

# Next Edge Biotech and Life Sciences Opportunities Fund

Annual Management Report of Fund Performance – 2020



NEXTEDGE  
CAPITAL

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Next Edge Biotech and Life Sciences Opportunities Fund (the “Fund”). You may obtain a copy of the annual financial statements at your request, and at no cost, by calling (416) 775-3600 or toll-free at (877) 860-1080, by writing to us at Next Edge Capital Corp., 1 Toronto Street, Suite 200, Toronto, Ontario, M5C 2V6, Canada or by visiting our website at [www.nextedgecapital.com](http://www.nextedgecapital.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Unitholders may also contact us using one of these methods to request a copy of the investment fund’s proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

### **Caution Regarding Forward-looking Statements**

Certain portions of this report, including but not limited to, “Results of Operations” and “Recent Developments”, may contain forward-looking statements about Next Edge Biotech and Life Sciences Opportunities Fund (the “Fund”), including its strategies, risks, expected performance and condition. All statements, other than statements of historical fact, that address activities, events or developments that Next Edge Capital Corp. (the “Manager”) believe, expect or anticipate will or may occur in the future (including, without limitation, statements regarding any targeted returns, projections, forecasts, statements and future plans and objectives of the Fund) are forward-looking statements. These forward-looking statements reflect the current expectations, assumptions or beliefs of the Manager based on information currently available to the Fund.

Forward-looking statements are subject to a number of risks and uncertainties that may cause the actual results of the Fund to differ materially from those discussed in the forward-looking statements, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Fund.

Factors that could cause actual results or events to differ materially from current expectations include, among other things, changes in international financial and commodities markets, fluctuations in currency exchange and interest rates, illiquidity of portfolio investments, reduction in availability of leverage, default by counterparties, special risks arising from short sales and investments in forward contracts and other derivatives, unintentional trades, accuracy of analytical models, valuation risks, limitations on redemptions, tax consequences, changes in applicable laws and other risks associated with investing in securities and those factors discussed under the section entitled “Risk Factors” in the Fund’s simplified prospectus.

Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Manager and the Fund disclaim any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although the Manager believes that the assumptions inherent in the forward-looking statements are reasonable, forward-looking statements are not guarantees of future performance and accordingly undue reliance should not be put on such statements due to the inherent uncertainty therein.

# Next Edge Biotech and Life Sciences Opportunities Fund

Annual management report of fund performance – December 31, 2020

Management discussion of fund performance

## Investment Objective and Strategies

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 by a declaration of trust dated November 3, 2020 made by Next Edge Capital Corp., in its capacity as trustee of the Fund. The Fund is divided into units of participation (“Units”) representing an interest in the Fund held by unitholders of the Fund (“Unitholders”). The Fund has two classes of Units: Class A Units, and Class F Units.

The Fund started investing according to its investment objective on December 22, 2020.

### *Investment Objective*

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 will not change the investment objectives of the Fund without the approval of a majority of Unitholders.

### *Investment Strategies*

The portfolio manager uses the following investment strategies to attempt to achieve the Fund’s investment objective:

- Holdings comprised of a mix of biotechnology and life sciences companies.
- Sector exposure includes biotechnology, speciality pharma, medical devices, medical software and technology, diagnostics, drug delivery, bioinformatics and agricultural, healthcare services and telehealth services.
- Derivatives may be used for hedging purposes and return enhancement.

Investment decisions are made by:

- Focusing on companies in early to later stages of clinical development or early commercialization that meet specific criteria and whose data has been subjected to peer reviewed analysis.
- The Fund is managed to seek to attempt to reduce overall portfolio volatility by: further reducing the risk associated with investments in a particular sector by placing option hedges on biotechnology indices; and exiting or hedging a particular position, should the applicable issuer be faced with event risks owing to expected upcoming factors/data/information.
- Collectively hedging to reduce the volatility of a traditionally volatile sector and to generate income and provide return enhancement.

The Fund may invest in or use derivatives for hedging and non-hedging purposes in a manner consistent with the investment objective of the Fund and as permitted by applicable securities legislation. Derivatives to be used by the Fund may include, but are not limited to, non-exchange traded options, forward contracts, futures contracts and swaps. The Fund may also sell short certain securities in accordance with NI 81-102. Short selling will be used selectively and opportunistically. To do this, the Fund borrows the securities it is selling short, and is under an obligation to return the borrowed securities to the lender at a future date. The Fund is required to pay the lender any distribution declared on the borrowed securities, together with any securities borrowing fees. To return the borrowed securities, the Fund purchases these same securities at a later date, with the result that the Fund will generally make a gain on the short sale if the price of the securities has declined by such date. The short selling activities of the Fund are subject to the limitations set out in NI 81-102 (and as such requirements are applicable to alternative mutual funds).

The Fund may enter into securities lending, repurchase and reverse repurchase transactions to earn additional returns, subject, in each case, to limits at least as stringent as those required by Canadian securities regulatory authorities.

## Next Edge Biotech and Life Sciences Opportunities Fund

Annual management report of fund performance – December 31, 2020

### Management discussion of fund performance

As the Fund is considered an “alternative mutual fund” within the meaning of NI 81-102, as noted, it may use strategies generally prohibited to be used by conventional mutual funds, such as the ability to invest more than 10% of its net asset value in securities of a single issuer, the ability to invest in physical commodities or specified derivatives, to borrow cash, to short sell beyond the limits prescribed for conventional mutual funds and to generally employ leverage.

The Fund may depart temporarily from its fundamental investment objectives and will likely invest in cash or cash equivalents in the event of adverse market, economic, political or other considerations.

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.

# Next Edge Biotech and Life Sciences Opportunities Fund

Annual management report of fund performance – December 31, 2020

Management discussion of fund performance (continued)

## Risk

The Fund started investing according to its investment objective on December 22, 2020. Effective December 22, 2020, an investment in the Fund is subject to certain risk factors relating to the Fund, as detailed in its Simplified Prospectus. During the period ended December 31, 2020, there were no changes to the Fund that materially affected the overall risk level associated with an investment in the Fund.

## Results of Operations

The Fund experienced an increase in its net assets during the period ended December 31, 2020:

Class of redeemable units	December 31, 2020 NAV per unit (CAD) <sup>1</sup>	% return for the period ended December 31, 2020 <sup>1</sup>
A	10.44	4.44%
F	10.44	4.44%

1. Net assets attributable to holders of redeemable units ("NAV", or "Net Assets").

Next Edge Biotech and Life Sciences Opportunities Fund commenced trading according to its investment objective on December 22, 2020 to provide investors with exposure to small-mid cap biotech stocks.

On December 18th, the former Next Edge Biotech Plus Fund, a mutual fund, officially merged with the Alternative Mutual Fund, the Next Edge Biotech and Life Sciences Opportunities Fund. There were several advantages for our investors in doing so.

First, the Fund eliminated the management fee, opting instead for a performance fee only structure, which aligns the Fund with the interests of the investor in pursuing absolute returns rather than relative returns. Secondly, it eliminated a burdensome benchmark present in the former Fund that did not reflect the mandate of the current Fund. The Fund's benchmark was comprised of 40% of the TSX Healthcare Index, which itself was comprised of over 60% recreational cannabis companies. That stands in contrast to investing in companies developing breakthrough therapies that address unmet medical needs, using biotechnology engineering methods. Finally, the current Fund is now free to seek out the best healthcare investments regardless of jurisdiction, capitalization or focus unlike the former Fund. To this end, the Fund has begun to reduce its substantial weight in Canadian small cap holdings, to reposition into other investments with superior long-term potential and with less development and clinical risk.

For the 10 days from the inception of the merged funds to year end 2020, the Fund appreciated +4.44%. By comparison, a broad measure of the universe of over 200 biotechnology companies, the Nasdaq Biotech Index (^NBI), declined over that same period by -3.08%. Small capitalization biotech companies have been strong throughout November and December. This was a harbinger for continued strength in performance of the Fund into the early months of 2021.

At year end, the Fund was comprised of 48.7% Canadian holdings, 39.1% US holdings and 8.1% Cash.

## Recent Developments

The strength in small cap biotech companies persisted into the new year, resulting in an exceptional January with the Fund exceeding a 20% return, even while the Nasdaq Biotech Index (^NBI) rose only 6.04%. The Fund returns were less due to a sector lift, and more due to strong individual holdings that responded to positive clinical and execution developments. This provided the liquidity to continue to migrate the Fund from concentrated Canadian microcap holdings toward high quality core long term biotech holdings. The Fund is ultimately targeting a mix of US holdings vs Canadian holdings of 3-to-1 in the months ahead in 2021.

# Next Edge Biotech and Life Sciences Opportunities Fund

## Annual management report of fund performance – December 31, 2020

### Management discussion of fund performance (continued)

#### Related Party Transactions

The Manager is responsible for the day-to-day operations of the Fund and provides management services to the Fund, including the marketing, promotion, and distribution of the Fund; transfer agency services; and unitholder reporting and servicing. In consideration of the management services, the Fund pays management fees, which are accrued for daily, to the Manager based on the average NAV of the applicable class of units of the Fund. The Manager pays for dealer compensation, or service fees, if any, out of management fees.

Total management fees for the period ended December 31, 2020 amounted to \$1,233 with \$1,233 in outstanding accrued fees due to the Manager at December 31, 2020.

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%.

Total performance fees for the period ended December 31, 2020 amounted to \$109,299, and \$109,299 outstanding accrued fees due to the Manager at December 31, 2020.

The Manager incurs operating expenses on behalf of the Fund and is then reimbursed by the Fund for such expenses.

National Instrument 81-107 Independent Review Committee for Investment Funds (“NI 81-107”) requires all publicly offered investment funds, such as the Fund, to establish an independent review committee (“IRC”). Consequently, the Manager has appointed three independent IRC members. The purpose of the IRC is to: (i) review and provide input on the Manager’s written policies and procedures that deal with conflict of interest matters; (ii) consider and, if deemed appropriate, approve the Manager’s decision on a conflict of interest matter that the Manager refers to the IRC for approval; and (iii) perform such other duties as may be required of the IRC under applicable Canadian securities laws. Additional information about the IRC is available in the Fund’s prospectus. Fees are paid to the IRC members for the performance of their duties.

The total remuneration paid to members of the Independent Review Committee allocable to the Fund during the period ended December 31, 2020 was nil. There were no outstanding payables relating to Independent Review Committee fees as at December 31, 2020.

Next Edge Biotech and Life Sciences Opportunities Fund  
 Annual management report of fund performance – December 31, 2020  
 Financial highlights (continued)

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the period ended December 31, 2020.

**Class A<sup>3</sup> – Net Assets per Unit (CAD)**

For the period ended	Dec 31, 2020 <sup>1</sup>
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Net Assets per unit, beginning of period	10.00
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**(Decrease) Increase from operations**

Total revenue	-
Total expenses	(0.14)
Realized gains (losses) for the period	(0.04)
Unrealized gains for the period	0.62
<b>Total increase from operations</b>	<b>0.44</b>

**Distributions**

From net investment income (excluding dividends)	-
From dividends	-
From capital gains	-
Return of capital	-
<b>Total distributions</b>	<b>-</b>

Net Assets per unit, end of period <sup>2</sup>	10.44
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**Class F<sup>4</sup> – Net Assets per Unit (CAD)**

For the period ended	Dec 31, 2020 <sup>1</sup>
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Net Assets per unit, beginning of period	10.00
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**Increase from operations**

Total revenue	-
Total expenses	(0.14)
Realized gains (losses) for the period	(0.04)
Unrealized gains for the period	0.62
<b>Total increase from operations</b>	<b>0.44</b>

**Distributions**

From net investment income (excluding dividends)	-
From dividends	-
From capital gains	-
Return of capital	-
<b>Total distributions</b>	<b>-</b>

Net Assets per Unit, end of period <sup>2</sup>	10.44
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# Next Edge Biotech and Life Sciences Opportunities Fund

## Annual management report of fund performance – December 31, 2020

### Financial highlights (continued)

1. This information is derived from the Fund's audited financial statements for the period ended December 31, 2020.
2. Net Assets and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is calculated based on the average number of units outstanding over the period. Therefore, the beginning of period Net Assets, the increase (decrease) from operations and distributions, if any, will not sum to the end of period Net Assets.
3. The first issuance of Class A Units was on 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.



Next Edge Biotech and Life Sciences Opportunities Fund  
 Annual management report of fund performance – December 31, 2020  
 Financial highlights (continued)

**Class A<sup>6</sup> – Ratios and Supplement Data:**

For the period ended	December 31, 2020
Total NAV (CAD 000s) <sup>1</sup>	5,161
Number of units outstanding <sup>1</sup>	494,314
Management expense ratio <sup>2</sup>	52.47%
Management expense ratio before waivers or absorptions <sup>2</sup>	1.13%
Management expense ratio before performance fees <sup>5</sup>	1.13%
Trading expense ratio <sup>3</sup>	3.27%
Portfolio turnover rate <sup>4</sup>	10.32%
NAV per unit (CAD)	10.44

**Class F<sup>6</sup> – Ratios and Supplement Data:**

For the period ended	December 31, 2020
Total NAV (CAD 000s) <sup>1</sup>	4,856
Number of units outstanding <sup>1</sup>	464,938
Management expense ratio <sup>2</sup>	52.02%
Management expense ratio before waivers or absorptions <sup>2</sup>	0.00%
Management expense ratio before performance fees <sup>5</sup>	0.00%
Trading expense ratio <sup>3</sup>	3.27%
Portfolio turnover rate <sup>4</sup>	10.32%
NAV per unit (CAD)	10.44

1. This information is provided as at December 31, 2020.
2. Management expense ratio is based on total expenses (excluding distributions, commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period. The management expense ratio is calculated in accordance with Part 15 of NI 81-106.
3. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
4. The Fund's portfolio turnover rate indicates how actively the Fund's portfolio manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.
5. The first issuance of Class A Units was on 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.

Next Edge Biotech and Life Sciences Opportunities Fund  
 Annual management report of fund performance – December 31, 2020  
 Financial highlights (continued)

Management Fees

<b>Annual Management Fees</b> (% of net asset value of the class of the Fund)	
<b>Class</b>	<b>Management Fee<sup>1,2</sup></b>
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 its own operating expenses, other than advertising costs and costs of dealer compensation programs, which are paid by the Manager.

Annual management fees, and a breakdown of the services received in consideration of the management fees, as a percentage of management fees, for the period ended December 31, 2020, are as follows:

<u>Class of Units</u>	<u>Annual Rates</u>	<u>As a percentage of management fees</u>	
		<u>Dealer Compensation</u>	<u>General administration, investment advice and profit</u>
A	1.00%	100.00%	0.00%
F	0.00%	0.00%	100.00%

# Next Edge Biotech and Life Sciences Opportunities Fund

## Annual management report of fund performance – December 31, 2020

### Past performance (continued)

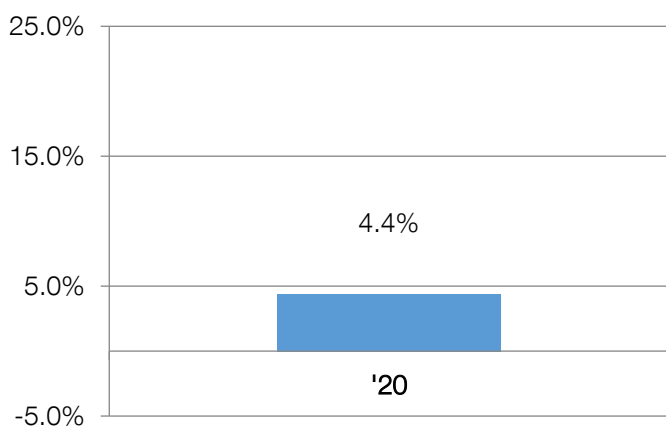
The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional securities of the Fund. The performance information shown does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. How the Fund has performed in the past does not necessarily indicate how it will perform in the future.

The Fund launched November 3, 2020 but did not trade according to its investment objectives until December 22, 2020.

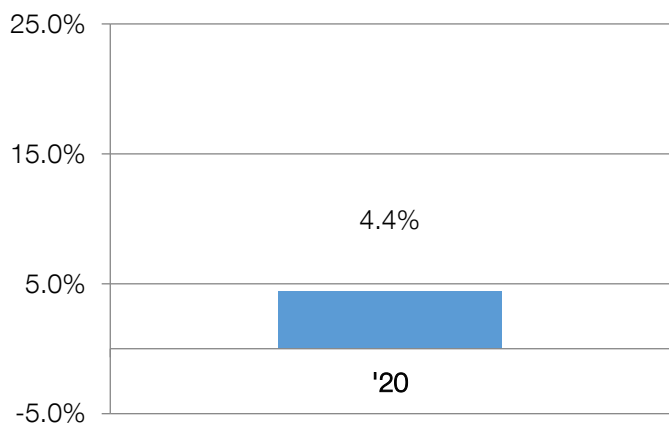
Reported returns are as follows from the first day to the last day of each fiscal period shown.

#### Year-by-Year Returns<sup>1,2</sup>

### Class A



### Class F



1. Returns are for partial year from the Fund 's inception date December 22, 2020 to December 31,2020.

Next Edge Biotech and Life Sciences Opportunities Fund  
Annual management report of fund performance – December 31, 2020  
Summary of investment portfolio

The following shows the Fund's Portfolio breakdown by asset mix, asset class, geography and the top 25 holdings. The Fund's investment portfolio may change due to ongoing portfolio transactions.

<b>Portfolio by Asset Mix</b>	<b>% of Net Asset Value Dec 31, 2020</b>
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	<b>100.0%</b>

<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.

Next Edge Biotech and Life Sciences Opportunities Fund  
Annual management report of fund performance – December 31, 2020  
Summary of investment portfolio (continued)

**Top 25 Long Positions**

<b>Issuer</b>	<b>% of Net Asset Value</b>
Microbix Biosystems Inc.	7.9%
Aequus Pharmaceuticals Inc.	4.9%
Apellis Pharmaceuticals Inc.	4.7%
Exelixis Inc.	4.5%
SQI Diagnostics Inc.	4.3%
ClearPoint Neuro Inc.	4.0%
Opsens Inc.	4.0%
Provention Bio Inc.	3.7%
Intra-Cellular Therapies Inc.	3.6%
Theratechnologies Inc.	3.3%
Bluebird Bio Inc.	3.3%
iCo Therapeutics Inc.	3.0%
Imagin Medical Inc., April 22, 2022	2.5%
SQI Diagnostics Inc. Warrants, March 08, 2024 - Strike Price \$0.11	2.4%
Sangamo Therapeutics Inc.	2.4%
MeiraGTx Holdings PLC	1.9%
Synaptogenix Inc.	1.8%
Delcath Systems Inc. Warrants, August 11, 2024 - Strike Price \$25.36	1.7%
Cardiol Therapeutics Inc.	1.6%
Orchard Therapeutics PLC	1.6%
Erytech Pharma SA	1.5%
Medicenna Therapeutics Corp.	1.5%
Intercept Pharmaceuticals Inc.	1.4%
Editas Medicine Inc.	1.3%
Inmune Bio Inc.	1.3%

**Top 25 Short Positions<sup>1</sup>**

<b>Issuer</b>	<b>% of Net Asset Value</b>
SPDR S&P 500 ETF Trust	(0.3%)
Biogen Inc.	(0.2%)
Editas Medicine Inc.	(0.0%)
Sangamo Therapeutics Inc.	(0.0%)

**Net Asset Value of Next Edge Biotech and Life Sciences Opportunities Fund as at December 31, 2020** \$10,016,907 CAD

1. These are all of the Fund's short positions as at December 31, 2020.

# Next Edge Biotech and Life Sciences Opportunities Fund

## General information

### MANAGER AND PRINCIPAL DISTRIBUTOR

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### CUSTODIAN, REGISTRAR, TRANSFER AGENT AND VALUATION AGENT

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### BROKER

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