

# **Vertex Enhanced Income Fund**

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

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

## Vertex Enhanced Income Fund

Statements of Financial Position

As at June 30, 2019 and December 31, 2018

	June 30, 2019 (unaudited)	December 31, 2018
<b>Assets</b>		
<b>Current assets</b>		
Investments	\$ 26,796,825	\$ 40,199,445
Cash	1,802,922	1,772,286
Other receivable	81,942	-
Due from broker	-	131,856
Accrued interest	791,636	794,769
Dividends receivable	28,350	22,588
Subscriptions receivable	462	12,687
Unrealized gain on spot contracts	-	2,340
Derivative financial instruments		
Forward contracts	17,615	-
	<u>29,519,752</u>	<u>42,935,971</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Management fees payable (Note 10)	\$ 101,950	\$ 28,435
Redemptions payable	94,367	174,292
Derivative financial instruments		
Forward contracts	-	386,991
	<u>196,317</u>	<u>589,718</u>
<b>Net Assets attributable to holders of redeemable units</b>	<u>\$ 29,323,435</u>	<u>\$ 42,346,253</u>
<b>Net Assets attributable to holders of redeemable units per Class</b>		
Class B	\$ 11,303,293	\$ 14,981,887
Class F	<u>\$ 18,020,142</u>	<u>\$ 27,364,366</u>
<b>Net Assets attributable to holders of redeemable units per unit</b>		
Class B	\$ 8.13	\$ 8.23
Class F	<u>\$ 8.29</u>	<u>\$ 8.36</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 Enhanced Income Fund

Statements of Comprehensive Income

For the periods ended June 30 (unaudited)

	2019	2018
<b>Investment income</b>		
Foreign exchange gain on cash	\$ 15,863	\$ 28,593
Change in unrealized foreign exchange loss on cash	(33,945)	(2,283)
Security lending income (Note 3)	10,262	-
Net gain (loss) on investments and derivatives		
Dividends	462,164	444,667
Interest for distribution purposes	838,689	2,005,647
Net realized gain (loss)	1,457,569	(11,666,281)
Net change in unrealized appreciation (depreciation)	(1,346,501)	8,890,369
<b>Total investment income</b>	<u>1,404,101</u>	<u>(299,288)</u>
<b>Expenses (Note 10)</b>		
Management fees	214,692	381,899
Securityholder reporting costs	75,912	113,723
Other administrative expenses	59,716	58,526
Audit fees	57,902	49,154
Custody fees	3,906	9,889
Legal fees	14,962	30,475
Trustee fees	2,257	3,120
IRC fees	10,650	12,117
Interest expense	72	114
Transaction costs (Note 3)	19,751	48,806
Withholding tax	25,902	16,718
<b>Total expenses</b>	<u>485,722</u>	<u>724,541</u>
<b>Increase (Decrease) in net assets attributable to holders of redeemable units</b>	<u>918,379</u>	<u>(1,023,829)</u>
<b>Increase (Decrease) in net assets attributable to holders of redeemable units per Class</b>		
Class B	\$ 277,407	\$ (351,065)
Class F	\$ 640,972	\$ (672,764)
<b>Increase (Decrease) in net assets attributable to holders of redeemable units per Class per unit</b>		
Class B	\$ 0.17	\$ (0.13)
Class F	\$ 0.21	\$ (0.13)

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



## Vertex Enhanced Income Fund

Statements of Cash Flows

For the periods ended June 30 (unaudited)

	2019	2018
<b>Operating activities</b>		
Increase (Decrease) in net assets attributable to holders of redeemable units	\$ 918,379	\$ (1,023,829)
Adjustment for non-cash items:		
Net change in unrealized depreciation (appreciation) on investments and derivatives	1,348,841	(8,869,129)
Net realized (gain) loss on investments and derivatives	(1,457,569)	11,666,281
Change in unrealized foreign exchange gain on cash	33,945	2,283
	<u>843,596</u>	<u>1,775,606</u>
Changes in operating assets and liabilities:		
(Decrease) increase in accrued interest	3,133	(800,588)
Increase (decrease) in dividends receivable	(5,762)	7,581
Increase in other receivable	(81,942)	-
Increase (decrease) in management fee payable	73,515	(22,142)
	<u>(11,056)</u>	<u>(815,149)</u>
Proceeds on disposition of investments and derivatives, including proceeds received on shorts	24,416,117	39,906,561
Purchase of investments and derivatives, including cover for shorts	(11,175,179)	(19,010,896)
	<u>13,240,938</u>	<u>20,895,665</u>
<b>Net cash from operating activities</b>	<u>14,073,478</u>	<u>21,856,122</u>
<b>Financing activities</b>		
Proceeds from issuance of redeemable units**	838,424	2,495,667
Redemption of redeemable units**	(14,541,690)	(25,572,069)
Distributions paid net of reinvestments	(305,631)	(414,142)
<b>Net cash provided to financing activities</b>	<u>(14,008,897)</u>	<u>(23,490,544)</u>
<b>Increase (Decrease) in Cash</b>	<u>64,581</u>	<u>(1,634,422)</u>
<b>Change in unrealized foreign exchange gain on cash</b>	<u>(33,945)</u>	<u>(2,283)</u>
<b>Cash, Beginning of the period</b>	<u>1,772,286</u>	<u>3,334,096</u>
<b>Cash, End of the period</b>	<u>\$ 1,802,922</u>	<u>\$ 1,697,391</u>
<b>Supplemental Information (included in operating activities)</b>		
Cash paid for interest	72	114
Cash received from interest, net of withholding taxes	841,822	1,205,059
Cash received from dividends, net of withholding taxes	430,500	435,530

\*\* The amounts of proceeds and redemptions exclude non cash items such as switches and exchanges between classes for period ending June 30, 2019 amounting to \$106,793 (June 30, 2018 - \$1,024,961)

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

## Vertex Enhanced Income Fund

Schedule of Investments Portfolio

As at June 30, 2019 (unaudited)

Number of Shares/Par Value	Description	Coupon Rate %	Maturity / Call Date	Average Cost \$	Fair Value \$	% of Total
<b>BONDS</b>						
<b>Corporate Bonds</b>						
2,495,834	1784761 Alberta Ltd.*	12.000%	1-Aug-19	2,495,835	-	
1,683,197	Agawa Investments Ltd.*	10.000%	7-Aug-25	1,683,197	1,667,880	
400,000	CanWel Building Materials Group Ltd., Callable	6.375%	9-Oct-23	400,000	379,484	
1,250,000	Core Gold Inc.*	12.000%	31-Mar-19	1,501,135	1,339,440	
200,000	Delphi Energy Corp., Callable	10.000%	15-Jul-21	201,075	174,000	
1,000,000	Enbridge Inc., Variable Rate, Callable	5.500%	15-Jul-77	1,248,474	1,268,273	
250,000	Energold Drilling Corp., Series 'B', Floating Rate, Convertible*	9.500%	14-Jun-22	250,000	62,500	
650,000	ERD Express Financial Services Inc., Variable Rate*	12.000%	1-Nov-19	650,000	642,005	
900,000	Golf Town Canada Inc. / Golfsmith International Holdings Inc., Callable*	10.500%	24-Jul-18	893,371	-	
244	Sherritt International Corp., Callable	7.500%	24-Sep-23	244	96	
100,000	Source Energy Services Canada L.P.	10.500%	15-Dec-21	105,750	95,750	
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	109,020	
450,000	Terrace Energy Corp., Zero Coupon, Convertible*	0.000%	2-Apr-21	450,000	22,500	
1,337,500	TGC Lending Inc.*	14.000%	31-May-20	1,337,500	1,015,831	
	<b>Total Corporate Bonds</b>			<u>12,127,331</u>	<u>6,776,779</u>	<u>23.11</u>
<b>Foreign Bonds</b>						
<b>United Kingdom</b>						
500,000	Lloyds Bank PLC, Perpetual, Variable Rate, Callable	12.000%	16-Dec-24	868,452	797,434	
	<b>Total United Kingdom</b>			<u>868,452</u>	<u>797,434</u>	<u>2.72</u>
<b>United States of America</b>						
610,561	AM Castle & Co., Payment-In-Kind, Convertible	5.000%	31-Aug-22	690,937	691,620	
500,000	Beazer Homes USA Inc., Callable	5.875%	15-Oct-27	564,762	571,095	
500,000	Century Communities Inc., Callable	5.875%	15-Jul-25	615,164	661,323	
500,000	Chesapeake Energy Corp., Convertible, Callable	5.500%	15-Sep-26	699,310	524,264	
85,320	Colt Defense LLC, Term Loan*	8.000%	11-Jan-21	76,557	-	
79,372	Colt Defense LLC, Term Loan*	10.000%	11-Jan-21	99,740	49,331	
1,000,000	Goldman Sachs Group Inc. (The), Series 'P', Perpetual, Variable Rate	5.000%	10-Nov-22	1,205,048	1,259,158	
500,000	Hecla Mining Co., Callable	6.875%	1-May-21	546,960	628,255	
1,000,000	ILFC E-Capital Trust II, Variable Rate, Callable	4.340%	21-Dec-65	1,045,579	955,972	
500,000	Mattel Inc., Callable	6.750%	31-Dec-25	635,497	675,237	
2,000,000	Quicksilver Resources Inc., Callable*	11.000%	1-Jul-21	2,294,009	65,478	
15,000	RAAM Global Energy Co., (In Default)*	12.500%	1-Apr-18	16,642	48	
255,000	Resolute Forest Products Inc., Callable	5.875%	15-May-23	282,358	337,275	
500,000	Revlon Consumer Products Corp., Callable	6.250%	1-Aug-24	434,687	451,795	
450,000	Synchronoss Technologies Inc., Convertible	0.750%	15-Aug-19	534,269	589,001	
800,000	Voya Financial Inc., Variable Rate, Callable	5.650%	15-May-53	847,036	1,087,952	
	<b>Total United States of America</b>			<u>10,588,555</u>	<u>8,547,804</u>	<u>29.15</u>
	<b>Total Foreign Bonds</b>			<u>11,457,007</u>	<u>9,345,238</u>	<u>31.87</u>
	<b>TOTAL BONDS</b>			<u>23,584,338</u>	<u>16,122,017</u>	<u>54.98</u>
<b>STOCKS</b>						
<b>ENERGY</b>						
36,000	Canadian International Oil Corp., Warrants*			-	-	
1	Genalta Power Inc., Rights*			-	-	
29,064	NuStar Energy L.P., Preferred, Series 'B', Perpetual, Variable Rate			843,137	783,671	
68,584	TORC Oil & Gas Ltd.			448,610	280,509	
	<b>TOTAL ENERGY</b>			<u>1,291,747</u>	<u>1,064,180</u>	<u>3.63</u>
<b>MATERIALS</b>						
153	Community Vehicle Financing & Leasing Inc.*			8	-	
23,400	Community Vehicle Financing & Leasing Inc., Preferred, Series '1'*			2,049,149	1,184,976	
4,318,720	Core Gold Inc.			1,053,769	993,306	
1,880,610	Core Gold Inc., Warrants, (01Feb20)*			-	-	
50,000	Energold Drilling Corp., Warrants, (14Jun22)*			-	-	
4,500	Rio Tinto PLC, ADR			319,966	367,368	
698	Rubix Lending Co. Inc., Class 'B'*			7	7	
16,865	Sherritt International Corp., Warrant, (29Jul21)*			-	-	
	<b>TOTAL MATERIALS</b>			<u>3,422,899</u>	<u>2,545,657</u>	<u>8.68</u>

## Vertex Enhanced Income Fund

Schedule of Investments Portfolio

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

Number of Shares/ Par Value	Description	Average Cost \$	Fair Value \$	% of Total
<b>INDUSTRIAL</b>				
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	1,477	
4,008	Jack Cooper Enterprises Inc., Warrants, (26Apr27)*	-	4,146	
	<b>TOTAL INDUSTRIAL</b>	<b>45,716</b>	<b>5,623</b>	<b>0.02</b>
<b>CONSUMER DISCRETIONARY</b>				
8,500	A&W Revenue Royalties Income Fund	378,675	370,855	
	<b>TOTAL CONSUMER DISCRETIONARY</b>	<b>378,675</b>	<b>370,855</b>	<b>1.26</b>
<b>CONSUMER STAPLES</b>				
3,300	Kraft Heinz Co. (The)	207,427	134,140	
200,000	S&W Seed Co., Warrants, (30Jun20)*	-	-	
	<b>TOTAL CONSUMER STAPLES</b>	<b>207,427</b>	<b>134,140</b>	<b>0.46</b>
<b>FINANCIALS</b>				
42,500	Artis REIT, Preferred, Series 'G', Perpetual, Variable Rate	919,171	1,073,125	
12,700	Brookfield Property Partners L.P.	322,098	314,198	
10,000	Canaccord Financial Inc., 5.50%, Preferred, Series 'A'	143,594	139,000	
8,300	Canaccord Genuity Group Inc., Preferred, Series 'C', Perpetual, Variable Rate	144,590	138,610	
16,300	Canadian Western Bank, Preferred, Series '9', Perpetual, Variable Rate	410,577	416,954	
42,700	Cominar REIT	500,273	534,177	
35,356	Dream Industrial REIT	405,725	417,201	
10,000	Farmland Partners Inc., Preferred, Series 'B', Step Rate, Perpetual	241,896	305,780	
8,000	JPMorgan Chase & Co., 6.00%, Preferred, Series 'EE', Perpetual	269,099	284,434	
2,110,000	Pres Initial Capital Aggregator LLC*	896,946	-	
349,023	Pres Initial Capital Aggregator LLC, Warrants, (01May22)*	-	-	
7,600	SLM Corp., Preferred, Series 'B', Variable Rate, Callable	676,696	584,017	
	<b>TOTAL FINANCIALS</b>	<b>4,930,665</b>	<b>4,207,496</b>	<b>14.35</b>
<b>COMMUNICATION SERVICES</b>				
20,691	Affinion Group Holdings Inc.*	568,961	-	
13,000	BCE Inc.	723,809	774,540	
15,000	CenturyLink Inc.	349,400	231,005	
	<b>TOTAL COMMUNICATION SERVICES</b>	<b>1,642,170</b>	<b>1,005,545</b>	<b>3.43</b>
<b>UTILITIES</b>				
40,800	Atlantic Power Preferred Equity Ltd., Preferred, Series '2', Perpetual, Variable Rate	620,254	754,392	
876,000	Stream Asset Financial L.P.*	808,559	586,920	
	<b>TOTAL UTILITIES</b>	<b>1,428,813</b>	<b>1,341,312</b>	<b>4.57</b>
	<b>TOTAL STOCKS</b>	<b>13,348,112</b>	<b>10,674,808</b>	<b>36.40</b>
	<b>TOTAL INVESTMENTS</b>	<b>36,932,450</b>	<b>26,796,825</b>	<b>91.38</b>
<b>FORWARD CONTRACTS</b>				
	Buy CAD 9,831,728, Sell USD 7,500,000 @ 1.31090 - Jul 11, 2019	-	12,022	
	Buy CAD 4,588,010 Sell USD 3,500,000 @ 1.31086 - Jul 12, 2019	-	5,593	
	<b>Total Unrealized gain on forward contracts</b>	<b>-</b>	<b>17,615</b>	<b>0.06</b>
	<b>TOTAL NET INVESTMENTS BEFORE TRANSACTION COSTS</b>	<b>36,932,450</b>	<b>26,814,440</b>	<b>91.44</b>
	<b>Transaction Costs (Note 2)</b>	<b>(19,988)</b>		
	<b>TOTAL NET INVESTMENTS</b>	<b>36,912,462</b>	<b>26,814,440</b>	<b>91.44</b>
	<b>CASH</b>		<b>1,802,922</b>	<b>6.15</b>
	<b>OTHER ASSETS, LESS LIABILITIES</b>		<b>706,073</b>	<b>2.41</b>
	<b>TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>	<b>36,912,462</b>	<b>29,323,435</b>	<b>100.00</b>

\*Denotes manually priced securities using a fair valuation model

# Vertex Enhanced Income Fund

## Notes to Financial Statements

June 30, 2019 (Unaudited)

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

### 3. Significant accounting policies

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

##### a) *Classification*

##### i. *Assets*

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

##### ii. *Liabilities*

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



# Vertex Enhanced Income Fund

## Notes to Financial Statements

June 30, 2019 (Unaudited)

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*iii. Other financial assets and other financial liabilities*

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

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

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

*b) Recognition, derecognition and measurement*

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

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

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

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

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

*c) Revenue Recognition*

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

# **Vertex Enhanced Income Fund**

## **Notes to Financial Statements**

**June 30, 2019 (Unaudited)**

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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.

# Vertex Enhanced Income Fund

## Notes to Financial Statements

June 30, 2019 (Unaudited)

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### 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

# Vertex Enhanced Income Fund

## Notes to Financial Statements

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rating and or convertible securities. As at June 30, 2019, the aggregate dollar value of portfolio securities lent was \$56,269 (December 31, 2018 - \$1,775,930). As at December 31, 2018, the collateral held under securities transactions was \$59,105 (December 31, 2018 - \$2,182,213). 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:

	June 30, 2019		June 30, 2018	
	% of Gross securities lending revenue		% of Gross securities lending revenue	
	\$		\$	
Gross securities lending revenue	16,474	100	-	-
Withholding taxes	(1,816)	(11)	-	-
Agent fees - Bank of New York Mellon Corp. (The)	(4,396)	(27)	-	-
Securities lending revenue	10,262	62	-	-

### 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 June 30, 2019 and December 31, 2018, there were no differences between the Fund's net asset value per security and its net assets per security calculated in accordance with IFRS.

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

# Vertex Enhanced Income Fund

## Notes to Financial Statements

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### 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 losses.

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

## 4. Adoption of IFRS 9

### IFRS 9, Financial Instruments

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

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

# Vertex Enhanced Income Fund

## Notes to Financial Statements

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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 June 30, 2019 and December 31, 2018.

# Vertex Enhanced Income Fund

## Notes to Financial Statements

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<b>Financial Assets at fair value as at June 30, 2019</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities - long	\$ 8,142,890	\$ 754,392	\$ 1,773,380	\$ 10,670,662
Bonds - long	-	11,279,552	4,842,465	16,122,017
Warrants	-	-	4,146	4,146
Forward contracts - long	-	17,615	-	17,615
	\$ 8,142,890	\$ 12,051,559	\$ 6,619,991	\$ 26,814,440

  

<b>Financial Assets at fair value as at December 31, 2018</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
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

  

<b>Financial Liabilities at fair value as at December 31, 2018</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Forward contracts - short	\$ -	\$ (386,991)	\$ -	\$ (386,991)
	\$ -	\$ (386,991)	\$ -	\$ (386,991)

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,

# Vertex Enhanced Income Fund

## Notes to Financial Statements

June 30, 2019 (Unaudited)

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the options and other over-the-counter derivatives are classified into level 2. Where the inputs are not observable, they are classified into level 3.

Warrants - The fair value of warrants are valued using the Black Scholes options pricing model. The warrants are classified as Level 2 where the underlying security is listed and the other inputs are observable.

### Level 3 fair value measurements and sensitivity analysis

#### Equities

Equities classified within Level 3 with fair value at June 30, 2019 of \$1,184,976, (December 31, 2018 - \$4,466,310) 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 equities will be valued at quotations supplied by third party broker dealers and other pricing vendors. The remaining equities with fair value of \$588,404 (December 31, 2018 - \$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 June 30, 2019 of \$4,776,987 (December 31, 2018 - \$6,742,655) consists of corporate bonds. The Fund values these instruments using the net debt to EBITDA. The remaining bonds with fair value of \$65,478 (December 31, 2018 - \$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 June 30, 2019 of \$4,146, (December 31, 2018 - \$25,087) 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.

A sensitivity analysis for Level 3 positions at June 30, 2019 for warrants amounting to \$4,146 were not presented as it was deemed the impact of reasonable changes in inputs would not be significant.

The following table presents the sensitivity analysis for level 3 securities with significant unobservable inputs as at June 30, 2019 and December 31, 2018.



# Vertex Enhanced Income Fund

## Notes to Financial Statements

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Description	Fair Value at June 30, 2019	Valuation Techniques	Unobservable Inputs	Weighted average input	Reasonably possible shift +/- (absolute value)	Change in the valuation (+/-)
Equities:	\$1,184,976	Comparable trading multiples	Market Capitalization/ Tangible Book Value	0.97	0.25	+/- \$306,697
Debt Securities	\$4,776,987	Net debt to EBITDA	Discount Rate	17.95%	1%	+\$ (36,131)/- \$ 11,760
			Public Stock Price	22.00%	10%	+/- \$48,781
			Book Value Recoverability	92.35%	10%	+125,358/- \$(158,255)
			EV Recoverability	1.86%	0.25%	+/- \$1,952

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

# Vertex Enhanced Income Fund

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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, 2018 to June 30, 2019:

	Fair value measurements using level 3 inputs			
	Warrants	Equities - long	Bonds - long	Total
<b>Balance at December 31, 2018</b>	\$ 25,087	\$ 5,053,238	\$ 6,855,647	\$ 11,933,972
Sales	-	(2,860,421)	(1,491,806)	(4,352,227)
Transfers in	-	568,961	1,519,668	2,088,629
Gains (Losses)				
Realized	-	1,773,999	(107,780)	1,666,219
Unrealized	(20,941)	(2,762,397)	(1,933,264)	(4,716,602)
<b>Balance at June 30, 2019</b>	\$ 4,146	\$ 1,773,380	\$ 4,842,465	\$ 6,619,991
Total change in unrealized gain (loss) during the period for assets held at June 30, 2019	\$ (20,941)	\$ (988,398)	\$ (1,826,312)	\$ (2,835,651)

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
<b>Balance at December 31, 2017</b>	\$ 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
<b>Balance at December 31, 2018</b>	\$ 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 were the transfers between Levels 1 and 2 for assets and liabilities held at June 30, 2019:

# Vertex Enhanced Income Fund

## Notes to Financial Statements

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	Transfer from level 1 to level 2	Transfer from level 2 to level 1
	June 30, 2019	June 30, 2019
Equities - Long	\$ 754,392	\$ -

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

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

Financial Assets and Liabilities as at June 30, 2019	Amounts Offset (\$)			Amounts Not Offset (\$)		Net
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts	Financial Instruments	Cash Collateral Received (Pledged)	
Derivative assets	17,615	-	17,615	-	-	17,615
Derivative liabilities	-	-	-	-	-	-
Total	17,615	-	17,615	-	-	17,615

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

### 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.

# Vertex Enhanced Income Fund

## Notes to Financial Statements

June 30, 2019 (Unaudited)

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### 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 period:

	June 30, 2019		June 30, 2018	
	Class B	Class F	Class B	Class F
Units-Beginning of period	1,820,922	3,274,932	2,985,253	5,640,943
Redeemable Units issued	8,606	100,303	94,461	278,549
Redeemable Units reinvested	29,725	51,271	49,181	99,453
Redeemable Units redeemed	(468,491)	(1,252,067)	(942,173)	(1,946,566)
Units-End of period	1,390,762	2,174,439	2,186,722	4,072,379

Certain directors and/or related parties of the Fund held 2.54% of the Fund units at June 30, 2019 (December 31, 2018 – 3.99%).

### 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 period ended June 30, 2019 were \$214,692 (June 30, 2018 - \$381,899) of which \$101,950 (December 31, 2018 – \$28,435) were outstanding as at period 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)

# Vertex Enhanced Income Fund

## Notes to Financial Statements

June 30, 2019 (Unaudited)

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- 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 period ended June 30, 2019 were \$nil (June 30, 2018 - \$nil) of which \$nil (December 31, 2018 – \$nil) were outstanding as at period end. The Manager has reserved the right to change the period for which any performance fee may be paid by the Fund to the Manager.

### *c) Other fees and expenses*

The Fund is responsible for the payment of all fees and expenses relating to its operation, including the fees and expenses of the recordkeeper, audit, accounting, administration (other than advertising and promotional expenses which are paid for by the Manager), 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 period ended June 30, 2019 and June 30, 2018.

### **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 \$3,294 (June 30, 2018 - \$9,891) soft dollar commissions paid during the period.

### **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:

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**(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 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 \$533,740 (December 31, 2018 – \$714,916). Actual results may differ from this sensitivity analysis and those results could be material.

**(b) Interest rate risk**

As at June 30, 2019, 54.98% (December 31, 2018 – 61.15%) 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
<b>As at June 30, 2019</b>				
<b>Financial Assets</b>				
Bonds*	\$ 3,586,326	\$ 3,874,467	\$ 8,661,224	\$ 16,122,017
<b>As at December 31, 2018</b>				
<b>Financial Assets</b>				
Bonds*	\$ 4,526,484	\$ 11,205,568	\$ 10,169,064	\$ 25,901,116

\* 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

# Vertex Enhanced Income Fund

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approximately \$242,737 (December 31, 2018 - \$223,691). 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 June 30, 2019 and December 31, 2018, if the Canadian dollar strengthened or weakened by 5% in relation to all other currencies, with all other variables held constant the decrease or increase respectively in net assets would approximately amount to values as disclosed in the table below:

As at June 30, 2019						
	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	\$ 12,626,144	\$ 2,696,039	\$ (14,402,122)	\$ 920,061	3.14%	\$ 46,003
Total	\$ 12,626,144	\$ 2,696,039	\$ (14,402,122)	\$ 920,061	3.14%	\$ 46,003

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

\* 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

# Vertex Enhanced Income Fund

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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	
	June 30, 2019	December 31, 2018
Rating		
BBB/Bbb	8.04%	0.00%
Below BBB	25.02%	34.15%
N/R	21.92%	27.00%
<b>Total</b>	<b>54.98%</b>	<b>61.15%</b>

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 June 30, 2019 and December 31, 2018 the Fund's net assets were also exposed to credit risk arising from derivative contracts. The credit rating of the counterparties as at June 30, 2019 and December 31, 2018 was:

Portfolio by rating category	Percentage of net assets	
	June 30, 2019	December 31, 2018
Rating		
AA/A/A-	0.00%	-0.91%
<b>Total</b>	<b>0.00%</b>	<b>-0.91%</b>

(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



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specific events such as deterioration in the creditworthiness of any particular issuer. Investments held as at June 30, 2019 that may be subject to liquidity risk have been identified on the Schedule of Investments. In addition, the Fund retains sufficient cash to maintain liquidity.

The tables below analyze the Fund's financial liabilities as at June 30, 2019 and December 31, 2018 into relevant groupings based on contractual maturity dates. The amounts are contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant. The net assets attributable to holders of redeemable units are redeemable on demand. However, the Manager does not expect that the contractual maturity disclosed below will be representative of the actual cash outflows as holders of the redeemable units typically retain them for a longer 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>					
Accrued management fees	-	101,950	-	-	101,950
Redemptions payable	-	94,367	-	-	94,367
Redeemable units	29,323,435	-	-	-	29,323,435

	On demand	Less than 3 months	3 - 12 months	More than 12 months	Total
<b>As at December 31, 2018</b>					
<b>Liabilities</b>					
Financial liabilities 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

**(f) Concentration risk**

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

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Portfolio by Category	Percentage of Net Assets (%)	
	As at	As at
	June 30, 2019	December 31, 2018
Bonds - Corporate Bonds	23.11	20.94
Bonds - Bermuda	-	1.52
Bonds - Cayman Island	-	4.39
Bonds - United Kingdom	2.72	3.10
Bonds - United States of America	29.15	31.20
Stocks - Energy	3.63	4.37
Stocks - Materials	8.68	16.77
Stocks - Industrial	0.02	0.73
Stocks - Consumer Discretionary	1.26	0.84
Stocks - Consumer Staples	0.46	-
Stocks - Financials	14.35	3.99
Stocks - Information Technology	-	0.77
Stocks - Communication Services	3.43	3.28
Stocks - Utilities	4.57	3.02
Forward Contracts -Unrealized Gain	0.06	-
Forward Contracts -Unrealized Loss	-	(0.91)
Cash	6.15	4.19
Other Assets, Less Liabilities	2.41	1.80
	<u>100.00</u>	<u>100.00</u>

### 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 periods ended June 30, 2019 and June 30, 2018 is calculated as follows:

Class B	June 30, 2019	June 30, 2018
Increase (decrease) in net assets attributable to holders of redeemable units	\$ 277,407	\$ (351,065)
Weighted average units outstanding during the period	1,620,425	2,618,545
Increase (decrease) in net assets attributable to holders of redeemable units per unit	0.17	(0.13)

Class F	June 30, 2019	June 30, 2018
Increase (decrease) in net assets attributable to holders of redeemable units	\$ 640,972	\$ (672,764)
Weighted average units outstanding during the period	3,022,018	5,094,287
Increase (decrease) in net assets attributable to holders of redeemable units per unit	\$ 0.21	(0.13)