

ANNUAL REPORT 2018

Commodity Discovery Fund

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General information

Registered office

Commodity Discovery Management B.V.
Zandvoorterweg 77
2111 GT Aerdenhout
The Netherlands

Website

www.cdfund.com

Manager

Commodity Discovery Management B.V.
Zandvoorterweg 77
2111 GT Aerdenhout
The Netherlands

Custodian

As of March 16, 2018

KAS Trust & Depository Services B.V.
De Entrée 500
1101 EE Amsterdam
The Netherlands

Until March 16, 2018

Stichting Legal Owner CDFund
Smallepad 30F
3811 MG Amersfoort
The Netherlands

Legal and tax consultant

Loyens Loeff N.V.
Frederik Roeskestraat 100
1076 ED Amsterdam
The Netherlands

Bank

ABN AMRO Bank (Nederland) N.V.
Gustav Mahlerlaan 10
1082 PP Amsterdam
The Netherlands

Legal owner

Stichting Legal Owner CDFund
Smallepad 30F
3811 MG Amersfoort
The Netherlands

Administration office

Circle Investment Support Services BV.
Smallepad 30F
3811 MG Amersfoort
The Netherlands

Auditor

Ernst & Young Accountants LLP
Antonio Vivaldistraat 150
1083 HP Amsterdam
The Netherlands

Stockbrokers custodians

As of March 16, 2018

KASBANK N.V. (The Netherlands)

Interactive Brokers (U.K.) Ltd. (Great Britain)

Raymond James Ltd. (Canada)

Paradigm Capital Inc. (Canada)

Canaccord Wealth Management (Canada)

Until July 1, 2018

ABN AMRO Clearing Bank N.V. (The Netherlands)

Key figures

	2018	2017	2016	2015	2014
<i>Class CDF new asset class</i>					
Fund assets (x € 1,000)	1,414	-	-	-	-
Number of outstanding units	23,088	-	-	-	-
Fund assets per unit	61.23	-	-	-	-
<i>Class CDF all investors</i>					
Fund assets (x € 1,000)	30,666	44,619	41,999	23,355	26,587
Number of outstanding units	503,138	492,784	456,123	431,440	405,768
Fund assets per unit	60.95	90.54	92.08	54.13	65.52
Total of the fund					
Fund assets (x € 1,000)	32,080	44,619	41,999	23,355	26,587
Number of outstanding units	526,226	492,784	456,123	431,440	405,768
Fund assets per unit ¹	60.95	90.54	92.08	54.13	65.52
Return (in %)	(32.68)	(1.67)	70.11	(17.38)	(3.75)
Earnings (x € 1,000)	(14,827)	(1,022)	15,694	(5,062)	(1,430)
Ongoing costs rate	2.46%	2.39%	2.49%	2.62%	2.57%
Portfolio turnover rate	475%	465%	559%	142%	194%
Investment earnings per unit (in %*)					
Income	0.06	1.19	0.35	0.32	0.23
Value adjustments	(24.56)	0.34	76.49	(14.60)	(1.14)
Expenses	(3.68)	(3.20)	(6.73)	(3.10)	(2.97)
Total investment earnings	(28.18)	(1.67)	70.11	(17.38)	(3.88)
Benchmark ² (in %)	(25.50)	(8.54)	54.50	(28.32)	(21.20)

* The earnings per share were calculated based on the number of outstanding shares at the end of the reporting period.

¹ The fund capital per participation is calculated by dividing the fund assets, as recognized in the financial statements of the Fund, by the number of outstanding units.

² Benchmark: 50% TSX-V Index & 50% HUI Index.

Report of the manager

Macroeconomic developments

In 2018, the long-term upward trend of the Dow, caused by 10 years of quantitative easing (QE) in the US, was clearly broken after this expansion was halted. We also saw the ending of QE in other parts of the world, causing almost all markets and asset classes to perform poorly. With a performance of -10%, the AEX recorded its first negative year since 2011. Even the price of gold fell by 2%. With the increased tensions in world trade caused by the US, fears of a cyclical downturn have intensified and have now materialized. China, currently the engine of global economic growth, is strongly affected by Trump's policy of confrontation. Due to its strong domestic growth and exports, China is a major user of all kinds of metals. For many metals, half of the world's production is accounted for by China. As a result, the economic cooling led to significant price reductions in base metals such as zinc, copper, nickel and lead. 30% of our portfolio is related to these metals. We expect further cooling of the global economy and increasing stress in credit markets in 2019, which could take the credit crisis into a new phase. As mentioned above, almost all stock markets worldwide have already suffered damage as a result.

Investment policy 2018

60% of our portfolio consists of precious metal-related investments in listed companies active in the exploration and exploitation of raw materials, mainly metals. 20% of the companies are active in base metals, and a further 12% in the uranium sector. Our investment focus in 2018 was initially on the further development of a small number of so-called World Class (Discovery) projects, such as those of Nexgen Energy and SolGold. The underlying idea is that such projects are unique in size and quality and are therefore logical acquisition targets for the major producers. It was therefore no surprise to us that BHP has been building up an interest in SolGold since September 2018. It is the second major copper producer to acquire a stake in SolGold after Newcrest Mining. It seems only a matter of time before a bidding war will erupt for this company, which is responsible for the most significant copper discovery of Latin America at the moment.

We also remained convinced of the enormous potential of the gold discoveries made in 2017 in the Pilbara, Australia. The enormous size of the 2.7-billion-year-old gold-bearing conglomerates (600 x 300km) proves that we are dealing with one of the most extraordinary gold systems discovered in the last 150 years. The poor results of the long-awaited bulk samples taken by Novo Resources to test the quality of the gold layer have raised doubts about the economic profitability of its operation and led to a sharp drop in the prices of the companies involved. In 2018, we invested more of our time, attention and money in Australian companies working on new discoveries and projects, particularly in precious metals. Finally, during the summer we were pleasantly surprised by several good discoveries in Canada.

Despite the increase in the price of uranium, after an initial increase in 2018, uranium shares fell sharply during the year.

Fund performance

The correction we saw in the fund in 2017 continued its decline in 2018. With only 3 positive months, 2018 was one of our worst years. In addition to the portfolio developments mentioned above, this was further fueled by the underperformance of exploration shares in general. The Toronto Stock Venture Index (TSX-V), our most important stock exchange, where about two-thirds of our investments are listed, was the stock exchange with the largest loss in 2018. As a result, last year was also a very negative and frustrating year for our fund. After the short but strong recovery in 2016, most of the gains have been erased, which means that the market bottoms are being retested. Not only in the market, but also for our fund. From a technical perspective, however, there is now a second and slightly higher bottom. This pattern is reflected in (precious) metal prices, but also in our benchmarks (HUI and TSX-V) and finally also in our fund. For example, both the net asset value per unit and the assets under management (AUM) at the end of 2018 were significantly higher than at the end of 2015. But the undervaluation of our commodities sector is now relatively higher than at any time in the past 50 years.

Also noteworthy was the strong negative effect of the annual tax-loss selling at the end of the year, which allows Canadians to reduce taxes on investments by taking losses. This tax-loss selling usually hits smaller exploration companies harder. This resulted in a large discrepancy in December between the performance of the larger precious metals producers (HUI index +11%) and TSX-V (-5%).

Benchmark

Despite the poor results of recent years, we have still performed less poorly than our benchmarks since our start in 2008. Based on an indexation in the month of incorporation, the value development of CDF and our benchmark indices is as follows:

	CDF	TSX-V	HUI
Start June 2008	100.00	100.00	100.00
Year-end 2008	72.03	30.00	65.93
Year-end 2009	135.31	57.70	93.73
Year-end 2010	254.59	86.80	125.00
Year-end 2011	166.35	56.00	108.74
Year-end 2012	148.85	46.30	96.85
Year-end 2013	68.15	35.40	43.10
Year-end 2014	65.51	26.40	35.76
Year-end 2015	54.13	19.94	24.24
Year-end 2016	92.08	28.92	39.65
Year-end 2017	90.54	32.08	41.93
Year-end 2018	60.95	21.14	35.01

Perhaps the most important discovery in 2018 was made by Great Bear Resources, which reported very high-grade gold on its property in Red Lake, Ontario. In Red Lake, 28 million ounces of gold have been produced over the course of a century, and the Great Bear project has all the geological, geometric and gold concentration characteristics of a typical Red Lake mine.

In Australia, the Paterson area, east of the Pilbara, attracted attention after Rio Tinto made an important copper discovery there. Although the extent of the discovery has not yet been made public, its significance can be inferred from the fact that Rio Tinto has applied to build a runway there. Regional partner Greatland Gold discovered high quality gold that in terms of setting shows many similarities with the mineralization at the Telfer mine, where 27 million ounces of gold have now been found.

Last year we again saw five acquisitions in our portfolio, with Arizona Mining being the big hit. The average return on these five was only 13%, which is a good indication of the low valuations in the current negative market. Nevsun Mining was recently our 50th acquisition since we started in 2008, far exceeding an average of 1 acquisition per quarter. Another confirmation of the fact that new resource discoveries are still leading to takeovers and also of the ability of the fund managers to pick the performing stocks.

Assets under management

The fund was brought to the attention of investors during several presentations. By hiring an investor relations employee, we were able to further increase the inflow of assets, of new and existing participants, in 2018. This inflow amounted to EUR 4.7 million. That is again significantly greater than the outflow of capital, EUR 2.0 million. Due to the net inflow of EUR 2.7 million, the number of outstanding units rose to a new high of 526,226. An increase by almost 7% compared with the closing balance of last year (492,785). The number of shareholders rose from 664 to a new record of 687. Due to the negative performance, the fund assets declined from more than EUR 44.6 million to EUR 32.1, by year-end 2018.

Authorization

Since July 2014, the authorization of the manager, Commodity Discovery Management B.V., is subject to the more burdensome regime of UCITS (undertaking for collective investment in transferable securities). The advantage of the qualification of Commodity Discovery Fund as an UCITS is that the units in Commodity Discovery Fund can be offered relatively easily in another member state of the European Union or in a state that is party to the Agreement on the European Economic Area. Also characteristic for the UCITS is a greater emphasis in the regulations on risk management, among others through investment restrictions and a stricter test (by De Nederlandsche Bank - the Dutch Federal Reserve Bank) of the financial integrity of the direct and indirect shareholders of the manager, Commodity Discovery Management B.V.

Custodian

In 2018 we decided to enter into a relationship with KAS Trust in Amsterdam to act as depositary for the fund. KAS Trust has taken over this function from Circle Partners, who had indicated they would stop this task in connection with changes in legislation. The transition to KAS Trust was completed and approved by the AFM in March 2018. We also simultaneously transferred the settlement activities from ABN/Amro to KAS Bank.

Remuneration policy

The remuneration policy of the manager can still be called conservative. The management and employees are paid a fixed salary by the manager. Since 2016, a variable component is also possible in the remuneration of employees and management. For 2018, it was decided to only award a small bonus to two employees. In 2018, management and employees were paid a fixed salary totaling EUR 432,385, a decrease compared to a year earlier, when it was EUR 488,788. This concerns a total of 6 people (5 in the course of the year), all involved in the Fund. Of the disbursed amount, 62% relates to the 3 members (2 in the course of the year) of management and 38% to the employees (2.6FTE).

Risk section

The Fund invests in industries characterized by major fluctuations, as a result of which the returns are highly uncertain. Over the course of a year, the net asset value of the Fund and the units may fluctuate considerably. The extent to which an individual participant generates a profit or a loss, is therefore also dependent on the time of subscription and redemption of units. At the request of the AFM, the manager has changed its policy regarding the entry and exit fees, as a result of which we now apply for both a fixed fee of 0.5%. The main risks associated with investing in the Fund and the associated risk management are as follows:

Risks of a general economic and political nature

Investments by the fund are subject to risks of a general economic nature, such as fluctuations of economic activity, inflation and commodity prices. Additionally, the value of investments by the Fund can also be influenced by geopolitical developments. The countries where the companies in which the Fund invests are registered, are often characterized by geopolitical instability, which means that investments may be lost wholly or partially as a result of natural disasters or political unrest.

Concentration risk

The Fund invests in a limited number of industries, resulting in limited diversification and therefore a limited risk diversification. There is a risk that investments will not develop as expected. There is no guarantee that the target return shall be achieved. A specific investment method is being applied, which means that there is a substantial chance that the targeted return will be achieved.

Liquidity risk

Certain investments by the Fund, especially in so-called small caps, may, under certain circumstances, be less liquid, which may result in such investments being sold at a lower than expected value. Despite the continuing correction, the Fund was not subject to major redemptions, as a result of which no positions had to be reduced in a 'forced' manner.

Currency risks

In 2018, the euro fell by almost 5% against the US dollar but rose by more than 3% against the Canadian dollar. The manager did not fully hedge currency risks during the reporting period. In particular fluctuations in the Canadian dollar can impact the Net Asset Value (NAV) of the Fund, either positively or negatively. In recent years, we have had considerable headwinds from the strong euro and the low Canadian and Australian dollar, as most of our investments are exchange-listed in Canada. For a complete overview of the risks of the Fund, please refer to the risk description in the financial statements.

Risk management

When carrying out its investment policy, the Fund shall comply with the following restrictions:

- investments shall mainly be made in exchange-listed instruments. Where in occasional cases investments are made in unlisted companies, they will only be made in accordance with UCITS regulations;
- an interest in a particular company shall not exceed a maximum of 10% of the Net Asset Value, unless the manager considers it temporarily appropriate to derogate from this.

During 2017, a regular AFM audit of the fund took place, focusing on compliance with the UCITS provisions. The outcome of this audit was finalized at the beginning of 2018, and the most important point of adjustment concerns the ban on investing in futures. In the past, the AFM had expressly authorized this. On closer inspection, the AFM has reconsidered this original decision and has now prohibited it.

Principles of fund governance

The Dutch government has included in Article 17, paragraph 5, Dutch Decree conduct-of-business supervision financial companies (Bgfo -Besluit gedragstoezicht financiële ondernemingen) the regulation that the fund manager, the (independent) investment firm or its custodians must ensure independent supervision of the implementation of the organization's policies, procedures and measures. Within the trade association Dufas, the industry has committed to furthering self-regulation in this area, which has resulted in the Dufas Principles of Fund Governance. This gives substance to the statutory provisions for ethical conduct of business, as referred to in the Wet op het Financieel Toezicht [Dutch Financial Supervision Act], of which article 17 paragraph 5 Bgfo forms a further detailed specification. The Commodity Discovery Fund is realizing its governance policy by applying the Principles of Fund Governance. We have published the Principles of Fund Governance on our website. Article 3.2 of the Principles of Fund Governance contains a further explanation on the review by the supervisory entity. The activities described are carried out by the supervisory entity for the benefit of the shareholders.

Management changes

In January, director Andor Lips indicated that he had been sought for another position at the Canadian-listed gold producer Eldorado Gold. After a positive decision by the AFM regarding the proposed new board, consisting of Terence van der Hout and Willem Middelkoop, Andor resigned at the end of February 2018. We thank him for his great commitment in recent years. By establishing a Technical Advisory Team, which includes international geologists on a freelance basis, the loss of his geological knowledge has been offset.

Events after the balance sheet date

No relevant events have occurred since the balance sheet date.

Outlook

Last year's forecast that we were on the eve of a further phase of recovery did not materialize. On the contrary, the commodities markets experienced further decline. With the correction on the major stock exchanges and Trump's persistent urge to engage in economic and political conflict with the whole world, great uncertainty is creeping into the financial world. The seemingly endless bonanza on the Dow Jones index has come to an end with the ending of the quantitative easing in the US. With widely published very small steps, the Fed is trying to raise the interest rate enough to have sufficient ammunition to be able to use interest rate cuts as an instrument in the upcoming economic downturn. The trade disputes initiated by Trump, particularly those aimed at China, have resulted in weak commodity markets, despite the strong fundamentals of zinc and copper, for example. As an indication, the S&P Metals & Mining Index fell by 28% compared to the top in 2018. We suspect that Trump will have to show success somewhere. On a national policy level, he is not expected to make concessions, and it seems logical that he will use an agreement with China to silence his political opponents.

Even without a solution to these conflicts, we expect the commodity markets to strengthen. In both zinc and palladium, the bottom of the inventories seems to be in sight. The demand for both metals exceeds supply. This can even lead to physical shortages in palladium. There is also an increasing need for new large copper projects. It usually takes a very long time to bring a copper mine to production (10-15 years after discovery) and the major producers are already positioning themselves to maintain their copper reserves by taking strategic stakes.

In the gold sector, we are also seeing an interesting development. Over the past few years, gold producers have made their operations more efficient, which has slowly but surely enriched their coffers. The generous financial positions of some are now being used to make acquisitions. Barrick Gold recently acquired Randgold, while Newmont Mining has announced its intention to buy Goldcorp.

In the field of energy transition, we will continue to focus on the metals needed for energy storage. The hype seems to be slowly draining out of this industry, after the prices of cobalt and lithium have halved. Nickel and vanadium have also dropped in value. Nevertheless, demand for electric vehicles continues to accelerate, and we are taking advantage of the sell-off to buy the better companies in these sectors.

Terence van der Hout
Willem Middelkoop

Aerdenhout, March 29, 2019

Financial Statements

Balance on December 31, 2018

(for earnings allocation)

(amounts x € 1)

	Reference	2018	2017
Assets			
Investments			
Shares	1	33,257,647	42,424,513
Options		-	82,211
Warrants		621,656	1,660,498
Total investments		33,879,303	44,167,222
Receivables			
Receivables from securities transactions	2	122,756	53,921
Other receivables		91,055	22,967
Total receivables		213,811	76,888
Other assets			
Liquid assets	3	5,417,781	2,521,903
Total other assets		5,417,781	2,521,903
Total assets		39,510,895	46,766,013
Liabilities			
Fund assets			
Subscribed share capital	4	76,771,560	74,480,275
General reserve		(29,861,651)	(28,839,508)
Undistributed earnings		(14,830,196)	(1,022,143)
Total Fund Assets		32,079,713	44,618,624
Investments			
Shares	1	-	19,770
Options		4,883	132,119
Total investments		4,883	151,889
SHORT-TERM LIABILITIES			
Debts to lenders	5	5,810,994	1,273,926
Debts from securities transactions		480,324	259,921
Debts to shareholders from prepayments for entries		872,600	169,000
Other debts and accrued liabilities		262,381	292,653
Total short-term debt		7,426,299	1,995,500
Total liabilities		39,510,895	46,766,013

Profit and loss statement

(for the period January 1, 2018 to December 31, 2018)

(amounts x € 1)	Reference	2018	2017
Investment income			
Dividend		31,362	120,053
Total investment income		31,362	120,053
Changes in the value of investments			
Realized earnings	6	(5,874,526)	4,278,428
Unrealized earnings		(7,048,206)	(4,068,827)
Total investment value adjustments		(12,922,732)	209,601
Other earnings			
Entry and exit fee		24,122	-
Currency gains and losses	7	(436,025)	602,007
Interest income		2,890	9,187
Other income		207	-
Total other earnings		(408,806)	611,194
Expenses			
Management expenses	8.1	(717,029)	(931,092)
Performance fee		(3,491)	(14,139)
Interest charges		(296,751)	(210,529)
Custodian fees		(20,540)	(9,075)
Bank charges and commissions		(330,324)	(617,325)
Administration expenses		(70,234)	(76,619)
Reporting expenses		(6,728)	(4,840)
Audit fees	8.2	(31,063)	(36,239)
Supervisory fees		(20,292)	(38,507)
Legal costs		(9,341)	(2,555)
Other costs		(15,951)	(11,499)
Total operating expenses		(1,521,744)	(1,952,419)
Withholding tax		(8,276)	(10,572)
Net profit for the reporting period		(14,830,196)	(1,022,143)

Cash flow statement

(for the period January 1, 2018 to December 31, 2018)

(amounts x € 1)	Reference	2018	2017
Cash flow from investment activities			
Purchases of investments		(92,302,220)	(115,895,426)
Sales of investments		89,671,969	112,327,044
Interest received		2,890	10,403
Dividend received		27,731	106,178
Other income received		207	-
Management fees paid		(782,883)	(929,506)
Interest paid		(291,803)	(215,639)
Other expenses paid		(550,063)	(770,909)
		<u>(4,224,172)</u>	<u>(5,367,855)</u>
Cash flow from financing activities			
Issuance of units		6,315,123	5,903,284
Redemption of units		(3,320,238)	(2,642,739)
Entry and exit fee		24,122	-
		<u>3,019,007</u>	<u>3,260,545</u>
		(1,205,165)	(2,107,310)
Liquid assets opening balance fiscal year		1,247,977	2,753,280
Foreign currency translation liquid assets		(436,025)	602,007
Liquid assets closing balance fiscal year	3	<u>(393,213)</u>	<u>1,247,977</u>

Notes

General

Preface

Commodity Discovery Fund ('the Fund') is a mutual Fund with an open-ended structure under Dutch law, and located at Zandvoortterweg 77 in Aerdenhout, Netherlands. The Fund was established on July 1, 2008. The units of the fund are not traded on a market accessible to the public. On March 29, 2012, the Manager also obtained an authorization from the AFM [Autoriteit Financiële Markten - Netherlands Authority for the Financial Markets], under Article 2 Section 65 of the Wft [Wet op het financiële toezicht - Dutch Financial Supervision Act], to offer, in its capacity as manager of an investment firm, units of the Fund in the Netherlands. Since July 21, 2014, the Manager holds an authorization, as referred to in Article 2 section 69b of the Wft [Wet op het financiële toezicht - Dutch Financial Supervision Act] and the Fund qualifies as an undertaking for collective investment in transferable securities ('UCITS').

The Fund is a contractual vehicle subject to General Terms and Conditions, that are part of the contractual relationship between the Fund and Commodity Discovery Management B.V. ("the Manager"), Stichting Legal Owner CD Fund ("the Custodian") and the individual shareholders.

The Fund's investment objective is to realize capital growth by investing in a wide range of financial instruments and by using various investment methods included in the prospectus (dated September 3, 2018). The Fund can be characterized as a specialized investment fund in equity aiming to realize an absolute return. As a result, the Fund may vary significantly from any benchmark. The Fund's primary investment objective is to achieve the highest possible return in euros with an acceptable level of risk.

The Benchmark for the total return of the Fund is a weighting of 50% HUI index and 50% TSX-V Index (including dividend, in euros). The Fund invests in exchange-listed companies that are active in the exploration and extraction of raw materials.

The investment activities of the Fund are managed by the Manager and it has transferred the fund administration to the fund administration firm Circle Investment Support Services B.V.

Tax Status

The Terms and Conditions of Management and Custody stipulate that a unitholder may only sell his securities representing the capital to the Fund itself. As a result, the Fund is considered a mutual fund under the Dutch Corporate Income Tax Act [Wet op de vennootschapsbelasting]. This means that the Fund is fiscally transparent and that the Fund itself is not subject to the Dutch corporate tax. The assets and liabilities of the Fund are allocated to the individual unitholders in proportion to their participation in the Fund.

Dividend tax

Dividends and equivalent proceeds from Units within the meaning of the Wet op de dividendbelasting [Dutch Dividend Tax Act] paid out by the Fund, are not subject to the levy of dividend tax.

Accounting principles

General

The financial statements have been prepared in accordance with Part 9 Book 2 Dutch Civil Code and the Wet op het financieel toezicht [Dutch Financial Supervision Act]. Unless stated otherwise, the items recognized are valued at face value.

Reporting year

The reporting period runs from January 1, 2018 to December 31, 2018.

Foreign currency

Assets and liabilities denominated in foreign currencies are converted at the closing price on the balance sheet date. Income and expenses in foreign currencies are converted at the exchange rate at transaction date. The financial statements have been prepared in euros; this is both the functional and presentation currency of the Fund.

Capital gains and losses (realized and unrealized) in foreign currencies are reported in the income statement under Foreign Currency Earnings.

Cash flow statement

The cash flow statement has been prepared using the so-called "direct method", where a distinction has been made between cash flows from investment and those from financing activities. The liquid assets represent immediately available balances with banks. With the cash flow from investment activities, the earnings are adjusted for costs that are not expenses and proceeds that are not revenue. Overdraft positions and short-term cash positions with a negative value are part of the portfolio management and are part of the liquid assets in the cash flow statement.

Estimates

When applying the accounting principles and rules for the preparation of the financial statements, the manager makes various judgments and estimates that may be essential to the amounts recognized in the financial statements. If necessary, for providing the necessary insight, the nature of these judgments and estimates, including the associated assumptions, are included in the notes to the financial statements.

Investments**General**

The investments of the Fund fall under the definition of financial instruments. Financial instruments also include derivative financial instruments contained in contracts (derivatives).

Classification

All investments (including short positions) of the Fund are held as investments for trading.

Recognition criteria financial instruments

The purchases and sales of financial assets and liabilities settled following market conventions, are accounted for on the transaction date of the relevant purchase or sale. Other financial assets and liabilities are accounted for in the balance sheet at the time they were acquired. The first valuation of financial instruments on the balance sheet is at fair value. The fair value of the financial instruments on initial recognition is generally equal to the cost of the financial instruments. The valuation of financial instruments after the first valuation, depends on the classification of the instrument concerned. Upon the initial recognition, the financial instruments are valued in the manner described below.

A financial instrument is no longer recognized if a transaction results in all or virtually all rights to economic benefits and all or almost all risks pertaining to the financial instrument, being transferred to a third party.

Liquid assets and deposits are valued at face value.

Valuation of shares

Shares are measured at fair value. The fair value is the amount at which the asset can be traded, or a liability can be settled between well-informed parties, who are willing to enter into a transaction and are independent of each other. The fair value of a financial instrument is based on the price quotation in case of an active market, where the financial assets and liabilities are both recognized at the closing price. If a reliable fair value cannot be identified immediately, the fair value is approximated by deriving it from the fair value of each part or of a similar financial instrument, or with the help of valuation models and techniques.

Warrants are often offered with the company-specific financing (private placements) which the Fund regularly participates in. The valuation of these warrants is based on a best-practice method, and within this it can be called conservative.

Presentation and valuation of derivatives**General**

Derivatives are taken to refer to financial instruments embodied in contracts whose value depends on one or more underlying assets, reference prices or indexes. Derivatives that are traded on a stock exchange or derivatives with an exchange-listed underlying value are valued at fair value.

Netting

Receivables and liabilities arising from financial derivatives are netted per derivatives contract. The positive fair value of the derivatives is presented on the asset side of the balance sheet under financial investments. The negative market value of derivatives is presented on the liabilities side of the balance sheet as debts from financial investments. Possible Netting of derivatives in the balance sheet can only take place if the conditions of Netting are met. The value adjustments are recognized directly in the profit and loss statements.

Presentation and valuation of financial and forward foreign exchange contracts ('futures')

Derivative financial instruments, such as financial futures contracts (on securities, indexes and/or reference prices) and forward foreign exchange contracts, are valued at the fair value on the balance sheet date, calculated based on prices that apply at the end of the reporting period. The market value adjustments of the outstanding futures are every day credited to or debited from, in cash, the variation margin account held with the broker. Due to the daily cash settlement of the market value adjustments via the variation margin, the balance sheet value of the outstanding futures contracts is nil.

The rights and obligations from financial and forward foreign exchange contracts are not recognized, but the contract values are further specified in the notes as 'Unrecognized rights and obligations.'

Processing transaction expenses (purchase and sale expenses of investments)

Transaction expenses with purchase of investments and derivatives are recognized directly in the profit and loss statement. The total amount of separately quantifiable transaction expenses for the fiscal year, is explained in the profit and loss statement, under value adjustments.

Mark-ups and mark-downs at entry and exit

The Fund issues Units at the applicable Net Asset Value per Share, plus a mark-up of 0.5%. The mark-up charged is paid out to the Fund. The Fund's exit fees are 0.5% of the Net Asset Value of the Units that are being offered for redemption. The exit fees charged are paid out to the Fund.

Other assets and liabilities

Other assets and liabilities are valued at their face value; the receivables, as far as needed, after deduction of a provision for uncollectability.

Receivables, short-term debts and other assets and liabilities

Receivables, short-term debts and other assets and liabilities are at initial recognition valued at the fair value of the consideration received or receivable. After the initial processing, they are valued at the amortized cost price. The fair value and the (amortized) cost are equal to the face value unless stated otherwise; the receivables are recognized as necessary, after deduction of a provision at the exchange rate applicable on the balance sheet date.

Investment income**Dividend**

This includes the gross dividends, paid out in cash, including the face value of the stock dividends.

Other income

This includes the mark-up received from the Shareholders upon entry and exit for fees incurred by the Fund in connection with the issue and/or purchase of Units.

Earnings recognition

The earnings are determined as the difference between, on the one hand, the income, such as dividends, interest, capital gains or losses declared in the financial statements, and on the other hand, the expenses, such as the management and performance fee. Income and expenses are allocated to the period to which they relate. Foreign currency earnings are translated into euros at the exchange rates applicable on the transaction date. The expenses recognized in the profit and loss statement are, if applicable, inclusive of BTW [Dutch sales tax]. The value adjustments on investments realized and unrealized in the reporting period are determined by deducting the purchase value from the sale proceeds or the balance sheet value at the closing of the reporting period. These value adjustments are recognized in the profit and loss statements

Taxes

Due to the limited transferability of units, for the benefit of its shareholders, the Fund is considered fiscally transparent. Therefore, there is no liability to pay corporate income tax.

Current expenses ratio

The current expenses ratio includes all expenses charged to the Fund in the reporting period, excluding the expenses of securities transactions, the interest expenses, and the performance fee. The current expenses ratio is calculated by dividing the total expenses of the Fund for the reporting period by the average net asset value. The average net asset value is obtained by adding up the intrinsic value at the beginning of the year and the intrinsic values at the end of each month and subsequently dividing the result by the number of observations.

Portfolio turnover rate

The turnover ratio provides an indication of the turnover rate of the investments compared to the average of Fund Assets of the Fund and is a measure of the transaction costs incurred as a result of the portfolio management conducted and the resulting investment transactions. In the calculation used, the turnover amount is determined by reducing the sum of the purchases and sales of the investments by the sum of the placements and redemptions of own units. The turnover ratio is determined by expressing the turnover amount as a percentage of the Fund Assets average which is calculated in the same way as with the determination of the TER.

Risk sectionMarket risk (price risk)

Investing in Units is subject to market risk. Investors should realize that the share price of the securities in which the Fund holds positions, may fluctuate. In the past, stock markets have generated favorable returns. However, this offers no indication or guarantee for the future. Due to price fluctuations, the Net Asset Value of the Fund may also be subject to fluctuations, which may mean that Shareholders will not recover their entire initial deposit upon termination of their participation in the Fund.

Concentration risk

The concentration risk in the investment portfolio is relatively limited. Four individual investments each individually exceeded, in terms of size, 5% of the investment portfolio, adding up to a total of 26.37% (2017: 31.59%). The other individual investments represent an interest of less than 5% of the investment portfolio

Geographical distribution

(amounts x € 1)

	2018		2017	
	Amount	% of NAV	amount	% of NAV
Country				
Canada	22,416,929	69.88	28,311,431	63.45
Great Britain	5,610,153	17.49	-	-
Australia	4,796,075	14.95	13,084,479	29.33
United States	902,156	2.81	1,603,504	3.59
Other	149,107	0.46	1,015,677	2.28
Total	33,874,420	105.59	44,015,091	98.65

The geographical distribution is based on the stock exchange where the investments are traded.

Portfolio breakdown by industry

The entire portfolio has been allocated to the industry 'Exploration and extraction' industry.

Leverage

The derivatives used by the Fund can be highly volatile and may expose the Fund to the risk of loss. The initial margin that must be set to gain a position in such instruments, allows for a high degree of leverage. As a result, depending on the type of instrument, a relatively small movement in the price of a contract may lead to a profit or loss that is relatively high in relation to the amount actually set as a 'margin' and can lead to losses that exceed the specified margin. In addition, the Fund has the possibility to use a banking facility, which can further increase the leverage of the Fund. On December 31, 2018, an amount of € 5,810,994 (December 31, 2017: € 1,273,926) has been used for this, but only for the purpose of a foreign exchange hedge, and not as a hedging instrument.

The table below provides a summary of the contract and market value of the outstanding derivative positions on December 31:

	2018		2017	
	Contract-value	Market-value	Contract-value	Market-value
Assets				
Warrants	621,656	621,656	1,660,498	1,660,498
Purchased options	-	-	3,890,996	82,212
Total assets	621,656	621,656	5,551,494	1,742,710
Liabilities				
Written options	76,729	4,883	1,700,180	131,120
Total liabilities	76,729	4,883	1,700,180	131,120

Currency risks

The Fund did not entirely hedge the foreign currency positions on the balance sheet date. This means that investments other than in euros can cause fluctuations in the Net Asset Value of the Fund, either positive or negative. The currency risk of the Fund is as follows:

(amounts x € 1)

	2018		2017	
	Amount	% of NAV	amount	% of NAV
Currencies				
Australian dollar	4,978,706	15.5	7,540,301	19.9
U.S. dollar	1,364,920	4.3	1,389,147	3.1
Canadian dollar	22,249,905	69.4	30,970,683	69.4
British pound	4,768,161	14.9	4,413,996	9.9
Swedish crown	48	0.0	50	0.0
Total	33,361,740	104.1	44,314,177	102.3

Liquidity risk investments

The Fund may invest in shares with restricted liquidity. Therefore, it may occur that securities or other investments may have to be sold below their anticipated value as a result of a lack of liquidity in those securities or investments.

The 'funding risk' is the risk that the Fund may not have the opportunity to obtain the financial resources necessary to meet the obligations from the financial instruments. A liquidity risk may arise, among other things, because a financial asset cannot be sold short-term at almost the fair value.

The units of the Fund are tradable on a monthly basis. The Fund invests in generally freely marketable exchange-listed investments. As a result, the Fund is not significantly exposed to liquidity risk.

Risk of (tax) legislation changes

This is the risk that the tax treatment of the Fund will change in a negative way or that other legislation will be enacted that shall have a negative impact on the Fund and its Unitholders.

Notes to the balance sheet

1. Investments

Statement of changes in investments

(amounts x € 1)

	2018	2017
<i>Shares (long positions)</i>		
Opening balance fiscal year	42,424,513	39,313,141
Purchases	85,342,540	110,343,668
Sales	(82,639,278)	(105,182,581)
Realized value adjustments	(5,867,045)	3,101,247
Unrealized value adjustments	(6,003,083)	(5,150,962)
Closing balance fiscal year	33,257,647	42,424,513
<i>Options (long positions)</i>		
Opening balance fiscal year	82,211	238
Purchases	1,841,400	1,715,028
Sales	(1,944,623)	(1,521,614)
Realized value adjustments	(10,191)	(85,462)
Unrealized value adjustments	31,203	(25,979)
Closing balance fiscal year	-	82,211
<i>Warrants</i>		
Opening balance fiscal year	1,660,498	345,719
Purchases	612,272	817,781
Sales	(683,102)	(280,878)
Realized value adjustments	39,024	92,105
Unrealized value adjustments	(1,007,036)	685,771
Closing balance fiscal year	621,656	1,660,498
<i>Shares (short positions)</i>		
Opening balance fiscal year	19,770	-
Purchases	(288,805)	(483,088)
Sales	245,372	549,437
Realized value adjustments	21,578	(44,494)
Unrealized value adjustments	2,085	(2,085)
Closing balance fiscal year	-	19,770
<i>Options (short positions)</i>		
Opening balance fiscal year	132,119	48,853
Purchases	(4,437,606)	(1,570,744)
Sales	4,241,299	2,616,369
Realized value adjustments	1,866	(936,133)
Unrealized value adjustments	67,205	(26,226)
Closing balance fiscal year	4,883	132,119

COMMODITY DISCOVERY FUND

(amounts x € 1)	2018	2017
<i>Futures (short positions)</i>		
Opening balance fiscal year	-	394,032
Sales and expirations	12,870	(189,911)
Realized value adjustments	(12,870)	189,911
Unrealized value adjustments	-	(394,032)
Closing balance fiscal year	-	-

2. Receivables

The receivables consist of the following items on the balance sheet date:

(amounts x € 1)	2018	2017
Receivables from securities transactions	122,756	53,921
Other receivables		
Prepaid license expenses	3,742	12,724
Dividends receivable	2,472	7,117
Prepaid administration expenses	1,833	2,087
Other receivables and prepayments	83,008	1,039
Total	91,055	22,967

The prepaid license expenses are charged against the earnings of the Fund for a period of 5 years.

3. Liquid assets

This concerns the positive balance on the current account held by the Fund at the bank. These liquid assets are fully available to the Fund.

4. Fund assets

The turnover of the fund assets for the fiscal year is as follows:

	2018	2017	
Subscribed share capital			
Opening balance fiscal year	74,480,275	70,838,730	
Issuance of units	6,315,123	6,284,284	
Redemption of units	(4,027,329)	(2,656,878)	
Performance fee	3,491	14,139	
Closing balance fiscal year	76,771,560	74,480,275	
General reserve			
Opening balance fiscal year	(28,839,508)	(44,533,245)	
Of undivided earnings	(1,022,143)	15,693,737	
Closing balance fiscal year	(29,861,651)	(28,839,508)	
Undistributed earnings			
Opening balance fiscal year	(1,022,143)	15,693,737	
Addition to the general reserve	1,022,143	(15,693,737)	
Current fiscal year earnings	(14,830,196)	(1,022,143)	
Closing balance fiscal year	(14,830,196)	(1,022,143)	
Total fund assets on December 31	32,079,713	44,618,624	
Statement of changes in units			
Number of units on January 1	492,784	456,123	
Issuance of units	84,548	63,751	
Redemption of units	(51,106)	(27,090)	
Number of units on December 31	526,226	492,784	
Multiyear summary of fund assets			
	2018	2017	2016
<i>Class CDF new asset class³</i>			
Fund assets (in €)	1,413,664	-	-
Number of outstanding units	23,088	-	-
Intrinsic value per unit (in €)	61.23	-	-
<i>Class CDF all investors</i>			
Fund assets (in €)	30,666,049	44,618,624	41,999,222
Number of outstanding units	503,138	492,784	456,123
Intrinsic value per unit (in €)	60.95	90.54	92.08
Total of the fund			
Fund assets (in €)	32,079,713	44,618,624	41,999,222
Number of outstanding units	526,226	492,784	456,123
Intrinsic value per unit (in €)	60.95	90.54	92.08

³ Class CDF new asset class was launched on January 1, 2018.

5. Short-term debts and accrued liabilities

On the balance sheet date, the short-term debts consist of the following items:

(amounts x € 1)	2018	2017
Liquid assets ⁴	5,810,994	1,273,926
Debts from securities transactions ⁵	480,324	259,921
Debts to unitholders from advance payments for entry ⁶ 872,600	169,000	
	7,163,918	1,702,847
<i>Other debts</i>		
Interest expenses	11,583	6,635
Management and performance fee	164,133	226,496
Audit fees	33,604	34,969
Custodian fees	18,646	2,269
Supervisory fees	28,065	11,436
Reporting expenses	4,913	4,840
Other debts	1,437	6,008
Total other debts	262,381	292,653
Total short-term debt	7,426,299	1,995,500

⁴ The short-term debt from liquid assets concerns the negative balance of a number of foreign currency bank accounts.

⁵ Debts from securities transactions are amounts for purchases and sales that were settled in January 2019.

⁶ Debts to shareholders from prepayments for entries are amounts received from shareholders in December 2018 for becoming a unitholder in the Fund on January 1, 2019.

Notes to the profit and loss statement

6. Investment value adjustments

(amounts x € 1)	2018	2017
Realized capital gains on shares	3,992,315	12,403,367
Realized capital gains on options	2,129,741	1,813,007
Realized capital gains on futures	-	268,664
Realized capital gains on warrants	58,748	133,059
Realized capital losses on shares	(9,880,938)	(9,257,626)
Realized capital losses on options	(2,141,798)	(962,336)
Realized capital losses on futures	(12,870)	(78,753)
Realized capital losses on warrants	(19,724)	(40,954)
Unrealized capital gains on shares	9,610,427	4,792,182
Unrealized capital gains on options	57,196	80,926
Unrealized capital gains on futures	-	394,032
Unrealized capital gains on warrants	816,160	1,208,559
Unrealized capital losses on shares	(15,615,595)	(9,941,059)
Unrealized capital losses on options	(93,198)	(80,679)
Unrealized capital losses on warrants	(1,823,196)	(522,788)
Total changes in value of investments	(12,922,732)	209,601

7. Currency gains and losses

The Fund held liquidity positions in foreign currencies during the year which resulted in a realized foreign currency loss of € 436,025 (2017: a foreign currency gain of € 602,007).

8. Expenses

8.1 Management expenses

Management fee

	2018	2017
Management fee	717,029	931,092
Performance fee	3,491	14,139
Total management fee	720,520	945,231

The Fund has appointed Commodity Discovery Management B.V. as asset manager. The Manager receives from the Fund for the asset management a fee of 2% per year (0.5% per quarter) of the net asset value of the Fund before deduction of the management fee and the performance fee. The Fund's assets are divided into the share classes CDF new asset class and CDF all investors.

Contrary to the foregoing, whenever an existing or new Unit-holder subscribes with a subscription amount of EUR 1,000,000 or more, the Unit-holder owes a Management Fee of 1.5% per annum of the Fund's net asset value, before deduction of the management fee and the performance fee, in relation to the Unit relating to that subscription.

The asset management fee accrues monthly and is paid once every quarter, afterwards.

All expenses were charged in accordance with the prospectus and are in conformity with market practice. The actual expenses have been calculated according to the method described in the prospectus. Therefore, they do not vary significantly.

Performance fee

The Manager is entitled to a performance fee of 20% of the increase in the net asset value per individual unit (including net unrealized gains) above the minimum outperformance (the 'hurdle rate') of 0.5% per month. The 'high watermark' principle applies to the performance fee. The performance fee accrues and is paid once every quarter, afterwards.

The Fund uses an equalization method whereby unitholders only pay a performance fee to the Manager for the increase in the value of the unit.

For 2018 a performance fee was awarded of € 3,491 (2017: € 14,139).

8.2 Other costs

Audit fees

The audit fees charged can be specified as follows:

	2018	2017
Audit of the annual financial statements	31,063	36,239
Total	31,063	36,239

8.3 Current expenses ratio

The current expenses ratio for the period January 1, 2018 to December 31, 2018 was 2.46% (2017: 2.39%). For details on the CUR and the calculation method, see the accounting principles.

8.4 Portfolio turnover rate

The turnover ratio of the investments for the reporting period was: 475 (2017: 465). For details on the turnover ratio and the calculation method, see the accounting principles.

9. Other information

Related parties

The parties are considered as related if one of the parties exercises policy making influence on the other party or has significant influence on financial and business policy.

All services provided by the Manager are therefore considered to be transactions with related parties. During the reporting period, the Fund paid asset management and performance fees to the Manager.

Outsourcing/agreements

The Fund has entered into the following agreements with affiliated parties:

- Commodity Discovery Management B.V.: the manager
- Stichting Legal Owner CD Fund: the legal owner
- KAS Trust & Depositary Services B.V.: the custodian

For the period January 1, 2018 to December 31, 2018 the management fee was € 717,029 (2017: € 931,092), of which € 164,133 (2017: € 225,583) was recognized as debt on December 31, 2018.

The mark-up and expenses with entry and exit for the period January 1, 2018 to December 31, 2018 are € 24,122 (2017: € 18,394).

On the balance sheet date, Terence van der Hout and Willem Middelkoop are the managing directors of the Manager. On December 31, 2018, the Manager was holding 2,485 (2017: 2,379) units.

As of December 31, 2018, 196 units were held by the management of the Depositary (2017: 196).

Staff

The Fund did not employ any staff during the reporting period.

Profit distribution

The Fund's profit for the period January 1, 2018 to December 31, 2018 is being added to the reserves of the Fund, in accordance with Article 4.12 of the prospectus.

Events after the balance sheet date

No special events have occurred after the balance sheet date.

Aerdenhout, March 29, 2019

Commodity Discovery Management B.V.

Terence van der Hout
Willem Middelkoop

Other information

Auditor's opinion

The auditor's report of the independent auditor is shown on the following pages.

Report on the audit of the financial statements 2018 included in the annual report

Our opinion

We have audited the financial statements 2018 of Commodity Discovery Fund, based in Aerdenhout.

In our opinion the accompanying financial statements give a true and fair view of the financial position of Commodity Discovery Fund as at 31 December and of its result for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- The balance sheet as at 31 December 2018
- The profit and loss statement for 2018
- The notes, comprising a summary of the accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the Our responsibilities for the audit of the financial statements section of our report.

We are independent of Commodity Discovery Fund in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information, that consists of:

- The report of the manager
- Other information
- Other information, containing general information and key figures

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding, obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.