

CWB Core Equity Fund

Annual Financial Statements

For the years ended December 31, 2018 and 2017



KPMG LLP
2200, 10175 – 101 Street
Edmonton, AB T5J 0H3
Telephone (780) 429-7300
Fax (780) 429-7379
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Unitholders of CWB Core Equity Fund

Opinion

We have audited the financial statements of CWB Core Equity Fund (“the Fund”), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of comprehensive income for the year then ended
- the statement of changes in net assets attributable to holders of redeemable units for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “***Auditors’ Responsibilities for the Audit of the Financial Statements***” section of our auditors’ report.

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Matter – Comparative Information

The financial statements for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements on March 23, 2018.



Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in the Annual Management Report of Fund Performance document.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert of indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the Annual Management Report of Fund Performance document as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund's to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Edmonton, Canada

March 22, 2019

CWB Core Equity Fund

Statements of Financial Position

As at December 31

	2018	2017
Assets		
Cash	\$ 367,762	\$ 1,609,238
Subscriptions receivable	173,580	77,259
Dividends receivable	117,840	154,938
Investments at fair value through profit or loss	43,318,908	57,856,653
Due from CWB Wealth Management Ltd.	62,351	84,559
	<u>44,040,441</u>	<u>59,782,647</u>
Liabilities		
Distributions payable	6,095	-
Redemptions payable	481,908	1,254,021
Accrued liabilities (note 4)	53,835	63,816
	<u>541,838</u>	<u>1,317,837</u>
Net assets attributable to holders of redeemable units	<u>\$ 43,498,603</u>	<u>\$ 58,464,810</u>
Redeemable units outstanding (note 5)	2,584,916	3,102,550
Net assets attributable to holders of redeemable units per unit	<u>\$ 16.83</u>	<u>\$ 18.84</u>

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

Approved by CWB Wealth Management Ltd. in its capacity as manager of CWB Core Equity Fund

(Signed) "David Schaffner"

David Schaffner
President & Chief Executive Officer

(Signed) "Carolyn Graham"

Carolyn J. Graham
Executive VP & Chief Financial Officer

CWB Core Equity Fund
Statements of Comprehensive Income
For the years ended December 31

	2018	2017
Revenue		
Dividends	\$ 1,650,487	\$ 2,066,631
Interest for distribution purposes	26,494	56,459
Foreign exchange gain (loss)	1,142	(474)
Net realized gain on sale of investments	2,311,031	2,974,012
Net change in unrealized depreciation in value of investments	(7,090,330)	(1,033,914)
Total revenue	<u>(3,101,176)</u>	<u>4,062,714</u>
Expenses		
Management fees (note 4)	549,547	625,843
Administration fees	32,383	36,650
Record keeping	17,680	23,583
Trustee fees	16,406	17,063
Legal fees	11,204	8,922
Custodian fees	10,496	10,496
Audit fees	9,310	21,751
Transaction fees	8,148	5,508
Activity fees	1,924	2,840
Independent Review Committee fees	1,500	1,042
Other	3,349	1,935
Total expenses before fee refund	<u>661,947</u>	<u>755,633</u>
Management fees refunded (note 4)	(39,525)	(39,733)
Total expenses	<u>622,422</u>	<u>715,900</u>
Increase (decrease) in net assets attributable to holders of redeemable units before withholding taxes	(3,723,598)	3,346,814
Withholding tax expense (note 6)	103,180	135,837
Increase (decrease) in net assets attributable to holders of redeemable units	<u>\$ (3,826,778)</u>	<u>\$ 3,210,977</u>
Weighted average units outstanding during the year	2,793,893	3,191,887
Increase (decrease) in net assets attributable to holders of redeemable units per unit	<u>\$ (1.37)</u>	<u>\$ 1.01</u>

The accompanying notes are an integral part of these financial

CWB Core Equity Fund

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units For the years ended December 31

	2018	2017
Net assets attributable to holders of redeemable units – Beginning of year	\$ 58,464,810	\$ 59,157,709
Increase (decrease) in net assets attributable to holders of redeemable units	(3,826,778)	3,210,977
Distributions to unitholders of redeemable units		
From net investment income	(961,653)	(1,225,590)
Net realized capital gains	(206,721)	(783,484)
From management fees refunded (note 4)	(39,525)	(39,733)
	<u>(1,207,899)</u>	<u>(2,048,807)</u>
Redeemable unit transactions (note 5)		
Issuance of redeemable units	1,701,077	4,245,936
Reinvested distributions from holders of redeemable units	1,201,804	2,048,807
Redemption of redeemable units	(12,834,411)	(8,149,812)
	<u>(9,931,530)</u>	<u>(1,855,069)</u>
Net decrease in net assets attributable to holders of redeemable units	<u>(14,966,207)</u>	<u>(692,899)</u>
Net assets attributable to holders of redeemable units – End of year	<u>\$ 43,498,603</u>	<u>\$ 58,464,810</u>

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

CWB Core Equity Fund

Statements of Cash Flows

For the years ended December 31

	2018	2017
Cash flows from operating activities		
Increase (decrease) in net assets attributable to holders of redeemable units	\$ (3,826,778)	\$ 3,210,977
Adjustments for:		
Net realized gain on sale of investments	(2,311,031)	(2,974,012)
Foreign exchange (gain) loss	(1,142)	474
Net change in unrealized depreciation in value of investments	7,090,330	1,033,914
Purchase of investments	(22,748,424)	(23,772,163)
Proceeds from sale of investments	32,506,870	26,589,176
Dividends , net of withholding taxes	(1,547,307)	(1,930,794)
Interest for distribution purposes	(26,494)	(56,459)
Due from CWB Wealth Management Ltd.	22,208	1,764
Accrued liabilities	(9,981)	(770)
Dividends received, net of withholding taxes	1,584,405	1,921,941
Interest received	26,494	56,459
	<u>10,759,150</u>	<u>4,080,507</u>
Cash flows used in financing activities		
Proceeds from issuances of redeemable units	1,604,756	4,404,769
Amounts paid on redemption of redeemable units	(13,606,524)	(6,948,157)
	<u>(12,001,768)</u>	<u>(2,543,388)</u>
Effect of foreign exchange fluctuations on cash	1,142	(474)
Net increase (decrease) in cash	(1,242,618)	1,537,119
Cash - Beginning of year	<u>1,609,238</u>	<u>72,593</u>
Cash - End of year	<u>\$ 367,762</u>	<u>\$ 1,609,238</u>

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

CWB Core Equity Fund

Schedule of Investment Portfolio

As at December 31, 2018

	Maturity Date	Par Value (\$)	Average Cost (\$)	Fair Value (\$)	% of Net Assets
Short-term notes					
Government of Canada Treasury Bill	03/21/2019	266,000	264,995	264,995	0.6
Total short-term notes			264,995	264,995	0.6
Equities					
		Number of Shares			
Domestic equities					
Energy					
ARC Resources Ltd.		33,280	692,076	269,568	0.6
Canadian Natural Resources Ltd.		20,331	781,286	669,703	1.5
Imperial Oil Ltd.		8,625	345,968	298,339	0.7
Pembina Pipeline Corp.		17,440	767,167	706,494	1.6
Suncor Energy Inc.		23,660	902,891	902,156	2.1
TransCanada Corp.		16,219	679,962	790,676	1.8
Vermilion Energy Inc.		13,035	528,819	374,887	0.9
			4,698,169	4,011,823	9.2
Industrials					
Canadian National Railway Co.		11,515	697,255	1,164,282	2.7
Russel Metals Inc.		18,554	455,377	395,757	0.9
Stantec Inc.		18,560	590,735	555,130	1.3
Toromont Industries Ltd.		8,821	374,588	478,627	1.1
TransContinental Inc., Class A		9,040	151,130	174,472	0.4
			2,269,085	2,768,268	6.4
Consumer discretionary					
Canadian Tire Corp., Class A		4,810	628,305	686,579	1.6
			628,305	686,579	1.6
Consumer staples					
Alimentation Couche-Tard Inc., Class B		14,555	388,215	988,430	2.3
Loblaw Companies Ltd.		11,195	485,489	684,126	1.6
Premium Brands Holdings Corp.		1,825	139,731	136,620	0.3
George Weston Ltd.		1,264	89,185	113,823	0.2
			1,102,620	1,922,999	4.4
Financials					
Bank of Nova Scotia		15,933	1,000,293	1,084,241	2.5
Cananadian Imperial Bank of Commerce		6,610	733,185	672,105	1.6
Manulife Financial Corp.		27,245	454,119	527,736	1.2
Royal Bank of Canada		17,278	1,223,871	1,614,456	3.7
Sun Life Financial Inc.		11,865	459,673	537,366	1.2
Toronto Dominion Bank		25,190	1,225,544	1,709,393	3.9
			5,096,685	6,145,297	14.1
Information technology					
CGI Group Inc., Class A		9,890	584,461	825,815	1.9
			584,461	825,815	1.9

CWB Core Equity Fund

Schedule of Investment Portfolio ...continued

As at December 31, 2018

	Number of Shares	Average Cost (\$)	Fair Value (\$)	% of Net Assets
Materials				
Agnico Eagle Mines Ltd.	13,245	594,513	729,800	1.7
First Quantum Minerals Ltd.	34,147	548,881	376,983	0.9
Franco-Nevada Corp.	6,815	578,249	652,400	1.5
		1,721,643	1,759,183	4.1
Telecommunication services				
BCE Inc.	18,785	804,061	1,013,075	2.3
Telus Corp.	22,212	566,587	1,005,093	2.3
		1,370,648	2,018,168	4.6
Utilities				
Emera Inc.	21,265	919,053	929,493	2.2
Fortis Inc.	20,272	795,044	922,579	2.1
		1,714,097	1,852,072	4.3
Total domestic equities				
		19,185,713	21,990,204	50.6
Foreign equities				
Energy				
Exxon Mobil Corp.	7,550	825,512	703,163	1.6
Helmerich & Payne	8,270	679,677	541,491	1.2
Phillips 66	3,445	304,668	405,352	1.0
		1,809,857	1,650,006	3.8
Consumer staples				
Archer Daniels Midland Co.	9,080	425,126	508,089	1.2
Walgreens Boots Alliance Inc.	6,315	586,407	589,349	1.4
Wal-Mart Stores Inc.	4,940	477,814	628,489	1.4
		1,489,347	1,725,927	4.0
Industrials				
Cummins Inc.	3,085	676,771	563,092	1.3
Fedex Corp.	2,085	648,366	459,419	1.0
Fluor Corp.	5,875	415,780	258,376	0.6
Harris Corp.	3,455	217,164	635,393	1.5
Snap-On Inc.	3,135	615,904	622,102	1.4
		2,573,985	2,538,382	5.8
Telecommunications services				
AT&T Inc.	7,245	281,323	282,410	0.6
Omnicom Group	2,860	290,629	286,090	0.7
Verizon Communications Inc.	6,560	487,068	503,713	1.2
		1,059,020	1,072,213	2.5
Consumer discretionary				
Best Buy Inc.	5,200	227,976	376,131	0.9
Target Corp.	6,100	403,551	550,622	1.2
Whirlpool Corp.	2,980	418,106	434,971	1.0
		1,049,633	1,361,724	3.1

CWB Core Equity Fund

Schedule of Investment Portfolio ...continued

As at December 31, 2018

	Number of Shares	Average Cost (\$)	Fair Value (\$)	% of Net Assets
Financials				
Aflac Corp.	11,535	310,233	717,777	1.7
Annaly Capital Management Inc.	17,905	230,669	240,145	0.5
Discover Financial Services	7,535	529,352	606,982	1.4
JPMorgan Chase & Co.	2,760	399,532	367,990	0.8
M & T Bank Corp.	3,390	399,030	662,702	1.5
Metlife Inc.	11,345	563,811	636,226	1.5
		2,432,627	3,231,822	7.4
Information technology				
Apple Inc.	2,780	770,957	598,928	1.4
Corning Inc.	11,885	200,319	490,386	1.1
Cisco Systems Inc.	11,895	274,046	703,949	1.6
Intel Corp.	10,990	378,900	704,428	1.6
Microsoft Corp.	6,555	309,065	909,340	2.1
Visa Inc., Class A	2,165	408,266	390,142	0.9
		2,341,553	3,797,173	8.7
Materials				
DowDuPont Inc.	7,763	335,534	567,034	1.3
Greif Inc., Class A	2,651	144,088	134,366	0.3
Newmont Mining Corp.	11,315	523,516	535,483	1.2
		1,003,138	1,236,883	2.8
Health care				
Anthem Inc.	2,260	273,676	810,664	1.9
Becton Dickinson & Co.	1,485	136,587	456,998	1.0
Gilead Sciences Inc.	5,545	607,725	473,715	1.1
Johnson & Johnson	3,865	369,115	681,233	1.6
Pfizer Inc.	10,645	339,512	634,627	1.5
Quest Diagnostics Inc.	4,635	458,508	527,140	1.2
		2,185,123	3,584,377	8.3
Utilities				
Entergy Corp.	7,360	651,396	865,202	2.0
		651,396	865,202	2.0
Total foreign equities		16,595,679	21,063,709	48.4
Total equities		35,781,392	43,053,913	99.0
Total investments at fair value through profit or loss		36,046,387	43,318,908	99.6
Other assets less liabilities			179,695	0.4
Total net assets			43,498,603	100.0

CWB Core Equity Fund

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

1 General

The CWB Core Equity Fund (the Fund) is headquartered at Suite 3000, 10303 Jasper Avenue in Edmonton, Alberta. The Fund is open-ended mutual fund trust and was established by a Declaration of Trust made as of May 4, 2001, under the laws of Alberta. Prior to March 1, 2017, Adroit Investment Management Ltd. (Adroit) acted as the Fund's trustee, manager, distributor and portfolio manager. On March 1, 2017, CWB Wealth Management Ltd. (the Manager) assumed these duties after amalgamating with Adroit. RBC Investor Services is the custodian and administrator of the Fund.

The initial units of the Fund were issued to the public on August 10, 2001. The Fund is authorized to issue an unlimited number of units of a single series. All units of the Fund are of the same class with equal rights and privileges. Each unit is entitled to one vote at any meeting of unitholders and to equal participation in any distributions made by the Fund.

The financial statements were authorized for issue by the Manager on March 22, 2019.

2 Investment objective

The Fund's investment objective is to achieve long-term capital appreciation by employing a "growth at a reasonable price" investment approach through investments in Canadian equities and investments in United States and foreign equities. The Fund strives to maintain investments in United States and other foreign equities at no more than 50% of the value of the portfolio. Market fluctuations may cause this figure to be exceeded on occasion, however, foreign equities will never exceed 60% of portfolio value.

3 Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

a) Basis of preparation

These financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) on a historic cost basis, except the revaluation of investments at fair value through profit or loss.

b) New accounting standards

The Fund adopted IFRS 9 *Financial Instruments* (IFRS 9) effective January 1, 2018, which replaces IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39), using the modified retrospective approach. The adoption of this standard did not result in any adjustments to the opening balances reported as of January 1, 2018. The changes in accounting policies resulting from the adoption of IFRS 9 are described below.

Upon transition to IFRS 9, the Fund's financial instruments that were measured at fair value through profit or loss under IAS 39 continue to be measured at fair value through profit or loss. Financial instruments that were measured at amortized cost under IAS 39 continue to be measured at amortized cost.

CWB Core Equity Fund

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model. As the Fund measures a majority of its financial assets at FVTPL and hold only short-term financial assets at amortised cost, the impairment requirements under the new standard do not impact these financial statements.

In the comparative information, as reported under IAS 39, subscriptions, dividends and interest receivable, and due from CWB Wealth Management Ltd. were classified as loans and receivables and measured at amortized cost. Investments were classified at FVTPL. Redemptions payable and accrued liabilities were classified as other financial liabilities and measured at amortized cost. There has been no changes to the classification and measurement of the Fund’s redeemable units. The measurement basis of financial instruments under amortised cost or fair value remained unchanged on adoption of IFRS 9.

c) New accounting pronouncements issued but not yet adopted

The Fund continues to monitor changes to accounting standards issued by the IASB. These issued changes may have a significant impact on future financial statements.

Conceptual Framework for Financial Reporting

In March 2018, the IASB issued a revised version of the *Conceptual Framework for Financial Reporting* which assists the IASB in developing IFRS standards and serves as an accounting policy guide when no IFRS standard applies. The revision is effective for the Fund’s fiscal year beginning January 1, 2020 with early adoption permitted. The Fund is in the process of assessing the impact of the framework.

d) Use of estimates and significant judgements

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements as well as the reported amount of revenues and expenses during the period.

Estimated and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized in the period in which the estimates are revised and in any future period affected. Actual results may differ from these estimates.

e) Financial instruments

i) Classification and measurement

All financial instruments are measured at fair value on initial recognition. Subsequently, IFRS 9 requires financial assets to be classified into one of three categories: amortized cost, fair value through other comprehensive income, or fair value through profit or loss, based on the cash flow characteristics and the business model under which the assets are held.

A financial asset is classified and subsequently measured at amortized cost only if the asset is held within a business model whose objective is to hold assets to collect contractual cash flows, the contractual terms give rise on specified dates to cash flows that are solely payments of principle and interest on the principle outstanding, and it is not designated as fair value through profit or loss.

A financial asset is classified and subsequently measured at fair value through other comprehensive income only if the asset is held within a business model is achieved by both collecting contractual cash flows and selling financial assets, the contractual terms of the financial asset give rise on the specified dates to cash flows that are solely payments of principle and interest on the principal amount outstanding, and it is not designated as fair value through profit or loss.

CWB Core Equity Fund

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

On initial recognition of an equity investment that is not held for trading, an irrevocable election can be made to present subsequent changes in fair value in other comprehensive income. This election has not been made.

All other financial assets that do not meet the criteria are classified as measured at fair value through profit or loss.

A financial liability is generally measured at amortised cost, with exceptions that may allow for classification as fair value through profit or loss or designation at fair value through profit or loss. These exceptions include financial liabilities at fair value through profit or loss, such as derivatives that are liabilities, and financial liabilities that have been designated as measured at fair value through profit or loss.

ii) Recognition

Financial assets at fair value through profit or loss are recognized initially on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they are originated. The Fund derecognizes a financial asset or liability when their contractual obligations are discharged, cancelled or expire, the Fund's right to receive cash flows expire or the Fund has transferred substantially all rights and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the Statements of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Fund has not offset any financial instruments as at December 31, 2018 or December 31, 2017.

iii) Financial assets at fair value through profit or loss

Significant judgement is applied to determine the classification of the Fund's investments. Based on the Fund's business model, the manner in which the investments are managed, and how performance is evaluated on a fair value basis, fair value through profit or loss is the most appropriate classification.

Investments are measured at fair value through profit or loss and are initially recorded at their fair value, being 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, with the difference between this amount and cost recorded as unrealized appreciation (depreciation) in value of investments in the Statements of Comprehensive Income. In the case of securities listed on stock exchanges, the fair value means the last close price. For short-term notes, bonds and debentures, the fair value means the close price provided by independent security pricing services. In circumstances where the last close price is not within the bid-ask spread, the Fund's Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. Investments for which reliable quotations are not readily available are valued at their fair value as determined by the custodian, independent of the Fund's Manager, using a valuation technique that requires the use of inputs and assumptions based on observable market data. Such investment valuations may differ from values that would have been determined had a ready market existed, and the difference could be significant.

CWB Core Equity Fund

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

The cost of investments represents the amount paid for each security and is determined on an average cost basis. Investment transactions are accounted for on a trade date basis, and transaction fees, being any costs that can be directly attributed to the acquisition or disposal of an investment, incurred in the purchase and sale of securities by the Fund are recognized in the Statements of Comprehensive Income.

All financial assets measured at fair value through profit or loss are mandatorily measured at fair value through profit or loss in accordance with IFRS 9.

iv) Financial assets at amortized cost

Financial assets at amortized cost, which are financial assets with fixed or determinable payments that are not quoted in an active market, are recognized initially at fair value plus directly attributable transaction costs. After initial recognition, these financial assets are measured at amortized cost, being the amount required to be received or paid, discounted, when appropriate, at the investment's effective interest rate, less impairment losses. The Fund's cash, subscriptions, dividends and interest receivables as well as amounts owing from the Manager are classified as financial assets at amortized cost.

Financial assets at amortized cost are assessed at each reporting date to determine whether there is objective evidence of impairment, including forward-looking information. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event had an impact on the estimated future cash flows of that asset that can be estimated reliably.

v) Financial liabilities

Financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost. Redemptions payable, distributions payable and accrued liabilities are classified as financial liabilities.

vi) Valuation models

The Fund is required to classify investments into three levels based on the method used to value the investments. Level 1 values are based on quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect the Fund's determination of assumptions that market participants might reasonably use in valuing the securities. Refer to Note 8 for further information about the Fund's fair value measurements.

vii) Cash

Cash is comprised of demand deposits with financial institutions. Outstanding bank overdraft balances are short-term in nature and used to accommodate unit redemption requests while the Fund effects an orderly liquidation of portfolio assets. Cash and bank overdrafts are carried at amortized cost which approximates fair value.

CWB Core Equity Fund

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

f) Redeemable units

In accordance with IFRS, the Funds classify financial instruments issued as financial liabilities or equity instruments based on the substance of the contractual terms of the instruments. The Declaration of Trust establishes the termination date of the Funds on the 99th anniversary of the date of the Declaration of Trust therefore, the Fund's units do not qualify as equity under IFRS. The Funds' redeemable units, which are classified as liabilities, are measured at the redemption amount and provide investors with the right to require redemption, subject to available liquidity, for cash at a unit price based on the Funds' valuation policies at each redemption date. Units may be sold back to the Funds (the sale is called a 'redemption') at the then current net asset value per unit, upon the delivery of a redemption request to the Funds' Manager, together with any other documents the Manager may reasonably require. The Net Asset Value per Unit ("NAVPU") for the purposes of subscriptions or redemptions is computed by dividing the net asset value for the Fund by the total number of units outstanding at such time. Net asset value utilizes closing price to determine fair value, except where the last traded price for financial assets is not within the bid-ask spread, which is consistent with the presentation of net assets in the financial statements. As at December 31, 2018 and 2017, there were no differences between the Funds' NAVPU and its net assets attributable to holders of redeemable units per unit calculated in accordance with IFRS.

Distributions to holders of redeemable units are recognized in the Statement of Changes in Net Assets Attributable to Holders of Redeemable Units when they are authorized and no longer at the discretion of the Manager.

g) Income and expense recognition

Dividend income is recognized on the ex-dividend date. Interest income for distribution purposes shown on the Statements of Comprehensive Income represents the coupon interest received by the Fund accounted for on an accrual basis. Interest receivable is shown separately on the Statements of Financial Position based on the fixed income securities' stated rates of interest. The Fund amortizes premiums paid or discounts received on the purchase of fixed income securities using the effective interest rate method. Realized gains and losses from the sale of investments and unrealized appreciation (depreciation) in the value of investments are calculated with reference to the average cost of the related investments. All income, net realized gains (losses), unrealized appreciation (depreciation) in value, and transaction costs are attributable to investments.

h) Functional and foreign currencies

The financial statements are presented in Canadian dollars, which is the Fund's functional and presentation currency.

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Foreign currency assets and liabilities are translated into Canadian dollars using the exchange rate prevailing at the period-end date.

The Fund does not isolate the foreign exchange component from the total realized and unrealized gains and losses on investments. Foreign exchange gains and losses arising on the translation of foreign cash balances or on the settlement of foreign denominated receivables and amounts payable are recognized in the Statements of Comprehensive Income.

CWB Core Equity Fund

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

- i) Increase (decrease) in net assets attributable to holders of redeemable units per unit

Increase (decrease) in net assets attributable to holders of redeemable units per unit in the Statements of Comprehensive Income represents the increase (decrease) in net assets attributable to holders of redeemable units for the period, divided by the weighted average number of units outstanding during the period.

- j) Income and withholding taxes

The Fund qualifies as a mutual fund trust, is subject to tax under the Income Tax Act (the Act) on all of its taxable income (including net taxable capital gains) and is permitted a deduction in computing taxable income for all amounts which are paid or payable in the period to their unitholders. It is the policy of the Fund to allocate to the unitholders all income for the period so that it will not pay any Canadian federal income tax under Part I of the Act. Accordingly, no provision for income taxes has been made in these financial statements.

The Fund may incur withholding taxes imposed by certain countries on investment income and capital gains. Such income and gains are recorded on a gross basis and the related withholding taxes are shown as a separate expense in the Statements of Comprehensive Income, where applicable.

4 Related party transactions

The Manager is entitled to a management fee payable out of the assets of the Fund, calculated as one-twelfth of 1.0% of the monthly net asset value of the Fund and paid monthly. The management fee is paid in respect of managing the investment portfolio, providing investment analysis and recommendations, making investment decisions, making brokerage arrangements relating to the purchase and sale of the investment portfolio, making arrangements for the purchase and sale of units of the Fund by investors and ensuring compliance with the Fund's constating documents. For the year ended December 31, 2018, management fees paid to the Manager totaled \$549,547 (2017 – \$625,843) and accrued liabilities included \$37,081 as at December 31, 2018 (December 31, 2017 – \$44,266) related to management fees payable.

The Manager refunds a portion of management fees for employees of the Manager as well as employees of Canadian Western Bank, the Manager's parent company. This is achieved by refunding a portion of the management fee charged to the Fund based on the aggregate value of the investments held by employees. Refunded amounts are automatically reinvested in additional units of the Fund. The refunded amounts are shown as management fees refunded on the Statements of Comprehensive Income. For the year ended December 31, 2018, the Manager refunded \$39,525 (2017 – \$39,733) in management fees related to units held by employees of both the Manager and Canadian Western Bank.

In addition to the management fees, the Fund pays its direct or proportionate share of all operating and administrative costs including custodian, trustee, audit and legal fees, unitholder servicing costs and costs of preparing and filing financial and regulatory reports. Management, operating and administrative expenses (excluding withholding taxes) are capped at one-twelfth of 1.3% of the monthly net asset value of the Fund paid monthly. Expenses above the cap, which are paid by the Manager and not charged to the Fund, are recorded as a reduction to the management fee and are shown as management fees waived on the Statements of Comprehensive Income. The Manager offers reduced management fees in order to achieve competitive fees for this type of fund. Actual operating and administrative expenses, excluding management fees, charged to the Fund totaled \$112,400 (2017 – \$129,790) during the year ended December 31, 2018. The Manager did not waive any management fees during the year ended December 31, 2018 or 2017.

As at December 31, 2018, 141,704 units of the Fund (December 31, 2017 – 155,588) were held by employees of the Manager and their immediate family members.

CWB Core Equity Fund

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

5 Redeemable units

The following table summarizes unit transactions during the years ended December 31, 2018 and 2017:

	2018	2017
Redeemable units outstanding – Beginning of year	3,102,550	3,195,606
Redeemable units issued for cash	91,493	228,461
Redeemable units redeemed	(680,385)	(430,419)
Redeemable units issued on reinvestment of distributions and management fees refunded	71,258	108,902
Redeemable units outstanding – End of year	<u>2,584,916</u>	<u>3,102,550</u>

6 Income and withholding taxes

Non-capital losses are available to be carried forward for twenty years. Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains realized in future years. As at December 31, 2018, the Fund had no allowable capital losses (December 31, 2017 – nil) and no non-capital losses available for carryforward in future years.

Certain investment income and capital gains received by the Fund are subject to withholding tax imposed in the country of origin. Such income and gains are recorded on a gross basis and the related withholding taxes are shown as a separate expense in the Statements of Comprehensive Income. During the year ended December 31, 2018, the average withholding tax rate was 15% (2017 – 14%).

7 Financial risk management

The Fund is exposed to a variety of financial risks, which are concentrated in their investment holdings. The Schedule of Investment Portfolio groups securities by asset type, geographic region and market segment, where applicable.

The Fund's risk management practice includes the monitoring of compliance with the investment guidelines contained in the Fund's constating documents. The Manager manages the potential effects of financial risks on the Fund's performance by employing and overseeing professional and experienced portfolio advisors that regularly monitor the Fund's positions and market events as well as diversifying investment portfolios within the constraints of the Fund's investment guidelines. All investments result in a risk of loss of capital.

a) Currency risk

Currency risk is the risk that the value of investments denominated in currencies, other than the functional currency of the Fund, will fluctuate due to changes in foreign exchange rates. Foreign equities are exposed to currency risk as the prices denominated in foreign currencies are converted to the Fund's functional currency in determining fair value. The Fund may enter into forward currency contracts for economic hedging purposes to reduce foreign currency exposure or to establish exposure to foreign currencies. The Fund did not enter into forward currency contracts during the years ended December 31, 2018 and 2017.

As at December 31, 2018, the Fund's exposure to currency risk was primarily related to its holdings in U.S. denominated foreign equities. The Canadian equivalent of the foreign equities as at December 31, 2018 was \$21,063,709 (December 31, 2017 – \$28,620,670), or 48.4% (December 31, 2017 – 49.0%) of net assets, of which 48.4% (December 31, 2017 – 46.2%) were investments in the United States.

CWB Core Equity Fund

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

As at December 31, 2018, if the Canadian dollar had strengthened or weakened by 5% in relation to the U.S. dollar, with all other factors remaining constant, net assets could possibly have decreased or increased, respectively, by approximately \$1,053,000 (December 31, 2017 – \$1,431,000). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

b) Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and liabilities. The Fund's exposure to interest rate risk is concentrated in its short-term notes. Other assets and liabilities are short-term in nature and non-interest bearing.

As at December 31, 2018, 0.6% (December 31, 2017 – 0.1%) of the Fund's net assets were invested in short-term notes with a term to maturity of less than three months. The Fund's sensitivity to interest rate risk as determined based on portfolio weighted duration was not significant.

c) Price risk

Price risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in a market.

The Fund's policy is to manage price risk through diversification and selection of securities and other financial instruments within the limits specified in the Fund's constating documents. The Fund has adopted the standard investment restrictions and practices prescribed by Canadian securities regulation and, in addition, will restrict its investments to those prescribed under the Tax Act for Tax Deferred Plans. The Fund invests in a portfolio of Canadian equities, but maintains investments in the United States and foreign equities less than 60% of the total value of the portfolio. The Fund's maximum initial investment in any one security is limited to 10% of the value of the Fund's portfolio at the time of investment.

As at December 31, 2018, 99.0% (December 31, 2017 – 98.9%) of the Fund's net assets were traded on global stock exchanges. If equity prices on the global stock exchanges had increased or decreased by 10% as at the period-end, with all other factors remaining constant, net assets could possibly have increased or decreased, respectively, by approximately \$4,305,000 (December 31, 2017 – \$5,781,000). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

d) Credit risk

Credit risk is the risk that a loss could arise from a security issuer or counterparty to a financial instrument not being able to meet its financial obligations in full when they fall due. The main concentration to which the Fund is exposed arises from the Fund's investments in short-term notes. The Fund's exposure to counterparty credit risk on cash and other receivables is not significant.

As at December 31, 2018, the Fund had 0.6% (December 31, 2017 – 0.1%) of net assets invested in short-term notes, with 0.6% (December 31, 2017 – 0.1%) of net assets guaranteed by the federal government of Canada.

CWB Core Equity Fund

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

e) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Fund's exposure to liquidity risk is concentrated in the daily cash redemptions of units. The Fund primarily invests in securities that are traded in active markets and can be readily disposed. In addition, the Fund retains sufficient cash and short-term investment holdings to maintain liquidity. The Fund may, from time to time, enter into over-the-counter derivative contracts or invest in unlisted securities, which are not traded in an organized market and may be illiquid. The Fund did not enter into over-the-counter derivative contracts during the years ended December 31, 2018 and 2017

Redeemable units are redeemable on demand at the holder's option, however, it is not expected that this is representative of the Fund's actual cash outflows as holders of these instruments typically retain them for a longer period.

The Fund held no illiquid securities at the reporting date. All accrued liabilities come due within the next fiscal year.

f) Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. The Fund's policy is to manage concentration risk through appropriate diversification within the limits specified in the Fund's constating documents.

The following table summarizes the Fund's concentration risk by industry sector related to investments in equities:

	December 31, 2018 as a % of total equities	December 31, 2017 as a % of total equities
Financials	21.8	22.5
Energy	13.1	14.8
Industrials	12.3	14.9
Information technology	10.7	9.9
Consumer staples	8.5	6.0
Health care	8.3	8.1
Telecom services	7.2	5.3
Materials	7.0	3.2
Utilities	6.3	6.1
Consumer discretionary	4.8	7.6
Real estate	-	1.6
	<hr/> 100.0	<hr/> 100.0

CWB Core Equity Fund

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

8 Fair value of financial instruments

There were no significant transfers within the fair value hierarchy during the years ended December 31, 2018 and December 31, 2017 based on the valuation methods described in Note 3(e)(vi).

The following tables illustrate the classification of the Fund's financial instruments within the fair value hierarchy:

Investments at fair value through profit or loss as at December 31, 2018	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Short-term notes	-	264,995	-	264,995
Domestic equities	21,990,204	-	-	21,990,204
Foreign equities	21,063,709	-	-	21,063,709
	<u>43,053,913</u>	<u>264,995</u>	<u>-</u>	<u>43,318,908</u>

Investments at fair value through profit or loss as at December 31, 2017	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Short-term notes	-	49,790	-	49,790
Domestic equities	29,186,193	-	-	29,186,193
Foreign equities	28,620,670	-	-	28,620,670
	<u>57,806,863</u>	<u>49,790</u>	<u>-</u>	<u>57,856,653</u>

The carrying values of cash, subscriptions receivable, dividends receivable, amounts owing from the Manager, redemptions payable, accrued liabilities and distributions payable approximate their fair values due to their short-term nature. The carrying amount of the Fund's net assets attributable to holders of redeemable units approximates fair value as it is measured at the redemption amount and is classified as Level 2 within the fair value hierarchy.

9 Capital risk management

The capital of the Fund is represented by the net assets attributable to holders of redeemable units with no par value. The amount of net assets attributable to holders of redeemable units can change significantly on a daily basis as the Fund is subject to daily subscriptions and redemptions at the discretion of unitholders. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of units. The Fund's objective in managing the assets of the Fund is to ensure a stable base to maximize returns to all investors, and to manage liquidity risk arising from redemptions.

In order to maintain or adjust the capital structure, the Fund's policy is to perform the following:

- monitor the level of daily subscriptions and redemptions relative to the liquid assets and adjust the amount of distributions the Fund pays to redeemable unitholders; and
- redeem and issue new units in accordance with the constitutional documents of the Fund, which include the ability to restrict redemptions and require certain minimum holdings and subscriptions.

The Manager monitors capital on the basis of the value of net assets attributable to redeemable unitholders.

10 Brokerage commissions and soft dollars

The Fund may transact with brokers who charge a commission in "soft dollars" if they determine in good faith that the commission is reasonable in relation to the order execution and research services utilized. The ascertainable soft dollar value received by the Fund during the year ended December 31, 2018 was \$16,306 (2017 – \$17,017).