Vertex Enhanced Income Fund

Annual Financial Statements
December 31, 2018

Independent auditor's report

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

Our opinion

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

What we have audited
The Fund's financial statements comprise:

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

Basis for opinion

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

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

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

Other information

Management is responsible for the other information of the Fund. The other information comprises the Management Report of Fund Performance of the Fund.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Fund, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Fund or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
April 1, 2019

Vertex Enhanced Income Fund

Statements of Financial Position

As at December 31

		2018		2017
Assets				
Current assets				
Investments	$	40,199,445	$	77,198,362
Cash		1,772,286		3,334,096
Due from broker		131,856		-
Accrued interest		794,769		787,978
Dividends receivable		22,588		53,165
Subscriptions receivable		12,687		60,462
Unrealized gain on spot contracts		2,340		21,240
Derivative financial instruments				
Forward contracts		-		278,397
		42,935,971		81,733,700
Liabilities				
Current liabilities				
Management fees payable (Note 10)	$	28,435	$	79,402
Redemptions payable	$	174,292		295,847
Derivative financial instruments				
Forward contracts		386,991		29,312
Written Options		-		58,781
		589,718		463,342
Net Assets attributable to holders of redeemable units	$	42,346,253	$	81,270,358
Net Assets attributable to holders of redeemable units per Class				
Class B	$	14,981,887	$	27,990,775
Class F	$	27,364,366	$	53,279,583
Net Assets attributable to holders of redeemable units per unit				
Class B	$	8.23	$	9.38
Class F	$	8.36	$	9.45

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 Enhanced Income Fund

Statements of Comprehensive Income

For the years ended December 31

		2018		2017
Investment income				
Foreign exchange (loss) gain on cash	$	29,725	$	(1,085)
Change in unrealized foreign exchange gain (loss) on cash		4,967		(9,067)
Security lending income (Note 3)		7,194		-
Net gain (loss) on investments and derivatives				
Dividends		841,616		1,021,110
Interest for distribution purposes		3,049,767		5,124,799
Net realized (loss) gain		(13,221,979)		7,128,903
Net change in unrealized appreciation (depreciation)		6,699,149		(8,057,932)
Total investment income		(2,589,561)		5,206,728
Expenses (Note 10)				
Management fees		665,815		1,102,012
Securityholder reporting costs		192,205		206,084
Other administrative expenses		104,033		98,565
Audit fees		77,703		61,345
Custody fees		15,735		20,006
Legal fees		42,470		35,502
Trustee fees		5,816		4,938
IRC fees		21,290		18,131
Interest expense		176		177
Transaction costs (Note 3)		76,409		73,124
Withholding tax		35,634		51,412
Total expenses		1,237,286		1,671,296
Decrease (Increase) in net assets attributable to holders of redeemable units		(3,826,847)		3,535,432
Decrease (Increase) in net assets attributable to holders of redeemable units per Class				
Class B	$	(1,372,986)	$	1,403,037
Class F	$	(2,453,861)	$	2,132,395
Decrease (Increase) in net assets attributable to holders of redeemable units per Class per unit				
Class B	$	(0.60)	$	0.35
Class F	$	(0.55)	$	0.35

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

Vertex Enhanced Income Fund

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

For the years ended December 31

	Class B 2018	Class B 2017
Net Assets attributable to holders of redeemable units, beginning of the year	$ 27,990,775	$ 47,726,690
Decrease (Increase) in net assets attributable to holders of redeemable units	(1,372,986)	1,403,036
Capital transactions (Note 9)		
Proceeds from issuance of redeemable units	1,827,955	1,916,665
Redemption of redeemable units	(13,202,243)	(22,603,878)
Reinvestment of distributions to holders of redeemable units	783,418	1,496,004
	(10,590,870)	(19,191,209)
Distributions to holders of redeemable units (Note 3)		
From net investment income	(841,832)	(1,753,892)
From return of capital	(203,200)	(193,850)
	(1,045,032)	(1,947,742)
Net Assets attributable to holders of redeemable units, end of the year	$ 14,981,887	$ 27,990,775

	Class F 2018	Class F 2017	Total 2018	Total 2017
Net Assets attributable to holders of redeemable units, beginning of the year	$ 53,279,583	$ 54,685,392	$ 81,270,358	$ 102,412,082
Increase (decrease) in net assets attributable to holders of redeemable units	(2,453,861)	2,132,394	(3,826,847)	3,535,430
Capital transactions (Note 9)				
Proceeds from issuance of redeemable units	8,504,525	13,980,617	10,332,480	15,897,282
Redemption of redeemable units	(31,479,527)	(16,838,989)	(44,681,770)	(39,442,867)
Reinvestment of distributions to holders of redeemable units	1,568,085	2,256,351	2,351,503	3,752,355
	(21,406,917)	(602,021)	(31,997,787)	(19,793,230)
Distributions to holders of redeemable units (Note 3)				
From net investment income	(1,954,194)	(2,700,519)	(2,796,026)	(4,454,411)
From return of capital	(100,245)	(235,663)	(303,445)	(429,513)
	(2,054,439)	(2,936,182)	(3,099,471)	(4,883,924)
Net Assets attributable to holders of redeemable units, end of the year	$ 27,364,366	$ 53,279,583	$ 42,346,253	$ 81,270,358

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

Vertex Enhanced Income Fund

Statements of Cash Flows

For the years ended December 31

	2018	2017
Operating activities		
Decrease (Increase) in net assets attributable to holders of redeemable units	$ (3,826,847)	$ 3,535,432
Adjustment for non-cash items:		
Net change in unrealized (appreciation) depreciation on investments and derivatives	(6,680,249)	8,036,692
Net realized (loss) gain on investments and derivatives	13,221,979	(7,128,903)
Change in unrealized foreign exchange (gain) loss on cash	(4,967)	9,067
	2,709,916	4,452,288
Changes in operating assets and liabilities:		
Increase (decrease) in accrued interest	(6,791)	924,126
Decrease in dividends receivable	30,577	46,792
Decrease in management fee payable	(50,967)	(76,783)
	(27,181)	894,135
Proceeds on disposition of investments and derivatives, including proceeds received on shorts	62,583,102	94,978,531
Purchase of investments and derivatives, including cover for shorts	(31,661,576)	(73,026,790)
	30,921,526	21,951,741
Net cash from operating activities	33,604,261	27,298,164
Financing activities		
Proceeds from issuance of redeemable units**	9,804,513	14,268,778
Redemption of redeemable units**	(44,227,583)	(37,516,072)
Distributions paid net of reinvestments	(747,968)	(1,131,569)
Net cash provided to financing activities	(35,171,038)	(24,378,863)
Decrease (Increase) in Cash	(1,566,777)	2,919,301
Change in unrealized foreign exchange (gain) loss on cash	4,967	(9,067)
Cash, Beginning of the year	3,334,096	423,862
Cash, End of the year	$ 1,772,286	$ 3,334,096
Supplemental Information (included in operating activities)		
Cash paid for interest	176	177
Cash received from interest, net of withholding taxes	3,042,976	6,048,925
Cash received from dividends, net of withholding taxes	836,559	1,016,490

** The amounts of proceeds and redemptions exclude non cash items such as switches and exchanges between classes for year ending December 31, 2018 amounting to $575,742 (December 31, 2017 - $1,693,042)

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

Vertex Enhanced Income Fund
Schedule of Investments Portfolio
As at December 31, 2018

Number of Shares/ Par Value	Description	Coupon Rate %	Maturity/ Call Date	Average Cost $	Fair Value $	% of Total
	BONDS					
	Corporate Bonds					
2,533,572	1784761 Alberta Ltd.*	12.000%	1-Aug-19	2,533,572	-	
1,683,197	Agawa Investments Ltd.*	10.000%	7-Aug-25	1,683,197	1,718,207	
400,000	CanWel Building Materials Group Ltd., Callable	6.375%	9-Oct-23	400,000	400,300	
750,000	Core Gold Inc.*	12.000%	31-Mar-19	900,681	786,765	
500,000	Core Gold Inc.*	12.000%	31-Mar-19	600,454	543,486	
200,000	Delphi Energy Corp., Callable	10.000%	15-Jul-21	201,075	182,000	
17,887	Devalco Residential Properties Corp.*	7.000%	31-Jul-19	18,427	24,420	
250,000	Energold Drilling Corp., Series `B`, Floating Rate, Convertible*	9.500%	14-Jun-22	250,000	242,233	
135,415	Estrella International Energy Services Ltd.*	4.000%	31-Dec-18	135,416	20,312	
900,000	ERD Express Financial Services Inc., Variable Rate*	12.000%	1-Nov-19	900,000	871,470	
48,000	Flow Capital Corp., Convertible, Callable	8.000%	31-Dec-19	37,250	45,120	
900,000	Golf Town Canada Inc. / Golfsmith International Holdings Inc., Callable*	10.500%	24-Jul-18	893,371	-	
1,275,000	Imperial Metals Corp., Callable	7.000%	15-Mar-19	1,354,765	1,174,925	
244	Sherritt International Corp., Callable	7.500%	24-Sep-23	244	182	
100,000	Source Energy Services Canada L.P.	10.500%	15-Dec-21	105,750	101,250	
450,000	Southern Pacific Resource Corp., Callable*	8.750%	25-Jan-18	450,000	-	
450,000	Stornoway Diamond Corp., Convertible	6.250%	8-Jul-21	460,750	402,393	
900,000	Taseko Mines Ltd., Callable	8.750%	15-Jun-22	1,197,593	1,108,884	
450,000	Terrace Energy Corp., Zero Coupon, Convertible*	0.000%	2-Apr-21	450,000	45,000	
1,337,500	Tgc Lending Inc.*	14.000%	31-May-20	1,337,500	1,206,425	
	Total Corporate Bonds			13,910,045	8,873,372	20.94
	Foreign Bonds					
	Bermuda					
473,619	Seadrill New Finance Ltd., Payment-In-Kind, Callable	12.000%	15-Jul-25	628,476	641,735	
	Total Bermuda			628,476	641,735	1.52
	Cayman Islands					
405,117	Ambac LSNI LLC, Floating Rate, Callable	7.803%	12-Feb-23	541,706	555,140	
1,000,000	Seagate HDD Cayman, Callable	4.250%	1-Mar-22	1,274,277	1,305,644	
	Total Cayman Islands			1,815,983	1,860,784	4.39
	United Kingdom					
500,000	Lloyds Bank PLC, Perpetual, Variable Rate, Callable	12.000%	16-Dec-24	868,452	801,710	
500,000	National Westminster Bank PLC, Series 'B', Perpetual, Floating Rate, Callable	2.813%	29-Aug-49	323,261	511,097	
	Total United Kingdom			1,191,713	1,312,807	3.10
	United States of America					
589,740	AM Castle & Co., Payment-In-Kind, Convertible	5.000%	31-Aug-22	663,105	716,551	
92,221	Ambac Assurance Corp.*	5.100%	7-Jun-20	151,080	168,076	
500,000	Beazer Homes USA Inc., Callable	5.875%	15-Oct-27	564,762	542,667	
1,006,497	Catalyst Paper Corp., Term Loan*	12.000%	27-Jan-22	1,158,005	1,374,069	
500,000	Century Communities Inc., Callable	5.875%	15-Jul-25	615,164	604,954	
500,000	Chesapeake Energy Corp., Convertible, Callable	5.500%	15-Sep-26	699,310	551,105	
81,951	Colt Defense LLC, Term Loan*	8.000%	11-Jan-21	72,079	-	
79,372	Colt Defense LLC, Term Loan*	10.000%	11-Jan-21	99,740	57,170	
500,000	Hecla Mining Co., Callable	6.875%	1-May-21	546,960	671,081	
1,600,000	Hornbeck Offshore Services Inc., Callable	5.875%	1-Apr-20	1,393,720	1,124,925	
1,000,000	ILFC E-Capital Trust II, Variable Rate, Callable	4.800%	21-Dec-65	1,045,579	1,071,682	
500,000	Mattel Inc., Callable	6.750%	31-Dec-25	635,497	610,715	
500,000	Momentive Performance Materials Inc., Callable*	8.875%	15-Oct-20	-	-	
400,000	Nuance Communications Inc., Convertible, Callable	1.500%	1-Nov-35	501,972	513,913	
2,000,000	Quicksilver Resources Inc., Callable*	11.000%	1-Jul-21	2,294,008	68,260	
15,000	RAAM Global Energy Co., (In Default)*	12.500%	1-Apr-18	16,642	53	
255,000	Resolute Forest Products Inc., Callable	5.875%	15-May-23	282,358	346,385	
500,000	Revlon Consumer Products Corp., Callable	6.250%	1-Aug-24	434,687	365,191	
500,000	Rite Aid Corp., Callable	6.125%	1-Apr-23	621,342	541,814	
500,000	SEACOR Holdings Inc., Convertible, Puttable, Callable	3.000%	15-Nov-28	557,634	633,045	
2,500,000	Seadrill Ltd.*	6.125%	15-Sep-17	-	-	
450,000	Synchronoss Technologies Inc., Convertible	0.750%	15-Aug-19	534,269	593,956	
500,000	Talos Petroleum LLC, Callable	7.500%	31-May-22	663,647	542,667	
1,000,000	Textron Financial Corp., Variable Rate, Callable	4.351%	15-Feb-67	1,117,566	986,358	
50,000	Vishay Intertechnology Inc., Convertible, Callable	2.250%	15-Nov-40	55,945	98,640	
800,000	Voya Financial Inc., Variable Rate, Callable	5.650%	15-May-53	847,036	1,029,141	
	Total United States of America			15,572,107	13,212,418	31.20
	Total Foreign Bonds			19,208,279	17,027,744	40.21
	TOTAL BONDS			33,118,324	25,901,116	61.15
	STOCKS					
	ENERGY					
307,127	Bellatrix Exploration Ltd.			230,870	193,490	
36,000	Canadian International Oil Corp., Warrants*			-	15,840	
1	Genalta Power Inc., Rights*			-	-	
46,875	Genalta Power Inc., Warrants, (05Apr19)*			-	-	
587,220	Surge Energy Inc.			1,244,731	863,213	
177,616	TORC Oil & Gas Ltd.			1,161,791	776,182	
	TOTAL ENERGY			2,637,392	1,848,725	4.37

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

Vertex Enhanced Income Fund
Schedule of Investments Portfolio
As at December 31, 2018 (continued)

Number of Shares/ Par Value	Description	Average Cost $	Fair Value $	% of Total
	MATERIALS			
6,356	A. M. Castle & Co.	8	24,643	
2,278,124	Catalyst Paper Corp.*	1,018,981	2,792,980	
153	Community Vehicle Financing & Leasing Inc.*	8	-	
23,400	Community Vehicle Financing & Leasing Inc., Preferred, Series '1'*	2,049,148	1,670,059	
5,261,220	Core Gold Inc.	1,283,738	1,262,693	
1,880,610	Core Gold Inc., Warrants, (01Feb20)*	-	-	
50,000	Energold Drilling Corp., Warrants, (14Jun22)*	-	-	
15,000	Rio Tinto PLC, ADR	1,066,554	992,773	
698	Rubix Lending Co. Inc., Class 'B'*	7	7	
16,865	Sherritt International Corp., Warrant, (29Jul21)*	-	-	
24,663	SunCoke Energy Partners L.P.	567,112	358,248	
	TOTAL MATERIALS	5,985,556	7,101,403	16.77
	INDUSTRIAL			
64,800	CanWel Building Materials Group Ltd.	392,228	295,488	
6,737	Colt Defense LLC, Restricted, Class 'A'*	35,645	-	
12,160	Colt Defense LLC, Restricted, Class 'B'*	10,053	-	
1,410	Jack Cooper Enterprises Inc.*	18	3,272	
4,008	Jack Cooper Enterprises Inc., Warrants, (26Apr27)*	-	9,247	
	TOTAL INDUSTRIAL	437,944	308,007	0.73
	CONSUMER DISCRETIONARY			
20,691	Affinion Group Holdings Inc.	568,961	254,226	
4,690	Teekay Offshore Partners L.P., 7.25%, Preferred, Class 'A' , Perpetual	106,972	100,780	
	TOTAL CONSUMER DISCRETIONARY	675,933	355,006	0.84
	CONSUMER STAPLES			
45,000	Electronic Cigarettes International Group Ltd., Warrants, (28Feb19)*	-	-	
200,000	S&W Seed Co., Warrants, (30Jun20)*	-	-	
	TOTAL CONSUMER STAPLES	-	-	0.00
	FINANCIALS			
19,000	Brookfield Property Partners L.P.	395,322	418,380	
10,000	Farmland Partners Inc., Preferred, Series 'B', Step, Rate, Perpetual	241,896	252,699	
9,360	Popular Inc., 8.25%, Preferred, Series 'B', Perpetual	252,049	329,360	
2,110,000	Pres Initial Capital Aggregator LLC*	896,945	-	
349,023	Pres Initial Capital Aggregator LLC, Warrants, (01May22)*	-	-	
400	Wells Fargo & Co., 7.50%, Preferred, Class 'A', Series 'L', Convertible	639,449	689,137	
	TOTAL FINANCIALS	2,425,661	1,689,576	3.99
	INFORMATION TECHNOLOGY			
22,500	Thomson Reuters Corp., Preferred, Series 'II', Floating Rate	361,724	326,250	
	TOTAL INFORMATION TECHNOLOGY	361,724	326,250	0.77
	COMMUNICATION SERVICES			
20,000	BCE Inc.	1,113,553	1,078,600	
15,000	CenturyLink Inc.	349,400	310,242	
1,097	FriendFinder Networks Inc.*	-	-	
	TOTAL COMMUNICATION SERVICES	1,462,953	1,388,842	3.28
	UTILITIES			
40,800	Atlantic Power Preferred Equity Ltd., Preferred, Series '2', Variable Rate, Perpetual	620,255	693,600	
876,000	Stream Asset Financial L.P.*	876,000	586,920	
	TOTAL UTILITIES	1,496,255	1,280,520	3.02
	TOTAL STOCKS	15,483,418	14,298,329	33.77
	TOTAL INVESTMENTS	48,601,742	40,199,445	94.92
	FORWARD CONTRACTS			
	Buy CAD 4,017,987, Sell USD 3,000,000 @1.33932 - Jan 02, 2019	-	(77,613)	
	Buy CAD 2,954,919, Sell USD 2,200,000 @1.34314 - Jan 03, 2019	-	(48,521)	
	Buy CAD 10,746,040, Sell USD 8,000,000 @1.34325 - Jan 03, 2019	-	(175,560)	
	Buy CAD 6,060,352, Sell USD 4,500,000 @1.346745 - Jan 04, 2019	-	(82,878)	
	Buy CAD 4,091,712, Sell USD 3,000,000 @1.36390- Jan 16, 2019	-	(2,419)	
	Total Unrealized gain on forward contracts	-	(386,991)	(0.91)
	TOTAL NET INVESTMENTS BEFORE TRANSACTION COSTS	48,601,742	39,812,454	94.01
	Transaction Costs (Note 2)	(37,767)		
	TOTAL NET INVESTMENTS	48,563,975	39,812,454	94.01
	CASH		1,772,286	4.19
	OTHER ASSETS, LESS LIABILITIES		761,513	1.80
	TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS	48,563,975	42,346,253	100.00

*Denotes manually priced securities using a fair valuation model

1. Establishment of the Fund

The Vertex Enhanced Income Fund (the “Fund") was created on September 14, 2009 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 September 21, 2009. The Fund currently offers an unlimited number of Class B and Class F Units.

The investment objective of the Fund is to provide preservation of capital while providing high level of income by investing primarily in Canadian and United States bonds and debentures. The Fund’s secondary objective is to provide capital growth.

2. Basis of accounting

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

The annual financial statements were authorized for issue by the Manager on April 1, 2019.

3. Significant accounting policies

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

a) Classification

i. Assets

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

ii. Liabilities

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

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

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

The Fund's policy requires the Manager and the Board of Directors to evaluate the information about these financial assets and liabilities on a fair value basis together with other related financial information.

b) Recognition, derecognition and measurement
Regular purchases and sales of investments are recognized on the trade date – the date on which the Fund commits to purchase or sell the investment. Financial assets and financial liabilities are initially recognized at fair value. Transaction costs related to financial instruments at FVTPL are expensed as incurred in the Statements of Comprehensive Income.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

When the Fund purchases an option, an amount equal to fair value which is based on the premium paid is recorded as an asset. When the Fund writes an option, an amount equal to fair value which is based on the premium received by the Fund is recorded as a liability. When options are closed, the difference between the premium and the amount paid or received, net of brokerage commissions, or the full amount of the premium if the option expires worthless, is recognized as a gain or loss and is presented in the Statements of Comprehensive Income within net realized gain (loss) on investments and derivatives.

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

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

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

realized gain (loss) and net change in unrealized appreciation (depreciation) of investments are determined on an average 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.

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. 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 approved credit rating and or convertible securities. As at December 31, 2018, the aggregate dollar value of portfolio securities lent was $1,775,930 debt securties (December 31, 2017 - $nil). As at December 31, 2018, the collateral held under securities transactions was $2,182,213 equity securities (December 31, 2017 - $nil). Income earned from securities lending is included in securities lending income in the Statements of Comprehensive Income.

The following table presents reconciliation of the gross amount generated from the securities lending transactions of the Fund to the revenue from securities lending disclosed in the Statements of Comprehensive Income:

	December 31, 2018		December 31, 2017	
	$	**% of Gross securities lending revenue**	$	% of Gross securities lending revenue
Gross securities lending revenue	**12,872**	**100**	-	-
Withholding taxes	**(2,596)**	**(20)**	-	-
Agent fees - Bank of New York Mellon Corp. (The)	**(3,082)**	**(24)**	-	-
Securities lending revenue	**7,194**	**56**	-	-

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

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

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

The Fund issues two classes of redeemable units, which are redeemable at the holder's option and do not have identical rights. Such units are classified as financial liabilities. Redeemable units can be put back 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 December 31, 2018 and December 31, 2017, there were no differences between the Fund's net asset value per security and its net assets per security calculated in accordance with IFRS.

A separate NAV is calculated for each Class of units of the Fund by taking the Class' proportionate share of the Fund's common assets less that Class' proportionate share of the Fund's common liabilities and deducting from this amount all liabilities that relate solely to a specific Class. The NAV per unit for each Class is determined by dividing the NAV of each Class by the number of units of that Class outstanding on the valuation date.

Classification of redeemable units issued by the Fund

Under IFRS, IAS 32 requires that units or shares of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as financial liability. The Fund's units do not meet the criteria in IAS32 for classification as equity and therefore, have been classified as financial liabilities.

Taxation

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). All of the Fund's net income for tax purposes and sufficient net capital gains realized in any period are required to be distributed to unitholders such that no income tax is payable by the Fund. As a result, the Fund has determined that it is in substance not taxable and therefore does not record income taxes in the Statements of Comprehensive Income nor does it recognize any deferred tax assets or liabilities in the Statements of Financial Position. As at December 31, 2018, the Fund had $40,548,842 (December 31, 2017 - $29,894,245) of unused capital losses which have no expiry and $nil (December 31, 2017 - $nil) of non-capital loses.

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

4. Adoption of IFRS 9

IFRS 9, Financial Instruments

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

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.

In classifying and measuring the financial instruments held by the Funds, the Manager makes significant judgements in determining the appropriate classifications under IFRS 9. In making these judgements, the Manager has assessed the Fund's business model in managing the portfolios and the contractual cash flow characteristics and determined that the investments are managed on a fair value basis and that fair value is used to assess performance and make investments decisions. The contractual cash flows of the Funds' fixed income securities are solely for principal and interest however, these securities are not held for the purpose of collecting contractual cash flows or held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Funds' business model objectives. As a result, all investments and derivative are classified as FVPTL.

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 December 31, 2018 and December 31, 2017.

Financial Assets at fair value as at December 31, 2018

	Level 1	Level 2	Level 3	Total
Equities - long	$ 9,220,004	$ -	$ 5,053,238	$ 14,273,242
Bonds - long	-	19,045,469	6,855,647	25,901,116
Warrants	-	-	25,087	25,087
	$ 9,220,004	$ 19,045,469	$ 11,933,972	$ 40,199,445

Financial Liabilities at fair value as at December 31, 2018

	Level 1	Level 2	Level 3	Total
Forward contracts - short	$ -	$ (386,991)	$ -	$ (386,991)
	$ -	$ (386,991)	$ -	$ (386,991)

Financial Assets at fair value as at December 31, 2017

	Level 1	Level 2	Level 3	Total
Equities - long	$ 2,225,034	$ 284,535	$ 3,923,909	$ 6,433,478
Bonds - long	-	44,623,985	7,114,098	51,738,083
Warrants	3	320,894	30,914	351,811
Forward contracts - long	-	278,397	-	278,397
	$ 2,225,037	$ 45,507,811	$ 11,068,921	$ 58,801,769

Financial Liabilities at fair value as at December 31, 2017

	Level 1	Level 2	Level 3	Total
Forward contracts - short	$ -	$ (29,312)	$ -	$ (29,312)
Options - short	(58,781)	-	-	(58,781)
	$ (58,781)	$ (29,312)	$ -	$ (88,093)

Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3. 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 these instruments using the net present value of estimated future cash flows.

Forward contracts - The fair value of forward foreign exchange contracts is determined using the forward exchange rates at the measurement date, with the resulting value discounted back to present value.

Options and other over-the-counter derivatives - Options and other over-the-counter derivatives are classified as level 1 when they are exchange traded and prices are readily available on the market. Where they are not traded, the Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each year end date. Valuation techniques used for these non-standardized financial instruments such as options and other over-the-counter derivatives, include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs. Where the inputs are observable, the options and other over-the-counter derivatives are classified into 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 December 31, 2018 of $4,466,310, (December 31, 2017 - $2,264,783) 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. In addition, Level 3 equites will be valued at quotations supplied by third party broker dealers and other pricing vendors. The remaining equities with fair value of $586,928 use broker quotes, grey markets and costs are not included in the sensitivity analysis, there will be no effect on its estimated value. The Manager does not alter the broker quotes as the quotes are obtained from accredited brokers. However, the quotes as well as the brokers are monitored periodically to make sure for quotes are representative of fair market values.

Bonds

Bonds classified within Level 3 with fair value at December 31, 2018 of $6,742,655 (December 31, 2017 - $5,823,604) consists of corporate bonds. The Fund values these instruments using the net debt to EBITDA. The remaining bonds with fair value of $112,992 use broker quotes, grey markets and costs are not included in the sensitivity analysis, there will be no effect on its estimated value. The

Fund considers liquidity, credit and market risk factors, and adjusts the valuation model as deemed necessary.

Warrants

Warrants classified within Level 3 with fair value December 31, 2018 of $25,087, (December 31, 2017 - $30,914) have significant unobservable inputs, as the underlying securities trade infrequently or are privately held. As observable prices are not available for the underlying securities, the Manager uses Black Scholes as a valuation technique to derive the fair value of the underlying securities.

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

Description	Fair Value at December 31, 2018	Valuation Techniques		Unobservable Inputs	Weighted average input	Reasonably possible shift +/-= (absolute value)	Change in the valuation (+/-)
Equities:	$4,466,310	Comparable trading multiples		Regression Multiple	0.75	0.25	+/- $365
				Impending Sale	N/A	N/A	N/A
				Market Capitalization/ Tangible Book Value	1.01	0.25	+/- $413,762
				E/V Assets	1.20	0.25	+/- $227
				EV/EBITDA	7.94	0.25	+/- $34
Debt Securities	$6,742,655	Net debt to EBITDA		Discount Rate	16.26%	1%	+$ (72,536)/- $ 70,404
				Loan Recoverability	100%	10%	+/- $121,370
				Jump Diffusion Model	5.37%	1%	+(7,021)/- $7,312
				Recoverability of List Price	80.0%	10%	+/- $3,080
Warrants	$25,087	Black Scholes		Volatility	40%	1%	+ $720/- $527

Description	Fair Value at December 31, 2017	Valuation Techniques		Unobservable Inputs	Weighted average input	Reasonably possible shift +/-= (absolute value)	Change in the valuation (+/-)
Equities:	$2,264,783	Comparable trading multiples		Enterprise Values to EBITDA	11.7	1	+/- $192,320
		Per Flowing Barrel		Per Flowing Barrel Multiple	48,000	1	+/-$48,374
Debt Securities	$5,823,604	Net debt to EBITDA		Net debt to EBITDA	7.1	1	+/- $626,557
		Discount		Discount	8%	2%	+/- $21,024
		Per Acre		Per Acre Multiple	275	10	+/- $50,000
Warrants	$30,914	Black Scholes		Volatility	30 Vol	1 Vol	+/- $393

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

Reconciliation of Level 3 fair value measurements

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

	Fair value measurements using level 3 inputs			
	Warrants	**Equities - long**	**Bonds - long**	**Total**
Balance at December 31, 2017	$ 30,914	$ 3,923,909	$ 7,114,098	$ 11,068,921
Sales	-	-	(1,902,921)	(1,902,921)
Purchases	-	90,000	99,730	189,730
Gains (Losses)				
Realized	-	-	202,145	202,145
Unrealized	(5,827)	1,039,329	1,342,594	2,376,096
Balance at December 31, 2018	$ 25,087	$ 5,053,238	$ 6,855,647	$ 11,933,972
Total change in unrealized gain (loss) during the year for assets held at December 31, 2018	$ (5,827)	$ 1,039,329	$ 1,051,138	$ 2,084,640

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

	Fair value measurements using level 3 inputs			
	Warrants	Equities - long	Bonds - long	Total
Balance at December 31, 2016	$ 489,494	$ 639,932	$ 10,770,648	$ 11,900,074
Sales	-	(7)	(3,444,262)	(3,444,269)
Purchases	-	3,965,081	1,488,503	5,453,584
Transfers in	-	-	250,000	250,000
Transfers out	(407,893)	-	(471,582)	(879,475)
Gains (Losses)				
Realized	-	(15)	(271,626)	(271,641)
Unrealized	(50,687)	(681,082)	(1,207,583)	(1,939,352)
Balance at December 31, 2017	$ 30,914	$ 3,923,909	$ 7,114,098	$ 11,068,921
Total change in unrealized gain (loss) during the year for assets held at December 31, 2017	$ (49,710)	$ (681,102)	$ (1,498,884)	$ (2,229,696)

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

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

	Transfer from level 1 to level 2 December 31, 2017	Transfer from level 2 to level 1 December 31, 2017
Equities - Long	$ -	$ 277,477

7. Offsetting of Financial Instruments

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

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

	Amounts Offset ($)			Amounts Not Offset ($)		Net
Financial Assets and Liabilities as at December 31, 2018	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Received (Pledged)	
Derivative assets	-	-	-	-	-	-
Derivative liabilities	(386,991)	-	(386,991)	-	-	(386,991)
Total	(386,991)	-	(386,991)	-	-	(386,991)

	Amounts Offset ($)			Amounts Not Offset ($)		Net
Financial Assets and Liabilities as at December 31, 2017	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Received (Pledged)	
Derivative assets	278,397	-	278,397	(29,312)	-	249,085
Derivative liabilities	(29,312)	-	(29,312)	29,312	-	-
Total	249,085		249,085			249,085

8. Investment Entity

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

9. Redeemable units

Redeemable units transactions 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:

	December 31, 2018		**December 31, 2017**	
	Class B	**Class F**	**Class B**	**Class F**
Units-Beginning of year	**2,985,253**	**5,640,943**	4,993,155	5,725,384
Redeemable Units issued	**204,235**	**944,026**	197,847	1,441,265
Redeemable Units reinvested	**86,731**	**171,372**	156,424	235,588
Redeemable Units redeemed	**(1,455,297)**	**(3,481,409)**	(2,362,173)	(1,761,294)
Units-End of year	**1,820,922**	**3,274,932**	2,985,253	5,640,943

Certain directors and/or related parties of the Fund held 3.99% of the Fund units at December 31, 2018 (December 31, 2017 – 1.39%).

10. Fees and expenses

a) Management fees

Pursuant to the terms of a management agreement, the Fund pays to the Manager, monthly in arrears, a base management fee for services, including the provision of key management personnel. The management fee may vary from class to class and for each of the existing classes of units is as follows:

Class B: 1/365 of 1.5% (1.5% per annum) of the NAV of the Class B Units on the preceding business day plus applicable taxes.

Class F: 1/365 of 0.75% (0.75% per annum) of the NAV of the Class F Units on the preceding business day plus applicable taxes.

The management fees incurred for the year ended December 31, 2018 were $665,815 (December 31, 2017 - $1,102,012) of which $28,435 (December 31, 2017 – $79,402) were outstanding as at year end.

b) Performance fees

Each class of Units will pay to Vertex One, the Manager, a performance fee, plus applicable taxes that is equal to 20% of the amount by which the total return of the class of units exceeds the total percentage increase or decrease of the following benchmarks having the following components, for the period since the performance fee was last paid.

- 20% weighting - S&P/TSX Preferred Share Total Return Index (or its successor indices, as applicable)
- 20% weighting - S&P/TSX Composite Total Return Index (or its successor indices, as applicable)
- 60% weighting – DEX Mid Term Total Return Bond Index (formerly, the Scotia McLeod Mid Term Bond Index) (or its successor indices, as applicable)

If at any time the performance of the Fund is less than its benchmark, then no performance fee will be payable until the performance of the Fund relative to its benchmark has exceeded the amount of the deficiency.

The performance fees incurred for the year ended December 31, 2018 were $nil (December 31, 2017 - $nil) of which $nil (December 31, 2017 – $nil) were outstanding as at year 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), 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, there were no expenses absorbed during the year ended December 31, 2018 and December 31, 2017.

11. Soft dollar commissions

Soft dollar commissions relate to amounts paid to brokers in exchange for research or other services provided to the Manager. There were $16,126 (December 31, 2017 $13,069) soft dollar commissions paid during the year.

12. Financial Risk Management

The Fund's financial instruments consist of investments, cash, accrued interest and dividends receivable, subscriptions receivable, other assets/liabilities, 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 other price risk, interest rate risk, and currency risk), credit risk and liquidity risk. These risks and related risk management practices employed by the Fund are discussed below:

(a) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The investments of the Fund are subject to normal market fluctuations and the risks inherent in investment in financial markets. The maximum risk resulting from financial instruments held by the Fund is determined by the fair value of the financial instruments. The Manager moderates this risk through a careful selection of securities within specified limits and the Fund's other price risk is managed through diversification of the investment portfolio. The Manager monitors the Fund's overall market positions on a daily basis and positions are maintained within established ranges.

As of December 31, 2018, 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 $714,916 (December 31, 2017 – $1,270,075). Actual results may differ from this sensitivity analysis and those results could be material.

(b) Interest rate risk

As at December 31, 2018, 61.15% (December 31, 2017 – 63.67%) of the Fund's investment portfolio consists of interest bearing Canadian corporate bonds and foreign 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
As at December 31, 2018				
Financial Assets				
Bonds*	$ 4,526,484	$ 11,205,568	$ 10,169,064	$ 25,901,116

	Less than 1 year	1 - 5 years	More than 5 years	Total
As at December 31, 2017				
Financial Assets				
Bonds*	$ 5,922,430	$ 26,997,167	$ 18,818,486	$ 51,738,083

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

At December 31, 2018, should interest rates have increased or decreased by 25 basis points with all other variables remaining constant, the decrease or increase in net assets for the year would amount to approximately $223,691 (December 31, 2017 - $453,676). Actual results may differ from this sensitivity analysis and those results could be material. The Fund's managers review the interest rate exposure on a regular basis.

(c) Currency risk

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

The currency risk reflects the net impact after taking into consideration the forward contracts. Actual results may differ from this sensitivity analysis and those results could be material. As at December 31, 2018 and December 31, 2017, if the Canadian dollar strengthened or weakened by 5% in relation to all other currencies, with all other variables held constant the decrease or increase respectively in net assets would approximately amount to values as disclosed in the table below:

As at December 31, 2018						
	Monetary exposure	Non-monetary exposure *	Assets Hedged by forward contracts	Net currency exposure	% of Net assets attributable to holders of redeemable units	5% Decrease /increase
US Dollar	$ 22,318,924	$ 7,420,228	$ (28,258,002)	$ 1,481,150	3.50%	$ 74,058
Total	$ 22,318,924	$ 7,420,228	$ (28,258,002)	$ 1,481,150	3.50%	$ 74,058

As at December 31, 2017						
	Monetary exposure	Non-monetary exposure *	Assets Hedged by forward contracts	Net currency exposure	% of Net assets attributable to holders of redeemable units	5% Decrease /increase
US Dollar	$ 48,189,827	$ 38,559,519	$ (89,118,332)	$ (2,368,986)	-2.91%	$ (118,449)
Total	$ 48,189,827	$ 38,559,519	$ (89,118,332)	$ (2,368,986)	-2.91%	$ (118,449)

* 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 is held with a custodian bearing a credit rating of Aa3 or better.

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

Portfolio by rating category		
	Percentage of net assets	
Rating	December 31, 2018	December 31, 2017
BBB/Bbb	0.00%	5.16%
Below BBB	34.15%	41.77%
N/R	27.00%	16.74%
Total	61.15%	63.67%

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/lent 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.

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

Portfolio by rating category		
	Percentage of net assets	
Rating	**December 31, 2018**	December 31, 2017
AA/A/A-	-0.91%	0.31%
Total	-0.91%	0.31%

(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 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 December 31, 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 December 31, 2018 and December 31, 2017 into relevant groupings based on contractual maturity dates. The amounts are contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant. The net assets attributable to holders of redeemable units are redeemable on demand. However, the Manager does not expect that the contractual maturity disclosed below will be representative of the actual cash outflows as holders of the redeemable units typically retain them for a longer year.

As at December 31, 2018	On demand	Less than 3 months	3 - 12 months	More than 12 months	Total
Liabilities					
Financial liabilities held for trading					
Forward contracts	$ -	$ 386,991	$ -	$ -	$ 386,991
Written options	-	-	-	-	-
Accrued management fees	-	28,435	-	-	28,435
Due to broker	-	-	-	-	-
Redemptions payable	-	174,292	-	-	174,292
Redeemable units	42,346,253	-	-	-	42,346,253

As at December 31, 2017	On demand	Less than 3 months	3 - 12 months	More than 12 months	Total
Liabilities					
Financial liabilities held for trading					
Forward contracts	$ -	$ 29,312	$ -	$ -	$ 29,312
Written options	-	58,781	-	-	58,781
Accrued management fees	-	79,402	-	-	79,402
Due to broker	-	22,604,760.00	-	-	22,604,760
Redemptions payable	-	295,847	-	-	295,847
Redeemable units	81,270,358	-	-	-	81,270,358

(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:

Portfolio by Category	Percentage of Net Assets (%) As at December 31, 2018	As at December 31, 2017
Bonds - Corporate Bonds	**20.94**	13.03
Bonds - Bermuda	**1.52**	0.68
Bonds - Cayman Island	**4.39**	1.41
Bonds - United Kingdom	**3.10**	6.23
Bonds - United States of America	**31.20**	42.32
Stocks - Energy	**4.37**	5.90
Stocks - Materials	**16.77**	9.04
Stocks - Industrial	**0.73**	1.07
Stocks - Consumer Staples	**-**	0.36
Stocks - Consumer Discretionary	**0.84**	1.07
Stocks - Financials	**3.99**	9.61
Stocks - Information Technology	**0.77**	2.36
Stocks - Telecommunications	**3.28**	0.28
Stocks - Utilities	**3.02**	1.64
Forward Contracts -Unrealized Gain	**-**	0.34
Forward Contracts -Unrealized Loss	**(0.91)**	(0.04)
Written Options	**-**	(0.07)
Cash	**4.19**	4.10
Other Assets, Less Liabilities	**1.80**	0.67
	100.00	100.00

13. Increase (decrease) in net assets attributable to holders of redeemable units per unit

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

Class B	December 31, 2018	December 31, 2017
Increase (decrease) in net assets attributable to holders of redeemable units	$ (1,372,986)	$ 1,403,037
Weighted average units outstanding during the year	2,298,980	4,048,387
Increase (decrease) in net assets attributable to holders of redeemable units per unit	(0.60)	0.35

Class F	December 31, 2018	December 31, 2017
Increase (decrease) in net assets attributable to holders of redeemable units	$ (2,453,861)	$ 2,132,395
Weighted average units outstanding during the year	4,465,518	6,109,321
Increase (decrease) in net assets attributable to holders of redeemable units per unit	$ (0.55)	0.35