

MAY 31

NEW COMMERCE SPLIT FUND

2014

SEMI-ANNUAL REPORT  
(UNAUDITED)

COMMERCE *Split*

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.

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**NEW COMMERCE SPLIT FUND**  
**SEMI-ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**  
**MAY 31, 2014**

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This is the semi-annual Management Report of Fund Performance (MRFP) for the period ended May 31, 2014. 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.commercesplit.com](http://www.commercesplit.com) or by writing to the Company at Investor Relations, Royal Trust Tower, 77 King Street West, P.O. Box 341, Toronto, Ontario, M5K 1K7.

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

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**INVESTMENT OBJECTIVES AND STRATEGIES**

New Commerce Split was formed as a result of a corporate reorganization that was approved at the special meeting of shareholders of Commerce Split Corp. on February 3, 2010 and subsequently implemented on March 26, 2010 (the reorganization date). This reorganization allowed for the creation of two distinct investment funds within Commerce Split Corp. and allowed all Priority Equity shareholders and Class A shareholders of Commerce Split Corp. to elect their choice of Fund effective March 26, 2010. Shareholders were given the option to 1) maintain the original investment characteristics in the Original Commerce Split Fund or 2) choose to have their Priority Equity and/or Class a shares reorganized into a new series of shares (the New Commerce Split Fund) that would potentially provide greater distribution and capital growth potential in the event that common shares of Canadian Imperial Bank of Commerce ("CIBC") increase over the remaining term of the Fund. The New Commerce Split Fund invests primarily in common shares of CIBC and also implemented covered call writing strategy to supplement the dividend income earned from CIBC common stock. The New Commerce Split Fund does not have the requirements of a Priority Equity share Portfolio Protection Plan.

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## **NEW COMMERCE SPLIT FUND**

The following is a summary of some of the principal provisions of the Class I Preferred Shares, Class II Preferred Shares, and Capital Shares of the New Commerce Split Fund.

### **Class I Preferred Shares**

Each Class I Preferred Share pays fixed cumulative preferential monthly cash dividends in the amount of \$0.03125 per Class I Preferred Share (\$0.025 per Class I Preferred Share, effective with the December, 2014 monthly dividend) to yield 7.50% per annum on the Class I Preferred Share Repayment Amount of \$5.00 (6.00% per annum on the Class I Preferred Share Repayment Amount, effective with the December, 2014 monthly dividend); and has a repayment objective on or about the termination date on December 1, 2019 (subject to further 5 year extensions thereafter), to pay the holders of the Class I Preferred Shares \$5.00 per Class I Preferred Share.

### **Class II Preferred Shares**

Each Class II Preferred Share pays fixed cumulative preferential monthly cash dividends in the amount of \$0.03125 per Class II Preferred Share to yield 7.50% per annum on the Class II Preferred Share Repayment Amount of \$5.00, if and when the net asset value per Unit exceeds \$10.00 (effective June 2014, prior thereto \$12.50); and has a repayment objective on or about December 1, 2019 (subject to further 5 year extensions thereafter), to pay the holders of the Class II Preferred Shares \$5.00 per Class II Preferred Share.

### **Capital Shares**

Capital shares (Symbol: YCM) will participate in any Net Asset Value growth over \$10.00 per Unit and dividends would be reinstated only if and when the Net Asset Value per unit exceeds \$15.00. The dividend rate on the Capital shares will be set by the Board of Directors of the Company 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 shares have been declared and paid.

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## **RISK**

The risks of investing in the Company remain as discussed in the Annual Information Form dated February 26, 2014. In addition, Note 3 of the semi-annual financial statements ("Management of Risk") contains disclosure on specific types of risks related to the financial investments held by the Company. As a result of the reorganization, New Commerce Split Fund was no longer required to maintain the Priority Equity Protection Plan and as such New Commerce Split Fund will be primarily exposed to the changes in value its holdings of CIBC common shares.

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## **RESULTS OF OPERATIONS**

As at May 31, 2014, the New Commerce Split Fund had a Net Assets per unit (a unit consisting of one Class I Preferred share, one Class II Preferred share and one Capital share) increased by \$0.38 to \$11.63 per unit after the payment of \$0.1875 in distributions on Class I Preferred shares.

As at May 31, 2014 the New Commerce Split Fund had 96.6% of its net assets invested in CIBC common shares. The market price of CIBC increased by 5.0% during the period. The dividend income from the common shares of CIBC is supplemented by income received from a selective covered call writing program. Distributions were made at the targeted rate for the Class I Preferred shares during the period while Class II Preferred shares and Capital shares were not eligible to receive distributions under the distribution policy of the Fund as outlined in the Investment Objectives and Strategies section.

At a special shareholders meeting held on May 14, 2014, shareholders approved the extension of the Company's termination date to December 1, 2019 with additional 5 year extension periods at the discretion of the Company. Total expenses increased during the period as a result of the one time costs (mailing, printing, legal, and proxy solicitation fees) associated with this special shareholder meeting.

In connection with the approval of the extension of the Company, changes were also made to the dividend entitlements of the Class I and Class II Preferred shares. Class I Preferred shares monthly dividends will be set at 6% per annum for the initial 5 year extension period beginning with the December 2014 monthly dividend. Class II Preferred shares dividends will receive dividends at 7.5% per annum, effective June 2014, contingent on the net asset value per unit exceeding \$10 per unit.

Net Assets of the Fund were \$29.5 million as at May 31, 2014.

CIBC's current dividend yield of 4.1% as at May 31, 2014 still remains very attractive compared to the 10-year bond yields of around 2.7%. The dividend rate has been increased by a total of 12.6% over the last 3 years reflecting the continued improving fundamentals of CIBC. The covered call writing program continues to supplement the dividend income received.

### **Capital shares – Distributions**

No distributions paid during the period.

#### **Class I Preferred shares**

At total of 6 regular monthly distributions were paid at the monthly rate of \$0.03125 for a total of \$0.1875 per share during the period. A total of 50 distributions for a total of \$1.5938 have been paid since the reorganization date.

#### **Class II Preferred shares**

No distributions were paid during the period as the Net Asset Value per unit remains below the required \$12.50 (subsequently changed to \$10 effective June 2014) per unit threshold level which would allow the payment of monthly dividends to Class II Preferred shareholders.

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## **RECENT DEVELOPMENTS**

### **Transition to International Financial Reporting Standards**

Canadian Investment Companies will be required to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), for fiscal years beginning on or after January 1, 2014. The Company will report its financial results for the six month period ending May 31, 2015, prepared on an IFRS basis. The Company will also provide comparative data on an IFRS basis, including an opening balance sheet as at December 1, 2013.

Currently, the Company has not identified any changes that will impact Net Asset Value (NAV) per unit as a result of the changeover to IFRS. However, this determination is subject to change as it finalizes its assessment of potential IFRS differences and as new standards are issued by the IASB prior to the Company's adoption of IFRS. The impact of IFRS on accounting policies and implementation decisions will include the expected elimination of the difference between the net assets per unit and the net asset value per unit at the financial statement reporting dates as well as additional information disclosures in the notes to financial statements. The criteria contained within the IFRS Financial Instruments: Presentation standard (IAS 32) may require shareholders' equity to be classified as a liability within the Company's Statement of Net Assets, unless certain conditions are met. The Company is currently assessing its shareholder structure to confirm classification.

## RELATED PARTY TRANSACTIONS

Quadravest Capital Management Inc. (“Quadravest”) as Investment Manager and Manager earns fees from the Fund as described below in the Management Fees section.

## FINANCIAL HIGHLIGHTS

The following tables show selected financial information about the Fund and are intended to help you understand the Fund’s financial performance. 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 Asset Value and Net Assets per unit. The Net Assets included in the Net Assets per unit table is from the Fund’s financial statements and calculated using bid prices while the Net Asset Value included in the Ratios/Supplemental data Table is for transactional pricing purposes and calculated using closing prices (see Note 3 in the financial statements).

### The Fund’s Net Assets per unit

	May 31, 2014	Periods ended November 30			
		2013	2012	2011	2010 <sup>(2)</sup>
Net assets per unit, beginning of period <sup>(1)</sup>	11.25	10.25	9.39	10.05	9.94
Increase (decrease) from operations					
Total revenue	0.21	0.43	0.44	0.39	0.20
Total expenses	(0.11)	(0.11)	(0.10)	(0.09)	(0.10)
Realized gains for the period	0.63	0.34	0.10	0.01	-
Unrealized gains (losses) for the period	(0.17)	0.71	0.78	(0.70)	0.52
Total increase (decrease) from operations <sup>(3)</sup>	0.56	1.37	1.22	(0.39)	0.61
Distributions <sup>(4)</sup>					
Taxable Dividends	(0.19)	(0.38)	(0.38)	(0.38)	(0.28)
Total distributions	(0.19)	(0.38)	(0.38)	(0.38)	(0.28)
Net assets per unit at end of period	11.63	11.25	10.25	9.39	10.05
Net assets per Class I Preferred share	5.00	5.00	5.00	5.00	5.00
Net assets per Class II Preferred share	5.00	5.00	5.00	4.39	5.00
Net assets per Capital share	1.63	1.25	0.25	-	0.05
Net assets per unit at end of period	11.63	11.25	10.25	9.39	10.05

- (1) Net assets per unit is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities excluding the Preferred shares and any warrants of the Fund on that date divided by the number of units then outstanding.
- (2) Results for the period March 26, 2010 to November 30, 2010.
- (3) Total increase from operations is before the payment of any Preferred share and Capital share distributions, excludes any change in value of Preferred shares, and is calculated based on the weighted average number of units outstanding during the period.
- (4) Distributions on the Class I Preferred shares, Class II Preferred shares and Capital shares are based on the number of Class I Preferred shares, Class II Preferred shares and Capital 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

	May 31, 2014	Periods ended November 30			
		2013	2012	2011	2010 <sup>(1)</sup>
Net assets (millions)	\$29.5	\$28.8	\$29.1	\$30.7	\$34.9
Number of units outstanding <sup>(2)</sup>	2,533,477	2,555,577	2,832,922	3,255,547	3,389,663
Base Management expense ratio <sup>(3)</sup>	1.92%	1.08%	0.99%	0.88%	1.55%
Management expense ratio per Capital share <sup>(4)</sup>	40.77%	110.74%	N/A	N/A	N/A
Management expense ratio per Class II Preferred share <sup>(5)</sup>	N/A	N/A	9.43%	10.45%	10.25%
Portfolio turnover rate <sup>(6)</sup>	36.7%	17.9%	1.3%	1.6%	10.7%
Trading expense ratio <sup>(7)</sup>	0.02%	0.01%	0.00%	-	0.03%
Closing market price (TSX): Class I Preferred share	\$5.15	\$5.25	\$5.32	\$5.30	\$5.67
Closing market price (TSX): Class II Preferred share	\$5.05	\$4.51	\$3.78	\$2.77	\$3.17
Closing market price (TSX): Capital share	\$1.67	\$1.05	\$0.59	\$0.60	\$1.18

(1) Results for the period March 26, 2010 to November 30, 2010.

(2) This information is provided at May 31, or November 30, as applicable.

(3) A separate base management expense ratio has been presented to reflect the normal operating expenses of the Company excluding the one time secondary 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.

(4) Management expense ratio per Capital share 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 Fund, all distributions on Preferred shares and all issuance costs to the Capital shares and expresses this as an annualized percentage of net assets applicable only to the Capital shares during the year. The management expense ratio per Capital share should not be interpreted as the required return necessary for the Fund or the Capital share to cover the operating expenses of the Fund. This calculation is based only on a portion of the Fund's assets whereas the Fund 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 Fund, making comparisons to the expense ratios of single unit mutual funds or determining the minimum investment returns necessary by the Fund to achieve growth in Net Asset Value per unit. A management expense ratio per Capital share was not calculated in periods in which the net assets attributable to the Capital shares were predominately NIL.

(5) Management expense ratio per Class II Preferred share is calculated in years in which the Net Asset Value is less than \$10 per unit (but greater than \$5 per unit) and includes all expenses of the Fund and all distributions on Class I Preferred Shares.

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

(7) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of average net assets during the year.

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## MANAGEMENT FEES

Pursuant to the terms of the investment management fee payable in arrears at an annual rate equal to 0.45% of the Net Asset Value of the Company, which include the outstanding Class I and Class II Preferred shares, calculated as at each month-end valuation date.

Pursuant to the administration agreement, QuadraVest is entitled to an administration fee payable monthly in arrears at an annual rate equal to 0.1% 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 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 QuadraVest 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 Fund which includes all operational services, financial accounting, shareholder reporting and regulatory reporting.



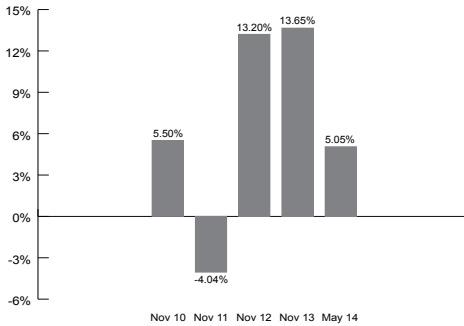
## PAST PERFORMANCE

### Year-by-Year Returns

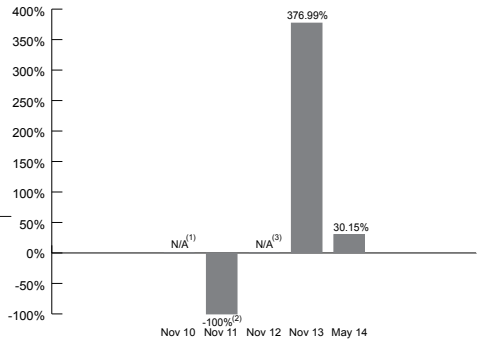
The past performance of 1) the Net Asset Value per unit; 2) the Class I Preferred share on a Net Asset Value basis; 3) the Class II Preferred share on a Net Asset Value basis; and 4) the Capital share on a Net Asset Value basis for the each period since inception are presented in the bar charts below. Each bar in the chart reflects the change in percentage terms of how a Unit, a Class I Preferred share, a Class II Preferred share or a Capital share would have increased or decreased during the applicable period. In respect to the charts displayed below, please note the following:

- The performance information shown assumes that all cash distributions made by the Fund during the periods shown were reinvested in the applicable securities of the Fund;
- 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 Fund does not necessarily indicate how it will perform in the future.

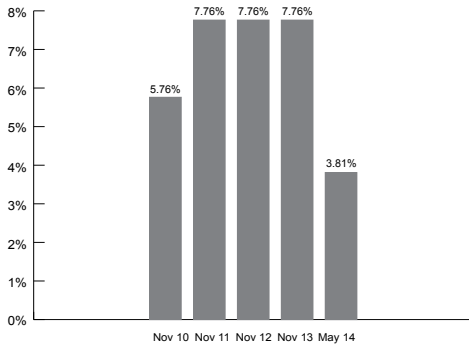
#### NET ASSET VALUE PER UNIT



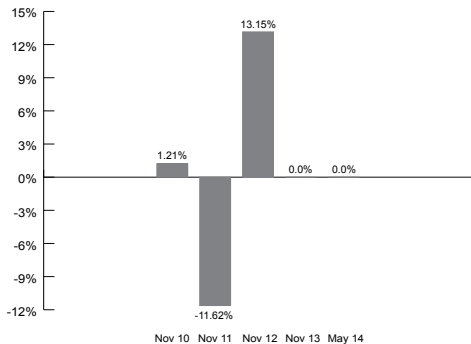
#### CAPITAL SHARE



#### CLASS I PREFERRED SHARE



#### CLASS II PREFERRED SHARE



(1) As a result of the opening net assets attributable to the Capital share being nil, calculation of the return in the initial period cannot be made.

(2) Net assets attributable to the Capital shares decreased from \$0.19 at the beginning of the year to nil as at the end of the year.

(3) Net assets attributable to the Capital shares increased from nil at the start of the period to \$0.26 and a calculation of the return cannot be made.

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**SUMMARY OF INVESTMENT PORTFOLIO**  
All holdings as at May 31, 2014

Name	Weighting (%)
Canadian Imperial Bank of Commerce	96.6
Cash	4.2
Other net assets	-0.8

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

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**NEW COMMERCE SPLIT FUND  
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The financial statements of New Commerce Split Fund ("the Fund") and all the information in this semi-annual report are the responsibility of management and have been approved by the Board of Directors of Commerce Split Corp.

The Fund maintains appropriate procedures to ensure that relevant and reliable financial information is produced. Statements have been prepared in accordance with Canadian generally accepted accounting principles and may include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 3 to the financial statements.

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

Commerce Split Corp.'s independent auditors have not performed a review of these semi-annual financial statements in accordance with standards established by the Chartered Professional Accountants.

**NEW COMMERCE SPLIT FUND**  
**STATEMENT OF FINANCIAL POSITION**

AS AT MAY 31, 2014 AND NOVEMBER 30, 2013 (UNAUDITED)

	May 31, 2014 (\$)	November 30, 2013 (\$)
<b>ASSETS</b>		
Investments - at fair value (note 3)	28,431,545	26,670,215
Cash	1,227,821	5,757,709
Interest, dividends and other receivables	1,249	929
<b>Total Assets</b>	<u><b>29,660,615</b></u>	<u><b>32,428,853</b></u>
<b>LIABILITIES</b>		
Fees and other accounts payable	126,341	32,758
Payable in respect of investments purchased	-	3,567,181
Dividends payable	79,171	79,862
Class I Preferred shares (note 4)	12,667,385	12,777,885
Class II Preferred shares (note 4)	12,667,385	12,777,885
	<u>25,540,282</u>	<u>29,235,571</u>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
Capital shares (note 5)	-	-
Retained Earnings (note 5)	4,120,333	3,193,282
	<u>4,120,333</u>	<u>3,193,282</u>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY (DEFICIENCY)</b>	<u><b>29,660,615</b></u>	<u><b>32,428,853</b></u>
Number of units (1 Class I Preferred share , 1 Class II Preferred share and 1 Capital share) outstanding		
	2,533,477	2,555,577
Net Assets per unit (note 2)	\$11.63	11.25
Net Assets per Class I Preferred share (note 2)	5.00	5.00
Net Assets per Class II Preferred share (note 2)	5.00	5.00
Net Assets per Capital share (note 2)	1.63	1.25

Approved on behalf of the Board of Directors



**WAYNE FINCH**

Chief Executive Officer,  
President and Director



**PETER CRUICKSHANK**

Chief Financial Officer  
and Director

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

**NEW COMMERCE SPLIT FUND**  
**STATEMENT OF OPERATIONS**

FOR THE SIX MONTH PERIOD ENDED MAY 31 (UNAUDITED)

	2014 (\$)	2013 (\$)
<b>INCOME</b>		
Dividends	526,232	610,955
	<u>526,232</u>	<u>610,955</u>
<b>EXPENSES (note 6)</b>		
Management fees	79,446	79,911
Audit fees	11,000	10,000
Directors' fees	11,792	9,808
Independent Review Committee fees	1,154	1,702
Custodian fees	8,751	8,435
Shareholder reporting costs	104,267	7,135
Legal fees	23,548	15,493
Other operating expenses	22,400	25,554
Harmonized sales tax	17,080	18,142
	<u>279,438</u>	<u>176,180</u>
<b>Net investment income</b>		
<b>before distributions on Preferred shares</b>	<b>246,794</b>	<b>434,775</b>
<b>Distributions on Preferred shares (note 4 and 7)</b>	<b>(475,324)</b>	<b>(529,685)</b>
<b>Net loss for the period</b>	<b>(228,530)</b>	<b>(94,910)</b>
<b>Realized and unrealized gain (loss)</b>		
<b>on investments and options and transaction costs</b>		
Net realized gain on investments and options for the period	1,613,276	275,858
Change in unrealized depreciation of investments and options	(425,253)	(811,363)
Transaction costs on purchase and sale of investments (note 2)	(4,561)	(773)
	<u>1,183,462</u>	<u>(536,278)</u>
<b>Net gain (loss) on investments and options for the period</b>	<b>1,183,462</b>	<b>(536,278)</b>
Change in Value of Preferred shares	1,317	709
Net allocation on retraction of Preferred shares	(1,317)	-
<b>Increase (decrease) in net assets from operations for the period</b>	<b>954,932</b>	<b>(630,479)</b>
<b>Increase (decrease) in net assets from operations per Capital share</b>	<b>0.38</b>	<b>(0.22)</b>

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

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**NEW COMMERCE SPLIT FUND**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
FOR THE SIX MONTH PERIOD ENDED MAY 31 (UNAUDITED)

	2014	2013
	(\$)	(\$)
<b>Shareholders' equity - Beginning of period</b>	<b>3,193,282</b>	<b>694,117</b>
Increase (decrease) in net assets from operations for the period	954,932	(630,479)
Net allocation on retractions	(27,881)	(10,510)
<b>Increase (decrease) in shareholders' equity for the period</b>	<b>927,051</b>	<b>(640,989)</b>
<b>Shareholders' equity - End of period</b>	<b><u>4,120,333</u></b>	<b><u>53,128</u></b>

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

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

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

	2014	2013
	(\$)	(\$)
<b>Cash flow from Operating activities</b>		
Net investment loss for the period	(228,530)	(94,910)
Proceeds from sale of investments	9,541,440	2,762,427
Purchase of investments	(13,686,488)	(356,054)
Net change in interest, dividends and other receivables	(320)	(923)
Net change in fees, other accounts payable and dividends payable on Preferred shares	92,892	(9,758)
Cash flow from operations	<u>(4,281,006)</u>	<u>2,300,782</u>
<b>Cash flow from Shareholder activities</b>		
Amount paid on redemption of Capital and Class I and Class II Preferred shares	(248,882)	(128,801)
Cash flow from Shareholder activities	<u>(248,882)</u>	<u>(128,801)</u>
Increase (decrease) in cash for the period	(4,529,888)	2,171,981
Cash, beginning of period	5,757,709	667,010
<b>Cash, end of period</b>	<u><b>1,227,821</b></u>	<u><b>2,838,991</b></u>
<b>Supplemental data</b>		
Distributions paid on Preferred shares	476,014	530,057

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

**NEW COMMERCE SPLIT FUND**  
**STATEMENT OF PORTFOLIO INVESTMENTS**  
AS AT MAY 31, 2014 (UNAUDITED)

No. of shares	Description	Average Cost (\$) (Premiums received)	Fair Value (\$)
	<b>Core Holding</b>		
	<b>Canadian Common Equities</b>		
297,326	Canadian Imperial Bank of Commerce	24,264,107	28,442,205
	<b>Total Canadian Common Equities in Core Holdings (100.0%)</b>	<u>24,264,107</u>	<u>28,442,205</u>
<b>No. of contracts</b>	<b>Call options written (100 shares per contract)</b>		
(260)	Canadian Imperial Bank of Commerce @ \$100 June 2014	(16,770)	(3,900)
(260)	Canadian Imperial Bank of Commerce @ \$100 July 2014	(15,340)	(6,760)
	<b>Total Canadian call options written (0.0%)</b>	<u>(32,110)</u>	<u>(10,660)</u>
		<u>24,231,997</u>	<u>28,431,545</u>
	less adjustment for transaction costs	(8,144)	
	<b>Total Investments (100%)</b>	<u>24,223,853</u>	<u>28,431,545</u>

**The Company's investment portfolio is concentrated as follows:**

	May 31, 2014	November 30, 2013
Canadian Common Equities	96.6%	92.9%
Other Assets less Liabilities (excluding Class I and Class II Preferred shares)	3.4%	7.1%
	<u>100.0%</u>	<u>100.0%</u>

The Statement of Portfolio Investments is at May 31, 2014 and may or may not be indicative of the current portfolio.

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



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# NEW COMMERCE SPLIT FUND

## NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2014 AND 2013 (UNAUDITED)

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### 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, 2012. 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. As a result of the elections made by shareholders, approximately 65.91% of the Commerce Split Corp. assets at the reorganization date were transferred to New Commerce Split Fund. As a consequence, 70,026 CIBC common shares valued at \$5,319,875 and \$32,794,125 of cash were transferred to New Commerce Split Fund as at the reorganization date. The initial Net Asset Value of New Commerce Split Fund was \$9.94 per unit. The New Commerce Split Fund invests primarily in common shares of CIBC and has also implemented a covered call writing program to supplement the dividend income earned from CIBC common stock. The manager and the investment manager of New Commerce Split Fund is Quadravest Capital Management Inc. ("Quadravest"). The termination date of the Company was extended to December 1, 2019, as a result of a special meeting held on May 14, 2014 and may be extended thereafter at the Company's discretion for additional terms of five years each.

### 2. Summary of significant accounting policies

These financial statements, prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), include estimates and assumptions by management that affect the reported amount of assets, liabilities, income and expenses during the reporting years. Actual results could differ from these estimates.

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

#### Valuation of investments

Investments are categorized as held for trading and are recorded at fair value for purposes of determining the Net Assets per unit reflected in the financial statements.

The fair value of investments as at the financial reporting date is determined as follows:

- Shares or other securities for which market quotations are readily available are valued at the closing bid price
- Call options written are valued at closing ask prices as reported on recognized exchanges
- Fixed income investments are based on the average bid quotations from recognized dealers

National Instrument 81-106 ("NI 81-106") requires an investment fund to calculate its Net Asset Value for the purposes of any purchases or redemption of units based on the fair value of the investment fund's assets and liabilities (Net Asset Value or NAV).

The fair value of investments for purposes of calculating the bi monthly Net Asset Value used for the purposes of calculating the price paid on any redemptions received is determined as follows:

- Shares or other securities for which market quotations are readily available are valued at the last traded market price
- Call options written are valued at the last traded prices as reported on recognized exchanges
- Fixed income investments are based on the average bid quotations from recognized dealers

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**NEW COMMERCE SPLIT FUND**  
**NOTES TO FINANCIAL STATEMENTS****FOR THE SIX MONTH PERIOD ENDED MAY 31, 2014 AND 2013 (UNAUDITED)**

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In accordance with NI 81-106, the Net Asset Value per unit is compared to the Net Assets per unit and the difference is required to be disclosed in the notes to the financial statements. The following table is presented to show the differences between these amounts:

	Net Assets (GAAP) per unit	Difference	Net Asset Value (Published NAV) per unit
May 31, 2014	\$11.63	\$0.00	\$11.63
November 30, 2013	\$11.25	\$0.00	\$11.25

**Transaction costs**

- Transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Fund are recognized as an expense in the Statement of Operations.

**Investment transactions and income recognition**

- Investment transactions are accounted for on the trade date
- Realized gains and losses on investment sales and unrealized appreciation or depreciation in investment values are calculated on the average cost basis
- Written call option income received is deferred and included in investments on the statements of financial position. Realized capital gains or losses are recognized in the statements of operations when options are exercised, expire or are closed out
- Deferred gains and losses on options are recognized in investments and as a component of net unrealized appreciation (depreciation) in the statements of operations
- Dividend income is recognized on the ex-dividend date. Interest income is recognized when earned
- Net realized gains and losses on investments include net realized gains or losses from foreign currency changes

**Redeemable Class I and Class II Preferred shares**

In accordance with their terms, each redeemable Class I Preferred share is valued at the lesser of: (i) \$5.00; and (ii) the Net Assets of the Fund divided by the number of Class I Preferred shares outstanding. Each redeemable Class II Preferred share is valued for financial statement purposes at the amount, if any, of the difference between the Net Assets per unit of the Fund and \$5.00 (the amount owing on the final redemption of the Class I Preferred shares) subject to a maximum value of \$5.00 per share. The Net Assets are equal to the difference between the aggregate value of the assets of the Fund and the aggregate value of its liabilities, excluding Class I and Class II Preferred shares of the Fund.

**Cash and short-term investments**

Cash and short-term investments consist of cash on hand and short term debt investments with maturities of less than three months on acquisition. Cash and short-term investments are deemed held for trading and therefore are carried at fair value.

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**NEW COMMERCE SPLIT FUND**  
**NOTES TO FINANCIAL STATEMENTS**

FOR THE SIX MONTH PERIOD ENDED **MAY 31, 2014 AND 2013 (UNAUDITED)**

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**Other Assets and Liabilities**

Other assets are designated as loans and receivables and recorded at cost or amortized cost. Similarly, other liabilities are designated as financial liabilities and reported at cost or amortized cost. Cost or amortized cost approximates fair value for these assets and liabilities due to their short-term nature.

**3. Management of Risk of Financial Instruments**

CICA Handbook – Accounting Section 3862, Financial Instruments–Disclosures (“Section 3862”) requires disclosure about the inputs to fair value measurements, including the classification with a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

The following table illustrates the classification of the Fund’s financial instruments within the fair value hierarchy as at May 31, 2014 and November 30, 2013:

Financial assets and liabilities at fair value as at May 31, 2014

	Level 1	Level 2	Level 3	Total
Equities	\$28,442,205	-	-	\$28,442,205
Options	<u>(\$10,660)</u>	<u>-</u>	<u>-</u>	<u>(\$10,660)</u>
	\$28,431,545	-	-	\$28,431,545

Financial assets and liabilities at fair value as at November 30, 2013

	Level 1	Level 2	Level 3	Total
Equities	\$26,719,065	-	-	\$26,719,065
Options	<u>(\$48,850)</u>	<u>-</u>	<u>-</u>	<u>(\$48,850)</u>
	\$26,670,215	-	-	\$26,670,215

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.**

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**NEW COMMERCE SPLIT FUND**  
**NOTES TO FINANCIAL STATEMENTS**

FOR THE SIX MONTH PERIOD ENDED **MAY 31, 2014 AND 2013 (UNAUDITED)**

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**Market Price Risk**

All securities investments present a risk of loss of capital.

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

**Price risk**

As at May 31, 2014, the Fund's exposure to CIBC common stock was 96.5% (November 30, 2013-92.8%) of the Net Assets of the Fund.

A 10% increase / decrease in the Portfolio would currently increase/decrease Net Assets of the Fund by \$2,843,155 (November 30, 2013-\$2,667,022).

**Interest rate risk**

The majority of the Company's financial assets and liabilities are non interest bearing. 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 (consistent with previous period).

**Currency risk**

The portfolio holding and other Net Assets are denominated in Canadian dollars and therefore there is no currency risk.

**Other risks**

**Credit risk**

Credit risk is defined as 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.

**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 stock 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 demand 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 stock of CIBC common stock and as such will be exposed to the specific factors that affect this stock.

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**NEW COMMERCE SPLIT FUND**  
**NOTES TO FINANCIAL STATEMENTS**

FOR THE SIX MONTH PERIOD ENDED **MAY 31, 2014 AND 2013 (UNAUDITED)**

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**4. 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

Issued and outstanding

	May 31, 2014	May 31, 2013
2,533,477 Class I Preferred shares (May 31, 2013-2,821,022)	\$12,667,385	\$14,105,110
2,533,477 Class II Preferred shares (May 31, 2013-2,821,022)	\$12,667,385	\$14,105,110
	<u>\$12,667,385</u>	<u>\$14,105,110</u>

Preferred share transactions

Beginning of period	2,555,577	2,832,922
Redeemed during the period	(22,100)	(11,900)
Class I and Class II Preferred shares end of period	<u>2,533,477</u>	<u>2,821,022</u>

Class I Preferred shares are entitled to fixed cumulative monthly dividends of \$0.03125 per share (\$0.025 per Class I Preferred Share, effective with the December 2014 dividend). 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 (effective June 2014, prior thereto \$12.50). 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 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 May 31, 2014 of Class I Preferred shares and Class II Preferred share was \$5.15 and \$5.05 respectively (November 30, 2013-\$5.25 and \$4.51 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.

**NEW COMMERCE SPLIT FUND**  
**NOTES TO FINANCIAL STATEMENTS**

FOR THE SIX MONTH PERIOD ENDED **MAY 31, 2014 AND 2013 (UNAUDITED)**

**5. 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.

Issued and outstanding

	May 31, 2014	May 31, 2013
2,533,477 Capital shares (May 31, 2013-2,821,022)	_____ -	_____ -

Capital share transactions

Beginning of period	2,555,577	2,832,922
Redeemed during the period	(22,100)	(11,900)
Capital shares end of period	_____ 2,533,477	_____ 2,821,022

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. 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 \$1.67 as at May 31, 2014 (November 30, 2013-\$1.05). 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.

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).

**Changes to components of equity**

May 31, 2014

	Capital shares	Retained earnings
Beginning of period	-	\$3,193,282
Increase in net assets from operations	-	\$954,932
Net allocations on retractions	_____	(27,881)
End of period	_____ -	_____ \$4,120,333

May 31, 2013

	Capital shares	Retained earnings
Beginning of period	-	\$694,117
Decrease in net assets from operations	-	(630,479)
End of period	_____ -	_____ \$63,638

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**NEW COMMERCE SPLIT FUND**  
**NOTES TO FINANCIAL STATEMENTS**

FOR THE SIX MONTH PERIOD ENDED **MAY 31, 2014 AND 2013 (UNAUDITED)**

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**6. 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 administration 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% 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, as a result of the reorganization, Quadravest will receive the monthly redemption fee, if any, of 3% of the Net Asset value on monthly retractions. Redemption fees paid for the period ending May 31, 2014 were \$7,470 (May 31, 2013 - \$3,794).

Total management fees of \$79,446 (May 31, 2013-\$79,911) incurred during the year include the administration fee and base management fee. As at May 31, 2014, \$13,928 (November 30, 2013-\$13,639) was payable to the Manager with respect to management and administrative fees.

The brokerage commissions paid during the period by the Fund for its portfolio transactions were \$4,561 (May 31, 2013-\$773)

**7. Distributions**

Distributions per share were as follows:

	May 31, 2014	May 31, 2013
Class I Preferred shares	\$0.1875	\$0.1875
Class II Preferred shares	-	-
Capital shares	-	-

**8. 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 \$0.03125 (\$0.025 per Class I Preferred Share, effective with the December 2014 dividend) per Class I Preferred share to yield 7.50% per annum on the \$5 Class I Preferred Share Repayment Amount (6.00% per annum on the Class I Preferred Share Repayment Amount, effective with the December 2014 monthly dividend) and to return \$5 per share to their holders on the termination date; and

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## NEW COMMERCE SPLIT FUND

### NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2014 AND 2013 (UNAUDITED)

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- 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 (effective June 2014 , prior thereto \$12.50) 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.

#### 9. Income Taxes

The Company is mutual fund corporation as defined in the Income Tax Act (Canada) (the "Act") and is subject to tax in respect of its net income (excluding Canadian dividends) and realized capital gains. This tax on realized capital gains is refundable in certain circumstances. Also, the Company is generally subject to a tax of 33-1/3% under Part IV of the Act on Canadian dividends received in the year. Part IV tax is fully refundable upon payment of sufficient dividends.

Commerce Split Corp. is also a financial intermediary corporation as defined in the Act and, as such, is not subject to tax under Part IV.1 of the Act on dividends received nor is it generally liable to tax under Part VI.1 on dividends paid on taxable Preferred shares.

Temporary differences between the carrying value of assets and liabilities for accounting and income tax purposes give rise to future income tax assets and liabilities. When the market value of a security in the Fund exceeds its cost base, a future income tax liability arises. As capital gains taxes payable by the Fund are refundable under the provisions of the Act, the future tax liability is offset by these future refundable taxes. If the cost base exceeds the market value of the security, a future income tax asset is generated. A full valuation allowance is taken to offset this asset given the uncertainty that such future assets will ultimately be realized. Future income tax liabilities or assets are calculated using substantively enacted tax rates expected to apply in the year that the temporary differences are expected to reverse.

Commerce Split Corp. has estimated accumulated non capital losses for tax purposes of \$7,028,519 (November 30, 2013-\$7,343,630) 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. Commerce Split Corp. also has estimated accumulated capital losses for tax purposes of \$80,720,279 (November 30, 2013-\$81,056,101) which may be used to lower future capital gains if required.

Original Commerce Split Fund was terminated on October 31, 2012 and all final tax loss carry forwards are included in Commerce Split Corp. for the benefit of the New Commerce Split Fund.







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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,  
Chairman and  
Chief Investment Officer,  
Quadravest Capital Management Inc.

Peter Cruickshank,  
Managing Director and  
Chief Financial Officer,  
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  
Blake, Cassels & Graydon LLP

John Steep  
President, S. Factor Consulting Inc.

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## **CORPORATE DETAILS**

### **Auditor**

PricewaterhouseCoopers LLP  
18 York Street, Suite 2600  
Toronto, Ontario M5J 0B2

### **Transfer Agent**

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100 University Avenue  
Toronto, Ontario M5J 2Y1

### **Legal Counsel**

Blake, Cassels & Graydon LLP  
Commerce Court West  
Toronto, Ontario M5L 1A9

### **Custodian**

RBC Investor Services Trust  
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