

# Next Edge Biotech and Life Sciences Opportunities Fund

Annual Financial Statements – 2020  
As at and for the year ended December 31, 2020



NEXTEDGE  
CAPITAL

Next Edge Biotech and Life Sciences Opportunities Fund  
Annual financial statements - December 31, 2020

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# Next Edge Biotech and Life Sciences Opportunities Fund

## Independent auditor's report

Next Edge Capital Corp. (the "Manager") is responsible for the accompanying financial statements of Next Edge Biotech and Life Sciences Opportunities 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,



Robert Anton  
President



David Scobie  
Chief Operating Officer

Next Edge Capital Corp.  
March 31, 2021

# Independent auditor's report

To the Unitholders of  
**Next Edge Biotech and Life Sciences Opportunities Fund** [the "Fund"]

## Opinion

We have audited the financial statements of the Fund, which comprise the statement of financial position as at December 31, 2020, and the statement of comprehensive income, statement of changes in net assets attributable to holders of redeemable units and statement of cash flows for the period 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, 2020, and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards ["IFRSs"].

## 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 31, 2021

*Ernst + Young LLP*

Chartered Professional Accountants  
Licensed Public Accountants



# Next Edge Biotech and Life Sciences Opportunities Fund

## Statement of financial position

As at December 31	Notes	2020
<b>ASSETS</b>		
<b>Current assets</b>		
Investments at fair value through profit or loss	5,6	9,498,028
Cash		809,860
Subscriptions receivable		3,200
Receivable for investments sold		355,093
Dividends receivable		4,022
<b>Total assets</b>		<b>10,670,203</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Written options liability at fair value through profit or loss	5,6	53,954
Payable for investments purchased		474,443
Management fees payable	9,10	1,233
Performance fees payable	9,10	109,299
HST payable		14,367
<b>Total liabilities</b>		<b>653,296</b>
<b>Net assets attributable to holders of redeemable units</b>		<b>10,016,907</b>
<b>Net assets attributable to holders of redeemable Units per class</b>		
Class A		5,161,322
Class F		4,855,585
		<b>10,016,907</b>
<b>Number of redeemable units outstanding per class</b>		
Class A	7	494,314
Class F	7	464,938
<b>Net assets attributable to holders of redeemable units per Unit</b>		
Class A		10.44
Class F		10.44

Approved by Next Edge Capital Corp.



Robert Anton  
President



David Scobie  
Chief Operating Officer

Next Edge Biotech and Life Sciences Opportunities Fund  
Statement of comprehensive income

For the period November 3 to December 31,	Notes	2020
<b>Income</b>		
Interest income for distribution purposes		4,022
Foreign currency loss on cash and other net assets		(71,274)
Net realized gain on sale of investments		35,190
Net unrealized appreciation on investments	6	590,702
Net gain on investments		625,892
<b>Total income</b>		<b>558,640</b>
<b>Expenses</b>		
Management fees	9,10	1,233
Performance fees	9,10	109,299
Harmonized sales tax		14,369
Transaction costs		9,561
		134,462
Less: expenses absorbed by the Manager		-
<b>Total expenses</b>		<b>134,462</b>
<b>Increase in net assets attributable to holders of redeemable units</b>		<b>424,178</b>
<b>Increase in net assets attributable to holders of redeemable units per class</b>		
Class A		217,835
Class F		206,343
		<b>424,178</b>
<b>Average number of units outstanding</b>		
Class A		494,701
Class F		464,023
<b>Increase in net assets attributable to holders of redeemable units per unit</b>		
Class A		0.44
Class F		0.44

Next Edge Biotech and Life Sciences Opportunities Fund  
Statement of changes in net assets attributable to holders of redeemable units

For the period November 3 to December 31, 2020

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Class A

Beginning of period	-
Increase in net assets attributable to holders of redeemable units from operations	217,835
Proceeds and considerations received from issuance of units	4,963,398
Consideration paid for redemption of units	(19,911)
<b>End of period</b>	<b>5,161,322</b>

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Class F

Beginning of period	-
Increase in net assets attributable to holders of redeemable units from operations	206,343
Proceeds and considerations received from issuance of units	4,649,242
<b>End of period</b>	<b>4,855,585</b>

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# Next Edge Biotech and Life Sciences Opportunities Fund

## Statement of cash flows

For the period November 3 to December 31,

2020

### Cash flows from operating activities

Increase in net assets attributable to holders of redeemable

Units 424,178

### Adjustments in net assets attributable to holders to net cash from operating activities

Proceeds from sale of investments 636,872

Purchase of investments (1,449,738)

Foreign currency loss on cash and other net assets 71,274

Change in unrealized appreciation of investments and derivatives (590,702)

Net realized gain on sale of investments and derivatives (35,190)

Increase in interest receivable and other receivables (4,022)

Increase in other payables and accrued liabilities 124,899

**Net cash used in operating activities (822,429)**

### Cash flows from financing activities

Proceeds from redeemable units issued 1,723,474

Amount paid on redemption of redeemable units (19,911)

**Net cash provided by financing activities 1,703,563**

Foreign currency loss on cash and other net assets (71,274)

Net increase in cash 809,860

Cash, beginning of period -

**Cash, end of period 809,860**

Cash comprises:

Cash deposit at financial institution 809,860

Supplemental disclosure of cash flow information:

Interest received -

Dividends received, net of withholding taxes -

In-kind proceeds and considerations received from issuance of units 7,885,966

# Next Edge Biotech and Life Sciences Opportunities Fund

## Schedule of investments

No. of Shares	Securities by Sector	Average Cost (\$)	Fair Value (\$)
	<b>Long positions (94.8%)</b>		
	<b>Canadian equities (42.9%)</b>		
	<b>Biotechnology (2.8%)</b>		
2,000,000	Aequus Pharmaceuticals Inc. warrants, July 30, 2022 - strike price \$0.30	6,560	17,180
845,000	SQI Diagnostics Inc. warrants, March 10, 2022 - strike price \$0.21	53,565	73,836
500,000	SQI Diagnostics Inc. warrants, December 20, 2022 - strike price \$0.20	40,965	54,795
108,000	Titan Medical Inc. warrants, August 10, 2023 - strike price \$3.20	96,646	131,263
	<b>Biotechnology total</b>	<b>197,736</b>	<b>277,074</b>
	<b>Healthcare equipment &amp; services (14.4%)</b>		
1,000,000	CVR Medical Corp. warrants, April 20, 2023 - strike price \$0.36	13,430	6,450
10,852	Delcath Systems Inc. Warrants, August 11, 2024 - Strike Price \$25.36	161,282	166,384
35,000	Imagin Medical Inc.	12,910	14,000
250,000	Imagin Medical Inc. Warrants, October 22, 2025 - Strike Price \$0.025	-	45,000
250,000	Imagin Medical Inc. Warrants, October 22, 2025 - Strike Price \$0.03	-	42,500
300,000	Opsens Inc.	351,000	399,000
200,000	ProMIS Neurosciences Inc. Warrants, August 9, 2022 - Strike Price \$0.30	-	-
1,305,000	ProMIS Neurosciences Inc. Warrants, January 22, 2024 - Strike Price \$0.48	30,433	28,397
1,799,000	SQI Diagnostics Inc.	403,369	431,759
1,875,000	SQI Diagnostics Inc. Warrants, March 08, 2024 - Strike Price \$0.11	215,625	243,750
10,000	Titan Medical Inc.	17,250	21,785
22,222	Titan Medical Inc. Warrants, June 29, 2022 - Strike Price \$6.00	33,867	44,167
200,000	Titan Medical Inc., warrants, March 16, 2021 - strike price \$0.50	16	28
	<b>Healthcare equipment &amp; services total</b>	<b>1,239,182</b>	<b>1,443,220</b>

## Next Edge Biotech and Life Sciences Opportunities Fund

### Schedule of investments (continued)

No. of Shares	Securities by Sector	Average Cost (\$)	Fair Value (\$)
<b>Pharmaceuticals &amp; biotechnology (25.7%)</b>			
4,121,000	Aequus Pharmaceuticals Inc.	392,277	494,520
50,000	Antibe Therapeutics Inc. Warrants, February 27, 2022 - Strike Price \$3.50	32,580	49,235
59,000	Cardiol Therapeutics Inc.	156,350	164,020
40,000	Cardiol Therapeutics Inc. Warrants, June 04, 2022 - Strike Price \$3.25	17,471	22,148
5,016,000	iCo Therapeutics Inc.	227,570	300,960
4,000,000	iCo Therapeutics Inc. Warrants, February 11, 2022 - Strike Price \$0.075	62,400	99,040
25,000	Medicenna Therapeutics Corp.	124,006	148,750
1,853,500	Microbix Biosystems Inc.	723,162	787,737
212,500	Microbix Biosystems Inc. Warrants, October 18, 2021 - Strike Price \$0.36	30,700	34,077
200,000	Microbix Biosystems Inc. Warrants, October 9, 2021 - Strike Price \$0.55	18,104	19,640
992,000	ProMIS Neurosciences Inc.	82,946	99,200
500,000	ProMIS Neurosciences Inc. Warrants, December 30, 2024 - Strike Price \$0.35	18,645	18,955
105,000	Theratechnologies Inc.	295,383	334,950
<b>Pharmaceuticals &amp; biotechnology total</b>		<b>2,181,594</b>	<b>2,573,232</b>
<b>Total Canadian equities</b>		<b>3,618,512</b>	<b>4,293,526</b>
<b>Canadian Bond (2.5%)</b>			
200,000	Imagin Medical Inc., April 22, 2022	255,161	255,161
<b>Canadian bond total</b>		<b>255,161</b>	<b>255,161</b>
<b>Total Canadian equities &amp; bond</b>		<b>3,873,673</b>	<b>4,548,687</b>
<b>United States equities (37.9%)</b>			
<b>Pharmaceuticals (3.6%)</b>			
9,000	Intra-Cellular Therapies Inc.	331,766	364,619
<b>Pharmaceuticals total</b>		<b>331,766</b>	<b>364,619</b>

# Next Edge Biotech and Life Sciences Opportunities Fund

## Schedule of investments (continued)

No. of Shares	Securities by Sector	Average Cost (\$)	Fair Value (\$)
<b>Pharmaceuticals &amp; biotechnology (30.2%)</b>			
12,000	Actinium Pharmaceuticals Inc.	161,892	119,246
2,600	Albireo Pharma Inc.	127,610	124,248
6,500	Apellis Pharmaceuticals Inc.	438,770	473,672
6,000	Bluebird Bio Inc.	343,989	330,756
1,500	Editas Medicine Inc.	123,449	133,980
17,500	Exelixis Inc.	446,091	447,460
2,500	FibroGen Inc.	130,498	118,132
6,000	Inmune Bio Inc.	86,501	131,630
4,500	Intercept Pharmaceuticals Inc.	159,873	141,605
11,500	Kala Pharmaceuticals Inc.	114,974	99,334
15,625	Neurotrope Inc. Warrants, November 17, 2021 - Strike Price \$0.40	1,376	6,830
2,800	Phathom Pharmaceuticals Inc.	124,055	118,502
17,000	Provention Bio Inc.	381,215	366,886
12,000	Sangamo Therapeutics Inc.	219,567	238,569
91,749	Synaptogenix Inc.	156,366	175,332
<b>Pharmaceuticals &amp; biotechnology total</b>		<b>3,016,226</b>	<b>3,026,182</b>
<b>Healthcare equipment &amp; services (4.0%)</b>			
20,000	ClearPoint Neuro Inc.	332,213	404,877
<b>Healthcare equipment &amp; services total</b>		<b>332,213</b>	<b>404,877</b>
<b>Biotechnology (0.0%)</b>			
153,800	IntelGenx Technologies Corp. Warrants, June 01, 2021 - Strike Price \$0.80	3,600	1,193
<b>Biotechnology total</b>		<b>3,600</b>	<b>1,193</b>
<b>Total United States equities</b>		<b>3,683,805</b>	<b>3,796,871</b>
<b>United States Bond (1.3%)</b>			
100,000	IntelGenx Technologies Corp., convertible private bond, 6% interest rate, June 1, 2021	127,774	127,400
<b>United States bond total</b>		<b>127,774</b>	<b>127,400</b>
<b>Total United States equities &amp; bond</b>		<b>3,811,579</b>	<b>3,924,271</b>
<b>Foreign Equities (6.5%)</b>			
<b>Pharmaceuticals &amp; Biotechnology (6.5%)</b>			
2,000	Alkermes PLC	55,420	50,833
12,000	Erytech Pharma SA	152,658	149,669
10,000	MeiraGTx Holdings PLC	218,239	192,883
30,000	Nymox Pharmaceutical Corp.	108,480	94,786
29,000	Orchard Therapeutics PLC	182,221	159,607
<b>Total Foreign Equities</b>		<b>717,018</b>	<b>647,778</b>
<b>Total equities &amp; bond</b>		<b>8,402,270</b>	<b>9,120,736</b>

## Next Edge Biotech and Life Sciences Opportunities Fund

### Schedule of investments (continued)

<b>Options (3.8%)</b>		
Purchased options (see options detail)	534,847	377,292
<b>Total long position</b>	<b>8,937,117</b>	<b>9,498,028</b>
<b>Short Position (-0.5%)</b>		
Written options (see options detail)	(80,299)	(53,954)
<b>Total short position</b>	<b>(80,299)</b>	<b>(53,954)</b>
Transaction costs	(3,446)	-
<b>Total Investment Portfolio and Options (94.3%)</b>	<b>8,853,372</b>	<b>9,444,074</b>
Cash (8.1%)		809,860
Other assets net of liabilities		(237,027)
<b>Total net assets attributable to holders of redeemable units</b>		<b>10,016,907</b>

## Next Edge Biotech and Life Sciences Opportunities Fund

### Schedule of investments (continued)

#### Options Details

Underlying Interest	Option Type	Number of Options	Strike Price (\$)	Expiry Date	Average Cost (\$)	Fair Value (\$)
<b>Purchased Options</b>						
Alkermes PLC	Call	125	23	Jan 2021	12,342	1,991
Alkermes PLC	Call	25	23	Jan 2021	2,468	398
Aurinia Pharmaceuticals Inc.	Call	100	18	Feb 2021	34,398	27,455
Aurinia Pharmaceuticals Inc.	Call	50	18	Feb 2021	12,740	13,727
Biogen Inc.	Call	25	280	Jan 2021	18,792	10,033
Biogen Inc.	Call	40	280	Jan 2021	30,066	16,052
Biogen Inc.	Call	25	300	Apr 2021	49,367	48,095
Biogen Inc.	Call	10	300	Apr 2021	17,836	19,237
Biontech SE	Call	30	125	Feb 2021	25,225	6,880
Biontech SE	Call	20	125	Feb 2021	7,007	4,586
Deciphera Pharm Inc.	Call	75	70	Feb 2021	21,475	14,571
Exelixis Inc.	Call	100	24	Feb 2021	6,370	6,370
Exelixis Inc.	Call	100	24	Feb 2021	6,370	6,370
Exelixis Inc.	Call	100	24	Feb 2021	6,370	6,370
Exelixis Inc.	Call	100	24	Feb 2021	7,644	6,370
Fibrogen Inc.	Call	75	55	Jan 2021	23,410	3
Fibrogen Inc.	Call	50	55	Jan 2021	15,607	2
Fibrogen Inc.	Call	25	55	Jan 2021	7,803	1
Fibrogen Inc.	Call	50	55	Jan 2021	15,607	2
Fibrogen Inc.	Call	50	55	Jan 2021	15,607	2
Fulgent Genetics Inc.	Call	50	60	Feb 2021	28,856	33,761
Fulgent Genetics Inc.	Call	50	60	Feb 2021	25,291	33,761
Intercept Pharmaceuticals	Call	50	45	Jan 2021	4,141	1,593
Intercept Pharmaceuticals	Call	50	45	Jan 2021	4,141	1,593
Intercept Pharmaceuticals	Call	25	45	Jan 2021	2,070	796
Regeneron Pharm Inc.	Call	50	550	Feb 2021	37,275	37,903
<b>Total purchased call options</b>					<b>438,278</b>	<b>297,922</b>
SPDR S&P 500 ETF Trust	Put	200	340	Feb 2021	96,569	79,370
<b>Total purchased put options</b>					<b>96,569</b>	<b>79,370</b>
<b>Total purchased options</b>					<b>534,847</b>	<b>377,292</b>

## Next Edge Biotech and Life Sciences Opportunities Fund

### Schedule of investments (continued)

#### Written Options

Biogen Inc.	Call	-25	325	Jan 2021	(7,564)	(6,450)
Biogen Inc.	Call	-40	325	Jan 2021	(12,103)	(10,319)
Editas Medicine Inc.	Call	-15	80	Jan 2021	(11,200)	(4,825)
Sangamo Therapeutics Inc.	Call	-30	19	Jan 2021	(5,351)	(1,338)
Sangamo Therapeutics Inc.	Call	-30	19	Jan 2021	(5,351)	(1,338)
<b>Total written call options</b>					<b>(41,569)</b>	<b>(24,270)</b>
SPDR S&P 500 ETF Trust	Put	-200	310	Feb 2021	(38,730)	(29,684)
<b>Total written put options</b>					<b>(38,730)</b>	<b>(29,684)</b>
<b>Total written options</b>					<b>(80,299)</b>	<b>(53,954)</b>
<b>Total options</b>					<b>454,548</b>	<b>323,338</b>

# Next Edge Biotech and Life Sciences Opportunities Fund

Notes to the financial statements - December 31, 2020 (continued)

## 1. FUND INFORMATION

Next Edge Biotech and Life Sciences Opportunities 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 November 3, 2020. The Fund is divided into units of participation ("Units") representing an interest in the Fund held by Unitholders. The Fund has two classes of Units: Class A Units and Class F 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 biotechnology and life sciences companies. Investments by the Fund may be made globally. The Fund started investing according to its investment objective on December 22, 2020.

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 Services Trust. 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 31, 2021.

### Fund Merger

At the close of business on December 18, 2020 the Fund acquired all the assets and assumed all the liabilities of Next Edge Bio Tech Plus Fund (the "Terminated Fund"), in exchange for units of the Fund. The value of the units of the Fund issued on the date of the merger was equal to the NAV transferred from the Terminated Fund. The NAV acquired by the Fund in connection with its merger and the number of units issued of the Fund on the date of merger was as follows:

Next Edge Bio Tech Plus Fund (the "Terminated Fund")	Next Edge Biotech and Life Sciences Opportunities Fund (the "Fund") *	NAV Acquired (\$)	Number of Fund units issued
Series A and A1	Class A	4,963,399	496,340
Series F and F1	Class F	4,618,867	461,887

The merger was completed on a taxable basis.

The purchase method was used to account for the merger and the Fund was identified as the acquiring fund for accounting purposes. In determining the accounting acquirer, consideration is given on the relative asset size, investment objectives and practices, portfolio composition and investment advisors. In accordance with securities regulations, the Manager absorbed all the costs associated the merger.

## 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.

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



# Next Edge Biotech and Life Sciences Opportunities Fund

## Notes to the financial statements - December 31, 2020 (continued)

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. 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.

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 Statement 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, 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

# Next Edge Biotech and Life Sciences Opportunities Fund

## Notes to the financial statements - December 31, 2020 (continued)

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.

The premium paid for purchasing an option is recorded as an asset in the Statement 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 Statement 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 Statement 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 Statement 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

# Next Edge Biotech and Life Sciences Opportunities Fund

## Notes to the financial statements - December 31, 2020 (continued)

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.

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 Statement of comprehensive income.

"Interest income for distribution purposes" shown on the Statement 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 Statement of comprehensive income.

### **Cash**

Cash comprises deposits with financial institutions.

# Next Edge Biotech and Life Sciences Opportunities Fund

## Notes to the financial statements - December 31, 2020 (continued)

### Net assets attributable to holders of redeemable units per unit

The net assets attributable to holders of redeemable units per unit is calculated by dividing the 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.

### 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 Statement 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.

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.

# Next Edge Biotech and Life Sciences Opportunities Fund

## Notes to the financial statements - December 31, 2020 (continued)

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 currency risk, other price risk, and biotechnology sector 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 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 of the Fund may change due to ongoing portfolio transactions.

Portfolio by Asset Mix	% of Net Asset Value	
	Dec 31, 2020	
Canadian equity		42.9%
United States equity		37.8%
International equity		6.5%
Equity options		3.0%
Canadian bond		2.5%
United States bond		1.3%
Equity index options		0.8%
Total investments		94.8%
Cash and cash equivalents <sup>1</sup>		8.1%
Other net liabilities		(2.4%)
Written options		(0.5%)
Total net asset value		100.0%

## Next Edge Biotech and Life Sciences Opportunities Fund

Notes to the financial statements - December 31, 2020 (continued)

<b>Portfolio by Industry</b>	<b>% of Net Asset Value Dec 31, 2020</b>
Pharmaceuticals and biotechnology	62.4%
Healthcare equipment and services	18.4%
Pharmaceuticals	3.6%
Equity options	3.0%
Biotechnology	2.8%
Canadian bond	2.5%
United States bond	1.3%
Equity index options	0.8%
Total investments	94.8%
Cash and cash equivalents <sup>1</sup>	8.1%
Other net liabilities	(2.4%)
Written options	(0.5%)
Total net asset value	<b>100.0%</b>

<b>Portfolio by Country</b>	<b>% of Net Asset Value Dec 31, 2020</b>
Canada	48.7%
United States	39.1%
International	6.5%
Total investments	94.3%
Cash and cash equivalents <sup>1</sup>	8.1%
Other net liabilities	(2.4%)
Total net asset value	<b>100.0%</b>

1. Cash and cash equivalents are shown in total as one position.

### Biotechnology and Life Sciences industry risk

Companies within the biotechnology and life sciences 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 and life sciences 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 Biotech and Life Sciences Opportunities Fund

## Notes to the financial statements - December 31, 2020 (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 Statement of financial position.

As at December 31, 2020, the Fund has \$382,561 exposure to two convertible debt instruments which are both unrated bonds.

The counterparty to all of the Fund's options transactions is Bank of Montreal, which has 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, 2020, the Fund has \$382,561 exposure to two convertible debt instruments.

If the prevailing interest rates had been raised or lowered by 1%, assuming a parallel shift in the yield curve, with all other factors remaining constant, net assets could possibly have decreased or increased. The Fund's interest rate sensitivity was determined based on the weighted average duration of the portfolio. For the period ended December 31, 2020, the weighted average duration of the two convertible debt instruments was one year. As of December 31, 2020, the Fund's exposure to interest rate risks given a 1% impact on net assets is \$3,637.

### 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, 2020

Financial liabilities	On demand	< 3 months	Total
Financial liabilities at fair value through profit or loss	53,954	-	53,954
Payable for investments purchased	474,443	-	474,443
Management fees payable	-	1,233	1,233
Performance fees payable	-	109,299	109,299
HST payable	-	14,367	14,367
	<u>528,397</u>	<u>124,899</u>	<u>653,296</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.

### 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



# Next Edge Biotech and Life Sciences Opportunities Fund

## Notes to the financial statements - December 31, 2020 (continued)

in the relevant risk variable at each reporting date. In practice, the actual results may differ, and the differences could be material.

### COVID-19 Impact

Since the outbreak of COVID-19, emergency measures taken in response to the spread of COVID-19 have resulted in significant disruption to business operations globally, resulting in an economic slowdown. Global equity and capital markets have also experienced significant volatility and weakness. The governments have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. These developments are constantly evolving, and the duration and impact of the COVID-19 pandemic is highly uncertain and cannot be predicted at this time but could have a material impact on the future performance of the Funds. In the face of the current environment of heightened uncertainty and market volatility, the Manager continues to closely monitor its impact on the Fund's risk exposures from the portfolio holdings.

### 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, 2020 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, 2020	Exposure			Impact on net assets attributable to holders of redeemable units		
	Monetary	Non-monetary	Total	Monetary	Non-monetary	Total
United States dollar	293,090	4,921,280	5,214,370	14,655	246,064	260,719
% of net assets attributable to holders of redeemable units	2.9%	49.1%	52.1%	0.1%	2.5%	2.6%

#### (a) 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. Sensitivity against the benchmark was not included as there is an insufficient period of trading to statistically create a meaningful correlation between the performance of the Fund's portfolio investments to the relevant benchmark.

#### (b) Biotechnology and life sciences sector risk

Companies within the biotechnology and life sciences 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



## Next Edge Biotech and Life Sciences Opportunities Fund

### Notes to the financial statements - December 31, 2020 (continued)

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 and life sciences 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 Statement 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, 2020, the financial instruments measured at fair value in the Statements of financial position are grouped into the fair value hierarchy as follows:

December 31, 2020	Level 1	Level 2	Level 3	Total
Equities - long	7,457,975	1,280,200	-	8,738,175
Bonds - long	-	-	382,561	382,561
Purchased options	377,292	-	-	377,292
Written options	(53,954)	-	-	(53,954)
	<b>7,781,313</b>	<b>1,280,200</b>	<b>382,561</b>	<b>9,444,074</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 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 period ended December 31, 2020.

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, 2020.

The following table presents the movement in Level 3 for the period ended December 31, 2020:

	Bonds - long	Equities - long
Beginning balance, November 3, 2020	-	-
Purchases	382,561	-
Transfers from level 1	-	-
Transfers from level 2	-	-
Net change in unrealized depreciation in fair value of bonds - long	-	-
<b>Ending balance, December 31, 2020</b>	<b>382,561</b>	<b>-</b>

# Next Edge Biotech and Life Sciences Opportunities Fund

Notes to the financial statements - December 31, 2020 (continued)

## 7. REDEEMABLE UNITS

For the period ended December 31, 2020, the Fund offered two classes of redeemable units: Class A Units and Class F 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, which would reduce the amount of money invested in the Class A Units of the Fund. The number of units issued, redeemed or cancelled during the period ended December 31, 2020 for each respective class is summarized in the following tables.

For the period November 3 to December 31,	2020
<b>Class A<sup>1</sup></b>	
Balance, beginning	-
Units issued for consideration	496,340
Units redeemed	(2,026)
<b>Balance, ending</b>	<b>494,314</b>
<b>Class F<sup>1</sup></b>	
Balance, beginning	-
Units issued for consideration	464,938
Units redeemed	-
<b>Balance, ending</b>	<b>464,938</b>

1. One Class A opening Unit was issued November 3, 2020, but the Fund did not start investing according to its investment mandate, until December 22, 2020. The first issuance of Class F units was on December 22, 2020.

### 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.

### Reconciliation of valuation to Net Asset Value

There is a difference between the Net Assets as per the financial statements and the NAV for subscription and redemption purposes (valuation purpose), calculated in accordance with the offering memorandum.

# Next Edge Biotech and Life Sciences Opportunities Fund

## Notes to the financial statements - December 31, 2020 (continued)

As of December 31, 2020, an immaterial excess management fee was accrued for Class A which was subsequently rectified January 4, 2021. There were no Class A subscriptions or redemptions, so this difference did not affect any Unitholders past January 4, 2021.

<b>December 31, 2020</b>	<b>Class A</b>	<b>Class F</b>
Net Assets per financial statements	5,161,322	4,855,585
Redeemable units per financial statements	494,314	464,938
<b>Net Assets per unit per financial statements</b>	<b>10.44</b>	<b>10.44</b>
Net assets per financial statements	5,161,322	4,855,585
Add back management fees	1,394	-
<b>Net asset value per valuation</b>	<b>5,162,716</b>	<b>4,855,585</b>
Redeemable units per valuation	494,314	464,938
<b>Net asset value per unit per valuation</b>	<b>10.44</b>	<b>10.44</b>

### 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 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, 2020, the Fund had nil capital and nil non-capital losses for tax purposes.

# Next Edge Biotech and Life Sciences Opportunities Fund

Notes to the financial statements - December 31, 2020 (continued)

## 9. FEES AND OPERATING EXPENSES

Annual Management Fees (% of net asset value of the class of the Fund)	
Class	Management Fee <sup>1,2</sup>
Class A Units	1.00%
Class F Units	0.00%

1. Plus applicable HST.

2. The Manager may from time to time, in its own discretion, waive a portion of the management fee resulting in a reduction of the management fee charged. To the extent a portion of the management fee is waived, the Manager reserves the right to stop such waiver at any time and without notice to, or the consent of, unitholders.

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) 1.00% of the portion of its NAV represented by the Class A Units, and (ii) nil of the portion of NAV represented by the Class F Units, calculated weekly and paid quarterly in arrears, plus applicable taxes. The Manager uses these management fees to pay for sales and trailing commissions to registered dealers on the distribution of the Fund’s Units. The Fund started accruing for management fees on December 22, 2020.

The Fund pays all its own operating expenses. These include but are not limited to brokerage commissions and fees, taxes, audit fees, legal fees and expenses, safekeeping, registrar and transfer agent fees, trustee and custodial fees, interest expenses, administrative costs, regulatory participation fees, investor servicing costs and costs of financial and other reports to investors, as well as prospectuses.

The Chair of the independent review committee currently receives an annual retainer of \$12,000 and the other independent review committee members an annual retainer of \$9,000, plus reimbursement of expenses, and all such fees and expenses of the independent review committee will be paid by the Next Edge funds pro rata based on the amount of time spent on each Next Edge fund’s business.

Next Edge may, from time to time, in its sole discretion, pay all or a portion of any additional expenses which would otherwise be payable by the Fund.

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 period ended December 31, 2020, \$12,149 of “soft dollars”, in which a brokerage firm is paid for its services through commission revenue by executing trades at the brokerage, were used to pay for operating expenses of the Fund.

### Performance fees

The Fund will pay to the Manager, in respect of each fiscal quarter of the Fund, a performance fee based on 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, 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.

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%.and as fully described in the Fund’s simplified prospectus.

# Next Edge Biotech and Life Sciences Opportunities Fund

Notes to the financial statements - December 31, 2020 (continued)

## 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 period ended December 31, 2020 amounted to \$1,233 and are reported in the Statement of comprehensive income, with \$1,233 in outstanding accrued fees due to the Manager as at December 31, 2020 reported in the Statement of financial position.

Total performance fees for the period ended December 31, 2020 amounted to \$109,299 and are reported in the Statement of comprehensive income, with \$109,299 in outstanding accrued fees due to the Manager as at December 31, 2020 reported in the Statement 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 period ended December 31, 2020 was \$nil.

## 11. UPDATE ON COVID-19

COVID-19, which has been recognized by the World Health Organization as a pandemic, has spread rapidly and extensively across the globe. Efforts by governments to control the further spread of COVID-19 have disrupted normal economic activity both domestically and globally. Uncertainty related to the extent, duration and severity of the pandemic has contributed to significant volatility in the financial markets. In addition, the Manager may face declines in its assets under administration as a result of client redemptions related to a variety of COVID-19 related factors including general market pessimism, poor fund performance, or clients' needs for immediate cash.

The Manager is monitoring the impact of the pandemic and managing expenses accordingly. The Manager believes it is well positioned to meet its financial obligations and to support planned business operations throughout this pandemic. The extent to which the Manager's business, financial condition and results of operations will be impacted by the COVID-19 pandemic, is uncertain and will depend of future developments, which are unpredictable and rapidly evolving. Accordingly, there is a higher level of uncertainty with respect to management's judgments and estimates.

# Next Edge Biotech and Life Sciences Opportunities Fund

## General information

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