
S Split Corp.
Annual Report 2019

Letter to Shareholders

We are pleased to present the 2019 annual report containing the management report of fund performance and the audited financial statements for S Split Corp. (the “Fund”).

2019 was a robust year across all asset classes as broad monetary policy easing coordinated by central banks propelled equity indices to or near all-time highs. Although the ongoing trade war rhetoric continued between the United States and China for most of 2019, tensions started to de-escalate in the fourth quarter with some sort of resolution expected in early 2020. Heightened geopolitical conflicts were present during 2019 involving such countries as Iran, United Kingdom (Brexit), Saudi Arabia and Russia. In the end, the bulls prevailed as the S&P 500 Index posted a strong total return of 31.5 percent. Closer to home, the S&P/TSX Composite Index lagged its U.S. counterpart but still posted a solid 22.8 percent total return. With coordinated central bank easing in 2019, bonds also provided a positive return of 6.8 percent, as measured by the Bloomberg Barclays Global-Aggregate Total Return Index. The Information Technology sector led the rise in the S&P 500 Index advancing 50.3 percent, with Communication Services and Financials the only other sectors to outpace the broader market, rising 32.7 percent and 32.1 percent respectively. Although the price of oil, as measured by WTI Cushing OK Spot, was one of the best performing asset classes in 2019, up 34.5 percent, the Energy sector continued to lag as it has over the past few years, posting a total return of 11.8 percent. In Canada, Information Technology was also the best performer up 64.1 percent, while Health Care was the only sector to decline due to weakness in Cannabis stocks, generating a total return of negative 10.9 percent. The Bank of Canada was on hold during 2019, leaving the overnight lending rate at 1.75 percent for the year, while the U.S. Federal Reserve cut the Federal Funds rate 25 basis points on three separate occasions to now sit at 1.75 percent. Due to different monetary policy paths, the Canadian dollar rose 5.0 percent versus the U.S. dollar, as the spread between U.S. and Canada government bonds narrowed during the year.

For the year ended December 31, 2019, the Fund’s annual total return per Unit and per Class A share, including reinvestment of distributions, was 7.7 percent and 11.8 percent respectively. During the year, cash distributions of \$0.53 per share were paid to Preferred shareholders and \$0.21 per share were paid to Class A shareholders. The net asset value per Unit of the Fund increased 3.0 percent from \$15.76 per Unit at December 31, 2018 to \$16.24 per Unit at December 31, 2019. The net realized gain on options attributable to Strathbridge Selective Overwriting strategy (see “The Fund”) amounted to \$0.11 per Unit in 2019 as compared to a net realized gain on options of \$0.12 per Unit in 2018. For a more detailed review of the operation of the Fund, please see the Results of Operations and the Portfolio Manager Report sections.

We thank all shareholders for their continued support and encourage shareholders to review the detailed information contained within the annual report.



John P. Mulvihill
Chairman & CEO
Strathbridge Asset Management Inc.

The Fund

The Fund is a split share corporation designed to provide Preferred shareholders with fixed cumulative preferential monthly distributions of 5.25 percent per annum and the Class A shareholders with regular monthly distributions of 6.0 percent per annum on the net asset value of the Fund and return the original issue price of both classes on the termination date of the Fund. The shares are listed on the Toronto Stock Exchange under the ticker symbols SBN.PR.A for the Preferred shares and SBN for the Class A shares. A Unit of the Fund consists of one Preferred share and one Class A share.

To accomplish its objectives, the Fund invests in common shares of The Bank of Nova Scotia and may also invest up to 10 percent of its net assets to purchase call options in respect of securities in which the Fund is permitted to invest.

The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting (“SSO”), to enhance the income generated by The Bank of Nova Scotia shares and to reduce volatility. In addition, the Fund may write cash covered put options in respect of securities in which it is permitted to invest.

The SSO strategy is a quantitative, technical based methodology that identifies appropriate times to write and/or close out option positions compared to writing continuously and rolling options every thirty days. This proprietary process has been developed over many years through various market cycles. The Manager believes the primary benefit to investors is to maximize the total return of the Fund while reducing the level of volatility of the portfolio, thereby increasing the risk-adjusted return.

TABLE OF CONTENTS

Management Report of Fund Performance

- Investment Objectives and Strategies 2
- Risk 2
- Results of Operations 2
- Recent Developments 3
- Related Party Transactions 3
- Financial Highlights 4
- Past Performance 5
- Summary of Investment Portfolio 7

Management’s Responsibility for Financial Reporting 8

Independent Auditor’s Report 9

Financial Statements 11

Notes to the Financial Statements 15

Statement of Corporate Governance Practices 20

Board of Directors 21

Management Report of Fund Performance

This annual management report of fund performance contains the financial highlights for the year ended December 31, 2019 of S Split Corp. (the “Fund”). The annual financial statements of the Fund are attached.

Copies of the Fund’s proxy voting policies and procedures, proxy voting disclosure record and quarterly portfolio disclosure may be obtained by calling 1-800-725-7172 toll free, by writing to the Fund at Investor Relations, 121 King Street West, Suite 2600, P.O. Box 113, Toronto, Ontario, M5H 3T9, by email at info@strathbridge.com or by visiting our website at www.strathbridge.com. You can also request semi-annual or annual reports at no cost by using one of the above methods.

Investment Objectives and Strategies

The Fund’s investment objectives are to:

- (1) provide holders of Preferred shares with fixed cumulative preferential monthly cash distributions in the amount of \$0.04375 per Preferred share representing a yield on the issue price of the Preferred shares of 5.25 percent per annum and to return the issue price of \$10.00 per Preferred share to holders of Preferred shares upon termination of the Fund, and
- (2) provide holders of Class A shares with regular monthly cash distributions targeted to be 6.0 percent per annum on the net asset value (“NAV”) of the Class A shares and to provide holders of Class A shares with the opportunity for leveraged growth in NAV and distributions per Class A share.

To achieve its objectives, the Fund invests in common shares of The Bank of Nova Scotia (“BNS”) and may also invest up to 10 percent of its net assets to purchase call options in respect of securities in which the Fund is permitted to invest.

The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting (“SSO”), to enhance the income generated by the BNS shares and to reduce volatility. In addition, the Fund may write cash covered put options in respect of securities in which it is permitted to invest.

The SSO strategy is a quantitative, technical based methodology that identifies appropriate times to write and/or close out option positions compared to writing continuously and rolling options every thirty days. This proprietary process has been developed over many years through various market cycles. The Manager believes the primary benefit to investors is to maximize the total return of the Fund while reducing the level of volatility of the portfolio, thereby increasing the risk-adjusted return.

Risk

Risks associated with an investment in the securities of the Fund are discussed in the Fund’s 2019 annual information form, which is available on the Fund’s website at www.strathbridge.com or on SEDAR at www.sedar.com. There were no changes to the Fund over the year that materially affected the risks associated with an investment in the securities of the Fund.

Results of Operations

Distributions

For the year ended December 31, 2019, cash distributions of \$0.53 per share were paid to Preferred shareholders, unchanged from the previous year and cash distributions of \$0.21 per share were paid to Class A shareholders compared to \$0.45 per share a year ago.

Since the inception of the Fund in May 2007, the Fund has paid total cash distributions of \$6.63 per Preferred share and \$6.29 per Class A share.

Revenue and Expenses

The Fund’s total revenue, comprising mainly of BNS dividends, was \$0.57 per Unit for the year ended December 31, 2019, compared to \$0.74 per Unit in the prior year. Total expenses were \$0.55 per Unit compared to \$0.58 per Unit in 2018. The Fund had a net realized and unrealized gain of \$1.22 per Unit in 2019 as compared to a net realized and unrealized loss of \$2.77 per Unit a year ago.

Net Asset Value

The net asset value per Unit of the Fund increased 3.0 percent from \$15.76 per Unit at December 31, 2018 to \$16.24 per Unit at December 31, 2019. The aggregate net asset value of the Fund decreased \$0.78 million, from \$15.23 million at December 31, 2018 to \$14.45 million at December 31, 2019, reflecting an operating profit of \$1.19 million, cash distributions of \$0.70 million to Preferred and Class A shareholders and Unit redemptions of \$1.27 million.

Recent Developments

There were no recent developments pertaining to the Fund during the year ended December 31, 2019.

Related Party Transactions

Strathbridge Asset Management Inc. (“Strathbridge”), as the Investment Manager of the Fund, manages the Fund’s investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Fund pursuant to an Investment Management Agreement made between the Fund and Strathbridge dated April 26, 2007.

Strathbridge is the Manager of the Fund pursuant to a Management Agreement made between the Fund and Strathbridge dated April 26, 2007. As such, Strathbridge is responsible for providing or arranging for required administrative services to the Fund.

Strathbridge is paid the fees described under the Management Fees section of this report.

During the year, no recommendations or approvals were required to be sought from the Independent Review Committee (“IRC”) concerning related party transactions.

Independent Review Committee

National Instrument 81-107 – Independent Review Committee for Investment Funds (“NI 81-107”) requires all publicly offered investment funds to establish an IRC to whom the Manager must refer conflict of interest matters for review or approval. NI 81-107 also imposes obligations upon the Manager to establish written policies and procedures for dealing with conflict of interest matters, maintaining records in respect of these matters and providing assistance to the IRC in carrying out its functions. The Chief Compliance Officer, designated by the Manager, is in charge of facilitating the fulfillment of these obligations.

The IRC will prepare, for each financial year, a report to securityholders that describes the IRC and its activities during such financial year and includes, if known, a description of each instance when the Manager acted in a conflict of interest matter for which the IRC did not give a positive recommendation or for which a condition, imposed by the IRC, was not met in its recommendation or approval. Members of the IRC are Robert W. Korthals, Michael M. Koerner and Robert G. Bertram.

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years. This information is derived from the Fund's audited annual financial statements.

| Years ended December 31 | 2019 | | 2018 | | 2017 | | 2016 | | 2015 | |
|--|------|---------------|------|--------|------|--------|------|--------|------|--------|
| NET ASSETS PER UNIT | | | | | | | | | | |
| Net Assets, beginning of year⁽¹⁾ | \$ | 15.76 | \$ | 19.35 | \$ | 18.64 | \$ | 15.34 | \$ | 18.78 |
| INCREASE (DECREASE) FROM OPERATIONS | | | | | | | | | | |
| Total revenue | | 0.57 | | 0.74 | | 0.72 | | 0.65 | | 0.91 |
| Total expenses | | (0.55) | | (0.58) | | (0.60) | | (0.54) | | (0.50) |
| Realized gain (loss) for the period | | 0.99 | | 0.33 | | 1.21 | | 1.23 | | 0.62 |
| Unrealized gain (loss) for the period | | 0.23 | | (3.10) | | 0.45 | | 2.69 | | (3.49) |
| Total Increase (Decrease) from Operations⁽²⁾ | | 1.24 | | (2.61) | | 1.78 | | 4.03 | | (2.46) |
| DISTRIBUTIONS | | | | | | | | | | |
| Preferred Share | | | | | | | | | | |
| From net investment income | | (0.23) | | (0.17) | | (0.14) | | (0.15) | | (0.53) |
| Non-taxable distributions | | (0.30) | | (0.36) | | (0.39) | | (0.38) | | – |
| Total Preferred Share Distributions | | (0.53) | | (0.53) | | (0.53) | | (0.53) | | (0.53) |
| Class A Share | | | | | | | | | | |
| Non-taxable distributions | | (0.21) | | (0.45) | | (0.54) | | (0.26) | | (0.43) |
| Total Annual Distributions⁽³⁾ | | (0.74) | | (0.98) | | (1.07) | | (0.79) | | (0.96) |
| Net Assets, end of year⁽¹⁾ | \$ | 16.24 | \$ | 15.76 | \$ | 19.35 | \$ | 18.64 | \$ | 15.34 |

(1) All per Unit figures presented are derived from the Fund's audited financial statements for the years ended December 31. Net assets per Unit is the difference between the aggregate value of the assets and the aggregate value of the liabilities, divided by the number of Units then outstanding.

(2) Total increase (decrease) from operations consists of interest and dividend revenue, realized and unrealized gain (loss), less expenses excluding Preferred share distributions, and is calculated based on the weighted average number of Units outstanding during the year. The schedule is not intended to total to the ending net assets as calculations are based on the weighted average number of Units outstanding during the year.

(3) Distributions to shareholders are based on the number of shares outstanding on the record date for each distribution.

| Years ended December 31 | 2019 | | 2018 | | 2017 | | 2016 | | 2015 | |
|---|------|----------------------------|------|---------|------|---------|------|-----------|------|-----------|
| RATIOS/SUPPLEMENTAL DATA | | | | | | | | | | |
| Net Asset Value, excluding the Redeemable | | | | | | | | | | |
| Preferred share liability (\$millions) ⁽¹⁾ | \$ | 14.45 | \$ | 15.23 | \$ | 18.94 | \$ | 19.12 | \$ | 17.48 |
| Net Asset Value (\$millions) ⁽¹⁾ | \$ | 5.55 | \$ | 5.57 | \$ | 9.15 | \$ | 8.86 | \$ | 6.08 |
| Number of Units outstanding ⁽¹⁾ | | 889,802 | | 965,993 | | 978,753 | | 1,025,576 | | 1,139,931 |
| Management expense ratio ⁽²⁾ | | 3.26% | | 3.23% | | 3.11% | | 3.13% | | 2.85% |
| Portfolio turnover rate ⁽³⁾ | | 40.20% | | 0.00% | | 23.23% | | 77.97% | | 24.16% |
| Trading expense ratio ⁽⁴⁾ | | 0.08% | | 0.04% | | 0.03% | | 0.08% | | 0.02% |
| Net Asset Value per Unit ⁽⁵⁾ | \$ | 16.24 | \$ | 15.76 | \$ | 19.35 | \$ | 18.64 | \$ | 15.34 |
| Closing market price – Preferred | \$ | 10.75⁽⁶⁾ | \$ | 10.15 | \$ | 10.55 | \$ | 10.70 | \$ | 10.10 |
| Closing market price – Class A | \$ | 5.31⁽⁷⁾ | \$ | 5.00 | \$ | 8.25 | \$ | 6.87 | \$ | 4.67 |

(1) This information is provided as at December 31. One Unit consists of one Class A share and one Preferred share.

(2) The management expense ratio ("MER") is the sum of all fees and expenses for the stated period, including harmonized sales tax but excluding transaction fees and Preferred share distributions, divided by the average net asset value, excluding the Redeemable Preferred Share liability. Generally, the MER increases when the Fund becomes smaller in size due to redemptions. The MER, including Preferred share distributions, is 6.44%, 6.18%, 5.85%, 6.25% and 5.85% for 2019, 2018, 2017, 2016 and 2015 respectively. The MER for 2015 includes fund extension recovery and the special resolution expense. The MER for 2015 excluding fund extension recovery and the special resolution expense is 2.92%.

(3) Portfolio turnover rate is calculated based on the lesser of purchases or sales of investments, excluding short-term investments, divided by the average value of the portfolio securities. The Fund employs an option overlay strategy which can result in higher portfolio turnover by virtue of option exercises, when compared to a conventional equity mutual fund.

(4) Trading expense ratio represents total commissions expressed as a percentage of the daily average net asset value during the period.

(5) Net Asset Value per Unit is the difference between the aggregate value of the assets including the valuation of securities at closing prices and the aggregate value of the liabilities, excluding the Redeemable Preferred Share liability, divided by the number of Units then outstanding.

(6) The last date with an executed trade was December 30, 2019.

(7) The last date with an executed trade was December 27, 2019.

Management Fees

Strathbridge, as the Investment Manager of the Fund, is entitled to fees under the Investment Management Agreement calculated monthly as 1/12 of 1.55 percent of the net asset value, excluding the Redeemable Preferred Share liability, of the Fund at each month end. Services received under the Investment Management Agreement include the making of all investment decisions and writing of covered call options in accordance with the investment objectives, strategy and criteria of the Fund. Strathbridge also makes all decisions as to the purchase and sale of securities in the Fund’s portfolio and as to the execution of all portfolio and other transactions.

Strathbridge, as the Manager of the Fund, is entitled to fees under the Management Agreement calculated monthly as 1/12 of 0.10 percent of the net asset value of the Fund at each month end. Services received under the Management Agreement include providing or arranging for required administrative services to the Fund.

Past Performance

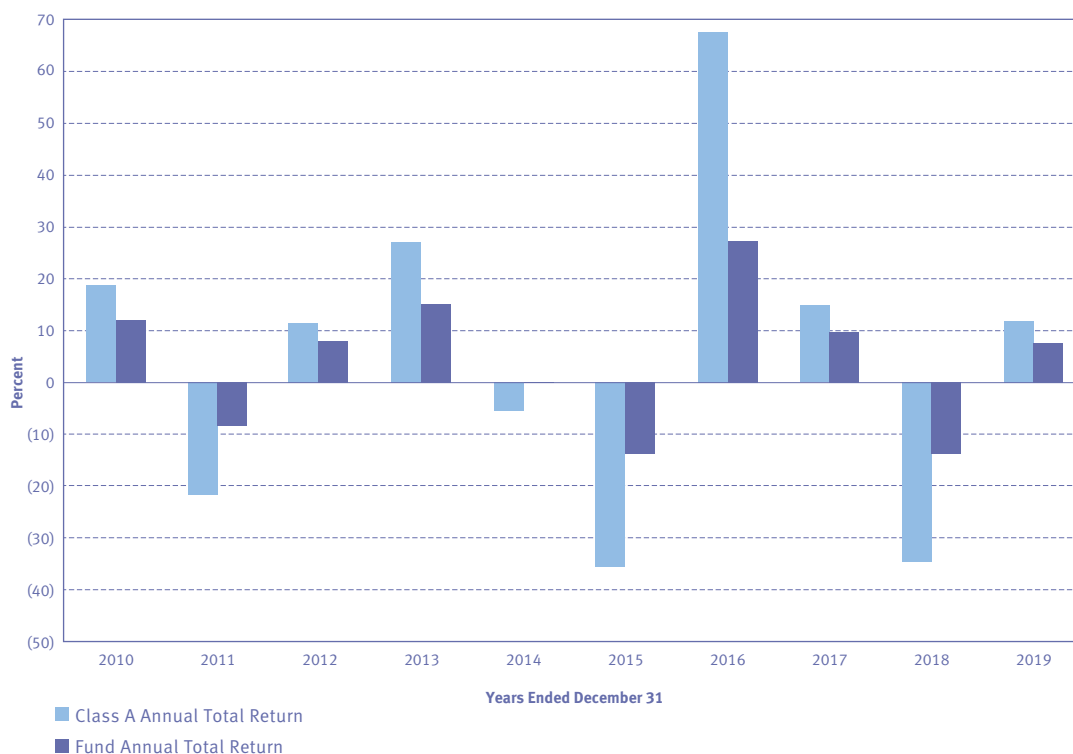
The following chart sets out the Fund’s year-by-year past performance. It is important to note that the:

- (1) information shown assumes that all distributions (including deemed distributions based on the intrinsic value of the warrants exercised prior to the expiry date of the warrants) made by the Fund during these periods were reinvested in Units of the Fund,
- (2) information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns, and
- (3) past performance of the Fund does not necessarily indicate how it will perform in the future.

Year-By-Year Returns

The following bar chart illustrates how the Fund’s annual total return varied from year to year for each of the past ten years. The chart also shows, in percentage terms, how much an investment made on January 1 in each year would have increased or decreased by the end of the fiscal year.

Annual Total Return



Annual Compound Returns

The following table shows the Fund's historical annual compound return (net of expenses) for the years ended December 31, 2019 as compared to the performance of The Bank of Nova Scotia and S&P/TSX Capped Financials Index.

| (In Canadian Dollars) | One Year | Three Years | Five Years | Ten Years |
|--|---------------|-------------|------------|-----------|
| S Split Corp. | 7.68% | 0.57 % | 2.23 % | 3.61% |
| S Split Corp. – Class A | 11.75% | (5.69)% | (1.96)% | 1.23% |
| S Split Corp. – Preferred | 5.38% | 5.38 % | 5.38 % | 5.38% |
| The Bank of Nova Scotia | 11.78% | 3.43 % | 6.61 % | 8.36% |
| S&P/TSX Capped Financials Index ⁽¹⁾ | 21.35% | 7.68 % | 8.50 % | 10.12% |

(1) The S&P/TSX Capped Financials Index is a subset of the constituents of the S&P/TSX Composite Index that have been classified according to the Global Industry Classification Standard. The relative weight of any single index constituent is capped at 25 percent.

The equity performance benchmarks shown here provide an approximate indication of how the Fund's returns compare to a public market index for similar securities. It is important to note that the Fund is not managed in order to match or exceed these indices; rather, its objectives are to pay out monthly distributions and return the original invested amount at the termination date. As a result, the Fund has, from time to time, maintained cash balances in an effort to provide greater net asset value stability and employs a covered option writing strategy to enhance the income generated by the portfolio and reduce volatility.

The Manager believes that in a flat or downward trending market, a portfolio that is subject to covered call option writing will generally provide higher relative returns and lower volatility than one on which no options are written. However, in a rising market, the use of options may have the effect of limiting or reducing the total returns of the Fund since the premiums associated with writing covered call options may be outweighed by the foregone opportunity of remaining fully invested in the securities comprising the portfolio.

Portfolio Manager Report

2019 was a robust year across all asset classes as broad monetary policy easing coordinated by central banks propelled equity indices to or near all-time highs. Although the ongoing trade war rhetoric continued between the United States and China for most of 2019, tensions started to de-escalate in the fourth quarter with some sort of resolution expected in early 2020. Heightened geopolitical conflicts were present during 2019 involving such countries as Iran, United Kingdom (Brexit), Saudi Arabia and Russia. In the end, the bulls prevailed as the S&P 500 Index posted a strong total return of 31.5 percent. Closer to home, the S&P/TSX Composite Index lagged its U.S. counterpart but still posted a solid 22.8 percent total return. With coordinated central bank easing in 2019, bonds also provided a positive return of 6.8 percent, as measured by the Bloomberg Barclays Global-Aggregate Total Return Index. The Information Technology sector led the rise in the S&P 500 Index advancing 50.3 percent, with Communication Services and Financials the only other sectors to outpace the broader market, rising 32.7 percent and 32.1 percent respectively. Although the price of oil, as measured by WTI Cushing OK Spot, was one of the best performing asset classes in 2019, up 34.5 percent, the Energy sector continued to lag as it has over the past few years, posting a total return of 11.8 percent. In Canada, Information Technology was also the best performer up 64.1 percent, while Health Care was the only sector to decline due to weakness in Cannabis stocks, generating a total return of negative 10.9 percent. The Bank of Canada was on hold during 2019, leaving the overnight lending rate at 1.75 percent for the year, while the U.S. Federal Reserve cut the Federal Funds rate 25 basis points on three separate occasions to now sit at 1.75 percent. Due to different monetary policy paths, the Canadian dollar rose 5.0 percent versus the U.S. dollar, as the spread between U.S. and Canada government bonds narrowed during the year.

Canadian banks recovered their 2018 losses early in 2019 and continued to trend higher throughout the year. It was a solid year operationally for Scotiabank but unrest in Chile cast a pall on future earnings in Latin America which impacted the share price. BNS was the worst performer of the big six banks in 2019 with a total return of 11.8 percent. Senior management believes that earnings in the region will improve in the coming year. Despite concerns in Chile, international operations did deliver solid earnings with a three percent increase over 2018. Canadian profits were also higher which included, for the first time, earnings from several large 2018 acquisitions including Jarislowsky Fraser Ltd. and MD Financial Management. While overall bank profit was up, earnings per share were down year over year.

The net asset value of the Fund at December 31, 2018 was \$16.24 per Unit compared to \$15.76 per Unit at December 31, 2018. The Fund's Preferred and Class A shares listed on the Toronto Stock Exchange as SBN.PR.A and SBN had a mid-price on December 31, 2019 at \$10.28 and \$5.44 respectively.

For the year ended December 31, 2019, cash distributions of \$0.53 per share were paid to the Preferred shareholders and \$0.21 per share were paid to the Class A shareholders. The Fund's annual total return per Unit and per Class A share, including reinvestment of distributions, was 7.7 percent and 11.8 percent respectively.

The average cash position during the year was 5.1 percent and ended the year at 0.6 percent.

After a tumultuous yearend in 2018, BNS, and markets generally, recovered for the first half of the year while volatility fell back to more normal levels. Average volatility for BNS was in the low teens but put in a multi-year low below 8 percent in December. The Fund was overwritten more than 20 percent in the first quarter but overwriting was reduced somewhat as the year progressed averaging 11.2 percent for the year. Option writing made a positive contribution to the annual total return adding \$0.11 per Unit to income.

Summary of Investment Portfolio

The composition of the portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly portfolio summary, which includes the percentage of net asset value for each holding, and a monthly portfolio list are available on our website at www.strathbridge.com.

Asset Mix and Portfolio Holdings

December 31, 2019

| | % OF NET ASSET VALUE* |
|--------------------------------------|----------------------------------|
| Financials – The Bank of Nova Scotia | 99.9 % |
| Cash | 0.6 % |
| Other Assets (Liabilities) | (0.5)% |
| | 100.0 % |

*The Net Asset Value excludes the Redeemable Preferred Share liability.

Forward-Looking Statements

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

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

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

Management’s Responsibility for Financial Reporting

The accompanying financial statements of S Split Corp. (the “Fund”) and all the information in this annual report are the responsibility of the management of Strathbridge Asset Management Inc. (the “Manager”), and have been approved by the Fund’s Board of Directors (the “Board”).

The financial statements have been prepared by management in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgments. Management has ensured that the other financial information presented in this annual report is consistent with the financial statements. The significant accounting policies which management believes are appropriate for the Fund are described in Note 3 of the annual financial statements.

The Manager is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Audit Committee meets periodically with management and the independent auditor to discuss internal controls, the financial reporting process, various auditing and financial reporting issues, and to review the annual report, the financial statements and the independent auditor’s report. Deloitte LLP, the Fund’s independent auditor, has full and unrestricted access to the Audit Committee and the Board.



John P. Mulvihill
Director
Strathbridge Asset Management Inc.
March 3, 2020



John D. Germain
Director
Strathbridge Asset Management Inc.

To the Shareholders of S Split Corp. (the "Fund")

Opinion

We have audited the financial statements of the Fund, which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, changes in net assets attributable to holders of Class A shares and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively 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, 2019 and 2018, and its financial performance and its cash flows for the years 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 ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our 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 Information

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

- Management Report of Fund Performance; and
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

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, or otherwise appears to be materially misstated.

We obtained the Management Report of Fund Performance and the Annual Report prior to the date of this auditor's 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 this auditor's 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 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.

Auditor's 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 auditor's 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 GAAS 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 these financial statements.

As part of an audit in accordance with Canadian GAAS, 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 auditor's 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 auditor's report. However, future events or conditions may cause the Fund 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.

We 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Michael Darroch.

The image shows a handwritten signature in blue ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Ontario
March 27, 2020

Statements of Financial Position

As at December 31

| | Note | 2019 | 2018 |
|---|------|---------------------|---------------|
| ASSETS | | | |
| Financial assets at fair value through profit or loss | 6 | \$ 14,427,945 | \$ 14,617,140 |
| Dividends receivable | | – | 182,580 |
| Cash | | 89,866 | 526,914 |
| TOTAL ASSETS | | 14,517,811 | 15,326,634 |
| LIABILITIES | | | |
| Accrued liabilities | | 50,010 | 49,154 |
| Accrued management fees | 8 | 20,288 | 21,384 |
| Derivative liabilities | | – | 27,667 |
| Redeemable Preferred shares | | 8,898,020 | 9,659,930 |
| Class J shares | | 100 | 100 |
| TOTAL LIABILITIES | | 8,968,418 | 9,758,235 |
| NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES | | \$ 5,549,393 | \$ 5,568,399 |
| NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES PER CLASS A SHARE | | \$ 6.2368 | \$ 5.7644 |

On behalf of the Manager,
Strathbridge Asset Management Inc.



John P. Mulvihill, Director



Robert G. Bertram, Director

The notes are an integral part of the Financial Statements.

Statements of Comprehensive Income

Years ended December 31

| | Note | 2019 | 2018 |
|--|------|-------------------|-----------------------|
| INCOME | | | |
| Dividend income | | \$ 547,467 | \$ 721,122 |
| Interest income | | 5,518 | 4,487 |
| Net realized gain on investments at fair value through profit or loss | | 843,125 | 207,180 |
| Net realized gain on options at fair value through profit or loss | | 106,269 | 119,799 |
| Net change in unrealized gain/(loss) on investments at fair value through profit or loss | | 221,455 | (3,033,282) |
| TOTAL INCOME/(LOSS), NET | | 1,723,834 | (1,980,694) |
| EXPENSES | | | |
| Management fees | 8 | 261,393 | 284,984 |
| Service fees | | 11,944 | 35,180 |
| Administrative and other expenses | | 94,444 | 87,722 |
| Transaction fees | 9 | 12,005 | 7,031 |
| Custodian fees | | 31,133 | 29,867 |
| Audit fees | | 31,331 | 30,708 |
| Director fees | 8 | 18,900 | 19,500 |
| Independent review committee fees | 8 | 7,559 | 7,500 |
| Legal fees | | 1,302 | 1,254 |
| Shareholder reporting costs | | 15,349 | 15,262 |
| Harmonized sales tax | | 43,495 | 48,682 |
| TOTAL EXPENSES | | 528,855 | 567,690 |
| OPERATING PROFIT/(LOSS) | | 1,194,979 | (2,548,384) |
| Preferred share distributions | | (503,813) | (513,287) |
| INCREASE/(DECREASE) IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES | 10 | \$ 691,166 | \$ (3,061,671) |
| INCREASE/(DECREASE) IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES PER CLASS A SHARE | 10 | \$ 0.7186 | \$ (3.1301) |

The notes are an integral part of the Financial Statements.

Statements of Changes in Net Assets Attributable to Holders of Class A Shares

Years ended December 31

| | 2019 | 2018 |
|--|-----------------|--------------------|
| NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES, BEGINNING OF YEAR | \$ 5,568,399 | \$ 9,153,466 |
| Increase/(Decrease) in Net Assets Attributable to Holders of Class A Shares | 691,166 | (3,061,671) |
| Class A Share Capital Transactions | | |
| Value for Class A shares redeemed | (512,095) | (83,472) |
| Class A Share Distributions | | |
| Non-taxable distributions | (198,077) | (439,924) |
| Changes in Net Assets Attributable to Holders of Class A Shares during the Year | (19,006) | (3,585,067) |
| NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES, END OF YEAR | \$ 5,549,393 | \$ 5,568,399 |

Statements of Cash Flows

Years ended December 31

| | 2019 | 2018 |
|--|--------------------|--------------------|
| CASH, BEGINNING OF YEAR | \$ 526,914 | \$ 30,860 |
| Cash Flows Provided By (Used In) Operating Activities | | |
| Operating Profit/(Loss) | 1,194,979 | (2,548,384) |
| Adjustments to Reconcile Net Cash Provided By (Used In) Operating Activities | | |
| Net realized gain on investments at fair value through profit or loss | (843,125) | (207,180) |
| Net realized gain on options at fair value through profit or loss | (106,269) | (119,799) |
| Net change in unrealized (gain)/loss on investments at fair value through profit or loss | (221,455) | 3,033,282 |
| Decrease in dividends receivable | 182,580 | 305 |
| Decrease in accrued liabilities and accrued management fees | (240) | (312) |
| Purchase of investment securities | (6,067,841) | - |
| Proceeds from disposition of investment securities | 7,400,218 | 1,502,425 |
| | 343,868 | 4,208,721 |
| Cash Flows Used In Financing Activities | | |
| Preferred share distributions | (503,813) | (513,287) |
| Class A share distributions | (198,077) | (439,924) |
| Preferred share redemptions | (761,910) | (127,600) |
| Class A share redemptions | (512,095) | (83,472) |
| | (1,975,895) | (1,164,283) |
| Net Increase/(Decrease) in Cash during the Year | (437,048) | 496,054 |
| CASH, END OF YEAR | \$ 89,866 | \$ 526,914 |
| Dividends received | \$ 730,047 | \$ 721,427 |
| Interest received | \$ 5,518 | \$ 4,487 |

The notes are an integral part of the Financial Statements.

Schedule of Investments

As at December 31, 2019

| | Number of Shares | Average Cost | Fair Value | % of Net Assets Attributable to Holders of Class A Shares and Redeemable Preferred Shares |
|---|---------------------|---------------|---------------|--|
| INVESTMENTS | | | | |
| Canadian Common Shares | | | | |
| Financials | | | | |
| The Bank of Nova Scotia | 196,700 | \$ 13,591,669 | \$ 14,427,945 | 99.9% |
| Total Canadian Common Shares | | \$ 13,591,669 | \$ 14,427,945 | 99.9% |
| Adjustment for transaction fees | | (6,647) | | |
| TOTAL INVESTMENTS | | \$ 13,585,022 | \$ 14,427,945 | 99.9% |
| OTHER NET ASSETS | | | 19,468 | 0.1% |
| NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES AND REDEEMABLE PREFERRED SHARES | | | \$ 14,447,413 | 100.0% |

1. Corporate Information

S Split Corp. (the “Fund”) is a mutual fund corporation established under the laws of the Province of Ontario on January 26, 2007. The Fund began operations on May 17, 2007. The address of the Fund’s registered office is 121 King Street West, Suite 2600, Toronto, Ontario.

Strathbridge Asset Management Inc. (“Strathbridge”) is the Manager as well as the Investment Manager of the Fund. RBC Investor Services Trust is the Custodian of the Fund.

The Fund is a split share corporation designed to provide Preferred shareholders with fixed cumulative preferential monthly distributions of 5.25 percent per annum and the Class A shareholders with regular monthly distributions of 6.0 percent per annum on the net asset value of the Fund and return the original issue price of both classes on the termination date of the Fund. The shares are listed on the Toronto Stock Exchange under the ticker symbols SBN.PR.A for the Preferred shares and SBN for the Class A shares. A Unit of the Fund consists of one Preferred share and one Class A share.

The Fund invests in common shares of The Bank of Nova Scotia and may also invest up to 10 percent of its net assets to purchase call options in respect of securities in which the Fund is permitted to invest.

The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting (“SSO”), to enhance the income generated by the BNS shares and to reduce volatility. In addition, the Fund may write cash covered put options in respect of securities in which it is permitted to invest.

The SSO strategy is a quantitative, technical based methodology that identifies appropriate times to write and/or close out option positions compared to writing continuously and rolling options every thirty days. This proprietary process has been developed over many years through various market cycles. The Manager believes the primary benefit to investors is to maximize the total return of the particular portfolio while reducing the level of volatility of the portfolio, thereby increasing the risk-adjusted return.

These financial statements were approved by the Board of Directors on March 3, 2020

2. Basis of Presentation

The annual financial statements for the Fund have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as adopted by the International Accounting Standards Board.

3. Summary of Significant Accounting Policies

Functional and Presentation Currency

Items included in the financial statements of the Fund are measured in the currency of the primary economic environment in which the Fund operates (the “functional currency”). Based on the guidance provided in International Accounting Standard (“IAS”) 21, the Manager has determined that the functional currency is Canadian dollars. The financial statements of the Fund are presented in Canadian dollars which is the Fund’s presentation currency.

The Fund adopted IFRS 9: Financial Instruments (“IFRS 9 (2014)”) for the first time for the period beginning on January 1, 2018.

The adoption of IFRS 9 (2014) was applied retrospectively with the Fund utilizing the provisions allowed in the standard to not restate prior period comparative information. IFRS 9 (2014) requires assets to be carried at amortized cost or fair value, with changes in fair value recognized in profit and loss or other comprehensive income, based on the entity’s business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

Upon adoption of IFRS 9 (2014), the Fund’s financial assets and liabilities previously classified as at fair value through profit or loss (“FVTPL”) and amortized cost under IAS 39 “Financial Instruments: Recognition and Measurement”, continued to be classified at FVTPL and amortized cost.

Financial Assets and Financial Liabilities at Fair Value Through Profit or Loss

Classification

Financial Assets

The Fund classifies its investments in equity securities based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets.

These financial assets are managed and their performance is evaluated on a fair value basis. The Fund also manages these financial assets with the objective of realizing cash flows through sales. Further, an option to irrevocably designate any equity securities at fair value through other comprehensive income (“FVOCI”) has not been taken.

Consequently, these financial assets are mandatorily measured at FVTPL.

Held for Trading

Financial assets or financial liabilities held for trading are those acquired or incurred principally for the purpose of selling or repurchasing in the near future or on initial recognition they are a part of a portfolio of identified financial instruments that the Fund manages together and has a recent actual pattern of short term profit-taking.

All derivatives are included in this category and mandatorily measured at FVTPL.

The Fund does not apply general hedge accounting to any of its derivatives positions.

Financial Assets and Financial Liabilities at Amortized Cost

The financial assets and liabilities measured at amortized cost may include cash, dividends receivable, due from brokers – investments, due to brokers – investments, accrued liabilities, accrued management fees, redemptions payable, Redeemable Preferred shares, Class J shares and the Fund’s obligation for net assets attributable to holders of Class A shares.

IFRS 9 (2014) replaced the incurred loss model in IAS 39 with the expected credit loss model (“ECL”), as the new impairment model for financial assets carried at amortized cost. At each reporting date, the Fund measures the loss allowance on cash collateral held, amounts due from broker, accrued income and other short-term receivables at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund measures the loss allowance at an amount equal to the 12 month expected credit losses. Given the short-term nature of the receivables and the high credit quality, the Fund has determined that the expected credit loss allowances are not material.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets are based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price as its valuation input for financial assets and liabilities if the last traded price falls within the bid-ask spread. In other circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value for financial reporting purposes.

The fair value of financial assets and liabilities that are not traded in an active market is determined by valuation techniques as described in Note 4.

Investment Transactions and Income

Investment transactions are accounted for on a trade date basis. Net realized gain/(loss) on investments at fair value through profit or loss and net change in unrealized gain/(loss) on investments at fair value through profit or loss are determined on an average cost basis. Realized gains and losses related to options are included in net realized gain/(loss) on options at fair value

December 31, 2019 and 2018

through profit or loss. Realized gains and losses relating to written options may arise from:

- (i) Expiration of written options whereby realized gains are equivalent to the premium received,
- (ii) Exercise of written covered call options whereby realized gains or losses are equivalent to the premium received in addition to the realized gain or loss from disposition of the related investments at the exercise price of the option, and
- (iii) Closing of written options whereby realized gains or losses are equivalent to the cost of purchasing options to close the positions, net of any premium received.

Realized gains and losses relating to purchased put options may arise from:

- (i) Expiration of purchased put options whereby realized losses are equivalent to the premium paid,
- (ii) Exercise of purchased put options whereby realized gains or losses are equivalent to the realized gain or loss from disposition of the related investments at the exercise price of the option less the premium paid, and
- (iii) Sale of purchased put options whereby realized gains or losses are equivalent to the sale proceeds, net of any premium paid.

Option premiums received are reflected as deferred credits in investments so long as the options are outstanding. Any difference resulting from revaluation is included in the net change in unrealized gain/(loss) on investments at fair value through profit or loss. The premiums received on written put options that are exercised are included in the cost of the security purchased.

Dividend income is recorded on the ex-dividend date.

Interest income is measured using the effective interest method and recorded on a daily basis.

Short-Term Investments

Short-term investments are held for investment purposes and consist primarily of money market instruments with original maturities of 90 days or less.

Class A and Class J Shares

IAS 32, Financial Instruments: Presentation (“IAS 32”) requires that the Class A and Class J shares (which are puttable instruments) be classified as financial liabilities unless all the criteria outlined in IAS 32 paragraph 16A are met. The Fund’s Class A and Class J shares do not meet the definition of IAS 32 paragraph 16A to be classified as equity.

Increase/(Decrease) in Net Assets Attributable to Holders of Class A Shares per Class A Share

The increase/(decrease) in net assets attributable to holders of Class A shares per Class A share is calculated by dividing the increase/ (decrease) in net assets attributable to holders of Class A shares by the weighted average number of Class A shares outstanding during the year. Please refer to Note 10 for the calculation.

Taxation

The Fund is a “mutual fund corporation” as defined in the Income Tax Act (Canada) (the “Act”) and is subject to tax in respect of its net realized capital gains. This tax is refundable in certain circumstances. Also, the Fund is generally subject to a tax of 38½ percent under Part IV of the Act on taxable

dividends received in the year. This tax is fully refundable upon payment of sufficient dividends. The Fund is also subject to tax on the amount of its interest and foreign dividend income that is not offset by operating expenses and share issue expenses.

The Fund is also a “financial intermediary corporation” as defined in the Act and, as such, is not subject to tax under Part IV.1 of the Act on dividends

received nor is it generally liable to tax under Part VI.1 on dividends paid on taxable preferred shares.

IAS 7 Statement of Cash Flows

IAS 7 Statement of Cash Flows (“IAS 7”) requires disclosures related to changes in liabilities arising from financing activities for annual periods beginning on or after January 1, 2017. Class A shares issued by the Fund are classified as financial liabilities in accordance with IAS 32, as they do not meet the definition of puttable instruments to be classified as equity in accordance with IAS 32 for financial reporting purposes.

A reconciliation between the opening and closing balances of the Class A shares of the Fund is presented in the Statement of Changes in Net Assets Attributable to Holders of Class A Shares, including changes from cash flows and non-cash changes. Further, a reconciliation between the opening and closing balances of the Redeemable Preferred shares of the Fund is presented below, including changes from cash flows and non-cash changes.

| | Jan. 1, 2019 | Cash Changes | Non-Cash Changes | Dec. 31, 2019 |
|---|-----------------|---------------------|---------------------|------------------|
| | | Cash Redemptions | | |
| Redeemable Preferred Shares (Note 7) | \$9,659,930 | (761,910) | | – \$8,898,020 |

| | Jan. 1, 2018 | Cash Changes | Non-Cash Changes | Dec. 31, 2018 |
|---|-----------------|---------------------|---------------------|------------------|
| | | Cash Redemptions | | |
| Redeemable Preferred Shares (Note 7) | \$9,787,530 | (127,600) | | – \$9,659,930 |

4. Critical Accounting Estimates and Judgments

The preparation of financial statements requires the Manager to use judgment in applying accounting policies and to make estimates and assumptions about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing the financial statements.

The Fund may, from time to time, hold financial instruments that are not quoted in active markets. Fair values of such instruments are determined by using valuation models and techniques generally recognized as standard within the investment industry. These valuation methods use observable data as practicable as possible. Observable market data are readily available and supplied by independent sources actively involved in the relevant market. However, areas such as credit risk (both own and counterparty) and its correlations require the Manager to make estimates. Significant changes in assumptions about these factors could adversely affect the reported fair values of financial instruments. Please refer to Note 6 for a further analysis of risks associated with financial instruments.

5. Capital Disclosures

IAS 1, Presentation of Financial Statements (“IAS 1”), requires the disclosure of: (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data and qualitative information about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such noncompliance. The Fund’s objectives, policies and processes are described in Note 1, information on the Fund’s shares is described in Note 7 and the Fund does not have any externally imposed capital requirements.

6. Risks Associated with Financial Instruments

The Fund is exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which the Fund invests. The most important risks include credit risk, liquidity risk, market risk

(including interest rate risk, and price risk), concentration risk and capital risk management.

Credit Risk

The Fund is subject to the credit risk that its counterparty (whether a clearing corporation, in the case of exchange-traded instruments, or other third party, in the case of over-the-counter instruments) may be unable to meet its obligations. The Fund manages these risks through the use of various risk limits and trading strategies.

The Fund measures credit risk and lifetime ECLs related to the receivables using historical analysis and forward-looking information in determining the ECL.

The Fund is also exposed to counterparty credit risk on derivative financial instruments. The counterparty credit risk for derivative financial instruments is managed by dealing with counterparties that have a credit rating that is not below the level of approved credit ratings as set out in National Instrument 81-102. During the years ended December 31, 2019 and 2018, the counterparties to the Fund's derivative financial instruments had a credit rating of A-1 or higher from Standard & Poor's Ratings Services.

The Fund's derivative instruments are subject to offsetting, enforceable netting arrangements and similar agreements. The Fund and its counterparty have elected to settle all transactions on a gross basis; however, each party has the option to settle all open contracts on a net basis in the event of default of the other party. All outstanding derivatives have been presented on a gross basis on the Statement of Financial Position as derivative assets or derivative liabilities, as they do not meet the criteria for offsetting in IAS 32 paragraph 42.

Liquidity Risk

Liquidity risk is the possibility that investments in the Fund cannot be readily converted into cash when required. To manage this risk, the Fund invests the majority of its assets in investments that are traded in an active market and which can be easily disposed. In addition, the Fund aims to retain sufficient cash and short-term investments to maintain liquidity and to meet its obligations when due.

Cash is required to fund redemptions. Shareholders must surrender shares at least 10 business days prior to the last day of the month and receive payment on or before 15 calendar days following the month end valuation date. Therefore the Fund has a maximum of 25 business days to generate sufficient cash to fund redemptions mitigating liquidity issues.

The amounts in the table are the contractual undiscounted cash flows:

| As at December 31, 2019 | | | |
|-----------------------------|---------------|------------|---------------|
| Financial Liabilities | | | |
| | On Demand | < 3 months | Total |
| Accrued liabilities | \$ – | \$ 50,010 | \$ 50,010 |
| Accrued management fees | – | 20,288 | 20,288 |
| Redeemable Preferred shares | 8,898,020 | – | 8,898,020 |
| Class J shares | 100 | – | 100 |
| Class A shares | 5,549,393 | – | 5,549,393 |
| | \$ 14,447,513 | \$ 70,298 | \$ 14,517,811 |

| As at December 31, 2018 | | | |
|-----------------------------|---------------|------------|---------------|
| Financial Liabilities | | | |
| | On Demand | < 3 months | Total |
| Accrued liabilities | \$ – | \$ 49,154 | \$ 49,154 |
| Derivative liabilities | – | 27,667 | 27,667 |
| Accrued management fees | – | 21,384 | 21,384 |
| Redeemable Preferred shares | 9,659,930 | – | 9,659,930 |
| Class J shares | 100 | – | 100 |
| Class A shares | 5,568,399 | – | 5,568,399 |
| | \$ 15,228,429 | \$ 98,205 | \$ 15,326,634 |

Redeemable Preferred shares are redeemable on demand at the holder's option. However, the Manager does not expect that the contractual maturity disclosed above will be representative of the actual cash flows, as holders of these instruments typically retain them for a longer period or to the Termination Date of November 30, 2021.

Market Risk

The Fund's investments are subject to market risk which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market prices. The following include sensitivity analyses that show how the net assets attributable to holders of Class A shares would have been affected by a reasonably possible change in the relevant risk variable at each reporting date. In practice, the actual results may differ and the differences could be material.

(a) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a financial instrument. The financial instruments which potentially expose the Fund to interest rate risk are the short-term fixed income securities. The Fund has minimal sensitivity to changes in rates since securities are usually held to maturity and are short-term in nature.

(b) Price Risk

Price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or segment. The Fund's most significant exposure to price risk arises from its investments in equity securities. Net assets per Unit varies as the value of the securities in the Fund varies. The Fund has no control over the factors that affect the value of the securities in the Fund, including factors that affect all the companies in the financial services industry.

The Fund's price risk is managed by taking a long-term perspective and utilizing an option writing program, as well as by the use of purchased put options. Approximately 100 percent (2018 – 96 percent) of the Fund's net assets attributable to holders of Class A shares, excluding Redeemable Preferred Share liability, held at December 31, 2019 were publicly traded equities. If equity prices on the exchange increased or decreased by 5 percent as at December 31, 2019, the net assets attributable to holders of Class A shares, excluding Redeemable Preferred Share liability, would have increased or decreased by \$0.7 million (2018 – \$0.7 million) respectively or 5.0 percent (2018 – 4.8 percent) of the net assets attributable to holders of Class A shares, excluding Redeemable Preferred Share liability, with all other factors remaining constant. In practice, actual trading results may differ and the difference could be material.

The Manager believes that a portfolio that is subject to covered call option writing or purchased put options should provide a degree of protection against falling share prices in a downward trending market.

Concentration Risk

Concentration risk arises as a result of the concentration of exposures with the same category, whether it is geographical location, product type, industry sector or counterparty type. The following is a summary of the Fund's concentration risk:

| | Dec. 31 2019 | Dec. 31 2018 |
|------------|-----------------|-----------------|
| Financials | 100.0% | 100.0% |

Capital Risk Management

Class A shares may be surrendered at any time for retraction but will be retracted only on a monthly valuation date. Holders of Class A shares whose shares are surrendered for retraction will be entitled to receive a retraction price per Class A share (the "Class A share Retraction Price") equal to 95 percent of the lesser of (a) the difference between (i) the NAV per Unit

December 31, 2019 and 2018

determined as of the relevant valuation date and (ii) the cost to the Fund of purchasing a Preferred share in the market for cancellation; and (b) the difference between (i) the Unit Market Price (as defined below) and (ii) the cost to the Fund of purchasing a Preferred share in the market for cancellation. The cost of the purchase of a Preferred share will include the purchase price of the Preferred share, commission and such other costs, if any, related to the liquidation of any portion of the Fund's portfolio required to fund such purchase. If the NAV per Unit is less than \$10.00, the Class A share Retraction Price will be nil.

The "Unit Market Price" means the sum of the Class A Market Price and the Preferred Market Price.

The "Class A Market Price" means the weighted average trading price of the Class A shares, on the stock exchange on which the Class A shares are listed, for the 10 trading days immediately preceding the applicable valuation date.

The "Preferred Market Price" means the weighted average trading price of the Preferred shares, on the stock exchange on which the Preferred shares are listed, for the 10 trading days immediately preceding the applicable valuation date.

Holders of Class A shares also have an annual retraction right under which they may concurrently retract an equal number of Class A shares and Preferred shares on the June valuation date of each year. The price paid by the Fund for such a concurrent retraction will be equal to the NAV per Unit on that date.

Redeemable Preferred shares may be surrendered at any time for retraction, but will be retracted only on the monthly valuation date. Holders of Preferred shares whose shares are surrendered for retraction will be entitled to receive a retraction price per Preferred share equal to 95 percent of the lesser of (a) the NAV per Unit determined as of the relevant valuation date less the cost to the Fund of the purchase of a Class A share in the market for cancellation; (b) the Unit Market Price less the cost to the Fund of purchasing a Class A share in the market for cancellation; and (c) \$10.00. The cost of the purchase of a Class A share will include the purchase price of the Class A share, commission and such other costs, if any, related to the liquidation of any portion of the Portfolio to fund the purchase of the Class A share. Redeemable Preferred shares also have an annual retraction right under which a shareholder may concurrently retract one Redeemable Preferred share and one Class A share on the June month-end valuation date. The price paid will be equal to the NAV per Unit.

Fair Value Measurement

The Fund classifies fair value of measurement within a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs, other than quoted prices in Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and

Level 3: Inputs that are based on unobservable market data.

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period they occur. The following table illustrates the classification of the Fund's assets and liabilities measured at fair value within the fair value hierarchy as at December 31, 2019 and 2018.

| | As at December 31, 2019 | | | |
|------------------------|-------------------------|---------|---------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Canadian Common Shares | \$14,427,945 | \$ - | \$ - | \$14,427,945 |

As at December 31, 2018

| | As at December 31, 2018 | | | |
|------------------------|-------------------------|---------|---------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Canadian Common Shares | \$14,617,140 | \$ - | \$ - | \$14,617,140 |
| Options | (27,667) | - | - | (27,667) |
| | \$14,589,473 | \$ - | \$ - | \$14,589,473 |

The carrying values of cash, dividends receivable, accrued liabilities, accrued management fees, Redeemable Preferred shares, Class J shares and the Fund's obligation for net assets attributable to Class A shares approximate their fair values due to their short-term nature.

(a) Equities

The Fund's equity positions are classified as Level 1 as equity securities are actively traded and a reliable quoted price is observable.

(b) Short-Term Investments

Short-term investments are valued at cost plus accrued interest which approximates fair value. The inputs are observable and therefore short-term investments are classified as Level 2.

(c) Derivative Assets and Liabilities

Derivative assets and liabilities consist of option contracts.

Listed options are classified as Level 1 as the security is traded in a recognized exchange and a reliable price is readily observable.

Fair value of over-the-counter options is determined using the Black-Scholes Model with observable market data as inputs. Over-the-counter option contracts, for which the credit risks are determined not to be significant to fair value, have been classified as Level 2.

There were no transfers between Level 1 and Level 2 and the Fund did not hold any financial instruments within Level 3 of the fair value hierarchy during 2019 and 2018.

7. Shares

The Fund is authorized to issue an unlimited number of Class A shares, Preferred shares and Class J shares.

Preferred shares pay fixed cumulative preferential monthly cash distributions in the amount of \$0.04375 per Preferred share representing a yield on the original issue price of the Preferred shares of 5.25 percent per annum. Class A share distributions are calculated and paid monthly based on 6.0 percent per annum of the net asset value of the Class A shares.

For the year ended December 31, 2019, cash distributions paid to Preferred shareholders were \$503,813 (2018 – \$513,287) representing a payment of \$0.53 (2018 – \$0.53) per Preferred share and cash distributions paid to Class A shareholders were \$198,077 (2018 – \$439,924) representing a payment of \$0.21 (2018 – \$0.45) per Class A share.

During the year ended December 31, 2019, 76,191 (2018 – 12,760) Units were redeemed with a total retraction value of \$1,274,005 (2018 – \$211,072).

During the years ended December 31, 2019 and 2018, share transactions are as follows:

| | Dec. 31, 2019 | Dec. 31, 2018 |
|---|------------------|------------------|
| Redeemable Preferred Shares | | |
| Shares outstanding, beginning of year | 965,993 | 978,753 |
| Shares redeemed | (76,191) | (12,760) |
| Shares outstanding, end of year | 889,802 | 965,993 |
| Class A Shares | | |
| Shares outstanding, beginning of year | 965,993 | 978,753 |
| Shares redeemed | (76,191) | (12,760) |
| Shares outstanding, end of year | 889,802 | 965,993 |
| Class J Shares | | |
| Shares outstanding, beginning and end of year | 100 | 100 |

8. Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

(a) Management Fees

Strathbridge, as Manager under the terms of the Management Agreement and as Investment Manager under terms of the Investment Management Agreement, receives fees payable at annual rates of 0.10 percent and 1.55 percent respectively of the Fund's net asset value, excluding the Redeemable Preferred Share liability, calculated and payable monthly, plus applicable taxes. The Fund is responsible for all ongoing custodian, manager, legal, accounting and audit fees as well as all other expenses incurred by the Custodian and Manager in the ordinary course of business relating to the Fund's operations. Total management fees for the year ended December 31, 2019 were \$261,393 (2018 – \$284,984) of which \$20,288 (2018 – \$21,384) was paid subsequent to year-end.

(b) Director Fees

Total director fees paid to the external members of the Board of Directors for the year ended December 31, 2019 were \$18,900 (2018 – \$19,500).

(c) Independent Review Committee Fees

Total remuneration paid to the external members of the Independent Review Committee for the year ended December 31, 2019 were \$7,559 (2018 – \$7,500).

9. Brokerage Commissions and Soft Dollars

The Manager may select brokerages 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 as a percentage of total transaction fees paid during the years ended December 31, 2019 and 2018 is disclosed below:

| | Dec. 31, 2019 | Dec. 31, 2018 |
|--------------------------------------|------------------|------------------|
| Soft Dollars | \$ 5,514 | \$ 376 |
| Percentage of Total Transaction Fees | 45.9% | 5.3% |

10. Increase/(Decrease) in Net Assets Attributable to Holders of Class A Shares per Class A Share

The increase/(decrease) in net assets attributable to holders of Class A shares per Class A share for the years ended December 31, 2019 and 2018 is calculated as follows:

| | Dec. 31, 2019 | Dec. 31, 2018 |
|---|------------------|------------------|
| Increase/(Decrease) in Net Assets Attributable to Holders of Class A Shares | \$ 691,166 | \$ (3,061,671) |
| Weighted Average Number of Class A Shares Outstanding during the Year | 961,818 | 978,124 |
| Increase/(Decrease) in Net Assets Attributable to Holders of Class A Shares per Class A Share | \$ 0.7186 | \$ (3.1301) |

11. Income Taxes

No amount is payable on account of income taxes in 2019 and 2018.

Accumulated non-capital losses of approximately \$0.1 million (2018 – \$0.1 million) and accumulated capital losses of approximately \$5.5 million (2018 – \$6.4 million) are available for utilization against net investment income and realized gains on sale of investments, respectively, in future years. The non-capital losses expire in 2039. The capital losses can be carried forward indefinitely.

Statement of Corporate Governance Practices

The Board of Directors of the Fund is responsible for the overall stewardship of the Fund's business and affairs. The Fund has investment objectives and investment strategies that are set out in the prospectus of the Fund. The Fund's manager, Strathbridge Asset Management Inc. (the "Manager" or the "Investment Manager"), administers, either directly or indirectly through third party service organizations, every function associated with the operations of the Fund pursuant to a management agreement entered into at the time the Fund issued its shares to the public. Under this agreement the Manager is responsible for day to day operations of the Fund including the payment of distributions on its shares and attending to the retraction or redemption of its shares in accordance with their terms.

The Board consists of five directors, three of whom are independent of the Manager. The Board believes that the number of directors is appropriate for the Fund and only directors independent of the Fund are compensated. Amounts paid as compensation are reviewed for adequacy to ensure that they realistically reflect the responsibilities and risk involved in being an effective director. Individual directors may engage an outside advisor at the expense of the Fund in appropriate circumstances subject to the approval of the Board.

To assist the Board in its monitoring of the Fund's financial reporting and disclosure, the Board has an Audit Committee. The Audit Committee consists of three members, all of whom are independent of the Manager. The responsibilities of the Audit Committee include, but are not limited to, review of the annual financial statements and the annual audit performed by the independent auditor, and oversight of the Fund's compliance with tax and securities laws and regulations. The Audit Committee has direct communication channels with the independent auditor to discuss and review specific issues as appropriate.

The Board is responsible for developing the Fund's approach to governance issues and, together with the Investment Manager, has established a best practices governance procedure.

The Fund maintains an Investor Relations line (toll free: 1-800-725-7172 or email: info@strathbridge.com) and website (www.strathbridge.com) to respond to inquiries from shareholders.

Board of Directors

John P. Mulvihill

Chairman & CEO

Strathbridge Asset Management Inc.

John D. Germain

Senior Vice-President & Chief Financial Officer

Strathbridge Asset Management Inc.

Michael M. Koerner^{1,2}

Corporate Director

Robert W. Korthals^{1,2}

Corporate Director

Robert G. Bertram^{1,2}

Corporate Director

¹ *Audit Committee Member*

² *Independent Review Committee Member*

Information

Independent Auditor:

Deloitte LLP

Bay Adelaide Centre, East Tower

8 Adelaide Street West, Suite 200

Toronto, Ontario

M5H 0A9

Transfer Agent:

Computershare Investor Services Inc.

100 University Avenue, 8th Floor

Toronto, Ontario

M5J 2Y1

Shares Listed:

Toronto Stock Exchange

trading under

SBN.PR.A/SBN

Custodian:

RBC Investor Services Trust

RBC Centre

155 Wellington Street West, 2nd Floor

Toronto, Ontario

M5V 3L3

Visit our website at www.strathbridge.com for additional information on all Strathbridge Investment Funds.

Investment Funds Managed by Strathbridge Asset Management Inc.

MUTUAL FUNDS

Mulvihill Premium Yield Fund

UNIT TRUSTS

Canadian Utilities & Telecom Income Fund (UTE.UN)

Core Canadian Dividend Trust (CDD.UN)

Top 10 Canadian Financial Trust (TCT.UN)

U.S. Financials Income Fund (USF.UN)

SPLIT SHARES

Premium Income Corporation (PIC.PR.A/PIC.A)

S Split Corp. (SBN.PR.A/SBN)

Top 10 Split Trust (TXT.PR.A/TXT.UN)

World Financial Split Corp. (WFS.PR.A/WFS)

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Contact your broker directly for address changes.

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