In addition, the Fund retains sufficient cash to maintain liquidity.

The tables below analyze the Fund's financial liabilities as at June 30, 2019 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
<b>As at June 30, 2019</b>					
<b>Liabilities</b>					
Financial liabilities at fair value					
Management fees payable	\$ -	\$ 45,212	\$ -	\$ -	\$ 45,212
Accrued performance fees	-	43,388	-	-	43,388
Accounts payable and accrued liabilities	-	55,366	-	-	55,366
Redemption payable	-	41,611	-	-	41,611
Due to broker	-	1,500,000	-	-	1,500,000
Leverage	22,620,808	-	-	-	22,620,808
Redeemable units	52,667,279	-	-	-	52,667,279

### 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

# Vertex Liquid Alternative Fund Plus

## Notes to Financial Statements

June 30, 2019 (Unaudited)

and other information. Cash and collateral are held with a prime broker bearing a credit rating of Aa3 or better.

As at June 30, 2019, the Fund does not invests in debt securities, and therefore had no significant exposure to credit risk. The Fund was exposed to indirect credit risk to the extent the underlying fund invests in such instruments.

The table below summarizes the underlying fund's exposure to credit risk as at June 30, 2019

<b>Portfolio by rating category</b>	
<b>Rating</b>	<b>Percentage of net assets June 30, 2019</b>
Below BBB	0.50%
N/R	0.00%
<b>Total</b>	<b>0.50%</b>

*(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:

<b>Portfolio by Category</b>	<b>Percentage of net assets (%) As at June 30, 2019</b>
Forward purchase	54.04
Mutual Funds	145.05
Other Assets, Less Liabilities	(99.09)
	<b>100.00</b>

**12. 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 period ended June 30, 2019 is calculated as follows:

<b>Class B</b>	<b>June 30, 2019</b>	
Increase (decrease) in net assets attributable to holders of redeemable units	\$	725
Weighted average units outstanding during the period		227,883
Increase (decrease) in net assets attributable to holders of redeemable units per unit		0.00
<b>Class F</b>	<b>June 30, 2019</b>	
Increase (decrease) in net assets attributable to holders of redeemable units	\$	101,636
Weighted average units outstanding during the period		2,261,426
Increase (decrease) in net assets attributable to holders of redeemable units per unit		0.04