

**CANADIAN BANC CORP.**  
**2019 SEMI-ANNUAL REPORT**  
**(UNAUDITED)**



**CANADIAN  
BANC**  
CORP

This report may contain forward-looking statements about the Company. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates” or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Company action, is also forward-looking. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company and economic factors.

Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made by the Company. Any number of important factors could contribute to any divergence between what is anticipated and what actually occurs, including, but not limited to, general economic, political and market factors, interest and foreign exchange rates, global equity and capital markets, business competition, technology change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

The above-mentioned list of important factors is not exhaustive. You should consider these and other factors carefully before making any investment decisions and you should avoid placing undue reliance on forward-looking statements. While the Company currently anticipates that subsequent events and developments may cause the Company’s views to change, the Company does not undertake to update any forward-looking statements.

This is the semi-annual Management Report of Fund Performance (MRFP) for the period ended May 31, 2019. This MRFP contains financial highlights but does not contain the complete financial statements of the Company. The semi-annual financial statements and accompanying notes are attached to this report.

Investors may also obtain a copy of the Company's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure by visiting our website at [www.primerateplus.com](http://www.primerateplus.com) or by writing to the Company at Investor Relations, 200 Front Street West, Suite 2510, Toronto, Ontario M5V 3K2.

These reports are available to view and download at [www.canadianbanc.com](http://www.canadianbanc.com) or [www.sedar.com](http://www.sedar.com).

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## **INVESTMENT OBJECTIVES AND STRATEGIES**

### **Investment objectives**

Canadian Banc Corp. invests primarily in a portfolio of common shares which will include each of the following Canadian chartered banks:

|                                    |                         |
|------------------------------------|-------------------------|
| Bank of Montreal                   | National Bank of Canada |
| Bank of Nova Scotia                | Royal Bank of Canada    |
| Canadian Imperial Bank of Commerce | Toronto-Dominion Bank   |

The Company may also invest up to 20% of the net asset value in equity securities of Canadian or foreign financial services corporations other than the core holdings listed above. In order to supplement the dividends received on the portfolio and to reduce risk, the Company will from time to time write covered call options in respect of some or all of the common shares in the portfolio.

The Company offers two types of shares:

### **Preferred shares**

The investment objectives with respect to the Preferred shares are as follows:

1. Effective December 1, 2018, Preferred shareholders are entitled to receive a cumulative preferential floating rate monthly dividend at an annual rate equivalent to the prevailing Canadian prime rate plus 1.5%, with a minimum annual rate of 5% and a maximum annual rate of 8% based on the original issue price (previously, to provide holders with cumulative preferential floating rate monthly cash dividends at a rate per annum equal to the prevailing Canadian prime rate plus 0.75%, with a minimum annual rate of 5.0% and a maximum annual rate of 7% based on original issue price); and
2. On or about the termination date of December 1, 2023 (subject to further 5 year extensions thereafter) to pay holders the original issue price (\$10) of those shares.

## **Class A shares**

The investment objectives with respect to the Class A shares are as follows:

1. To provide holders with monthly cash distributions targeted to be at a rate of 10% annualized based on the volume weighted average market price of the Class A shares for the last 3 trading days of the preceding month; and
  2. On the termination date to pay holders the original issue price (\$15) of those shares.
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## **RISK**

The risks of investing in the Company remain as discussed in the Annual Information Form dated February 25, 2019. In addition, note 5 of the semi-annual financial statements (“Management of Risk of Financial Instruments”) contains disclosure on specific types of risks related to the financial investments held by the Company.

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## **RESULTS OF OPERATIONS**

The market performance of Canadian bank stocks held in the portfolio was mixed during the period while U.S. bank stocks were down. Amidst fears that global trade tensions could adversely impact economic growth and corporate profits, longer term bond yields declined during the period, creating a significant flattening and inversion to the interest rate curve. This type of interest rate environment acted as a headwind and created pressure on net interest margins for Canadian and U.S. banks.

Canadian banks have generally continued to top profit expectations and raise their annual dividends reflecting the ongoing strength of their businesses. The current dividend yields on the Canadian banks held in the portfolio continue to make them attractive within the still relatively low interest rate environment.

Pursuant to the special retraction right in connection with the extension of the termination date of the Company, the Company redeemed 88,375 Class A shares and 88,375 Preferred shares and made retraction payments of \$973,893 and \$883,750, respectively, to each class of shares on December 17, 2018.

In connection with the extension, the Company also amended the dividend entitlement of the Preferred shares effective December 1, 2018, to pay a cumulative preferential floating rate monthly dividend at an annual rate equivalent to the prevailing Canadian prime rate plus 1.5%, with a minimum annual rate of 5% and a maximum annual rate of 8% based on the original issue price.

The termination date of the Company may be extended thereafter at the Company’s discretion for additional terms of five years each. Shareholders would be provided with a special retraction right in connection with any such extension.

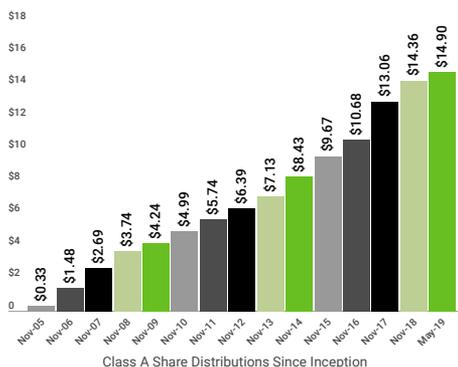
The net assets per unit (consisting of one Preferred share and one Class A share) finished at \$20.21 as at May 31, 2019, after the payment of \$0.82 in combined distributions to both classes of shares at the targeted rates. A combined total of \$22.28 has been paid in distributions since inception.

Net assets of the Company finished the period at \$224.2 million.

The covered call writing program continued to provide additional income and supplemented the dividend income earned in the portfolio.

## Class A shares - Distributions

Class A shareholders receive monthly cash distributions targeted to be at a rate of 10% annualized based on the volume weighted average market price of the Class A shares for the last 3 trading days of the preceding month. The net asset value per unit must remain above the required \$15 per unit threshold for monthly distributions to be declared. Total monthly cash distributions per Class A share during the period amounted to \$0.5446 at the target rate.



14.90

Cumulative total of distributions paid to Class A share since inception

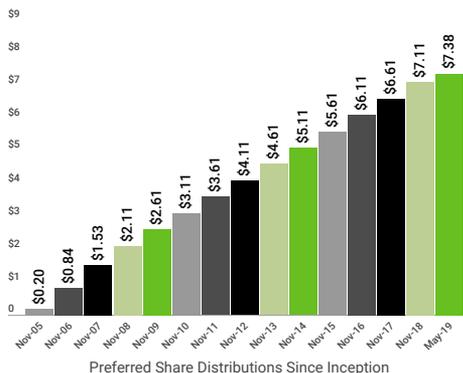


1.12

Special distributions paid since inception

## Preferred shares - Distributions

Effective December 1, 2018, Preferred shareholders are entitled to receive a cumulative preferential floating rate monthly dividend at an annual rate equivalent to the prevailing Canadian prime rate plus 1.5%, with a minimum annual rate of 5% and a maximum annual rate of 8% based on the original issue price. Previously, Preferred shareholders were entitled to receive regular monthly cash dividends targeted to yield a floating rate based on the prime rate in Canada plus 0.75% per annum with a minimum annual rate of 5.0% and a maximum annual rate of 7.0% based on the original issue price. Total distributions during the period amounted to \$0.2725 per Preferred share.



7.38

Cumulative total of distributions paid to Preferred share since inception

## RECENT DEVELOPMENTS

There were no developments during the period.

## RELATED PARTY TRANSACTIONS

Quadravest Capital Management Inc. ("Quadravest") as investment manager and Manager earns fees from the Company as described below in the Management Fees section.

## FINANCIAL HIGHLIGHTS

The following tables show selected financial information about the Company and are intended to help you understand the Company's financial performance for the past five years. This information is derived from the Company's semi-annual financial statements and previous audited annual financial statements. The information in the following table is presented in accordance with National Instrument ("NI") 81-106 and, as a result, does not act as a continuity of opening and closing net assets per unit.

### The Company's net assets per unit

|  | May 31, 2019  | Years ended November 30 |               |               |               |               |
|--|---------------|-------------------------|---------------|---------------|---------------|---------------|
|  |               | 2018                    | 2017          | 2016          | 2015          | 2014          |
| Net assets per unit, beginning of period <sup>(1)</sup>  | 21.02         | 23.28                   | 22.78         | 20.89         | 24.09         | 22.34         |
| Increase (decrease) from operations                      |               |                         |               |               |               |               |
| Total revenue  | 0.41          | 0.82                    | 0.82          | 0.88          | 0.84          | 0.82          |
| Total expenses   | (0.14)        | (0.32)                  | (0.34)        | (0.30)        | (0.30)        | (0.35)        |
| Realized gains for the period                            | 0.26          | 0.31                    | 1.27          | 0.55          | 0.47          | 1.05          |
| Unrealized gains (losses) for the period                 | (0.52)        | (1.30)                  | 1.58          | 2.24          | (2.34)        | 2.14          |
| Total increase (decrease) from operations <sup>(2)</sup> | <u>0.01</u>   | <u>(0.49)</u>           | <u>3.33</u>   | <u>3.37</u>   | <u>(1.33)</u> | <u>3.66</u>   |
| Distributions <sup>(3)</sup>                             |               |                         |               |               |               |               |
| Canadian dividends                                       | (0.68)        | (1.47)                  | (1.54)        | (0.94)        | (1.07)        | (1.18)        |
| Capital gains dividends                                  | (0.14)        | (0.33)                  | (1.34)        | (0.57)        | (0.67)        | (0.62)        |
| Total distributions                                      | <u>(0.82)</u> | <u>(1.80)</u>           | <u>(2.88)</u> | <u>(1.51)</u> | <u>(1.74)</u> | <u>(1.80)</u> |
| Net assets per unit at end of period                     | 20.21         | 21.02                   | 23.28         | 22.78         | 20.89         | 24.09         |
| Net assets per Preferred share                           | 10.00         | 10.00                   | 10.00         | 10.00         | 10.00         | 10.00         |
| Net assets per Class A share                             | <u>10.21</u>  | <u>11.02</u>            | <u>13.28</u>  | <u>12.78</u>  | <u>10.89</u>  | <u>14.09</u>  |
| Net assets per unit at end of period                     | 20.21         | 21.02                   | 23.28         | 22.78         | 20.89         | 24.09         |

- (1) Net assets per unit is the difference between the aggregate amount of the Company's assets and the aggregate amount of its liabilities, excluding Preferred shares and net assets attributable to holders of redeemable Class A shares, at the valuation date, divided by the number of units then outstanding.
- (2) Total increase (decrease) from operations is before the payment of Preferred and Class A share distributions and is calculated based on the weighted average number of units outstanding during the period.
- (3) Distributions are to Preferred shares and Class A shares are based on the number of Preferred shares and Class A shares outstanding on the record date for each distribution in the period and were paid in cash. Characterization of distributions is based on the tax treatment that is received by investors.

## RATIOS AND SUPPLEMENTAL DATA (BASED ON NET ASSET VALUE)

|  | May 31, 2019 | 2018       | Years ended November 30 |           |           |           |
|--|--------------|------------|-------------------------|-----------|-----------|-----------|
|  |              | 2017       | 2016                    | 2015      | 2014      |           |
| Net asset value (millions) <sup>(1)</sup>  | \$224.2      | \$235.0    | \$192.4                 | \$179.4   | \$172.2   | \$166.8   |
| Number of units outstanding  | 11,092,282   | 11,180,657 | 8,265,657               | 7,872,055 | 8,243,855 | 6,923,855 |
| Base Management expense ratio <sup>(2)</sup>   | 1.35%        | 1.39%      | 1.48%                   | 1.41%     | 1.41%     | 1.48%     |
| Management expense ratio including one time secondary offering expenses <sup>(3)</sup> | 1.35%        | 2.64%      | 1.48%                   | 1.41%     | 2.27%     | 2.20%     |
| Management expense ratio per Class A share <sup>(4)</sup>                              | 7.71%        | 8.83%      | 6.65%                   | 7.21%     | 8.71%     | 7.72%     |
| Portfolio turnover rate <sup>(5)</sup>   | 0.00%        | 11.8%      | 18.8%                   | 5.9%      | 10.5%     | 33.8%     |
| Trading expense ratio <sup>(6)</sup>   | 0.01%        | 0.03%      | 0.03%                   | 0.02%     | 0.01%     | 0.02%     |
| Closing market price (TSX): Preferred shares   | \$10.36      | \$10.12    | \$10.25                 | \$10.50   | \$10.53   | \$10.37   |
| Closing market price (TSX): Class A shares   | \$10.19      | \$10.99    | \$13.60                 | \$12.00   | \$10.10   | \$14.78   |

(1) This information is provided as at May 31 or November 30.

(2) A separate base management expense ratio has been presented to reflect the normal operating expenses of the Company excluding any one time offering expenses. Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of average net asset value during the period.

(3) Share issue expenses, representing all Agents' fees and other offering expenses are one time initial expenses connected with the launch of the Company or any subsequent secondary offering. Any expenses incurred with secondary offerings were offset by the accretion to net asset value per unit of such offerings.

(4) Management expense ratio for Class A shares is based on the requirements of NI 81-106. This instrument requires that all split share companies produce an expense ratio which allocates all operating expenses of the Company, all distributions on Preferred shares and all issuance costs to the Class A shares and expresses this as an annualized percentage of net assets applicable only to the Class A shares during the period. The management expense ratio per Class A share should not be interpreted as the required return necessary for the Company or the Class A shares to cover the operating expenses of the Company. This calculation is based only on a portion of the Company's assets whereas the Company utilizes its entire assets to generate investment returns. Management believes that the base management expense ratio per unit disclosed in the table above is the most representative ratio in assessing the ongoing efficiency of the administration of the Company, making comparisons to the expense ratios of single unit mutual funds or determining the minimum investment returns necessary by the Company to achieve growth in net asset value per unit.

(5) The Company's portfolio turnover rate indicates how actively QuadraInvest manages the portfolio investments. A portfolio turnover rate of 100% is equivalent to the Company buying and selling all of the securities in its portfolio once in the course of the period. The Company employs a covered call writing strategy which can cause the portfolio turnover rate to be higher than conventional mutual funds. The higher the Company's portfolio turnover rate in a period, the greater the trading costs payable by the Company in the period and the greater chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of the Company.

(6) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of average net asset value during the period.

## MANAGEMENT FEES

Pursuant to the terms of the investment management agreement, QuadraInvest is entitled to a base management fee payable in arrears at an annual rate equal to 0.65% of the net asset value of the Company, which includes the outstanding Preferred shares, calculated as at each month end valuation date. In addition, QuadraInvest is entitled to receive a performance fee subject to the achievement of certain pre-established total return thresholds.

Pursuant to the management agreement, QuadraInvest is entitled to an administration fee payable monthly in arrears at an annual rate equal to 0.20% of the net asset value of the Company, which includes the outstanding Preferred shares, calculated as at each month-end valuation date and an amount equal to the service fee payable to dealers on the Class A shares at a rate of 0.50% per annum. No service fee will be paid in any calendar quarter if regular dividends are not paid to holders of Class A shares in respect of each month in such calendar quarter.

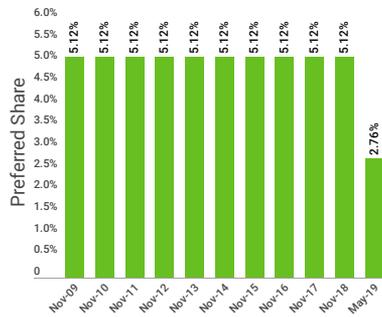
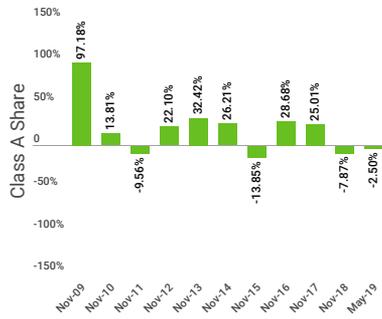
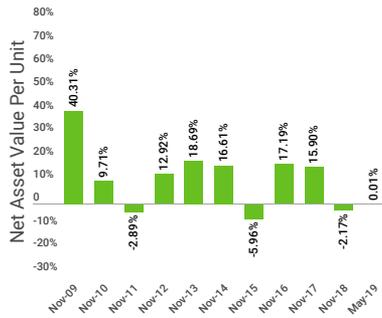
The base management fee was used by QuadraInvest to provide investment analysis, make investment decisions, and make brokerage arrangements for the purchase and sale of securities including the covered call writing program. The administration fee was used to provide or arrange administrative services required by the Company which includes all operational services, financial accounting, shareholder reporting and regulatory reporting.

## PAST PERFORMANCE

### Year-by-Year Returns

The past performance of 1) the net asset value per unit; 2) the Preferred share on a net asset value basis; and 3) the Class A share on a net asset value basis for each of the last 10 years are presented in the bar charts below. Each bar in the chart reflects the change in percentage terms of how a unit, a Preferred share or a Class A share would have increased or decreased during the applicable year. In respect to the charts displayed below, please note the following:

- The performance information shown assumes that all cash distributions made by the Company during the years shown were reinvested in the applicable additional securities of the Company;
- The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance; and
- Past performance of the Company does not necessarily indicate how it will perform in the future.



(1) The returns per unit and per Class A share for the year ended November 30, 2012 reflect the subdivision of Class A shares on January 17, 2012.

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**SUMMARY OF INVESTMENT PORTFOLIO**  
All holdings as at May 31, 2019

| Name  | Weighting (%) |
|---|---------------|
| Toronto-Dominion Bank                                     | 18.1          |
| Bank of Montreal  | 15.6          |
| Canadian Imperial Bank of Commerce                        | 14.0          |
| Bank of Nova Scotia                                       | 13.9          |
| National Bank of Canada                                   | 13.4          |
| Royal Bank of Canada                                      | 12.6          |
| Morgan Stanley  | 2.6           |
| Bank of America   | 0.7           |
| J.P. Morgan Chase & Co.                                   | 0.7           |
| <b>Total long positions as a percentage of net assets</b> | <b>91.6</b>   |
| Cash  | 9.2           |
| Other net assets (liabilities)                            | (0.8)         |
|   | 100.0         |

The summary of investment portfolio may change due to ongoing portfolio transactions of the Company.  
Updates are available quarterly.

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**CANADIAN BANC CORP.**

**MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The interim financial statements of Canadian Banc Corp. (the "Company") have been prepared by Quadravest Capital Management Inc. (the "Manager" of the Company) and approved by the Board of Directors of the Company. The Manager is responsible for the information and representations contained in these interim financial statements and the other sections of the semi-annual report.

The Manager maintains appropriate procedures to ensure that relevant and reliable financial information is produced. Statements have been prepared in accordance with International Financial Reporting Standards, as applicable to the preparation of interim financial statements including International Accounting Standard 34, and may include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Company are described in note 3 to the financial statements.

The Board of Directors of the Company is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these interim financial statements.



**WAYNE FINCH**

Chief Executive Officer, President and Director  
Quadravest Capital Management Inc.



**SILVIA GOMES**

Chief Financial Officer  
Quadravest Capital Management Inc.

**CANADIAN BANC CORP.**  
**STATEMENTS OF FINANCIAL POSITION**

AS AT MAY 31, 2019 AND NOVEMBER 30, 2018 (UNAUDITED)

|   | May 31,<br>2019<br>(\$)   | November 30,<br>2018<br>(\$) |
|---|---------------------------|------------------------------|
| <b>ASSETS</b>   |                           |                              |
| Current Assets  |                           |                              |
| Investments   | 205,582,369               | 222,226,201                  |
| Cash  | 20,522,631                | 13,109,231                   |
| Interest, dividends and other receivables   | 5,570                     | 13,578                       |
| Receivable in respect of investments sold   | -                         | 2,923,731                    |
| <b>Total Assets</b>   | <b><u>226,110,570</u></b> | <b><u>238,272,741</u></b>    |
| <b>LIABILITIES</b>  |                           |                              |
| Current Liabilities   |                           |                              |
| Written options   | 20,118                    | 307,455                      |
| Fees and other accounts payable   | 341,973                   | 341,048                      |
| Payable in respect of investments purchased   | -                         | 1,107,165                    |
| Distributions payable   | 1,554,805                 | 1,495,413                    |
| Preferred shares (note 6)   | 110,922,820               | 111,806,570                  |
| Class B shares  | 1,000                     | 1,000                        |
|   | <b><u>112,840,716</u></b> | <b><u>115,058,651</u></b>    |
| <b>NET ASSETS ATTRIBUTABLE TO<br/>HOLDERS OF REDEEMABLE<br/>CLASS A SHARES</b>                |                           |                              |
|   | <b>113,269,854</b>        | <b>123,214,090</b>           |
| Number of redeemable units<br>(1 Preferred share and 1 Class A share)<br>outstanding (note 6) |                           |                              |
|   | 11,092,282                | 11,180,657                   |
| Net assets per unit   | \$20.21                   | \$21.02                      |
| Net assets per Preferred share  | \$10.00                   | \$10.00                      |
| Net assets per Class A share  | \$10.21                   | \$11.02                      |

Approved on behalf of the Board of Directors



**WAYNE FINCH**

Director



**PETER CRUICKSHANK**

Director

The accompanying notes are an integral part of these financial statements.

**CANADIAN BANC CORP.**  
**STATEMENTS OF COMPREHENSIVE INCOME / (LOSS)**  
FOR THE SIX MONTH PERIODS ENDED MAY 31 (UNAUDITED)

|  | 2019<br>(\$)       | 2018<br>(\$)       |
|--|--------------------|--------------------|
| <b>INCOME</b>  |                    |                    |
| <b>Net gain (loss) on investments and derivatives (note 5)</b>   |                    |                    |
| Net realized gain (loss)   | 2,734,746          | 708,062            |
| Net change in unrealized appreciation (depreciation)   | (5,786,698)        | (3,722,587)        |
| Dividends  | 4,513,789          | 3,538,646          |
| Interest   | 72,439             | 8,903              |
| <b>Net gain (loss) on investments and derivatives</b>  | <b>1,534,276</b>   | <b>533,024</b>     |
| <b>Other gain (loss)</b>   |                    |                    |
| Realized gain (loss) on currency   | 113,278            | -                  |
| Change in unrealized gain (loss) in the value of currency  | 34,341             | -                  |
|  | <b>1,681,895</b>   | <b>-</b>           |
| <b>EXPENSES (note 7)</b>   |                    |                    |
| Management fees  | 982,499            | 828,792            |
| Service fee  | 275,778            | 292,800            |
| Audit fees   | 13,507             | 12,583             |
| Directors' fees  | 11,792             | 11,792             |
| Independent Review Committee fees  | 1,154              | 1,154              |
| Custodial fees   | 23,531             | 20,701             |
| Legal fees   | 22,912             | 21,595             |
| Shareholder reporting costs  | 17,137             | 14,704             |
| Other operating expenses   | 52,641             | 49,961             |
| Harmonized sales tax   | 154,424            | 136,412            |
| Transaction Costs  | 8,430              | 18,635             |
| Withholding taxes  | 18,770             | -                  |
|  | <b>1,582,575</b>   | <b>1,409,129</b>   |
| <b>Increase (decrease) in net assets attributable to holders of redeemable Class A shares before distributions on Preferred shares</b> |                    |                    |
|  | <b>99,320</b>      | <b>(876,105)</b>   |
| Distributions on Preferred shares  | (3,022,869)        | (2,188,048)        |
| <b>Increase (decrease) in net assets attributable to holders of redeemable Class A shares</b>  | <b>(2,923,549)</b> | <b>(3,064,153)</b> |
| <b>Increase (decrease) in net assets attributable to holders per redeemable Class A share (note 8)</b>                                 |                    |                    |
|  | <b>(0.26)</b>      | <b>(0.35)</b>      |

The accompanying notes are an integral part of these financial statements.

**CANADIAN BANC CORP.**  
**STATEMENTS OF CHANGES IN NET ASSETS**  
**ATTRIBUTABLE TO HOLDERS OF REDEEMABLE CLASS A SHARES**  
**FOR THE SIX MONTH PERIODS ENDED MAY 31 (UNAUDITED)**

|  | 2019<br>(\$)              | 2018<br>(\$)              |
|--|---------------------------|---------------------------|
| <b>Net Assets attributable to holders of redeemable Class A shares - Beginning of period</b> | <b>123,214,090</b>        | <b>109,791,970</b>        |
| Increase (decrease) in net assets attributable to holders of redeemable Class A shares       | (2,923,549)               | (3,064,153)               |
| Gross proceeds from issue of Class A shares  | -                         | 38,915,250                |
| Agent's fee and issue costs on secondary offering  | -                         | (2,775,832)               |
| Net proceeds from issue of Class A shares  | <u>-</u>                  | <u>36,139,418</u>         |
| Class A share redemptions  | (980,052)                 | -                         |
| <b>Distributions on Class A shares</b>   |                           |                           |
| Canadian dividends   | (4,506,180)               | (4,950,694)               |
| Capital gains dividends  | <u>(1,534,455)</u>        | <u>(1,009,576)</u>        |
|  | <u>(6,040,635)</u>        | <u>(5,960,270)</u>        |
| <b>Change in net assets attributable to holders of redeemable Class A shares</b>             | <u><b>(9,944,236)</b></u> | <u><b>27,114,995</b></u>  |
| <b>Net Assets attributable to holders of redeemable Class A shares - End of period</b>       | <u><b>113,269,854</b></u> | <u><b>136,906,965</b></u> |

The accompanying notes are an integral part of these financial statements.

**CANADIAN BANC CORP.**  
**STATEMENTS OF CASH FLOW**

FOR THE SIX MONTH PERIODS ENDED **MAY 31** (UNAUDITED)

|  | 2019<br>(\$)             | 2018<br>(\$)             |
|--|--------------------------|--------------------------|
| <b>Cash flows from (used in) operating activities</b>                                  |                          |                          |
| Increase (decrease) in net assets attributable to holders of redeemable Class A shares | (2,923,549)              | (3,064,153)              |
| Adjustment for:  |                          |                          |
| Distributions on Preferred shares  | 3,022,869                | 2,188,048                |
| Unrealized (gain) loss in the value of currency  | (34,341)                 |                          |
| Net realized (gain) on investments and derivatives                                     | (2,734,746)              | (708,062)                |
| Net change in unrealized (appreciation) depreciation of investments and derivatives    | 5,786,698                | 3,722,587                |
| Purchase of investments, net of option premiums  | (1,284,719)              | (25,755,537)             |
| Proceeds from sale of investments  | 16,405,828               | 4,322,971                |
| (Increase) decrease in interest, dividends and other receivables                       | 8,008                    | (1,147)                  |
| Increase (decrease) in fees and other accounts payable                                 | 925                      | 51,236                   |
| Net cash flows from (used in) operating activities                                     | <u>18,246,973</u>        | <u>(19,244,057)</u>      |
| <b>Cash flows from (used in) financing activities</b>                                  |                          |                          |
| Gross proceeds from issuance of Class A and Preferred shares                           | -                        | 68,065,250               |
| Agent's fees and issue costs in connection with share issuance                         | -                        | (2,625,832)              |
| Amounts paid on redemption of redeemable units   | (1,863,802)              | -                        |
| Distributions paid on Class A shares   | (6,019,156)              | (5,675,035)              |
| Distributions paid on Preferred shares   | (2,984,956)              | (2,066,580)              |
| Cash flows from (used in) financing activities   | <u>(10,867,914)</u>      | <u>57,697,803</u>        |
| Unrealized gain (loss) in the value of currency  | <u>34,341</u>            | <u>-</u>                 |
| Net increase (decrease) in cash  | 7,413,400                | 38,453,746               |
| Cash at beginning of the period  | 13,109,231               | 16,159,935               |
| <b>Cash at end of the period</b>   | <b><u>20,522,631</u></b> | <b><u>54,613,681</u></b> |
| Dividends received*, net of withholding taxes  | 4,503,027                | 3,537,499                |
| Interest received*   | 72,439                   | 8,903                    |

\* Included as part of Cash Flows from Operating Activities.

The accompanying notes are an integral part of these financial statements.

**CANADIAN BANC CORP.**  
**SCHEDULE OF PORTFOLIO INVESTMENTS**

AS AT MAY 31, 2019 (UNAUDITED)

| No. of shares<br>(contracts)  | Description   | Average Cost (\$)<br>(Premiums received) | Fair<br>Value<br>(\$) |
|---|---|--|-----------------------|
| <b>6 Core Holdings</b>  |   |  |                       |
| <b>Canadian Common Equities</b>                                     |   |  |                       |
| 357,100   | Bank of Montreal  | 32,596,155                               | 35,038,652            |
| 454,800   | Bank of Nova Scotia                                     | 31,056,585                               | 31,181,088            |
| 307,200   | Canadian Imperial Bank of Commerce                      | 30,977,892                               | 31,484,928            |
| 496,300   | National Bank of Canada                                 | 22,402,904                               | 30,130,373            |
| 277,578   | Royal Bank of Canada                                    | 22,959,981                               | 28,196,373            |
| 549,900   | Toronto-Dominion Bank                                   | 28,931,735                               | 40,637,610            |
| <b>Total Canadian Common Equities<br/>in Core Holdings (95.7%)</b>  |   | <b>168,925,252</b>                       | <b>196,669,024</b>    |
| <b>Other U.S. Common Equities</b>                                   |   |  |                       |
| 46,000  | Bank of America   | 1,687,908                                | 1,654,184             |
| 10,700  | J.P. Morgan Chase & Co.                                 | 1,546,131                                | 1,532,746             |
| 104,100   | Morgan Stanley  | 6,269,260                                | 5,726,415             |
| <b>Total Other U.S. Common Equities<br/>in Core Holdings (4.3%)</b> |   | <b>9,503,299</b>                         | <b>8,913,345</b>      |
| <b>Total Common Equities<br/>in Core Holdings (100.0%)</b>          |   | <b>178,428,551</b>                       | <b>205,582,369</b>    |
| <b>Call Options written (100 shares per contract)</b>               |   |  |                       |
| <b>Canadian call options written</b>                                |   |  |                       |
| (440)   | Bank of Montreal @ \$107 June 2019                      | (30,360)                                 | (713)                 |
| (500)   | Bank of Nova Scotia @ \$72 June 2019                    | (46,500)                                 | (3,750)               |
| (700)   | Bank of Nova Scotia @ \$76 June 2019                    | (13,300)                                 | (170)                 |
| (370)   | Canadian Imperial Bank of Commerce<br>@ \$115 June 2019 | (22,570)                                 | (193)                 |
| (500)   | Royal Bank of Canada @ \$108 June 2019                  | (38,000)                                 | (2,500)               |
| (500)   | Toronto-Dominion Bank @ \$76 June 2019                  | (46,000)                                 | (12,750)              |
| <b>Total Canadian call options written (0.0%)</b>                   |   | <b>(196,730)</b>                         | <b>(20,076)</b>       |
| <b>U.S. call options written</b>                                    |   |  |                       |
| (50)  | Bank of America Corp. @ \$32 June 2019                  | (1,892)                                  | (42)                  |
| <b>Total U.S. call options written (0.0%)</b>                       |   | <b>(1,892)</b>                           | <b>(42)</b>           |
|   |   | <b>178,229,929</b>                       | <b>205,562,251</b>    |
| Less adjustments for transaction costs                              |   | (64,705)                                 |                       |
| <b>Total Investments (100.0%)</b>                                   |   | <b>178,165,224</b>                       | <b>205,562,251</b>    |

The accompanying notes are an integral part of these financial statements.

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**CANADIAN BANC CORP.****NOTES TO THE FINANCIAL STATEMENTS**FOR THE SIX MONTH PERIODS ENDED **MAY 31, 2019** AND **2018** (UNAUDITED)

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**1. Incorporation**

Canadian Banc Corp. (the “Company”) is a mutual fund corporation established under the laws of the Province of Ontario on May 25, 2005 that began investment operations on July 15, 2005. The manager and the investment manager of the Company is Quadravest Capital Management Inc. (“Quadravest” or “Manager”). The Company’s principal office is located at 200 Front Street West, Suite 2510, Toronto, Ontario M5V 3K2. The Company invests in an actively managed portfolio of common shares comprised primarily of 6 Canadian chartered banks. The Company employs an active covered call writing program to enhance the income earned from the portfolio. On September 26, 2018, the Company announced the extension of the termination date of the Company for a further five year period from December 1, 2018 to December 1, 2023. In connection with the extension of the termination date of the Company, a special retraction right was offered allowing existing shareholders to tender one or both classes of shares and receive a retraction price based on the November 30, 2018 net asset value of \$21.02 per unit (\$10.00 per Preferred share and \$11.02 per Class A share) .

Pursuant to the special retraction right, the Company redeemed 88,375 Class A shares and 88,375 Preferred shares and made retraction payments of \$973,893 and \$883,750, respectively, to each class of shares on December 17, 2018.

These subsequent retraction payment amounts are included as part of Preferred shares and net assets attributable to holders of redeemable Class A shares amounts as at November 30, 2018.

In connection with the extension, the Company also amended the dividend entitlement of the Preferred shares effective December 1, 2018, to pay a cumulative preferential floating rate monthly dividend at an annual rate equivalent to the prevailing Canadian prime rate plus 1.5%, with a minimum annual rate of 5% and a maximum annual rate of 8% based on the original issue price.

The termination date of the Company may be extended thereafter at the Company’s discretion for additional terms of five years each. Shareholders would be provided with a special retraction right in connection with any such extension.

**2. Basis of presentation**

These financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”), as applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, Interim Financial Reporting. These financial statements should be read in conjunction with the annual financial statements for the year ended November 30, 2018, which were prepared in accordance with IFRS.

These financial statements were approved by the Board of Directors of the Company on July 17, 2019.

**3. Summary of significant accounting policies**

The following is a summary of the significant accounting policies followed by the Company.

**Transition to IFRS 9, Financial Instruments**

Effective December 1, 2018, the Company retrospectively adopted IFRS 9, Financial Instruments (“IFRS 9”). The new standard requires financial instruments to be either carried at amortized cost or at fair value with changes in fair value recognized in profit and loss (“FVTPL”) or in other comprehensive income (“FVOCI”), based on the Company’s business model for managing financial instruments and the contractual cash flow characteristics of the financial instruments. Upon transition to IFRS 9, the Company’s

financial assets and financial liabilities previously designated at FVTPL at inception or classified as held for trading under IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") continue to be classified as FVTPL under IFRS 9. There were no changes in the measurement attributes for the Company's financial assets and financial liabilities upon transition to IFRS 9.

### **Investments and financial instruments**

The Company classifies its investments, including derivatives, based on both the Company's business model 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 Company is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Company has not taken the option to irrevocably designate any equity securities as FVOCI. Consequently, all investments, including derivatives are measured at FVTPL.

The Company's obligations for net assets attributable to holders of redeemable Class A shares are presented at the annual redemption amount, which approximates their fair value. All other financial assets and liabilities are recognized initially at fair value and subsequently measured at amortized cost, which approximates fair value.

The Company recognizes regular purchases and sales of financial instruments on the trade date, which is the date on which it commits to purchase or sell the instrument. Transaction costs, such as brokerage commissions, related to financial assets and financial liabilities at FVTPL are expensed as incurred and transaction costs related to financial instruments not at FVTPL are included in the carrying amounts thereof. A financial asset is derecognized when the rights to receive cash flows from the investment have expired or have been transferred and when the Company has transferred substantially all the risks and rewards of ownership of the asset. Dividends are recognized as income on the ex-dividend date. Realized gains and losses and unrealized appreciation and depreciation are determined on an average cost basis. The cost of investments is determined using the average cost method.

Written option premiums received by the Company are, so long as the options are outstanding, reflected as a liability, in the Statements of Financial Position and are valued at an amount equal to the current market value of an option that would have the effect of closing the position. Gains or losses realized upon expiration or exercise of the option are included in net realized gain (loss) on investments and derivatives in the Statements of Comprehensive Income/(Loss).

The Preferred shares rank prior to the Class A and Class B shares and are thus not subordinate to all other classes of puttable instruments and therefore, the shares have been classified as financial liabilities. These shares are carried at amortized cost. Amortization of premiums or discounts on the issuance of Preferred shares is included in the Statements of Comprehensive Income/(Loss).

The Class B shares are subordinate to the Preferred shares but rank prior to the Class A shares and are thus not subordinate to all other classes of puttable instruments and therefore, the shares have been classified as financial liabilities. These shares are carried at amortized cost.

The Class A shares may be retracted monthly, annually, or on the termination date of the Company. As a result, the shares contain multiple contractual obligations, and therefore, have been presented as financial liabilities.

The net asset value of the Company is determined in accordance with requirements of law, including National Instrument 81-106, Investment Fund Continuous Disclosure, and is used to process shareholder transactions. For financial reporting purposes, net assets of the Company is determined as the difference between the aggregate amount of the Company's assets and the aggregate amount of its liabilities, excluding Preferred shares and net assets attributable to holders of redeemable Class A shares ("Net Assets of the Company").

### **Valuation of investments**

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 value of financial assets and liabilities traded in active markets (such as publicly traded shares and options) are based on the last traded prices at the close of trading on the reporting date. The Company 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. The Company's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and others commonly used by market participants and which make the maximum use of observable inputs. Refer to note 5 for further information about the Company's fair value measurements.

### **Cash**

Cash is comprised of demand deposits with a financial institution.

### **Translation of foreign currencies**

The Company's functional and presentation currency is Canadian dollars. The fair value of investments and other assets and liabilities in foreign currencies are translated into the Company's functional currency at the rates of exchange prevailing at each measurement date. Purchases and sales of investments, income and expenses are translated at the rates of exchange prevailing on the respective dates of such transactions.

### **Management fees, administration fees and performance fees**

Management fees and administration fees are accrued by the Company over time, as services are rendered by Quadravest. At each measurement date, the Company recognizes an expense and financial liability based on the amount, if any, of performance fees expected to be paid based on the net asset value of the Company. Refer to note 7 for further information about the calculation of management, administration fees and performance fees, if any, of the Company.

**Increase (decrease) in Net Assets attributable to holders per redeemable Class A share**

Increase (decrease) in net assets attributable to holders per redeemable Class A share is based on the increase or decrease in net assets attributable to holders of redeemable Class A shares divided by the weighted average number of such shares outstanding during the period. Refer to note 8 for the calculation.

**Taxation**

The Company qualifies as a mutual fund corporation under the Income Tax Act (Canada) (the "Tax Act") and it is subject to income tax in each taxation year on the amount of its net income for the taxation year, including net realized taxable capital gains, if any, at the rate applicable to mutual fund corporations. The general income tax rules associated with a public corporation also apply to a mutual fund corporation with the exception that taxes payable on net realized capital gains are refundable on a formula basis when its shares are redeemed or when it pays capital gains dividends out of its capital gains dividend account to its shareholders.

Interest and foreign income are taxed at normal corporate rates applicable to mutual fund corporations and can be reduced by permitted deductions for tax purposes.

All of the Company's expenses including management fees, administration fees and operating expenses will be taken into account in determining its overall tax liability.

As a mutual fund corporation, taxable dividends received from taxable Canadian corporations are subject to a Part IV tax of 38 1/3%. Such taxes are fully refundable upon payment of taxable dividends to its shareholders on a basis of \$1.15 for every \$3 of dividends paid. Any such tax paid is reported as an amount receivable until recovered through the payment to shareholders of dividends out of net investment income. All tax on net taxable realized capital gains is refundable when the gains are distributed to shareholders as capital gains dividends or through redemption of shares at the request of shareholders, while the Company qualifies as a mutual fund corporation. As a result of the capital gains refund mechanism and Part IV tax refunds, the Company recovers any Canadian income taxes paid in respect of its capital gains and taxable Canadian dividends. As a result, the Company has determined that it is in substance not taxable. Consequently, the tax benefit of capital and non-capital losses and other temporary differences have not been reflected in the Statements of Financial Position as deferred income tax assets or liabilities.

The Company has estimated accumulated non capital losses for tax purposes of \$15,858,037 (November 30, 2018-\$15,850,333) that are available to lower taxable income in future years if required and expire after the scheduled termination date of the Company on December 1, 2023.

**4. Critical Accounting Estimates and Judgments**

The preparation of these financial statements include estimates and assumptions by management based on past experiences, present conditions and expectations of future events. Where estimates were made, the reported amounts for assets, liabilities, income and expenses may differ from the amounts that would otherwise be reflected if the ultimate outcome of all uncertainties and future events were known at the time these financial statements were prepared. The Company's most significant estimates involve the measurement of investments and derivatives at fair value as described in note 5.

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**CANADIAN BANC CORP.****NOTES TO THE FINANCIAL STATEMENTS**FOR THE SIX MONTH PERIODS ENDED **MAY 31, 2019** AND **2018** (UNAUDITED)

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**5. Management of Risk of Financial Instruments**

The Company classifies fair value measurements within a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and lowest priority to unobservable inputs. The three levels of the fair value hierarchy are:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can assess at the measurement date;

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - Inputs that are unobservable for the asset or liability.

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at May 31, 2019 and November 30, 2018:

## Financial assets and liabilities at fair value as at May 31, 2019

|          | Level 1              | Level 2  | Level 3  | Total                |
|----------|----------------------|----------|----------|----------------------|
| Equities | \$205,582,369        | -        | -        | \$205,582,369        |
| Options  | <u>(\$20,118)</u>    | <u>-</u> | <u>-</u> | <u>(\$20,118)</u>    |
|          | <b>\$205,562,251</b> | <b>-</b> | <b>-</b> | <b>\$205,562,251</b> |

## Financial assets and liabilities at fair value as at November 30, 2018

|          | Level 1              | Level 2  | Level 3  | Total                |
|----------|----------------------|----------|----------|----------------------|
| Equities | \$222,226,201        | -        | -        | \$222,226,201        |
| Options  | <u>(\$307,455)</u>   | <u>-</u> | <u>-</u> | <u>(\$307,455)</u>   |
|          | <b>\$221,918,746</b> | <b>-</b> | <b>-</b> | <b>\$221,918,746</b> |

All fair value measurements above are recurring and fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. There were no transfers or reclassifications between levels for the period ended May 31, 2019 or the year ended November 30, 2018.

The Company's investment activities expose it to a variety of financial risks: market risk (including price risk, interest rate risk and currency risk), credit risk and liquidity risk.

Any sensitivity analysis presented below may differ from actual results and the difference could be material.

**Market Price Risk**

All securities investments present a risk of loss of capital. The 6 core holdings were selected because of their long term history of above average market price appreciation and dividend growth. These portfolio companies were selected from the banking sector of the financial services index of the S&P/TSX 60 index and are among the largest financial services companies in Canada.

The market price risk is affected by three main components: price risk, interest rate risk and foreign currency movements.

**Price risk**

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk).

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**CANADIAN BANC CORP.****NOTES TO THE FINANCIAL STATEMENTS**FOR THE SIX MONTH PERIODS ENDED **MAY 31, 2019** AND **2018** (UNAUDITED)

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The Company is exposed to other price risk from its investment in equity securities and written options. As at May 31, 2019, had the prices on the respective stock exchanges for these equity securities increased by 10%, with all other variables held constant, Net Assets of the Company would have increased by \$19,724,000 (November 30, 2018-\$20,053,000). Similarly, had the prices on the respective stock exchanges for these equity securities decreased by 10%, with all other variables held constant, Net Assets of the Company would have decreased by \$20,538,000 (November 30, 2018-\$21,923,000) .

**Interest rate risk**

Interest rate risk is the risk that the fair value of interest bearing investments will fluctuate due to changes in market interest rates. The majority of the Company's financial assets and liabilities are non interest bearing. The Preferred shares have a floating distribution rate policy based on the prevailing Canadian prime rate plus 1.5%, with a minimum annual rate of 5% and a maximum annual rate of 8% based on the original issue price of the Preferred shares. If the Canadian prime rate increased or decreased by 0.25%, there would be no material impact on the dividends payable to the Preferred shares. As a result, the Company is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates and considers interest rate risk insignificant.

**Currency risk**

Currency risk is the risk that financial instruments that are denominated in a currency other than the Canadian dollar, which is the Company's reporting currency, will fluctuate due to changes in exchange rates. All portfolio holdings are listed on the New York stock exchange and trade in U.S. dollars. As at May 31, 2019, 5.0% (November 30, 2018-5%) of the Net Assets of the Company are invested in U.S. dollar denominated assets which includes U.S. dollar cash held. As a result, the Company's Net Assets will be affected by changes in the U.S. dollar relative to the Canadian dollar which is the functional currency of the Company. As a result, if the Canadian dollar appreciated/depreciated by 5% against the U.S. dollar, the Net Assets of the Company would currently decrease/increase by approximately \$565,000 (November 30, 2018-\$583,800) .

**Other risks****Credit risk**

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. All of the Company's transactions are in listed securities and options and are settled and paid for using approved brokers. The risk of default is considered minimal as delivery of securities sold is only made once the broker has received payment (consistent with previous period). Payment is made on purchase once the securities have been received by the broker. Credit risk of cash is considered low as it is held at a AA-rated Canadian bank (consistent with prior period).

**Liquidity risk**

Liquidity risk is the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price. The Company is exposed to liquidity risk primarily through its monthly and annual retractions of Class A shares and Preferred shares. The Company receives adequate notice for all retraction requests. The Company's portfolio is invested in highly liquid large capitalization investments that trade on the Toronto Stock Exchange

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**CANADIAN BANC CORP.****NOTES TO THE FINANCIAL STATEMENTS**FOR THE SIX MONTH PERIODS ENDED **MAY 31, 2019** AND **2018** (UNAUDITED)

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("TSX") (consistent with previous period). All Class A shares and Preferred shares outstanding are redeemable on a monthly and annual basis but are scheduled to be redeemed upon termination of the Company. All other financial liabilities are payable within three months from the end of the period.

**Concentration risk**

The Company's portfolio is concentrated in the banking sector and as such will be exposed to the specific factors that affect this sector (consistent with previous period). An individual portfolio holding could be as high as 20% of the net asset value of the Company.

**The Company's investment portfolio is concentrated in the following segments as at:**

|   | May 31, 2019  | November 30, 2018 |
|---|---------------|-------------------|
| Canadian Common Equities                                      | 87.7%         | 90.5%             |
| U.S. Common Equities  | 3.9%          | 4.0%              |
| Canadian Call Options written                                 | 0.0%          | -0.1%             |
| U.S. Call Options written                                     | 0.0%          | 0.0%              |
| Other Assets less Liabilities<br>(excluding Preferred shares) | 8.4%          | 5.6%              |
|   | <u>100.0%</u> | <u>100.0%</u>     |

**6. Redeemable Units****Preferred shares**

The Company is authorized to issue an unlimited number of Preferred shares.

| <u>Preferred share transactions</u> | May 31, 2019    | May 31, 2018 |
|-------------------------------------|-----------------|--------------|
| Beginning of period                 | 11,180,657      | 8,265,657    |
| Issued during the period            | -               | 2,915,000    |
| Redeemed during the period          | <u>(88,375)</u> | <u>-</u>     |
| End of period                       | 11,092,282      | 11,180,657   |

Effective December 1, 2018, Preferred shareholders are entitled to receive a cumulative preferential floating rate monthly dividend at an annual rate equivalent to the prevailing Canadian prime rate plus 1.5%, with a minimum annual rate of 5% and a maximum annual rate of 8% based on the original issue price. Previously, Preferred shareholders were entitled to cumulative preferential floating rate monthly cash dividends at a rate per annum equal to the prime rate in Canada plus 0.75% with a minimum annual rate of 5.0% and a maximum annual rate of 7.0% (based on the original issue price).

All Preferred shares outstanding on the termination date will be redeemed by the Company on that date. The Preferred shares have been presented as liabilities in the financial statements.

Preferred shares trade under the symbol "BK.PR.A" on the TSX. Preferred shares trading price on the TSX was \$10.36 as at May 31, 2019 (November 30, 2018-\$10.12). Preferred shares may be surrendered at any time for retraction at specified retraction amounts, but will be retracted only on the last day of each month. Shareholders who concurrently retract a Preferred share and a Class A share (together, a "unit") in the month of July in each year will be entitled to receive an amount equal to the net asset value per unit calculated on the last day of July. Preferred shares retracted in any other month will receive a retraction price based on a discounted specified retraction formula. Under the terms of a recirculation agreement, the Company may, but is not obligated to, require the recirculation agent to use its best efforts to find purchasers for any Preferred shares or Class

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**CANADIAN BANC CORP.****NOTES TO THE FINANCIAL STATEMENTS**FOR THE SIX MONTH PERIODS ENDED **MAY 31, 2019** AND **2018** (UNAUDITED)

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A shares tendered for retraction.

The Preferred shares rank in priority to the Class A shares and Class B shares with respect to the payment of dividends. Preferred shares rank in priority to the Class A shares upon termination of the Company.

The Company issued 2,915,000 Preferred shares at \$10 per Preferred share pursuant to a secondary offering that was completed on May 23, 2018. Gross proceeds of \$29,150,000 were received from the sale of Preferred shares.

**Class A shares and Class B shares**Authorized

An unlimited number of Class A shares

1,000 Class B shares

| <u>Class A share transactions</u> | May 31, 2019 | May 31, 2018 |
|-----------------------------------|--------------|--------------|
| Beginning of period               | 11,180,657   | 8,265,657    |
| Issued during the period          | -            | 2,915,000    |
| Redeemed during the period        | (88,375)     | -            |
| End of period                     | 11,092,282   | 11,180,657   |

Class A shares were originally issued at \$15 per share. Class A shareholders receive monthly cash distributions targeted to be at a rate of 10% annualized based on the volume weighted average market price of the Class A shares for the last 3 trading days of the preceding month. All Class A shares outstanding on the termination date will be redeemed by the Company on that date. Class A shares trade under the symbol "BK" on the TSX. Class A shares trading price on the TSX was \$10.19 as at May 31, 2019 (November 30, 2018-\$10.99). Class A shares may be surrendered at any time for retraction at specified retraction amounts, but will be retracted only on the last day of each month. Shareholders who concurrently retract a Class A share and a Preferred share (together, a "unit") in the month of July in each year will be entitled to receive an amount equal to the net asset value per unit calculated on the last day of July. Class A shares retracted in any other month will receive a retraction price based on a discounted specified retraction formula. Under the terms of a recirculation agreement, the Company may, but is not obligated to, require the recirculation agent to use its best efforts to find purchasers for any Preferred shares or Class A shares tendered for retraction. Gains or losses from the redemption of shares, if any, are recorded in gain (loss) on redemptions on the Statements of Comprehensive Income/(Loss).

The Preferred shares rank in priority to the Class A shares with respect to the payment of dividends. Upon the termination of the Company, Class A shareholders will receive an amount equal to the net asset value per unit less \$10 (the redemption value of the Preferred shares).

The Company issued 2,915,000 Class A shares at \$13.35 per share pursuant to a secondary offering that was completed on May 23, 2018. Gross proceeds of \$38,915,250 were received from the sale of Class A shares. Agent's fees and filing fees were \$2,786,086 in connection with this offering. Net proceeds from the issue of Class A shares from this offering were \$36,129,164.

The holders of Class B shares are not entitled to receive dividends. The Class B shares are retractable at a price of \$1.00 per share. Class B shareholders are entitled to one vote per share. On July 15, 2005, the Company issued 1,000 Class B shares to Canadian Banc Corp. Holding Trust for cash consideration of \$1,000.

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**CANADIAN BANC CORP.****NOTES TO THE FINANCIAL STATEMENTS**FOR THE SIX MONTH PERIODS ENDED **MAY 31, 2019** AND **2018** (UNAUDITED)

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**7. Expenses**

The Company is responsible for all expenses incurred in connection with the operation and administration of the Company, including, but not limited to, ongoing custodian, transfer agent, legal and audit expenses.

Pursuant to the administration agreement, Quadravest is entitled to an administration fee payable monthly in arrears at an annual rate of 0.20% of the net asset value of the Company, which includes the outstanding Preferred shares, calculated as at each month-end valuation date and an amount equal to the service fee payable to dealers on the Class A shares at a rate of 0.50% of the net asset value attributable to Class A shares per annum. No service fee will be paid in any calendar quarter if regular dividends are not paid to holders of Class A shares in respect of each month in such calendar quarter.

Pursuant to the terms of the investment management agreement, Quadravest is entitled to a base management fee payable in arrears at an annual rate equal to 0.65% of the net asset value of the Company, which includes the outstanding Preferred shares, calculated as at each month-end valuation date. In addition, Quadravest is entitled to receive a performance fee subject to the achievement of certain pre-established total return thresholds.

Total management fees of \$982,499 (May 31, 2018-\$828,792), incurred during the period, include the administration fee and base management fee. As at May 31, 2019, \$165,930 (November 30, 2018-\$165,316) was payable to the Manager with respect to management and administrative fees. No performance fees were paid in 2019 or 2018.

Total brokerage commission paid during the period by the Company for its portfolio transactions were \$8,430 (May 31, 2018-\$18,635).

**8. Increase (decrease) in net assets attributable to holders per redeemable Class A share**

The increase (decrease) in net assets attributable to holders per redeemable Class A share for the periods ended May 31, 2019 and 2018 is calculated as follows:

|  | 2019        | 2018          |
|--|-------------|---------------|
| Increase (decrease) in net assets attributable to holders of redeemable Class A shares | (2,923,549) | (\$3,064,153) |
| Weighted average Class A shares outstanding  | 11,092,282  | 8,751,490     |
| Increase (decrease) in net assets attributable to holders per redeemable Class A share | (\$0.26)    | (\$0.35)      |

**9. Distributions**

Distributions per share were as follows:

|                  | May 31, 2019 | May 31, 2018 |
|------------------|--------------|--------------|
| Preferred shares | \$0.27       | \$0.25       |
| Class A shares   | \$0.5446     | \$0.6825     |

## **10. Capital Management**

The Company considers its capital to consist of Class A, Class B and Preferred shares.

The Company's objectives in managing its capital are:

- i) Effective December 1, 2018, Preferred shareholders are entitled to receive a cumulative preferential floating rate monthly dividend at an annual rate equivalent to the prevailing Canadian prime rate plus 1.5%, with a minimum annual rate of 5% and a maximum annual rate of 8% based on the original issue price (previously, to provide holders with cumulative preferential floating rate monthly cash dividends at a rate per annum equal to the prevailing Canadian prime rate plus 0.75%, with a minimum annual rate of 5.0% and a maximum annual rate of 7% based on original issue price); and
- ii) To provide holders of Class A shares with monthly cash distributions targeted to be at a rate of 10% annualized based on the volume weighted average market price of the Class A shares for the last 3 trading days of the preceding month and return the original issue price on the termination of the Company.

In order to manage its capital structure, the Company may adjust the amount of dividends paid to shareholders or return capital to shareholders.

## **11. Reconciliation of net asset value per Class A share to net assets attributable to holders per redeemable Class A share**

As at May 31, 2019 and November 30, 2018, there were no differences between net asset value per Class A share used for transactional purposes and net assets attributable to holders per redeemable Class A share for financial reporting purposes.



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## **QUADRAVEST CAPITAL MANAGEMENT INC.**

Quadravest Capital Management Inc. was formed in 1997 and is focused on the creation and management of enhanced yield products for retail investors. The investment strategy combines fundamental based equity investing with covered call writing. Guided by four key principles, Quadravest sets attainable investment objectives that allow the team to stay focused on a long-term investment strategy.

The four principles – innovation in financial products, discipline in investment management, solid results for investors, and excellence in client service – form the foundation of Quadravest. Each member of the firm’s tight-knit team is committed to upholding these principles, ensuring a coherence and dedication that is unique to the Company.

Quadravest has raised over \$2.5 billion in initial public offerings.

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## **BOARD OF DIRECTORS**

Wayne Finch,  
Director, President, Chief Executive  
and Chief Investment Officer,  
Quadravest Capital Management Inc.

Peter Cruickshank,  
Managing Director,  
Quadravest Capital Management Inc.

Laura Johnson,  
Managing Director  
and Portfolio Manager,  
Quadravest Capital Management Inc.

William Thornhill,  
President,  
William C. Thornhill Consulting Inc.

Michael W. Sharp,  
Retired Partner, Blake, Cassels & Graydon LLP

John Steep,  
President, S. Factor Consulting Inc.

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## **CORPORATE DETAILS**

### **Auditor**

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Toronto, Ontario M5J 0B2

### **Transfer Agent**

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Toronto, Ontario M5J 2Y1

### **Legal Counsel**

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### **Custodian**

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Toronto, Ontario M5V 3L3



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