
INDEPENDENT AUDITOR'S REPORT

To the Shareholders of New Commerce Split Fund (the "Fund")

We have audited the accompanying financial statements of the Fund, which comprise the statements of financial position as at November 30, 2018 and November 30, 2017 and the statements of comprehensive income/(loss), changes in net assets attributable to holders of redeemable Capital shares and cash flow for the years ended November 30, 2018 and November 30, 2017 and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at November 30, 2018 and November 30, 2017 and its financial performance and its cash flow for the years ended November 30, 2018 and November 30, 2017 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
February 21, 2019

NEW COMMERCE SPLIT FUND
STATEMENTS OF FINANCIAL POSITION

AS AT NOVEMBER 30, 2018 AND NOVEMBER 30, 2017

| | November 30, 2018 (\$) | November 30, 2017 (\$) |
|---|------------------------------|------------------------------|
| ASSETS | | |
| Current Assets | | |
| Investments | 18,288,899 | 19,378,032 |
| Cash | 345,478 | 1,414,688 |
| Interest, dividends and other receivables | 479 | 239 |
| | <u>18,634,856</u> | <u>20,792,959</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Written Options | 2,530 | 89,375 |
| Fees and other accounts payable | 33,502 | 34,471 |
| Distributions payable | 91,241 | 92,945 |
| Class I Preferred shares (note 6) | 8,110,345 | 8,261,805 |
| Class II Preferred shares (note 6) | 8,110,345 | 8,261,805 |
| | <u>16,347,963</u> | <u>16,740,401</u> |
| NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE CAPITAL SHARES | 2,286,893 | 4,052,558 |
| Number of units (1 Class I Preferred share, 1 Class II Preferred share and 1 Capital share) outstanding | | |
| | 1,622,069 | 1,652,361 |
| Net assets per unit | \$11.41 | \$12.45 |
| Net assets per Class I Preferred share | \$5.00 | \$5.00 |
| Net assets per Class II Preferred share | \$5.00 | \$5.00 |
| Net assets per Capital share | \$1.41 | \$2.45 |

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.

NEW COMMERCE SPLIT FUND
STATEMENTS OF COMPREHENSIVE INCOME / (LOSS)

FOR THE YEARS ENDED NOVEMBER 30

| | 2018 (\$) | 2017 (\$) |
|--|---------------------------|-------------------------|
| INCOME | | |
| Net gain (loss) on investments and derivatives (note 5) | | |
| Net realized gain (loss) | (199,863) | 1,565,237 |
| Net change in unrealized appreciation (depreciation) | (988,988) | 320,928 |
| Dividends | 875,537 | 853,196 |
| Net gain (loss) on investments and derivatives | <u>(313,314)</u> | <u>2,739,361</u> |
| EXPENSES (note 7) | | |
| Management fees | 111,294 | 109,172 |
| Audit fees | 20,111 | 19,425 |
| Director's fees | 23,583 | 23,583 |
| Independent Review Committee fees | 4,268 | 4,268 |
| Custodial fees | 17,662 | 17,201 |
| Shareholder reporting costs | 12,983 | 13,052 |
| Legal fees | 18,701 | 20,073 |
| Other operating expenses | 46,450 | 36,015 |
| Harmonized Sales Tax | 26,526 | 25,294 |
| Transaction costs | 6,242 | 7,623 |
| | <u>287,820</u> | <u>275,706</u> |
| Increase (decrease) in net assets attributable to holders of redeemable Capital shares before distributions on Preferred shares | (601,134) | 2,463,655 |
| Distributions on Preferred shares | (1,113,640) | (1,115,343) |
| Increase (decrease) in net assets attributable to holders of redeemable Capital shares | <u>(1,714,774)</u> | <u>1,348,312</u> |
| Increase (decrease) in net assets attributable to holders per redeemable Capital share (note 8) | (1.04) | 0.82 |

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

NEW COMMERCE SPLIT FUND
STATEMENTS OF CHANGES IN NET ASSETS
ATTRIBUTABLE TO HOLDERS OF REDEEMABLE CAPITAL SHARES
FOR THE YEARS ENDED NOVEMBER 30

| | 2018 (\$) | 2017 (\$) |
|--|--------------------|------------------|
| Net Assets attributable to holders of redeemable Capital shares - Beginning of year | 4,052,558 | 2,704,246 |
| Increase (decrease) in net assets attributable to holders of redeemable Capital shares | (1,714,774) | 1,348,312 |
| Capital share redemptions | (50,891) | - |
| Change in net assets attributable to holders of redeemable Capital shares | <u>(1,765,665)</u> | <u>1,348,312</u> |
| Net assets attributable to holders of redeemable Capital shares - End of year | <u>2,286,893</u> | <u>4,052,558</u> |

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

NEW COMMERCE SPLIT FUND**STATEMENTS OF CASH FLOW**

FOR THE YEARS ENDED NOVEMBER 30

| | 2018 | 2017 |
|--|--------------------|--------------------|
| | (\$) | (\$) |
| Cash flows from (used in) operating activities | | |
| Increase (decrease) in net assets attributable to holders of redeemable Capital shares | (1,714,774) | 1,348,312 |
| Adjustment for: | | |
| Distributions on Preferred shares | 1,113,640 | 1,115,343 |
| Net realized (gain) loss on investments and derivatives | 199,863 | (1,565,237) |
| Net change in unrealized (appreciation) depreciation of investments and derivatives | 988,988 | (320,928) |
| Purchase of investments, net of option premiums | 19,335 | (5,171,944) |
| Proceeds from sale of investments | (205,898) | 6,663,239 |
| (Increase) decrease in interest, dividends and other receivables | (240) | (34) |
| Increase (decrease) in fees and other accounts payable | (969) | (235) |
| Cash flows from (used in) operating activities | <u>399,945</u> | <u>2,068,516</u> |
| Cash flows from (used in) financing activities | | |
| Amounts paid on redemption of redeemable units | (353,811) | - |
| Distributions paid to holders of redeemable units | <u>(1,115,344)</u> | <u>(1,115,343)</u> |
| Cash flows from (used in) financing activities | (1,469,155) | (1,115,343) |
| Net increase (decrease) in cash for the year | (1,069,210) | 953,173 |
| Cash at beginning of the year | <u>1,414,688</u> | <u>461,515</u> |
| Cash at end of the year | 345,478 | 1,414,688 |
| Dividends received*, net of withholding taxes | 875,297 | 853,162 |

* Included as part of Cash Flows from Operating Activities.

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

NEW COMMERCE SPLIT FUND
SCHEDULE OF PORTFOLIO INVESTMENTS

AS AT NOVEMBER 30, 2018

| No. of shares (contracts) | Description | Average Cost (\$) (Premiums received) | Fair Value (\$) |
|------------------------------|---|--|-----------------------|
| | Core Holding | | |
| | Canadian Common Equities | | |
| 164,026 | Canadian Imperial Bank of Commerce | 14,969,196 | 18,288,899 |
| | Total Canadian Common Equities in Core Holdings (100.0%) | <u>14,969,196</u> | <u>18,288,899</u> |
| | Call options written (100 shares per contract) | | |
| (460) | Canadian Imperial Bank of Commerce @ \$120 December 2018 | <u>(49,550)</u> | <u>(2,530)</u> |
| | Total Canadian call options written (0.0%) | <u>(49,550)</u> | <u>(2,530)</u> |
| | | <u>14,919,646</u> | <u>18,286,369</u> |
| | less adjustment for transaction costs | <u>(4,391)</u> | |
| | Total Investments (100.0%) | <u>14,915,255</u> | <u>18,286,369</u> |

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

NEW COMMERCE SPLIT FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED NOVEMBER 30, 2018 AND 2017

1. Incorporation

New Commerce Split Fund (the “Fund”) was formed as a result of the reorganization of Commerce Split Corp. (the “Company”). On March 26, 2010, the effective reorganization date, the assets of Commerce Split Corp. were divided pro rata into two separate investment portfolios to be known as the “Original Commerce Split Fund” and the “New Commerce Split Fund” in accordance with the reorganization plan contained in the Management Information Circular dated December 23, 2009. The Original Commerce Split Fund was subsequently terminated on October 31, 2013. The division of the assets was based on the elections made by both Priority Equity shareholders and Class A shareholders immediately prior to the reorganization. The Fund invests primarily in common shares of Canadian Imperial Bank of Commerce (“CIBC”) and has also implemented a covered call writing program to supplement the dividend income earned from CIBC common shares. The manager and the investment manager of the Fund is Quadravest Capital Management Inc. (“Quadravest” or “Manager”). The termination date of the Fund is December 1, 2019 and may be extended thereafter at the Fund’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 Fund’s principal office is located at 200 Front Street West, Suite 2510, Toronto, Ontario M5V 3K2.

2. Basis of presentation

These financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as published by the International Accounting Standards Board (“IASB”). These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss (“FVTPL”).

These financial statements were approved by the Board of Directors of the Fund on February 13, 2019.

3. Summary of significant accounting policies

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

Investments and financial instruments

The Fund recognizes financial instruments at fair value upon initial recognition.

The Fund’s investments are designated at fair value through profit and loss (“FVTPL”) and derivatives (including options) are held for trading and also carried at FVTPL.

The Fund 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 classified or designated as 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 Fund 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 Fund 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).

NEW COMMERCE SPLIT FUND
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The Class I and Class II Preferred shares rank prior to the Capital 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 gain (loss) on remeasurement of Preferred shares in the Statements of Comprehensive Income/(Loss).

The Class B shares are subordinate to the Preferred shares but rank prior to the Capital 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 Capital shares may be retracted monthly, annually, or on the termination date of the Fund. As a result, the shares contain multiple contractual obligations, and therefore, have been presented as financial liabilities at the annual redemption amount.

Financial assets and liabilities other than investments, derivatives, and Capital shares are recognized initially at the amount expected to be received or paid less, when material, a discount to reduce them to fair value. Subsequently, they are measured at amortized cost using the effective interest rate method less a provision for impairment, if any. Due to their short-term nature, the fair values of these financial assets and liabilities approximate their carrying amounts.

The net asset value of the Fund 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 Fund is determined as the difference between the aggregate amount of the Fund's assets and the aggregate amount of its liabilities, excluding Class I Preferred shares, Class II Preferred shares and net assets attributable to holders of redeemable Capital shares ("Net Assets of the Fund").

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 Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, QuadraVest determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. The Fund'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 Fund 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 Fund's fair value measurements.

Cash

Cash consists of cash on hand.

NEW COMMERCE SPLIT FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED NOVEMBER 30, 2018 AND 2017

Translation of foreign currencies

The Fund'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 Fund'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 and administration fees

Management fees and administration are accrued by the Fund over time, as services are rendered by Quadravest. Refer to note 7 for further information about the calculation of management and administration fees of the Fund.

Increase (decrease) in Net Assets Attributable to Holders per Redeemable Capital share

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

Taxation

Commerce Split Corp. 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 Fund'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 Fund qualifies as a mutual fund corporation. As a result of the capital gains refund mechanism and Part IV tax refunds, the Fund 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 Fund has estimated accumulated non capital losses for tax purposes of \$7,449,202 (November 30, 2017-\$7,330,690) that are available to lower taxable income in future years if required and expire after the scheduled termination date of the Fund on December 1, 2019.

NEW COMMERCE SPLIT FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED NOVEMBER 30, 2018 AND 2017

The Fund also has estimated accumulated capital losses for tax purposes of \$77,528,097 (November 30, 2017-\$78,534,349) which may be used to lower future capital gains if required.

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 Fund's most significant estimates involve the measurement of investments and derivatives at fair value as described in note 5. The following discusses the most significant accounting judgments that the Fund has made in preparing the financial statements:

Classification and measurement of investments and application of the fair value option

In classifying and measuring financial instruments held by the Fund, the Manager is required to make significant judgments about whether or not the business of the Fund is to invest on a total return basis for the purpose of applying the fair value option for financial assets under IAS 39, Financial Instruments – Recognition and Measurement (IAS 39). The most significant judgments made include the determination that certain financial instruments are held-for-trading, and that the fair value option can be applied to investments in financial assets which are not.

5. Management of Risk of Financial Instruments

The Fund 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 Fund's financial instruments within the fair value hierarchy as at November 30, 2018 and November 30, 2017:

| | Financial assets and liabilities at fair value as at November 30, 2018 | | | |
|----------|--|---------|---------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Equities | \$18,288,899 | - | - | \$18,288,899 |
| Options | (\$2,530) | - | - | (\$2,530) |
| | <u>\$18,286,369</u> | - | - | <u>\$18,286,369</u> |

| | Financial assets and liabilities at fair value as at November 30, 2017 | | | |
|----------|--|---------|---------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Equities | \$19,378,032 | - | - | \$19,378,032 |
| Options | (\$89,375) | - | - | (\$89,375) |
| | <u>\$19,288,657</u> | - | - | <u>\$19,288,657</u> |

NEW COMMERCE SPLIT FUND
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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 years ended November 30, 2018 and 2017. The Fund's net gain (loss) on financial instruments that are held for trading and those designated at FVTPL are as follows:*

| | 2018 | 2017 |
|--|--------------------|--------------------|
| Realized gain (loss) on derivatives held for trading | (\$199,863) | \$128,622 |
| Realized gain (loss) on investments designated at FVTPL | - | \$1,436,615 |
| Net change in unrealized appreciation (depreciation) on investments | (\$1,089,133) | \$370,103 |
| Net change in unrealized appreciation (depreciation) on derivatives | \$100,145 | (\$49,175) |
| Dividends | \$875,537 | \$853,196 |
| | <u>(\$313,314)</u> | <u>\$2,739,361</u> |

* The Fund employs an active and integrated strategy of writing call options on the underlying equity holdings in the portfolio. The requirement to measure and attribute gains separately to either derivatives or the underlying equities may not reflect the relative contributions and benefits from implementing this strategy. As an example, written call options that are subsequently repurchased and/or rolled as part of the active covered call writing program would have had the effect of lowering reported gains from derivatives (which would have otherwise occurred had the written call option been exercised or expired), while achieving other gains to the portfolio that would have been measured and attributed to the underlying equity holdings.

The Fund'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.

All securities investments present a risk of loss of capital.

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).

The Fund is exposed to other price risk from its investment in equity securities and written options. As at November 30, 2018, 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 Fund would have increased by \$1,666,000 (November 30, 2017-\$1,652,000). 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 Fund would have decreased by \$1,826,000 (November 30, 2017-\$1,849,000). As at November 30, 2018, the Fund's exposure to CIBC common shares was 98.8% (November 30, 2017-94.2%) of the Net Assets of the Fund.

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 Fund's financial assets and liabilities are non interest bearing. As a result, the Fund is not subject to significant amounts of risk

NEW COMMERCE SPLIT FUND
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due to fluctuations in the prevailing levels of market interest rates and considers interest rate risk insignificant (consistent with previous year).

Currency risk

Currency risk is the risk that financial instruments that are denominated in a currency other than the Canadian dollar, which is the Fund's reporting currency, will fluctuate due to changes in exchange rates. The portfolio holding and other Net Assets of the Fund are denominated in Canadian dollars and therefore there is no currency risk.

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 Fund'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. 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 year).

Liquidity risk

Liquidity risk is the risk that the Fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund is exposed to liquidity risk primarily through its monthly and annual retractions of Capital shares, Class I Preferred shares and Class II Preferred shares. The Fund receives adequate notice for all retraction requests. The Fund's portfolio is invested in CIBC common shares which is a highly liquid large capitalization stock that trades on the TSX. All Capital shares, Class I Preferred shares and Class II Preferred shares outstanding are redeemable on a monthly and annual basis but are scheduled to be redeemed upon termination of the Fund. All other financial liabilities are payable within three months the end of the year.

Concentration risk

The Fund's only equity holding is concentrated in the common shares of CIBC common shares and as such will be exposed to the specific factors that affect this stock.

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

| | November 30, 2018 | November 30, 2017 |
|---|-------------------|-------------------|
| Canadian Common Equities | 98.8% | 94.2% |
| Canadian Call Options written | 0.0% | -0.4% |
| Other Assets less Liabilities (excluding Class I and Class II Preferred shares) | 1.2% | 6.2% |
| | <u>100%</u> | <u>100%</u> |

NEW COMMERCE SPLIT FUND
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED NOVEMBER 30, 2018 AND 2017

6. Redeemable Units

Preferred shares

The Fund is authorized to issue an unlimited number of Class I Preferred shares and an unlimited number of Class II Preferred shares

| <u>Preferred share transactions</u> | November 30, 2018 | November 30, 2017 |
|---|-------------------|-------------------|
| Beginning of year | 1,652,361 | 1,652,361 |
| Redeemed during the year | <u>(30,292)</u> | <u>-</u> |
| Class I and Class II Preferred shares end of year | 1,622,069 | 1,652,361 |

Class I Preferred shares are entitled to fixed cumulative monthly dividends of \$0.025 per share. Class II Preferred shares are entitled to monthly dividends of \$0.03125 per share if and when the net asset value per unit exceeds \$10. All Preferred shares outstanding on the termination date will be redeemed by the Fund on that date. Class I Preferred shares have a repayment objective of \$5 and rank in priority to the Class II Preferred shares and Capital shares upon the winding up of the Fund. Class II Preferred shares have a repayment objective of \$5 and rank behind the Class I Preferred shares but ahead of the Capital shares. Class I and Class II Preferred shares trade under the symbols "YCM.PR.A" and "YCM.PR.B" respectively on the TSX. The trading price as at November 30, 2018 of Class I Preferred shares and Class II Preferred share was \$5.05 and \$5.02 respectively (November 30, 2017-\$5.18 and \$5.07 respectively). The Preferred shares of both classes have been presented as liabilities in the financial statements.

Class I and Class II 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 Class I Preferred share, a Class II Preferred share and a Capital share (together, a "unit") in the month of October in each year will be entitled to receive an amount equal to the net asset value per unit calculated on the last day of October. Class I and Class II 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 Fund may, but is not obligated to, require the recirculation agent to use its best efforts to find purchasers for any Class I and Class II Preferred shares or Capital 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).

Capital shares

The Fund is authorized to issue an unlimited number of Capital shares. The Fund issued 3,824,000 Capital shares on March 26, 2010 for no consideration as a result of the reorganization.

| <u>Capital share transactions</u> | November 30, 2018 | November 30, 2017 |
|-----------------------------------|-------------------|-------------------|
| Beginning of year | 1,652,361 | 1,652,361 |
| Redeemed during the year | <u>(30,292)</u> | <u>-</u> |
| Capital shares end of year | 1,622,069 | 1,652,361 |

Capital shares will participate in any net asset value growth over \$10.00 per unit. The dividend on the Capital shares will only be paid if and when the net asset value per unit exceeds \$15. The dividend rate on the Capital shares at such time will be set by the Board of Directors of the Fund at its discretion, based on market conditions. No dividend payments will be made on the Capital shares unless all dividends on the Class I Preferred shares and, if applicable, Class II Preferred

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shares have been declared and paid All Capital shares outstanding on the termination date will be redeemed by the Fund on that date.

Capital shares trade under the symbol "YCM" on the TSX. Capital shares trading price on the TSX was \$1.50 as at November 30, 2018 (November 30, 2017-\$2.23). Capital 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 Capital share and a Class I and Class II Preferred share (together, a "unit") in the month of October in each year will be entitled to receive an amount equal to the net asset value per unit calculated on the last day of October. Capital 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 Fund may, but is not obligated to, require the recirculation agent to use its best efforts to find purchasers for any Class I and Class II Preferred shares or Capital 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 Class I and Class II Preferred shares rank in priority to the Capital shares with respect to the payment of dividends and upon the winding down of the Fund. Upon the termination of the Fund, Capital shareholders will receive an amount equal to the net asset value per unit less \$10.00 (the redemption value of the Class I and Class II Preferred shares).

7. Expenses

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

Pursuant to the management agreement, Quadravest is entitled to an administration fee payable monthly in arrears at an annual rate of 0.10% of the net asset value of the Fund, which includes the outstanding Class I and Class II Preferred shares, calculated as at each month-end valuation date and an amount equal to the service fee payable to dealers on the Capital 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 Capital 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 0.45% of the net asset value of the Fund, which includes the outstanding Class I and Class II Preferred shares, calculated as at each month-end valuation date.

In addition, the monthly discount to net asset value of 3% applicable to redemptions of Preferred shares and Capital shares is paid to Quadravest. Redemption fees paid for the year ending November 30, 2018 were \$NIL (November 30, 2017-\$NIL).

Total management fees of \$111,294 (November 30, 2017-\$109,172) incurred during the year include the administration fee and base management fee. As at November 30, 2018, \$8,609 (November 30, 2017-\$9,183) was payable to the Manager with respect to management and administrative fees.

The brokerage commissions paid during the year by the Fund for its portfolio transactions were \$6,242 (November 30, 2017-\$7,623).

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8. Increase (decrease) in net assets attributable to holders per redeemable Capital share

The increase (decrease) in net assets attributable to holders per redeemable Capital share for the years ended November 30, 2018 and 2017 is calculated as follows:

| | 2018 | 2017 |
|--|---------------|-------------|
| Increase (decrease) in net assets attributable to holders of redeemable Capital shares | (\$1,714,774) | \$1,348,312 |
| Weighted average Capital shares outstanding | 1,649,837 | 1,652,361 |
| Increase (decrease) in net assets attributable to holders per redeemable Capital share | (\$1.04) | \$0.82 |

9. Distributions

Distributions per share were as follows:

| | November 30, 2018 | November 30, 2017 |
|---------------------------|-------------------|-------------------|
| Class I Preferred shares | \$0.30 | \$0.30 |
| Class II Preferred shares | \$0.3750 | \$0.3750 |
| Capital shares | - | - |

10. Capital Management

The Fund considers its capital to consist of Capital, Class I Preferred and Class II Preferred shares.

The Fund's objectives in managing its capital are:

- i) to provide holders of Class I Preferred shares with fixed cumulative preferential monthly cash dividends in an amount of \$0.025 per Class I Preferred share to yield 6.00% per annum on the \$5 Class I Preferred share repayment amount and to return \$5 per share to their holders on the termination date; and
- ii) to provide holders of Class II Preferred shares with monthly cash dividends of \$0.03125 per Class II Preferred share to yield 7.50% on the \$5 Class II Preferred share repayment amount if and when the net asset value per unit exceed \$10.00 and having a repayment objective on the termination date of \$5.00; and
- iii) to provide holders of Capital shares with growth above the value of the Preferred shares.

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

11. Accounting Standards, Interpretations and Amendments to Existing Standards Not Yet Effective

IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and liabilities. It replaces the multiple classification and measurement models in IAS 39 and is effective for the Fund on December 1, 2018. On adoption of IFRS 9 the Fund's investment portfolio will continue to be classified as fair value through profit or loss since the Fund manages its portfolio on a fair value basis and fair value is used to assess its performance and to make investment decisions. Other financial assets and liabilities will continue to be measured at amortized cost. As a result, the adoption of IFRS 9 is not expected to have a material impact on the Fund's financial statements.

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12. Reconciliation of net asset value per Capital share to net assets attributable to holders per redeemable Capital share

As at November 30, 2018 and November 30, 2017, there were no differences between net asset value per Capital share used for transactional purposes and assets attributable to holders per redeemable Capital share for financial reporting purposes.

13. Subsequent event

On February 21, 2019, the Fund announced the extension of its termination date for a further five year period from December 1, 2019 to December 1, 2024.