

# Next Edge Bio-Tech Plus Fund

Annual Financial Statements – 2019  
As at and for the year ended December 31, 2019



NEXTEDGE  
CAPITAL

Next Edge Bio-Tech Plus Fund  
Annual financial statements - December 31, 2019

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## Next Edge Bio-Tech Plus Fund

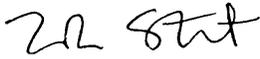
### Management's responsibility for financial reporting

Next Edge Capital Corp. (the "Manager") is responsible for the accompanying financial statements of Next Edge Bio-Tech Plus Fund (the "Fund") and all the information in this report. These financial statements have been approved by the Board of Directors of Next Edge Capital Corp., as Manager and Trustee. The financial statements have been prepared in accordance with International Financial Reporting Standards and, as issued by the International Accounting Standards Board where appropriate, reflect management's judgment and best estimates.

Management has established systems of internal controls that provide assurance that assets are safeguarded from loss or unauthorized use and produce reliable accounting records for the preparation of financial information. The systems of internal controls meet management's responsibilities for the integrity of the financial statements.

The Manager recognizes its responsibility to conduct the Fund's affairs in the best interest of its unitholders.

Respectfully,



Toreigh N. Stuart  
Chief Executive Officer



David Scobie  
Chief Operating Officer

Next Edge Capital Corp.  
March 30, 2020

# Independent auditor's report

To the Unitholders of  
**Next Edge Bio-Tech Plus Fund**

## Opinion

We have audited the financial statements of **Next Edge Bio-Tech Plus Fund** (the "Fund"), which comprise the statements of financial position as at **December 31, 2019** and **2018**, and the statements of comprehensive income, statements of changes in net assets attributable to holders of redeemable units and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

## 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 are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other Information

Management is responsible for the other information. The other information comprises the Management Report of Fund Performance. 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, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Management Report of Fund Performance prior to the date of this auditor's report. 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 in this auditor's report. 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 IFRSs, 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.

Toronto, Canada  
March 30, 2020

*Ernst & Young LLP*

Chartered Professional Accountants  
Licensed Public Accountants



Next Edge Bio-Tech Plus Fund  
Statements of financial position

As at December 31	Notes	2019	2018
<b>ASSETS</b>			
<b>Current assets</b>			
Financial assets at fair value through profit or loss	5,6	10,010,555	12,589,321
Cash		820,959	1,818,310
Subscriptions receivable		22,999	40,488
Interest receivable and other receivables		362	3,154
Dividends receivable		-	2,520
		<b>10,854,875</b>	<b>14,453,793</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Financial liabilities at fair value through profit or loss	5,6	63,638	71,704
Payable for investments purchased		77,091	19,917
Management fees payable	9,10	9,310	13,073
HST payable		4,708	6,933
Accrued liabilities		56,317	104,281
		<b>211,064</b>	<b>215,908</b>
<b>Net assets attributable to holders of redeemable units</b>		<b>10,643,811</b>	<b>14,237,885</b>
<b>Net assets attributable to holders of redeemable units per class</b>			
Class A		3,552,141	5,039,649
Class A1		1,209,024	1,439,380
Class F		5,013,698	6,388,186
Class F1		868,948	1,370,670
		<b>10,643,811</b>	<b>14,237,885</b>

Next Edge Bio-Tech Plus Fund  
 Statements of financial position (continued)

As at December 31	Notes	2019	2018
<b>Number of redeemable units outstanding per class</b>			
Class A	7	474,057	627,096
Class A1	7	147,246	165,821
Class F	7	617,809	742,895
Class F1	7	101,091	152,425
<b>Net assets attributable to holders of redeemable units per unit</b>			
Class A		7.49	8.04
Class A1		8.21	8.68
Class F		8.12	8.60
Class F1		8.60	8.99

Approved by Next Edge Capital Corp.



Toreigh N. Stuart  
 Chief Executive Officer



David Scobie  
 Chief Operating Officer

Next Edge Bio-Tech Plus Fund  
Statements of comprehensive income

For the years ended December 31,	Notes	2019	2018
<b>Income</b>			
Interest income for distribution purposes		18,703	15,437
Dividends		8,440	32,485
Foreign currency gain (loss) on cash and other net assets		(13,584)	32,834
Net realized gain (loss) on sale of investments and derivatives		(2,450,077)	843,100
Net change in unrealized appreciation (depreciation) on investments and derivatives	6	2,832,330	(4,064,479)
<b>Total</b>		<b>395,812</b>	<b>(3,140,623)</b>
<b>Expenses</b>			
Transaction costs	9	326,655	594,984
Management fees	9,10	206,520	257,629
Administrative fees		27,932	229,642
Legal fees		46,878	67,795
Harmonized sales tax		27,986	40,166
Audit fees		31,831	38,459
Independent review committee fees	10	26,777	22,470
Unitholder reporting costs		22,447	19,414
Custody fees		3,542	3,930
Security lending expense		1,132	13,737
		721,700	1,288,226
Less: expenses absorbed by the Manager		(10,000)	-
<b>Total expenses</b>		<b>711,700</b>	<b>1,288,226</b>
<b>Decrease in net assets attributable to holders of redeemable units</b>		<b>(315,888)</b>	<b>(4,428,849)</b>
<b>Decrease in net assets attributable to holders of redeemable units per class</b>			
Class A		(17,061)	(1,568,817)
Class A1		(43,041)	(355,557)
Class F		(224,442)	(2,180,856)
Class F1		(31,344)	(323,619)
		(315,888)	(4,428,849)

Next Edge Bio-Tech Plus Fund  
 Statements of comprehensive income (continued)

For the years ended December 31,	Notes	2019	2018
<b>Average number of units outstanding</b>			
Class A		514,671	559,450
Class A1		155,530	180,831
Class F		703,689	799,055
Class F1		136,633	158,348
<b>Decrease in net assets attributable to holders of redeemable units per unit</b>			
Class A		(0.03)	(2.80)
Class A1		(0.28)	(1.97)
Class F		(0.32)	(2.73)
Class F1		(0.23)	(2.04)

## Next Edge Bio-Tech Plus Fund

### Statements of changes in net assets attributable to holders of redeemable units

For the years ended December 31,	2019	2018
<u>Class A</u>		
Beginning of year	5,039,649	3,740,962
Decrease in net assets attributable to holders of redeemable units from operations	(17,061)	(1,568,817)
Proceeds from issuance of units	328,727	3,514,995
Consideration paid for redemption of units	(1,799,174)	(647,491)
End of year	3,552,141	5,039,649
<u>Class A1</u>		
Beginning of year	1,439,380	2,121,357
Decrease in net assets attributable to holders of redeemable units from operations	(43,041)	(355,557)
Consideration paid for redemption of units	(187,315)	(326,420)
End of year	1,209,024	1,439,380
<u>Class F</u>		
Beginning of year	6,388,186	5,327,648
Decrease in net assets attributable to holders of redeemable units from operations	(224,442)	(2,180,856)
Proceeds from issuance of units	1,268,939	6,019,796
Consideration paid for redemption of units	(2,418,985)	(2,778,402)
End of year	5,013,698	6,388,186
<u>Class F1</u>		
Beginning of year	1,370,670	1,834,989
Decrease in net assets attributable to holders of redeemable units from operations	(31,344)	(323,619)
Proceeds from issuance of units	12,059	63,716
Consideration paid for redemption of units	(482,437)	(204,416)
End of year	868,948	1,370,670

## Next Edge Bio-Tech Plus Fund

### Statements of cash flows

For the years ended December 31,	2019	2018
<b>Cash flows from operating activities</b>		
Decrease in net assets attributable to holders of redeemable units	(315,888)	(4,428,849)
<b>Adjustments to reconcile decrease in net assets attributable to holders to net cash from operating activities</b>		
Proceeds from sale of investments	30,982,423	50,415,391
Purchase of investments	(27,972,296)	(54,318,256)
Foreign currency loss (gain) on cash and other net assets	13,584	(32,834)
Change in unrealized (depreciation) appreciation of investments and derivatives	(2,832,330)	4,064,479
Net realized loss (gain) on sale of investments and derivatives	2,450,077	(843,100)
Decrease (increase) in interest receivable and other receivables	2,792	(1,895)
Decrease (increase) in dividends receivable	2,520	(108)
Increase (decrease) in other payables and accrued liabilities	(53,952)	89,056
<b>Net cash provided by (used in) operating activities</b>	<b>2,276,930</b>	<b>(5,056,116)</b>
<b>Cash flows from financing activities</b>		
Proceeds from redeemable units issued	1,627,214	9,578,019
Amount paid on redemption of redeemable units	(4,887,911)	(3,956,729)
<b>Net cash provided by (used in) financing activities</b>	<b>(3,260,697)</b>	<b>5,621,290</b>
Foreign currency gain (loss) on cash and other net assets	(13,584)	32,834
Net increase (decrease) in cash	(997,351)	598,008
Cash, beginning of year	1,818,310	1,220,302
<b>Cash, end of year</b>	<b>820,959</b>	<b>1,818,310</b>
Cash comprises:		
Cash at bank	820,959	1,818,310
Supplemental disclosure of cash flow information:		
Interest received	21,495	13,542
Dividends received, net of withholding taxes	10,960	32,377

# Next Edge Bio-Tech Plus Fund

## Schedule of investments

No. of Shares	Securities by Sector	Average Cost (\$)	Fair Value (\$)
	<b>Long positions (94.1%)</b>		
	<b>Canadian equities (50.5%)</b>		
	<b>Biotechnology (1.4%)</b>		
2,000,000	Aequus Pharmaceuticals Inc. warrants, July 30, 2022 - strike price \$0.30	-	84,050
8,125	DiaMedica Therapeutics Inc. warrants, March 19, 2020 - strike price \$7.00	-	1,868
250,000	ImmunoPrecise Antibodies Ltd. warrants, August 27, 2020 - strike price \$1.25	-	4,542
500,000	SQI Diagnostics Inc. warrants, December 20, 2022 - strike price \$0.20	-	19,135
845,000	SQI Diagnostics Inc. warrants, March 10, 2022 - strike price \$0.21	-	25,194
108,000	Titan Medical Inc. warrants, August 10, 2023 - strike price \$3.20	-	12,748
	<b>Biotechnology total</b>	-	<b>147,537</b>
	<b>Healthcare equipment &amp; services (20.2%)</b>		
1,005,500	Apteryx Imaging Inc.	461,920	367,007
958,000	CVR Medical Corp.	241,167	191,600
1,000,000	CVR Medical Corp. warrants, April 20, 2023 - strike price \$0.36	-	15,245
1,379	Delcath Systems Inc.	451,835	302,731
5,952	Delcath Systems Inc. Warrants, August 11, 2024 - Strike Price \$25.36	-	46,075
90,000	Hamilton Thorne Ltd.	79,961	93,600
15,000	Neuronetics Inc.	88,350	87,336
395,000	Opsens Inc.	394,533	351,550
1,305,000	ProMIS Neurosciences Inc., warrants, January 22, 2024 - strike price \$0.48	-	50,804
200,000	ProMIS Neurosciences Inc., warrants, August 9, 2022 - strike price \$0.30	-	1,283
310,000	ProMIS Neurosciences Inc., warrants, February 10, 2022 - strike price \$0.20	-	1,396
6,145,000	SQI Diagnostics Inc.	740,395	491,600
1,875,000	SQI Diagnostics Inc., warrants, March 8, 2024 - strike price \$0.11	-	99,317
337,000	Theralase Technologies Inc. warrants March 3, 2020 - strike price \$0.54	15,000	2
666,666	Titan Medical Inc., warrants, June 29, 2022 - strike price \$0.20	-	45,761
200,000	Titan Medical Inc., warrants, March 16, 2021 - strike price \$0.50	-	156
	<b>Healthcare equipment &amp; services total</b>	<b>2,473,161</b>	<b>2,145,463</b>

Next Edge Bio-Tech Plus Fund  
Schedule of investments (continued)

No. of Shares	Securities by Sector	Average Cost (\$)	Fair Value (\$)
<b>Pharmaceuticals &amp; biotechnology (28.9%)</b>			
6,450,500	Aequus Pharmaceuticals Inc.	1,159,942	806,313
500,000	Antibe Therapeutics Inc. warrants, February 27, 2022 - strike price \$0.35	-	92,293
20,000	Cardiol Therapeutics Inc.	103,558	91,600
145,000	Cipher Pharmaceuticals Inc.	424,624	217,500
436,500	Cognetivity Neurosciences Ltd.	158,473	96,030
362,500	Cognetivity Neurosciences Ltd. warrants, February 11, 2022 - strike price \$0.55	-	9,362
6,650,500	iCo Therapeutics Inc.	431,473	532,040
4,000,000	iCo Therapeutics Inc. warrants, February 11, 2022 - strike Price \$0.075	-	176,408
150,000	ImmunoPrecise Antibodies Ltd.	142,542	85,500
2,723,000	Microbix Biosystems Inc.	788,792	667,135
212,500	Microbix Biosystems Inc. warrants, October 18, 2020	-	1,877
200,000	Microbix Biosystems Inc. warrants, October 9, 2020 - strike price \$0.55	-	141
70,000	Theratechnologies Inc.	438,560	298,200
<b>Pharmaceuticals &amp; biotechnology total</b>		<b>3,647,964</b>	<b>3,074,399</b>
<b>Total Canadian equities</b>		<b>6,121,125</b>	<b>5,367,399</b>
<b>United States equities (34.2%)</b>			
<b>Biotechnology (0.2%)</b>			
153,800	IntelGenx Technologies Corp. warrants, June 1, 2021 - strike price \$0.80	-	21,429
<b>Biotechnology total</b>		<b>-</b>	<b>21,429</b>
<b>Pharmaceuticals (19.0%)</b>			
25,000	Catalyst Pharmaceuticals Inc.	155,843	121,570
6,500	Intra-Cellular Therapies Inc.	87,368	289,194
77,997	MRI Interventions Inc.	249,324	485,483
125,000	MRI Interventions Inc., warrants, May 26, 2022	-	465,059
12,000	Portola Pharmaceuticals Inc.	407,203	371,596
1,700	Sarepta Therapeutics Inc.	158,553	284,465
<b>Pharmaceuticals total</b>		<b>1,058,291</b>	<b>2,017,367</b>

Next Edge Bio-Tech Plus Fund  
Schedule of investments (continued)

No. of Shares	Securities by Sector	Average Cost (\$)	Fair Value (\$)
	<b>Pharmaceuticals &amp; biotechnology (15.0%)</b>		
41,000	ADMA Biologics Inc.	221,080	212,667
18,000	BioDelivery Sciences International Inc.	95,372	147,518
2,200	Intercept Pharmaceuticals Inc.	213,141	353,525
12,000	MediciNova Inc.	136,592	104,881
1,700	Neurocrine Biosciences Inc.	180,524	236,959
15,625	Neurotrope Inc., warrants, November 17, 2021 - strike price \$0.40	-	761
3,500	REGENXBIO Inc.	190,624	185,947
16,000	Viking Therapeutics Inc.	153,339	166,399
10,500	Voyager Therapeutics Inc.	209,042	189,941
	<b>Pharmaceuticals &amp; biotechnology Total</b>	<b>1,399,714</b>	<b>1,598,598</b>
	<b>Total United States equities</b>	<b>2,458,005</b>	<b>3,637,394</b>
	<b>United States Bond (1.2%)</b>		
100,000	IntelGenx Technologies Corp., convertible private bond, 6% interest rate, June 1, 2021	128,645	129,675
	<b>United States Bond Total</b>	<b>128,645</b>	<b>129,675</b>
	<b>Total United States Equities &amp; Bond</b>	<b>2,586,650</b>	<b>3,767,069</b>
	<b>Foreign Equities (3.9%)</b>		
	<b>Pharmaceuticals &amp; Biotechnology (3.9%)</b>		
9,000	Alkermes PLC	240,427	238,082
63,000	Nymox Pharmaceutical Corp.	158,194	179,729
	<b>Total Foreign Equities</b>	<b>398,621</b>	<b>417,811</b>
	<b>Total equities &amp; bond</b>	<b>9,106,396</b>	<b>9,552,279</b>
	<b>Options (4.3%)</b>		
	Purchased options (see options detail)	455,659	458,276
	<b>Total long position</b>	<b>9,562,055</b>	<b>10,010,555</b>
	<b>Short Position (-0.6%)</b>		
	Written options (see options detail)	(68,102)	(63,638)
	<b>Total short position</b>	<b>(68,102)</b>	<b>(63,638)</b>
	Transaction costs	(69,729)	-
	<b>Total Investment Portfolio and Options (93.5%)</b>	<b>9,424,224</b>	<b>9,946,917</b>
	<b>Cash (7.7%)</b>		820,959
	<b>Other assets net of liabilities</b>		(124,065)
	<b>Total net assets attributable to holders of redeemable units</b>		<b>10,643,811</b>

## Next Edge Bio-Tech Plus Fund

### Schedule of investments (continued)

#### Options Details

Underlying Interest	Option Type	Number of Options	Strike Price (\$)	Expiry Date	Average Cost (\$)	Fair Value (\$)
Alkermes Plc	Call	50	23	Jan 2020	4,539	810
Alkermes Plc	Call	50	23	Jan 2020	5,511	810
Alkermes Plc	Call	200	23	Jan 2020	17,527	3,242
Aurinia Pharmaceuticals	Call	100	8	Jan 2020	22,757	158,852
Bluebird Bio Inc.	Call	50	110	Jan 2020	19,113	4,539
Bluebird Bio Inc.	Call	50	110	Jan 2020	8,429	4,539
Cytokinetics Inc.	Call	100	9	Feb 2020	12,968	31,770
Fibrogen Inc.	Call	75	55	Feb 2020	18,479	12,157
Fibrogen Inc.	Call	50	55	Feb 2020	9,726	8,105
Invesco Currencyshares Can	Call	100	76	Mar 2020	5,187	8,753
Invesco Currencyshares Can	Call	400	76	Mar 2020	18,642	35,012
Pacific Biosciences Of Cali	Call	50	5	Mar 2020	7,132	5,511
Pacific Biosciences Of Cali	Call	50	5	Mar 2020	5,187	5,511
Pacific Biosciences Of Cali	Call	300	5	Mar 2020	40,198	33,067
Portola Pharmaceuticals	Call	257	33	Feb 2020	17,460	7,498
Portola Pharmaceuticals	Call	60	33	Feb 2020	1,945	1,751
Portola Pharmaceuticals	Call	143	33	Feb 2020	8,652	4,172
Sangamo Therapeutics Inc.	Call	40	13	Jan 2020	3,372	15
Sangamo Therapeutics Inc.	Call	45	13	Jan 2020	2,626	17
Sangamo Therapeutics Inc.	Call	55	13	Jan 2020	4,992	20
Sangamo Therapeutics Inc.	Call	300	13	Jan 2020	19,335	111
Sangamo Therapeutics Inc.	Call	100	11	Feb 2020	3,890	2,239
Sangamo Therapeutics Inc.	Call	200	11	Feb 2020	19,451	4,477
Theratechnologies Inc.	Call	50	3	Jan 2020	4,500	6,625
Theratechnologies Inc.	Call	100	3	Jan 2020	12,000	13,250
Theratechnologies Inc.	Call	100	3	Jan 2020	7,520	13,250
Ultragenyx Pharmaceutical	Call	25	45	Feb 2020	6,847	8,267
Ultragenyx Pharmaceutical	Call	25	45	Feb 2020	5,576	8,267
Ultragenyx Pharmaceutical	Call	40	45	Feb 2020	10,633	13,227
Voyager Therapeutics	Call	25	20	Jan 2020	3,728	14
Voyager Therapeutics	Call	125	20	Jan 2020	13,564	72
Voyager Therapeutics	Call	150	20	Jan 2020	22,394	86
Viking Therapeutics Inc.	Call	63	10	Jan 2020	4,085	240
Viking Therapeutics Inc.	Call	100	10	Jan 2020	6,484	380
Viking Therapeutics Inc.	Call	100	10	Jan 2020	6,587	380
Viking Therapeutics Inc.	Call	137	10	Jan 2020	6,218	521
Viking Therapeutics Inc.	Call	200	10	Jan 2020	14,264	761
<b>Total purchased call options</b>					<b>401,518</b>	<b>398,318</b>
Investco QQQ Trust Series	Put	225	203	Feb 2020	54,141	59,958
<b>Total purchased put options</b>					<b>54,141</b>	<b>59,958</b>
<b>Total purchased options</b>					<b>455,659</b>	<b>458,276</b>

## Next Edge Bio-Tech Plus Fund

### Schedule of investments (continued)

Underlying Interest	Option Type	Number of Options	Strike Price (\$)	Expiry Date	Average Cost (\$)	Fair Value (\$)
Aurinia Pharmaceuticals Inc.	Call	(90)	20	Jan 2020	(27,426)	(18,965)
Aurinia Pharmaceuticals Inc.	Call	(10)	13	Jan 2020	(852)	(10,115)
Bluebird Bio Inc.	Call	(50)	125	Jan 2020	(10,063)	(4,214)
Intra-Cellular Therapies Inc.	Call	(65)	33	Jan 2020	(29,761)	(30,344)
<b>Total written call options</b>					<b>(68,102)</b>	<b>(63,638)</b>
<b>Total written options</b>					<b>(68,102)</b>	<b>(63,638)</b>
<b>Total options</b>					<b>387,557</b>	<b>394,638</b>

# Next Edge Bio-Tech Plus Fund

Notes to the financial statements - December 31, 2019

## 1. FUND INFORMATION

Next Edge Bio-Tech Plus Fund (the "Fund") is a mutual fund established as a trust under the laws of the Province of Ontario and governed by a declaration of trust dated December 1, 2014. The Fund is divided into units of participation ("units") representing an interest in the Fund held by unitholders. The Fund has four classes of units: Class A units, Class A1 units, Class F units and Class F1 units. The Fund may have an unlimited number of classes of units and may issue an unlimited number of units of each class. All classes of units of the Fund are redeemable at the unitholders' option. Each class of units is intended for different types of investors. All of the classes of units have the same investment strategy and restrictions but differ with respect to one or more of their features, such as management fees, expenses, redemption fees, commissions or distributions. The net asset value per unit (the "Net Asset Value per unit" or "NAV per unit") of each class is not the same as a result of the different fees, expenses and distributions allocable to each class of units.

The Fund seeks short- and long-term capital appreciation through the ownership of small and mid-capitalization biotechnology and healthcare companies based in Canada and the United States. The Fund started investing according to its investment objective on February 17, 2015.

The Fund is managed by Next Edge Capital Corp. (the "Manager"). The custodian, registrar, transfer agent and valuation agent of the Fund is RBC Investor & Treasury Services. The registered office of the Fund is located at 1 Toronto Street, Suite 200, Toronto, Ontario, Canada, M5C 2V6.

The financial statements were approved for issuance by the Manager on March 30, 2020.

## 2. BASIS OF PREPARATION

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 on a going concern basis using the historical-cost convention. However, the Fund is an investment entity and primarily all financial assets and financial liabilities are measured at fair value in accordance with IFRS. Accordingly, the Fund's accounting policies for measuring the fair value of investments and derivatives are consistent with those used in measuring the NAV for transactions with unitholders.

In applying IFRS, management may make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses during the reporting periods. Actual results may differ from such estimates.

The financial statements have been presented in Canadian dollars, the Fund's functional currency.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Financial instruments

The Fund recognizes financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments measured at amortized cost. Regular way purchases and sales of financial assets are recognized at their trade date. The Fund's investments are designated as fair value through profit or loss upon initial recognition and are measured at fair value through profit or loss ("FVTPL"). The Fund's obligation for net assets attributable to holders of redeemable units is presented at the redemption amount. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate.

# Next Edge Bio-Tech Plus Fund

## Notes to the financial statements - December 31, 2019 (continued)

Financial instruments include financial assets and liabilities such as debt and equity securities, open-ended investment funds and derivatives, cash and other trade receivables and payables. All financial assets and liabilities are recognized in the Statements of financial position when the Fund becomes a party to the contractual requirements of the instrument. Financial instruments are derecognized when the right to receive cash flows from the instrument has expired or the Fund has transferred substantially all risks and rewards of ownership.

### Classification and measurement

The Fund classifies and measures financial instruments in accordance with IFRS 9, Financial Instruments - Classification and Measurement ("IFRS 9"). The standard requires financial assets to be classified as amortized cost, fair value through profit or loss ("FVTPL"), or fair value through other comprehensive income ("FVOCI") based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of these assets. Assessment and decision on the business model approach used is an accounting judgement. The Fund classifies investments based on both the Fund's business models for managing those financial assets and the 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 performance and to make decisions. Consequently, all investments are measured at FVTPL.

More specifically, the Fund's investments, derivative assets and liabilities and short sales, if any, are measured at FVTPL. The Fund's obligation for NAV attributable to holders of redeemable units is presented at the redemption amount. All other financial assets and liabilities are initially recognized at fair value and subsequently measured at amortized cost. Under this method, financial assets and liabilities reflect the amounts required to be received or paid, discounted when appropriate, at the financial instrument's effective interest rate. The fair values of the Fund's financial assets and liabilities that are not carried at FVTPL approximate their carrying amounts due to their short-term nature.

### Impairment

IFRS 9 requires that an entity recognize a loss allowance for expected credit losses on financial assets that are measured at amortized cost or FVOCI. Financial assets held by the Fund that are measured at FVTPL will not be subject to the impairment requirements.

With respect to receivables, the Fund considers both historical analysis and forward-looking information in determining any expected credit loss. As at the financial statement date, all receivables are due to be settled within the short term. The Fund considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligation in the near term. No loss allowance has been recognized as any such impairment will not have a significant impact on the financial statements.

### Fair value and subsequent measurement of financial instruments

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. The fair values of financial assets and liabilities traded in active markets are based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. Unlisted securities are determined by the Manager on the basis of the latest reported information available. Fixed income securities, debentures and other debt instruments, including short-term investments, are valued at the quotation from recognized investment dealers.

The Fund may engage in option contract transactions by purchasing (long positions) or writing (short positions) call or put option contracts. These contracts have different risk exposures for the Fund: whereas the risk for long positions will be limited to the premium paid to purchase the option contracts, the risk exposure for the short positions is potentially unlimited until closed or expired.

## Next Edge Bio-Tech Plus Fund

### Notes to the financial statements - December 31, 2019 (continued)

The premium paid for purchasing an option is recorded as an asset in the Statements of financial position. The premium is valued on each Valuation Date at an amount equal to the fair value of the option that would have the effect of closing the position. The change in the difference between the premium and the fair value is shown as “Net change in unrealized appreciation (depreciation) on investments” in the Statements of comprehensive income. When a purchased option expires, the Fund will realize a loss equal to the premium paid. When a purchased option is closed, the gain or loss the Fund will realize will be the difference between the proceeds and the premium paid. When a purchased call option is exercised, the premium paid is added to the cost of acquiring the underlying security. When a purchased put option is exercised, the premium paid is subtracted from the proceeds from the sale of the underlying security that had to be sold.

The premium received from writing a call or put option is recorded as a liability in the Statements of financial position. When a written option expires, the Fund will realize a gain equal to the premium received. When a written option is closed, the Fund will realize a gain or loss equal to the difference between the cost at which the contract was closed and the premium received. When a written call option is exercised, the premium received is added to the proceeds from the sale of the underlying investments to determine the realized gain or loss. When a written put option is exercised, the premium received will be subtracted from the cost of the underlying investment the Fund had purchased. The gain or loss that the Fund realizes when a purchased or written option is expired or closed is recorded as “Net realized gain (loss) on sale of investments” in the Statements of comprehensive income.

All unlisted warrants have been calculated using the Black-Scholes model, including written options valued subsequent to initial purchase.

#### **Net assets attributable to holders of redeemable units**

Net assets attributable to holders of redeemable units are classified as financial liabilities and are redeemable at the unitholder’s option at prices based on the Fund’s NAV per unit at the time of redemption. The amounts are continuously measured at their redemption value.

The NAV measured as at the close of business on every business day, or, if not a business day, on the following business day and on any other day as the Manager determines (a “Valuation Date”), will be obtained by the valuation agent by taking the then fair value of the assets of the Fund less the aggregate amount of its liabilities excluding those attributable to holders of redeemable units. The NAV per unit of any class of units of the Fund for a Valuation Date will be obtained by dividing the then fair value of the assets of the Fund less the aggregate amount of its liabilities (excluding those attributable to holders of redeemable units) in each case attributable to that class of units, by the total number of units of the class outstanding at the time the calculation is made on the Valuation Date and adjusting the result to a maximum of four decimal places.

For each Fund unit sold, the Fund receives an amount equal to the NAV per unit, on the date of the transaction. Units are redeemable at the option of the unitholders at their NAV per unit on the redemption date. For each unit redeemed, the number of issued and outstanding units is reduced and the net assets attributable to holders of redeemable units are reduced by the related NAV on the date of redemption.

The calculation of the value of net assets attributable to holders of redeemable units (“net assets”) for financial statement purposes in accordance with IFRS is consistent with the calculation of the NAV for transactional purposes.

#### **Investment transactions and income recognition**

Investment transactions are accounted for as of the trade date. Income and expenses are recorded on an accrual basis. Interest income for distribution purposes is recorded as it is earned.

## Next Edge Bio-Tech Plus Fund

### Notes to the financial statements - December 31, 2019 (continued)

Dividend revenue is recognized when the Fund's right to receive the payment is established. Dividend revenue is presented gross of any non-recoverable withholding taxes, which are disclosed separately in the Statements of comprehensive income.

"Interest income for distribution purposes" shown on the Statements of comprehensive income represents the coupon interest received by the Fund accounted for on an accrual basis.

Realized gains and losses from security transactions are calculated using the average cost basis.

The period-over-period change in the difference between fair value and the average cost is shown as the net change in unrealized appreciation (depreciation) on investments.

Transaction costs such as brokerage commissions incurred in the purchase and sale of securities by the Fund are charged to net income in the period.

#### **Functional and presentation currency**

The Fund's functional and presentation currency is the Canadian dollar ("CAD"), which is the currency of the primary economic environment in which it operates. The Fund's performance is evaluated and its liquidity is managed in CAD. Therefore, the CAD is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The Fund's subscriptions and redemptions are denominated in CAD.

The fair value of foreign-currency-denominated portfolio investments, foreign currency holdings and other assets and liabilities denominated in a foreign currency are translated into the Fund's reporting currency using the closing rate of exchange on each valuation date. Income, expenses and investment transactions in foreign currencies are translated into the Fund's reporting currency at the rate of exchange prevailing on the respective dates of such transactions.

Foreign exchange gains (losses) relating to cash, receivables and payables are presented as "Foreign currency gain (loss) on cash and other net assets" and those relating to financial instruments classified as held for trading and FVTPL are presented within "Net realized gain (loss) on sale of investments" and "Net change in unrealized appreciation (depreciation) on investments" in the Statements of comprehensive income.

#### **Cash**

Cash comprises deposits with financial institutions.

#### **Decrease in net assets attributable to holders of redeemable units per unit**

The decrease in net assets attributable to holders of redeemable units per unit is calculated by dividing the decrease in net assets attributable to holders of redeemable units of the class by the weighted average number of units outstanding of the class during the period.

#### **Income and expense allocation**

The realized and unrealized gains or losses, income, and expenses (other than class-specific operating expenses and management fees) of the Fund are allocated on each Valuation Date to the redeemable participating unitholders in proportion to the respective prior day's NAV, which includes redeemable participating unitholder trades dated for that day, of each class at the date on which the allocation is made. Class-specific operating expenses and management fees are applied to the corresponding classes accordingly. All operating expenses are paid by the Manager and are collected from the Fund on a recoverable basis.

# Next Edge Bio-Tech Plus Fund

## Notes to the financial statements - December 31, 2019 (continued)

### Adoption of new and amended accounting standard

IFRIC International Financial Reporting Interpretations Committee 23, Uncertainty over Income Tax Treatments [“IFRIC 23”]

On June 7, 2017, the IFRIC issued IFRIC 23, which is mandatory for annual periods beginning on or after January 1, 2019. IFRIC 23 clarifies the accounting treatments used to reflect uncertainty in the recognition and measurement of income taxes. IFRIC 23 specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Fund has considered the impact of IFRIC 23 on the recognition and measurement of uncertainties over income tax treatments across the jurisdictions in which it operates. The Fund has determined that there is no cumulative effect to opening retained earnings, or other appropriate components of equity upon adoption.

### Taxation

The Fund is a mutual fund trust under the *Income Tax Act* (Canada) (the “Tax Act”). 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 does not record income taxes. Since the Fund does not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the Statements of financial position as a deferred income tax asset. See note 8.

### 4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

There are no standards issued but not yet effective up to the date of issuance of the financial statements that are expected to have an impact on the Fund. The Fund will adopt any applicable standards when they become effective.

### 5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing the financial statements:

#### Fair value measurement of investments and derivatives not quoted in active market

The Fund may, from time to time, hold financial instruments that are not quoted in active markets, such as unlisted securities, private securities or derivatives. Unlisted securities are valued based on price quotations from recognized investment dealers, or failing that, their fair value is determined by the Manager on the basis of the latest reported information available. The fair value of private securities is determined by using valuation models that may be 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, obtaining valuation related information from issuers and/or other analytical data relating to the investment and using other available indications of value. These values are independently assessed by the Manager to ensure that they are reasonable. However, because of the inherent uncertainty of valuation, the estimated fair values for these securities may be materially different from the values that would have been used had a ready market for the investment existed.

The fair values of private securities are affected by the perceived credit risks of the issuer, predictability of cash flows and the length of time to maturity.

# Next Edge Bio-Tech Plus Fund

## Notes to the financial statements - December 31, 2019 (continued)

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), 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.

### 6. FINANCIAL INSTRUMENTS RISK

The Fund's activities expose it to a variety of risks as follows: portfolio concentration risk, biotechnology industry risk, credit risk, liquidity risk and market risk (including price risk, foreign exchange risk, and interest rate risk).

The portfolio manager intends to generate long-term appreciation for the Fund by way of alpha by active stock selection within the sector, rather than relying on passive beta and movement of the sector. The portfolio manager focuses on companies in the early to later stages of clinical development or early commercialization that meet specific proprietary criteria and whose data has been subjected to peer-reviewed analysis. In general, the Fund invests in equities of companies that are of smaller capitalization than those that make up the S&P/TSX Capped Health Care Index and the NASDAQ Biotechnology Index. The equities that the Fund invests in tend to offer more potential upside and are generally more volatile than those that comprise the indices cited above. The Fund also employs derivatives to reduce the volatility of a traditionally volatile sector and for return enhancement (see the Schedule of investments).

#### Portfolio concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is a geographical allocation, asset type, industry sector or counterparty. As the Fund's mandate is to invest predominantly in the biotechnology and healthcare sectors in Canada and the United States, the Fund is exposed to risks specific to the biotechnology and healthcare sectors, which are discussed below. Please refer to the Schedule of Investments for a listing of the Fund's portfolio.

The following tables summarize the investment concentration risks that are relevant for the Fund based on its investment objective. The investment portfolio may change due to ongoing portfolio transactions.

Portfolio by Asset Mix	% of Net Asset Value	
	Dec 31, 2019	Dec 31, 2018
Canadian equity	50.5%	44.7%
United States equity	34.2%	35.7%
Cash and cash equivalents	7.7%	12.8%
International equity	3.9%	3.6%
Equity options	3.7%	3.1%
United States bond	1.2%	0.9%
Equity index options	0.6%	0.4%
Total investments	101.8%	101.2%
Other net liabilities	(1.2%)	(1.2%)
Written options	(0.6%)	-
Total net asset value	100.0%	100.0%

## Next Edge Bio-Tech Plus Fund

Notes to the financial statements - December 31, 2019 (continued)

Portfolio by Industry	% of Net Asset Value	
	Dec 31, 2019	Dec 31, 2018
Pharmaceuticals and biotechnology	47.8%	41.6%
Healthcare equipment and services	20.2%	16.8%
Pharmaceuticals	19.0%	19.0%
Cash and cash equivalents	7.7%	12.8%
Equity options	3.7%	3.1%
Biotechnology	1.6%	6.7%
Private placement	1.2%	-%
Equity index options	0.6%	0.4%
Healthcare	-%	0.8%
Total investments	101.8%	101.2%
Other net liabilities	(1.2%)	(1.2%)
Written options	(0.6%)	-
Total net asset value	100.0%	100.0%

Portfolio by Country	% of Net Asset Value	
	Dec 31, 2019	Dec 31, 2018
Canada	54.8%	48.2%
United States	35.4%	36.6%
Cash and cash equivalents	7.7%	12.8%
Ireland	2.2%	-%
Jersey	1.7%	2.2%
France	-%	1.4%
Total investments	101.8%	101.2%
Other net liabilities	(1.2%)	(1.2%)
Written options	(0.6%)	-
Total net asset value	100.0%	100.0%

### Biotechnology industry risk

Companies within the biotechnology industry invest heavily in research and development, which may not necessarily lead to commercially successful products. This industry is also subject to increased governmental regulation, which may delay or inhibit the release of new products. Many biotechnology companies are dependent upon their ability to use and enforce intellectual property rights and patents. Any impairment of such rights may have adverse financial consequences. Biotechnology companies can be characterized by competition and rapid technological developments, which may make a company's products or services obsolete in a short period of time. The industry is also characterized by product liability lawsuits and consequential high insurance costs. The market values of investments in the biotechnology industry are often based upon speculation and expectations about future products, research progress, and new product filings with regulatory authorities. Biotechnology stocks, especially those of smaller, less-seasoned companies, also tend to be more volatile than the overall market.

### Credit risk

Credit risk is the risk that a security issuer or counterparty to a financial instrument will fail to meet its financial obligations. The fair value of a debt instrument includes consideration for the credit worthiness of the debt issuer. The carrying amount of debt instruments as shown on the Schedule of investments represents the credit risk exposure of the Fund. Credit risk exposure for derivative instruments is based on the Fund's unrealized gain on the contractual obligations

## Next Edge Bio-Tech Plus Fund

### Notes to the financial statements - December 31, 2019 (continued)

with the counterparty as at the reporting date. The credit risk exposure of the Fund's other assets is represented by their carrying amount as disclosed in the Statements of financial position.

As at December 31, 2019, the Fund has \$129,675 exposure to one convertible debt instrument (December 31, 2018 - \$136,580).

The counterparties to all of the Fund's options transactions are Bank of Montreal and CIBC, which both have S&P credit ratings of A-1 on their short-term debt.

#### Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of markets interest rates on the fair value of assets and future cash flow. As at December 31, 2019, the Fund has \$129,675 exposure to one convertible debt instrument (December 31, 2018 - \$136,580).

#### Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. The Fund is exposed to daily cash redemptions. The Fund's policy is to have a majority of its portfolio investments in securities traded on exchanges that are liquid (i.e., investments that can be readily disposed of through market facilities).

The Fund may invest in derivatives, debt securities and unlisted equity investments that are not traded in an active market. As a result, the Fund may not be able to quickly liquidate its investments in these instruments at amounts that approximate their fair values or be able to respond to specific events such as deterioration in the creditworthiness of any particular issuer. In accordance with the Fund's policy, the Manager monitors the Fund's liquidity position on a daily basis. The tables below analyze the Fund's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The amounts in the tables are the contractual undiscounted cash flows.

#### December 31, 2019

<b>Financial liabilities</b>	<b>On demand</b>	<b>&lt; 3 months</b>	<b>Total</b>
Financial liabilities at fair value through profit or loss	63,638	-	63,638
Payable for investments purchased	77,091	-	77,091
Management fees payable	-	9,310	9,310
HST payable	-	4,708	4,708
Accrued expenses	-	56,317	56,317
	<u>140,729</u>	<u>70,335</u>	<u>211,064</u>

#### December 31, 2018

<b>Financial liabilities</b>	<b>On demand</b>	<b>&lt; 3 months</b>	<b>Total</b>
Financial liabilities at fair value through profit or loss	71,704	-	71,704
Payable for investments purchased	19,917	-	19,917
Management fees payable	-	13,073	13,073
HST payable	-	6,933	6,933
Accrued expenses	-	104,281	104,281
	<u>91,621</u>	<u>124,287</u>	<u>215,908</u>

Redeemable units are redeemable on demand at the holder's option. However, the Manager does not expect that the contractual maturity disclosed above will be representative of the actual cash outflows, as holders of these instruments typically retain them for a longer period.

## Next Edge Bio-Tech Plus Fund

Notes to the financial statements - December 31, 2019 (continued)

### Market risk

The Fund's investments are subject to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The following include sensitivity analyses that show how the net assets attributable to holders of redeemable units would have been affected by a reasonably possible change in the relevant risk variable at each reporting date. In practice, the actual results may differ, and the differences could be material.

#### (a) Currency risk

The Fund invests in financial instruments denominated in currencies other than CAD. These investments result in currency risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund uses options on currency exchange-traded funds to reduce its foreign currency exposure.

The table below indicates the foreign currencies to which the Fund had significant exposure as at December 31, 2019 and 2018 in CAD terms. The table also illustrates the potential impact on the net assets attributable to holders of redeemable units if CAD had strengthened or weakened by 5% in relation to each of the other currencies, with all other variables held constant.

December 31, 2019	Exposure			Impact on net assets attributable to holders of redeemable units		
	Currency	Monetary	Non-monetary	Total	Monetary	Non-monetary
United States dollar	280,087	4,978,033	5,258,120	14,004	248,902	262,906
% of net assets attributable to holders of redeemable units	2.6%	46.8%	49.4%	0.1%	2.3%	2.4%

December 31, 2018	Exposure			Impact on net assets attributable to holders of redeemable units		
	Currency	Monetary	Non-monetary	Total	Monetary	Non-monetary
United States dollar	783,238	6,155,975	6,939,213	39,162	307,799	346,961
Euro	-	108,356	108,356	-	5,418	5,418
% of net assets attributable to holders of redeemable units	5.5%	44.0%	49.5%	0.3%	2.2%	2.5%

#### (b) Other price risk

Other price risk is the risk that the value of portfolio investments will fluctuate as a result of changes in market prices, other than those arising from interest rate or currency risk, whether caused by factors specific to an individual portfolio investment or all factors affecting all investments traded in a market or market segment. All portfolio investments present a risk of loss of capital. The maximum risk resulting from financial instruments is equivalent to their fair value. Please refer to the Schedule of investments for a breakdown of the NAV of the Fund by security and geographic allocation.

The Fund's benchmark is: (i) 40% of the percentage gain or loss of the S&P/TSX Capped Health Care Index; plus (ii) 60% of the percentage gain or loss of the NASDAQ Biotechnology Index (re-weighted daily). If the Fund's benchmark had increased or decreased by 10% on December 31, 2019, with all other variables held constant, the net assets attributable to holders of redeemable units of the Fund would have increased or decreased by approximately \$433,581,

## Next Edge Bio-Tech Plus Fund

### Notes to the financial statements - December 31, 2019 (continued)

or 4.1% (December 31, 2018: \$888,940, or 6.2%). This change is estimated using the Fund's beta, which is calculated based on the historical correlation between the return of the Fund compared to the return of the Fund's benchmark. In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

#### (c) Biotechnology sector risk

Companies within the biotechnology industry invest heavily in research and development that may not necessarily lead to commercially successful products. This industry is also subject to increased governmental regulation, which may delay or inhibit the release of new products. Many biotechnology companies are dependent upon their ability to use and enforce intellectual property rights and patents. Any impairment of such rights may have adverse financial consequences. Biotechnology companies can be characterized by competition and rapid technological developments that may make a company's products or services obsolete in a short period of time. The industry is also characterized by product liability lawsuits and consequential high insurance costs. The market values of investments in the biotechnology industry are often based upon speculation and expectations about future products, research progress, and new product filings with regulatory authorities. Biotechnology stocks, especially those of smaller, less-seasoned companies, also tend to be more volatile than the overall market.

#### Fair value measurement

The table below presents financial instruments measured at fair value in the Statements of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.

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

Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

As at December 31, 2019 and 2018, the financial instruments measured at fair value in the Statements of financial position are grouped into the fair value hierarchy as follows:

December 31, 2019	Level 1 CAD	Level 2 CAD	Level 3 CAD	Total CAD
Equities - long	7,753,368	769,658	899,578	9,422,604
Bonds - long	-	-	129,675	129,675
Purchased options	458,276	-	-	458,276
Written options	(63,638)	-	-	(63,638)
	<b>8,148,006</b>	<b>769,658</b>	<b>1,029,253</b>	<b>9,946,917</b>
December 31, 2018	Level 1 CAD	Level 2 CAD	Level 3 CAD	Total CAD
Equities - long	10,474,447	1,476,077	-	11,950,524
Bonds - long	-	-	136,580	136,580
Purchased options	502,218	-	-	502,218
Written options	(71,704)	-	-	(71,704)
	<b>10,904,961</b>	<b>1,476,077</b>	<b>136,580</b>	<b>12,517,618</b>

All fair value measurements above are recurring. The carrying values of cash, subscriptions receivable, interest receivable, payable for investments purchased, redemptions payable, distributions payable, accrued liabilities and the Fund's obligation for net assets attributable to holders of redeemable units are measured at amortized cost. Fair values

## Next Edge Bio-Tech Plus Fund

### Notes to the financial statements - December 31, 2019 (continued)

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. There were no transfers between Levels 1 and 2 of the fair value hierarchy during the years ended December 31, 2019 and 2018.

Investments classified as Level 3 are valued at fair value based on unobservable inputs and assumptions, which may include credit spreads, industry multipliers, and discount rates. Management has assessed that the effect of changing these inputs to reasonably possible alternatives would not have a significant impact on the net assets attributable to holders of redeemable shares of the Fund as at December 31, 2019 and 2018.

The following table presents the movement in Level 3 for the year ended December 31, 2019:

	<b>Bonds - long</b>	<b>Equities - long</b>
Beginning balance, January 1, 2019	136,580	-
Purchases	-	477,035
Transfers from level 1	-	87,768
Transfers from level 2	-	334,775
Net change in unrealized depreciation in fair value of bonds - long	(6,905)	-
<b>Ending balance, December 31, 2019</b>	<b>129,675</b>	<b>899,578</b>

The following table presents the movement in Level 3 for the year ended December 31, 2018:

	<b>Bonds - long</b>
Beginning balance, January 1, 2018	-
Purchases	128,645
Net change in unrealized appreciation in fair value of bonds - long	7,935
<b>Ending balance, December 31, 2018</b>	<b>136,580</b>

## 7. REDEEMABLE UNITS

For the years ended December 31, 2019 and 2018, the Fund offered four classes of redeemable units: Class A units, Class A1 units, Class F units, and Class F1 units. The class of units selected affects the commissions that were payable by an investor, the management fees payable by the Fund, and the compensation that a dealer received in respect of the sale of units.

All of the classes have the same investment objective, strategy and restrictions but differ in respect of one or more features, such as the management fee, sales commission, and service commission. The NAV per unit of each class would not necessarily be the same as a result of the different fees, expenses and distributions allocable to each class of units. The Fund and the Manager do not charge a fee or commission when investors purchase units of the Fund. An authorized broker, dealer or advisor may charge investors an upfront selling commission of up to 3.00% at the time of purchase of Class A units or Class A1 units, which would reduce the amount of money invested in the Class A units or Class A1 units of the Fund.

The number of units issued, redeemed or cancelled during the years ended December 31, 2019 and 2018 for each respective class is summarized in the following tables.

<b>For the years ended December 31,</b>	<b>2019</b>	<b>2018</b>
<b>Class A</b>		
Balance, beginning	627,096	366,482
Units issued for cash	37,862	323,612
Units redeemed	(190,901)	(62,998)

# Next Edge Bio-Tech Plus Fund

Notes to the financial statements - December 31, 2019 (continued)

Balance, ending	474,057	627,096
For the years ended December 31,	2019	2018
<b>Class A1</b>		
Balance, beginning	165,821	195,048
Units redeemed	(18,575)	(29,227)
Balance, ending	<b>147,246</b>	<b>165,821</b>
<b>Class F</b>		
Balance, beginning	742,895	493,279
Units issued for cash	132,871	550,414
Units redeemed	(257,956)	(300,798)
Balance, ending	<b>617,809</b>	<b>742,895</b>
<b>Class F1</b>		
Balance, beginning	152,425	164,675
Units issued for cash	1,039	5,451
Units redeemed	(52,373)	(17,701)
Balance, ending	<b>101,091</b>	<b>152,425</b>

## Capital management

As a result of the ability to issue and redeem redeemable units, the capital of the Fund can vary depending on the demand for redemptions from and subscriptions to the Fund. The Fund is not subject to externally imposed capital requirements and has no restrictions on the issue and redemptions of redeemable units other than those set out in its Simplified Prospectus.

The Fund's objectives for managing capital are:

- To invest the capital in investments meeting the description, risk exposure and expected return indicated in the Simplified Prospectus;
- To maintain sufficient liquidity to meet the expenses of the Fund, and to meet redemption requests as they arise; and
- To maintain sufficient size to make the operation of the Fund cost-efficient.

## 8. INCOME TAXES

It is generally assumed that the Fund will qualify at all times as a "mutual fund trust" within the meaning of the Tax Act and that the Fund will validly elect under the Tax Act to be a mutual fund trust from the date it was established.

The Fund will be subject to tax in each taxation year under Part I of the Tax Act on the amount of its income for the year, including net realized taxable capital gains, less the portion thereof that it claims in respect of amounts paid or payable to unitholders (whether in cash or in units) in the year. An amount will be considered to be payable to a unitholder in a taxation year if it is paid in the year by the Fund or the unitholder is entitled in that year to enforce payment of the amount. The Fund intends to make sufficient distributions in each year of its net income and net capital gains for tax purposes, thereby permitting the Fund to deduct sufficient amounts so that the Fund will generally not be liable in such year for non-refundable income tax under Part I of the Tax Act.

The Fund will be entitled for each taxation year throughout which it is a mutual fund trust for purposes of the Tax Act to reduce (receive a refund in respect of) its liability, if any, for tax on its net realized capital gains by an amount determined under the Tax Act based on the redemptions of units during the year (the "Capital Gains Refund"). The

# Next Edge Bio-Tech Plus Fund

## Notes to the financial statements - December 31, 2019 (continued)

Capital Gains Refund in a particular taxation year may not completely offset the tax liability of the Fund for such taxation year which may arise upon the disposition of securities in connection with the redemption of units.

If the Fund does have income for tax purposes that is in excess of any distributions paid or made payable to unitholders during the year and the net realized capital gains of the Fund, the tax on which would be recovered by the Fund in the year by reason of the capital gains refund provisions of the Tax Act, in order to ensure that the Fund will not generally be liable for income tax under Part I of the Tax Act.

As at December 31, 2019, the Fund had nil capital (2018: nil) and nil (2018: \$1,362,749) non-capital losses for tax purposes of which \$230,060 will expire in 2036, and \$1,132,689 will expire in 2037 and may be carried forward and used to reduce taxable income in future years.

### 9. FEES AND OPERATING EXPENSES

For its services to the Fund, the Manager is entitled to receive from the Fund a management fee (the “management fee”) at (up to) an annual rate of: (i) 2.25% of the portion of its NAV represented by the Class A units, (ii) 1.00% of the portion of its NAV represented by the Class A1 units, (iii) 1.25% of the portion of its NAV represented by the Class F units, and (iv) nil of the portion of NAV represented by the Class F1 units, calculated daily and paid monthly in arrears, plus applicable taxes.

The Fund pays for all expenses incurred in connection with its operation and administration, which is to be allocated pro rata to each class of units.

These expenses include unitholder reporting costs for preparing, mailing and printing expenses of periodic reports to unitholders; fees payable to any custodian of the assets of the Fund; fees payable to auditors and legal advisors; taxes payable by the Fund or to which the Fund is subject and other general operating expenses.

Administrative expenses include other unitholder communications, fees payable to the valuation agent and the independent pricing service for performing certain valuation services; fees payable to the registrar and transfer agent for performing certain financial, record keeping, reporting and general administrative services; fees payable to accountants; ongoing regulatory fees, licensing fees and other fees; and expenses relating to portfolio transactions.

The Manager may establish an upper limit on the total annual operating expenses of the Fund. The Manager or its affiliates may pay for certain operating expenses of the Fund in order to maintain the Fund’s annual operating expenses within any such established limit. The amounts absorbed by the Manager, if any, are shown in the Statements of comprehensive income (loss). The Manager may cease to absorb expenses at any time.

Each class of units is responsible for the expenses specifically related to that class and a proportionate share of the expenses that are common to all classes of units.

#### **Brokerage commissions and soft dollars**

For the year ended December 31, 2019, the total brokerage commission paid to dealers in connection with investment portfolio transactions was \$326,655 (2018: \$594,984) and the amount of soft dollars generated was \$40,359 (2018: \$50,433).

#### **Performance fees**

The Fund will pay to the Manager in respect of each fiscal quarter of the Fund a performance fee if the percentage gain in the NAV per unit of a class of units of the Fund over the preceding fiscal quarter or quarters since a performance fee was last payable exceeds the percentage gain or loss of the benchmark (the “Benchmark”), over the same period, and provided that the NAV per unit of the Fund (including distributions) is greater than all previous values at the end of each previous fiscal quarter in which a performance fee was paid.

## Next Edge Bio-Tech Plus Fund

### Notes to the financial statements - December 31, 2019 (continued)

The performance fee will be equal to this excess return per unit multiplied by the number of units outstanding at the end of the quarter multiplied by 20%.

The Benchmark for the Fund is:

- (i) 40% of the percentage gain or loss of the S&P/TSX Capped Health Care Index; plus
- (ii) 60% of the percentage gain or loss of the NASDAQ Biotechnology Index.

#### 10. RELATED PARTY TRANSACTIONS

The Fund's investment activities are managed by Next Edge Capital Corp.

##### (a) Management and performance fees

Under the terms of the investment management agreement, the Fund appointed the Manager to provide management services (note 9). Total management fees for the years ended December 31, 2019 amounted to \$206,520 (2018: \$257,629) and are reported in the Statements of comprehensive income, with \$9,310 in outstanding accrued fees due to the Manager as at December 31, 2019 (2018: \$13,073) reported in the Statements of financial position.

##### (b) Independent Review Committee fees

The total remuneration paid to members of the Independent Review Committee attributable to the Fund during the years ended December 31, 2019 was \$26,777 (2018: \$22,470) is reported in the Statements of comprehensive income and consisted only of fixed fees. There were no outstanding payables relating to Independent Review Committee fees as at December 31, 2019 and 2018.

#### 11. SUBSEQUENT EVENT

After year end, COVID-19 had been classified as a pandemic by the World Health Organization and unprecedented actions have been taken by governments around the world to curtail the spread of the disease. The situation has caused a high level of uncertainty and volatility in the financial markets and has had an enormous impact on businesses and consumers in all sectors. The outcome and timeframe to a recovery from the current pandemic is highly unpredictable and, as such, the financial impact on the values of the Fund's investments will vary greatly until the current uncertainty is resolved.

# Next Edge Bio-Tech Plus Fund

## General information

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