ANNUAL REPORT 2011

S Split Corp.

strathbridge
ASSET MANAGEMENT

Letter to Shareholders

We are pleased to present the 2011 annual report containing the management report of fund performance and the audited financial statements for S Split Corp.

Distributions of $0.59 per share were paid to Class A shareholders and $0.53 per share were paid to Preferred shareholders during the year ended December 31, 2011. The net asset value per Unit of the Fund decreased 16.9 percent, from $21.46 per Unit at December 31, 2010 to $17.83 per Unit at December 31, 2011, primarily due to the dilutive effect of the warrants exercised in January 2011. However, the decline in the net asset value during the year was mitigated by the Strathbridge Selective Overwriting strategy (see “The Fund”) which generated net realized gain on options of $0.22 per Unit. The Fund’s annual total return for the year ended December 31, 2011, including reinvestment of distributions, was negative 8.6 percent, while the total return on The Bank of Nova Scotia shares during this period was negative 7.6 percent. For a more detailed review of the operations of the Fund, please see the Results of Operations and the Portfolio Manager Report sections.

In August 2010, the Fund issued warrants to Class A shareholders allowing holders of warrants to purchase a Unit of the Fund on or before the expiry date of January 17, 2011 at an exercise price of $19.13 per Unit. By January 17, 2011, 1,728,632 warrants were exercised for gross proceeds of approximately $33 million.

We thank all shareholders for their continued support and encourage shareholders to review the more 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.

The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting (“SSO”), to enhance the income generated by the BNS shares and to reduce volatility.

The SSO strategy is a quantitative, technical based methodology that identifies appropriate times to write and/or close out option positions compared to continuously writing 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.

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Management Report of Fund Performance

This annual management report of fund performance contains the financial highlights for the year ended December 31, 2011 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 or 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, Toronto, Ontario, M5H 3T9, or by visiting our website at www.strathbridge.com. You can 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 at the time of redemption of such shares on December 1, 2014, 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.

The Fund invests in The Bank of Nova Scotia (“BNS”) shares.

The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting (“SSO”), to enhance the income generated by the BNS shares and to reduce volatility.

Risk

Risks associated with an investment in the securities of the Fund are discussed in the Fund’s 2011 annual information form, which is available on the Fund’s website at www.strathbridge.com or on SEDAR at www.sedar.com. Set out below are several changes in 2011 that materially affected the risks associated with an investment in the securities of the Fund.

Warrants

The issuance of warrants to Class A shareholders of record on August 23, 2010 resulted in a risk of dilution to such shareholders prior to the expiry of the warrants on January 17, 2011. The value of a Unit decreased when: (i) the NAV per Unit exceeded $18.84 (being the subscription price payable on the exercise of a warrant less the warrant exercise fee) and (ii) one or more warrants were exercised. To maintain the shareholder’s pro rata interest in the assets of the Fund, the shareholder would be required to exercise one or more warrants in such circumstances. Failure to do so would result in a loss of value from the dilution of pro rata interest in the assets of the Fund.

Distributions

The Fund intends to pay regular monthly distributions of 6.0 percent per annum to the holders of Class A shares on the net asset value of the Fund. However, no distribution will be paid on the Class A shares if the distributions payable on the Preferred shares are in arrears or if the net asset value per Unit is equal to or less than $16.50.

Results of Operations

Distributions

For the year ended December 31, 2011, cash distributions of $0.59 per share were paid to Class A shareholders compared to $0.62 per share a year ago. Cash distributions of $0.53 per share paid to Preferred shareholders were unchanged from the previous year.

Since the inception of the Fund in May 2007, the Fund has paid total cash distributions of $2.81 per Class A share and $2.43 per Preferred share.

Revenue and Expenses

The Fund's total revenue, comprising mainly of BNS dividends, was $0.70 per Unit for the year ended December 31, 2011, down $0.02 per Unit compared to the prior year. Total expenses also decreased slightly by $0.01 per Unit to $0.49 per Unit in 2011. Higher expenses per Unit in 2010 were mainly due to the non-recurring costs associated with the warrant offering in August 2010. The Fund had a net realized and unrealized loss of $1.27 per Unit in 2011 as compared to a net realized and unrealized gain of $1.73 per Unit a year ago.

Net Asset Value

The net asset value per Unit of the Fund decreased 16.9 percent, from $21.46 per Unit at December 31, 2010 to $17.83 per Unit at December 31, 2011, largely reflecting the dilutive effect of warrants exercised in January 2011, cash distributions during the year and a decline in value of the BNS shares. The aggregate net asset value of the Fund decreased $21.0 million, from $84.4 million at December 31, 2010 to $63.4 million at December 31, 2011, mainly due to Unit redemptions and lower BNS share value, partially offset by net proceeds from warrants exercised in January 2011.

During the year ended December 31, 2011, the annual total return of the Fund was negative 8.6 percent. The total return of BNS during the same period was negative 7.6 percent. The total return of BNS is calculated without the deduction of management fees and fund expenses, whereas the performance of the Fund is calculated after deducting such fees and expenses.

Recent Developments

In August 2010, the Fund issued warrants to Class A shareholders allowing holders of warrants to purchase a Unit of the Fund on or before the expiry date of January 17, 2011 at an exercise price of $19.13 per Unit. By January 17, 2011, 1,728,632 warrants were exercised for gross proceeds of approximately $33 million.

On October 3, 2011, Mulvihill Capital Management Inc. ("MCM"), the Manager and Investment Manager of the Fund, announced a name change to Strathbridge Asset Management Inc. ("Strathbridge") reflecting a revitalized focus and commitment to the closed-end fund business.

Future Accounting Policy Changes

The Manager has developed a changeover plan to meet the timetable published by the Canadian Institute of Chartered Accountants ("CICA") for changeover to International Financial Reporting Standards ("IFRS").

The changeover plan was prepared to address the requirements and includes disclosures of the qualitative and quantitative impact, if any, of the changeover to IFRS in the 2011 financial statements and the preparation of the 2012 financial statements in accordance with IFRS with comparatives. In January 2011, the Canadian Accounting Standards Board ("AcSB") approved a two year deferral from IFRS adoption for investment companies applying Accounting Guideline 18 - Investment Companies ("AcG-18"). Subsequently, in December 2011, AcSB extended the deferral for another year to January 1, 2014. As a result, the Fund will adopt IFRS for its fiscal period beginning January 1, 2014 and will issue its initial financial statements in accordance with IFRS, with comparative information, for the semi-annual period ending June 30, 2014.

As at December 31, 2011, some anticipated changes to financial reporting include:

- Compliance with the full body of IFRS without industry specific exemptions. Unlike Canadian Generally Accepted Accounting Principles where investment fund accounting was based upon guidance in AcG-18,
- Changes to the presentation of shareholder equity to consider puttable instruments,
- Presentation of comparative information, and;
- Additional financial statement note disclosures on the recognition and classification of financial instruments.

Based on the Manager's current understanding and analysis of IFRS as compared to the accounting policies under Canadian GAAP, the Manager does not anticipate that the transition to IFRS will have a material impact on the Fund's net assets per share, nor systems and processes, and it is expected that it will mainly result in additional note disclosure in the financial statements.

Related Party Transactions

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 MCM dated April 26, 2007.

Strathbridge is the Manager of the Fund pursuant to a Trust Agreement made between the Fund and MCM 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.

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 independent review committee ("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. Members of the IRC are Robert W. Korthals, Michael M. Koerner and Robert G. Bertram.

We confirm the Fund did not rely on any approvals or recommendations of the IRC concerning related party transactions during the year.

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 from its inception date on May 17, 2007. This information is derived from the Fund's audited annual financial statements.

The net assets per Unit presented in the financial statements differs from the net asset value per Unit calculated weekly, primarily as a result of investments being valued at bid prices for financial statements purposes and at closing prices for weekly net asset value purposes.

Periods ended December 31

	2011	2010	2009	2008	2007 (4)
THE FUND'S NET ASSETS PER UNIT					
Net Assets, beginning of period (based on bid prices)(1)	**$ 21.45**	$ 20.89	$ 16.98	$ 22.96	$ 25.00
INCREASE (DECREASE) FROM OPERATIONS					
Total revenue	**0.70**	0.72	0.89	0.64	0.64
Total expenses	**(0.49)**	(0.50)	(0.47)	(0.47)	(0.36)
Realized gain (loss) for the period	**1.09**	0.27	(2.67)	(0.76)	0.01
Unrealized gain (loss) for the period	**(2.36)**	1.46	7.04	(4.13)	(1.50)
Total Increase (Decrease) from Operations(2)	**(1.06)**	1.95	4.79	(4.72)	(1.21)
DISTRIBUTIONS					
Class A Share					
From net investment income	**(0.16)**	–	–	–	(0.07)
Non-taxable distributions	**(0.43)**	(0.62)	(0.42)	(0.67)	(0.44)
Total Class A Share Distribution	**(0.59)**	(0.62)	(0.42)	(0.67)	(0.51)
Preferred Share					
From net investment income	**(0.53)**	(0.17)	(0.29)	(0.17)	(0.33)
Non-taxable distributions	**–**	(0.36)	(0.24)	(0.36)	–
Total Preferred Share Distributions	**(0.53)**	(0.53)	(0.53)	(0.53)	(0.33)
Total Annual Distributions(3)	**(1.12)**	(1.15)	(0.95)	(1.20)	(0.84)
Net Assets, as at December 31 (based on bid prices)(1)	**$ 17.81**	$ 21.45	$ 20.89	$ 16.98	$ 22.96

(1) Net assets per Unit is the difference between the aggregate value of the assets and the aggregate value of the liabilities, excluding the Redeemable Preferred Share liability, on that date and including the valuation of securities at bid prices 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 period.
(3) Distributions to shareholders are based on the number of shares outstanding on the record date for each distribution and were paid in cash.
(4) For the period from inception on May 17, 2007 to December 31, 2007.

Periods ended December 31

	2011	2010	2009	2008	2007 (7)
RATIOS/SUPPLEMENTAL DATA					
Net Asset Value, excluding the Redeemable Preferred Share liability ($millions)(1)	**$ 63.41**	$ 84.36	$ 79.80	$ 74.49	$ 108.61
Net Asset Value ($millions)(1)	**$ 27.84**	$ 45.05	$ 41.62	$ 30.75	$ 61.41
Number of Units outstanding(1)	**3,556,512**	3,930,870	3,818,900	4,374,300	4,719,300
Management expense ratio(2)	**2.88%**	2.93%	2.52%	2.22%	0.90%(5)
Portfolio turnover rate(3)	**45.90%**	54.87%	18.07%	9.10%	9.34%
Trading expense ratio(4)	**0.07%**	0.04%	0.07%	0.05%	0.05%(5)
Net Asset Value per Unit(6)	**$ 17.83**	$ 21.46	$ 20.90	$ 17.02	$ 23.01
Closing market price - Class A	**$ 6.00**	$ 8.95	$ 8.50	$ 4.50	$ 9.90
Closing market price - Preferred	**$ 10.35**	$ 10.38	$ 10.00	$ 9.25	$ 10.19

(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, including federal and provincial sales taxes but excluding transaction fees and Class A share distributions, charged to the Fund divided by the average net asset value, excluding the Redeemable Preferred Share liability. The MER for 2011, 2010 and 2009 includes the warrant offering costs and/or warrant exercise fees. The MER for 2011, 2010 and 2009 excluding the warrant offering costs and/or warrant exercise fees is 2.36%, 2.26% and 2.30% respectively. The MER, including Preferred share distributions, is 5.52%, 5.48%, 5.39%, 4.73% and 4.49% for 2011, 2010, 2009, 2008 and 2007 respectively.
(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) Annualized.
(6) Net asset value per Unit is the difference between the aggregate value of the assets and the aggregate value of the liabilities, excluding the Redeemable Preferred Share liability, and including the valuation of securities at closing prices divided by the number of Units then outstanding.
(7) For the period from inception on May 17, 2007 to December 31, 2007.

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 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.

Mulvihill Fund Services Inc. (the predecessor Manager or "Mulvihill") amalgamated with Mulvihill Capital Management Inc. (the predecessor Investment Manager or "MCM") on September 1, 2010. As successor, MCM became the Manager as well as the Investment Manager of the Fund. On October 3, 2011, MCM announced a name change to Strathbridge Asset Management Inc. ("Strathbridge").

Retraction Fee

If a retraction of a Class A Share or Preferred Share occurs prior to July 2014, a retraction fee payable to Strathbridge by the retracting shareholder will be deducted by Strathbridge from the amount otherwise receivable by the retracting shareholder to compensate Strathbridge, in part, for paying the Agents' fees and expenses of the offering.

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,

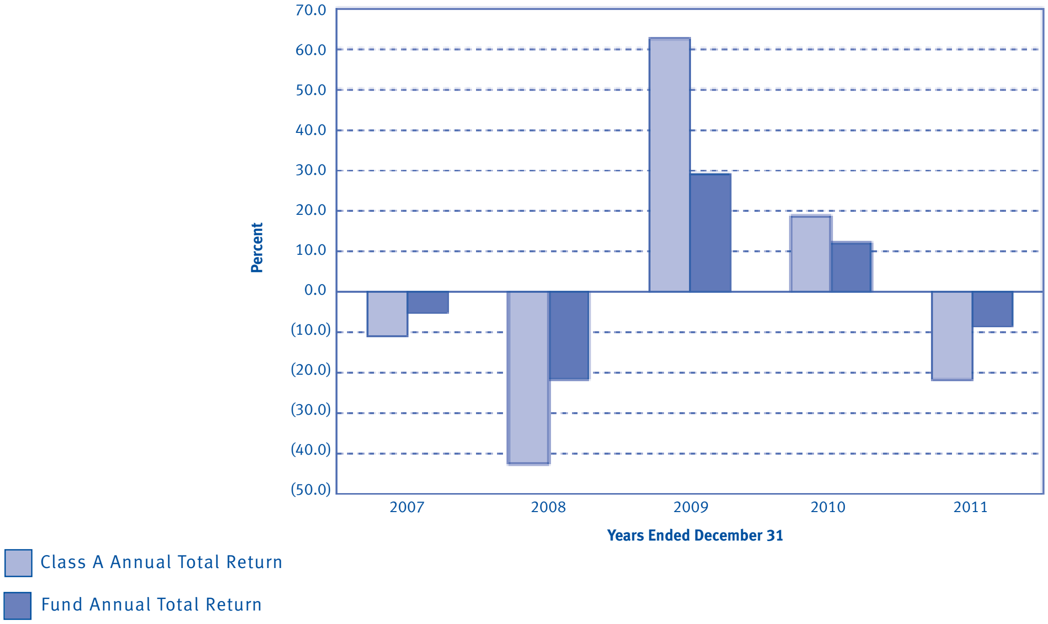
(2) information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns, and;

(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 five years. The chart also shows, in percentage terms, how much an investment made on January 1 in each year or the date of inception in 2007 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 periods ended December 31, 2011 as compared to the performance of the The Bank of Nova Scotia shares and S&P/TSX Financials Index.

(In Canadian Dollars)	One Year	Three Years	Since Inception[1]
S Split Corp.	**(8.55)%**	9.81 %	(0.37)%
S Split Corp. - Class A	**(21.69)%**	14.78 %	(5.38)%
S Split Corp. - Preferred	**5.38 %**	5.38 %	5.37 %
The Bank of Nova Scotia Shares	**(7.62)%**	20.14 %	2.57 %
S&P/TSX Financials Index[2]	**(2.86)%**	16.05 %	(1.35)%

(1) From date of inception on May 17, 2007.

(2) The S&P/TSX 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 equity performance benchmark shown here provides 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 this index; rather, its objectives are to pay out monthly dividends 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

The economic recovery which started in mid-2009 continued through most of 2011; however, the pace of growth reached a plateau toward the end of 2010 and has not accelerated since that time. Frustratingly slow growth combined with dramatic geopolitical events made 2011 a difficult year for many investors. This lethargic growth and general uncertainty produced by both natural disasters and man-made debt crises forced the Bank of Canada to leave its key rate unchanged at 1.0 percent for the entire year and signalled a continued easy monetary policy into 2013. Quantitative easing in the U.S. and commodity-price inflation globally took the Canadian dollar above US$1.00 for much of the year.

An extended period of very low interest rates combined with economic uncertainty is a challenging environment for banks. Most Canadian banks, including BNS, endured net interest margin pressures in 2011, although it was not significant. To maintain comfortable capital levels, BNS chose to maintain its dividend per share at $0.52 for each quarter while several other large banks had one or more quarterly increases. BNS was the weakest performer of the big five banks in 2011 with a total return of negative 10.9 percent or negative 7.6 percent including dividends.

In 2011, the precious metals division of BNS (called ScotiaMocatta) expanded to include base metals operations. Given BNS's corporate banking relationships in the Canadian mining industry, this additional product offering should be well received. Also this year, BNS expanded their exposure in Columbia with the $1 billion acquisition of a 51 percent stake in Banco Colpatria and, for the first time, acquired a stake in a Chinese bank paying $719 million for a 20 percent holding in Bank of Guangzhou.

The net asset value of the Fund on December 31, 2011 was $17.83 per Unit compared to $21.46 per Unit at December 31, 2010. The Fund's Class A and Preferred Shares are listed on the Toronto Stock Exchange ("TSX") as SBN and SBN.PR.A, respectively.

Distributions of $0.59 per share were paid to Class A shareholders and $0.53 per share were paid to Preferred shareholders during the year ended December 31, 2011. The Fund's annual total return for the year, including reinvestment of distributions, was negative 8.6 percent. The total return on BNS shares during this period including dividends was negative 7.6 percent. The average cash position during the year was approximately 6 percent; however, the Fund endeavours to be as fully invested in BNS as operationally possible.

In order to generate income, the Fund may write covered call options in respect of all or part of the BNS shares held in the portfolio. Volatility on the TSX as measured by the S&P/TSX 60 VIX Index ("VIXC") started the year fairly quiet and stayed in a 5 point range between 15 and 20 percent until mid-summer. By August, political gridlock had taken over Washington D.C., the pro-democracy uprising in the Arab world continued to gain momentum, and Standard & Poor's downgraded the U.S. Government debt to AA+ from AAA for the first time ever.

This confluence of events caused volatility to spike in both the U.S. and Canada. The implied volatility on BNS went from 13 percent in late July to 38 percent in the first week of August. Uncertainty continued for the rest of year but drifted gradually lower in the fourth quarter. The Fund stepped up overwriting activity during summer and fall to monetize this increased volatility. The Fund's average overwritten level for 2011 was 24.5 percent compared to 16.3 percent at the end of the year. During 2011, the net realized gain on options attributable to the Strathbridge Selective Overwriting ("SSO") strategy was $0.22 per Unit.

BNS continues to be the Canadian bank with the largest international exposure. More than one quarter of its loans are made outside of North America. While growth remains sluggish, BNS will benefit more than its competitors when activity levels do improve due to its higher-margin international footprint.

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, 2011

	% OF NET ASSET VALUE*
Financials - The Bank of Nova Scotia	98%
Cash and Short-Term Investments	2%
	100%

*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 Canadian generally accepted accounting principles 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 & Touche LLP, the Fund's independent auditor, has full and unrestricted access to the Audit Committee and the Board.

John P. Mulvihill	John D. Germain
Director	Director
Strathbridge Asset Management Inc.	Strathbridge Asset Management Inc.
February 27, 2012	

To the Shareholders of S Split Corp.

We have audited the accompanying financial statements of S Split Corp., which comprise the statement of investments as at December 31, 2011, the statements of financial position as at December 31, 2011 and 2010, and the statements of operations and deficit, changes in net assets and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of S Split Corp. as at December 31, 2011 and 2010, and the results of its operations, its changes in the net assets, and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
February 27, 2012
Toronto, Ontario

Statements of Financial Position

As at December 31

		2011		2010
ASSETS				
Investments at fair value (cost - $63,756,163; 2010 - $63,422,357)	$	61,775,568	$	72,169,943
Short-term investments at fair value (cost - $698,264; 2010 - $23,619,731)		698,264		23,619,731
Cash		376,991		58,449
Accrued interest		1,393		2,936
Dividends receivable		637,260		624,113
TOTAL ASSETS	$	63,489,476	$	96,475,172
LIABILITIES				
Accrued management fees	$	89,041	$	119,018
Accrued liabilities		68,380		166,724
Due to brokers - investments		–		11,511,477
Redemptions payable		–		364,031
Retraction fee payable (Note 5)		–		14,480
Redeemable Preferred shares (Note 5)		35,565,120		39,308,700
		35,722,541		51,484,430
EQUITY				
Class A and Class J shares (Note 5)		42,508,867		52,160,464
Deficit		(14,741,932)		(7,169,722)
		27,766,935		44,990,742
TOTAL LIABILITIES AND EQUITY	$	63,489,476	$	96,475,172
Number of Units Outstanding (Note 5)		3,556,512		3,930,870
Net Assets per Unit				
Preferred share	$	10.0000	$	10.0000
Class A share - Basic		7.8074		11.4455
Net Assets per Unit (Note 4)	$	17.8074	$	21.4455
Net Assets per Class A share - Diluted (Note 5)		n/a	$	10.1541

On Behalf of the Board of Directors,

John P. Mulvihill, Director

Robert W. Korthals, Director

The notes are an integral part of the Financial Statements.

Statements of Operations and Deficit

Years ended December 31

	2011	2010
REVENUE		
Interest	$ 53,147	$ 28,625
Dividends	3,117,543	3,043,782
	3,170,690	3,072,407
Net realized gain on investments	3,901,644	3,848,344
Net realized gain (loss) on derivatives	1,031,635	(2,685,864)
Total Net Realized Gain	4,933,279	1,162,480
TOTAL REVENUE	8,103,969	4,234,887
EXPENSES (Note 6)		
Management fees	1,508,309	1,406,206
Service fees	226,226	218,741
Administrative and other expenses	121,385	100,081
Transaction fees (Note 8)	59,132	38,502
Custodian fees	28,972	27,652
Audit fees	27,820	27,537
Director fees	19,631	20,575
Independent review committee fees	7,787	6,601
Legal fees	2,036	8,434
Shareholder reporting costs	26,937	26,116
Federal and provincial sales taxes	176,289	114,525
Subtotal Expenses	2,204,524	1,994,970
Warrant offering costs (Note 5)	–	140,012
TOTAL EXPENSES	2,204,524	2,134,982
Net Realized Income before Distributions	5,899,445	2,099,905
Preferred share distributions	(2,403,334)	(2,202,030)
Net Realized Income (Loss)	3,496,111	(102,125)
Net change in unrealized appreciation/depreciation of investments	(10,728,181)	6,230,692
NET INCOME (LOSS) FOR THE YEAR	$ (7,232,070)	$ 6,128,567
NET INCOME (LOSS) PER CLASS A SHARE - BASIC (based on the weighted average number of Class A shares outstanding during the year of 4,544,115; 2010 - 4,267,645)	$ (1.5915)	$ 1.4361
NET INCOME PER CLASS A SHARE - DILUTED	n/a	$ 1.3250
DEFICIT		
Balance, beginning of year	$ (7,169,722)	$ (15,716,498)
Net allocations on retractions of Class A shares (Note 5)	2,435,424	5,014,311
Net income (loss) for the year	(7,232,070)	6,128,567
Distributions on Class A shares	(2,775,564)	(2,596,102)
BALANCE, END OF YEAR	$ (14,741,932)	$ (7,169,722)

Statements of Changes in Net Assets

Years ended December 31

	2011	2010
NET ASSETS, BEGINNING OF YEAR	$ 44,990,742	$ 41,569,873
Net Realized Income before Distributions	5,899,445	2,099,905
Class A Share Capital Transactions		
Value for Class A shares redeemed	(21,976,164)	(11,514,906)
Proceeds from Class A shares issued, net of warrant exercise fees	14,759,991	11,403,310
	(7,216,173)	(111,596)
Distributions		
Class A Share		
From net investment income	(675,602)	–
Non-taxable distributions	(2,099,962)	(2,596,102)
Preferred Share		
From net investment income	(2,403,334)	(702,214)
Non-taxable distributions	–	(1,499,816)
	(5,178,898)	(4,798,132)
Net Change in Unrealized Appreciation/Depreciation of Investments	(10,728,181)	6,230,692
Changes in Net Assets during the Year	(17,223,807)	3,420,869
NET ASSETS, END OF YEAR	$ 27,766,935	$ 44,990,742

Statements of Cash Flows

Years ended December 31

	2011	2010
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	$ 23,678,180	$ 4,454,057
Cash Flows Provided by (Used In) Operating Activities		
Net Realized Income (Loss) before Distributions	5,899,445	2,099,905
Adjustments to Reconcile Net Cash Provided by (Used in) Operating Activities		
Purchase of investment securities	(40,459,471)	(44,242,015)
Proceeds from disposition of investment securities	45,058,944	54,344,722
Net realized (gain)/loss on sale of investments (including derivatives)	(4,933,279)	(1,162,480)
(Increase)/decrease in dividends receivable and accrued interest	(11,604)	124,532
Increase/(decrease) in accrued management fees, accrued liabilities and due to brokers - investments	(11,639,798)	11,479,123
	(11,985,208)	20,543,882
Cash Flows Provided by (Used In) Financing Activities		
Proceeds from issuance of Units, net of warrant exercise fees	31,440,411	24,916,210
Distributions to Class A shares	(2,775,564)	(2,596,102)
Distributions to Preferred shares	(2,403,334)	(2,202,030)
Class A share redemptions	(22,173,675)	(11,321,542)
Preferred share redemptions	(20,605,000)	(12,216,200)
	(16,517,162)	(3,419,664)
Net Increase/(Decrease) in Cash and Short-Term Investments During the Year	(22,602,925)	19,224,123
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	$ 1,075,255	$ 23,678,180
Cash and Short-Term Investments comprised of:		
Cash	$ 376,991	$ 58,449
Short-Term Investments	698,264	23,619,731
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	$ 1,075,255	$ 23,678,180

The notes are an integral part of the Financial Statements.

Statement of Investments

As at December 31, 2011

	Par Value/ Number of Shares/ Number of Contracts	Average Cost/ Proceeds	Fair Value	% of Net Assets
SHORT-TERM INVESTMENTS				
Bankers' Acceptances				
The Bank of Nova Scotia, 1.12% - January 17, 2012	700,000	$ 698,264	$ 698,264	
Accrued Interest			1,393	
TOTAL SHORT-TERM INVESTMENTS		$ 698,264	$ 699,657	1.1 %
INVESTMENTS				
Canadian Common Shares				
Financials				
The Bank of Nova Scotia	1,225,500	$ 64,030,579	$ 62,218,635	98.2 %
Total Canadian Common Shares		$ 64,030,579	$ 62,218,635	98.2 %
Options				
Written Covered Call Options (100 shares per contract)				
The Bank of Nova Scotia - January 2012 @ $49	(2,042)	$ (240,956)	$ (443,067)	(0.7)%
Adjustment for transaction fees		(33,460)		
TOTAL INVESTMENTS		$ 63,756,163	$ 61,775,568	97.5 %
OTHER NET ASSETS			856,830	1.4 %
TOTAL NET ASSETS, excluding the Redeemable Preferred Share liability			$ 63,332,055	100.0 %

1. Establishment of the Fund

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.

On September 1, 2010, Mulvihill Capital Management Inc. ("MCM") amalgamated with Mulvihill Fund Services Inc. As successor, MCM became the Manager as well as the Investment Manager of the Fund. On October 3, 2011, MCM announced a name change to Strathbridge Asset Management Inc. ("Strathbridge"). RBC Dexia Investor Services Trust is the Custodian of the assets of the Fund.

2. Investment Objectives of the Fund

The Fund's investment objectives are to:

(i) 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 at the time of redemption of such shares on December 1, 2014, and;

(ii) provide holders of Class A shares with regular monthly cash distributions in an amount 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.

The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting ("SSO"), to enhance the income generated by the BNS shares and to reduce volatility.

3. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), which include estimates and assumptions by management that may affect the reported amounts of assets, liabilities, income and expenses during the reported periods. Primary estimates include valuation of investments. While management believes that the estimates used in preparing its financial statements are reasonable and prudent, actual results could differ from these estimates.

Financial Instruments - Disclosures

The Fund uses a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. See additional note disclosures in Note 10.

The significant accounting policies of the Fund are as follows:

Valuation of Investments

Investments are recorded in the financial statements at their fair value which is determined by the closing bid price for long positions and by the closing ask price for short positions from the recognized stock exchange on which the securities are listed or principally traded. If no bid or ask prices are available, the securities are valued at the closing sale price or the Manager may estimate fair value using appropriate and accepted industry valuation techniques including valuation models. The fair value of an investment, determined using valuation models, requires the use of inputs and assumptions based on observable market data including volatility and other applicable rates or prices. In limited circumstances, the fair value of a security may be determined using valuation techniques that are not supported by observable market data. Over-the-counter options are valued using the Black-Scholes valuation model.

Short-term investments are included in the statement of investments at their cost. This value together with accrued interest approximates fair value at bid price.

Transaction Fees

Transaction fees have been expensed as incurred and included in the transaction fees line in the Statement of Operations and Deficit. Transaction fees are costs that are directly attributable to portfolio transactions which include fees and commissions paid to brokers and dealers.

Investment Transactions and Income

Investment transactions are accounted for on a trade date basis. Realized gains and losses on the sale of investments and change in unrealized appreciation/depreciation of investments are determined on an average cost basis. 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 related to options are included in net realized gain (loss) on derivatives.

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 change in the net unrealized appreciation/depreciation of investments. 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 recorded daily as it is earned.

4. Net Asset Value

The net asset value of the Fund is calculated using the fair value of investments at the close or last trade price. The net assets per Unit is calculated using the fair value of investments at the closing bid price. The net assets per Unit for financial reporting purposes and net asset value per Unit for pricing purposes will not be the same due to the use of different valuation techniques.

The difference between the net asset value per Unit for pricing purposes and the net assets per Unit reflected in the financial statements is as follows:

	2011	2010
Net Asset Value per Unit (for pricing purposes)	**$17.8280**	$21.4592
Difference	**(0.0206)**	(0.0137)
Net Assets per Unit (for financial statement purposes)	**$17.8074**	$21.4455

5. Share Capital

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

Class J Shares

The holders of Class J shares are not entitled to receive distributions. The holders of Class J shares will be entitled to one vote per share. The Class J shares are redeemable and retractable at a price of $1.00 per share. The Class J shares rank subordinate to both the Class A shares and the Preferred shares with respect to distributions on the dissolution, liquidation or winding up of the Fund. A trust established for the benefit of the holders from time to time of the Class A shares and the Preferred shares owns all of the issued and outstanding Class J shares.

Class A Shares

Class A shares may be surrendered at any time for retraction to Computershare Investor Services Inc. ("Computershare"), the Fund's registrar and transfer agent, but will be retracted only on a monthly Valuation Date. Class A shares surrendered for retraction by a holder of Class A shares at least 10 business days prior to the last day of a month (a "Valuation Date") will be retracted on such Valuation Date and the shareholder will be paid on or before the fifteenth business day of the following month (the "Retraction Payment Date"). Such retractions are subject to a Retraction Fee as described under "Retraction Fee" below.

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 difference between (i) the NAV per Unit determined as of the relevant Valuation Date, and (ii) the cost to the Fund of the purchase of 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. Any declared and unpaid distributions payable on or before a Valuation Date in respect of the Class A shares tendered for retraction on such Valuation Date will also be paid on the Retraction Payment 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 "Annual Valuation Date"). The price paid by the Fund for such a concurrent retraction will be equal to the NAV per Unit on that date, less any costs associated with the retraction, including commissions and other such costs, if any, related to the liquidation of any portion of the Fund's portfolio required to fund such retraction. Such retractions are subject to a Retraction Fee as described under "Retraction Fee" below. Net allocations on retractions of Class A shares represent gains on retractions where the price paid upon retraction is less than the carrying value of the retracted shares. In the current year, the gain was $2,435,424 (2010 - $5,014,311) reflected in the Statement of Operations and Deficit.

Preferred Shares

Preferred shares may be surrendered at any time for retraction to Computershare, but will be retracted only on a monthly Valuation Date. Preferred shares surrendered for retraction by a holder of Preferred Shares at least 10 business days prior to a Valuation Date will be retracted on such Valuation Date and the shareholder will receive payment on or before the Retraction Payment Date. Such retractions are subject to a Retraction Fee as described under "Retraction Fee" below.

Holders of Preferred shares whose shares are surrendered for retraction will be entitled to receive a retraction price per Preferred share (the "Preferred Share Retraction Price") equal to 95 percent of the lesser of: (i) 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; and (ii) $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 Fund's portfolio required to fund such purchase. Any declared and unpaid distributions payable on or before a Valuation Date in respect of the Preferred Shares tendered for retraction on such Valuation Date will also be paid on the Retraction Payment Date.

Holders of Preferred shares also have an annual retraction right under which they may concurrently retract an equal number of Preferred shares and Class A shares on the Annual Valuation Date. The price paid by the Fund for such a concurrent retraction will be equal to the NAV per Unit on that date, less any costs associated with the retraction, including commissions and other such costs, if any, related to the liquidation of any portion of the Fund's portfolio required to fund such retraction. Such retractions are subject to a Retraction Fee as described under "Retraction Fee" below.

The Fund's Preferred shares have been classified as liabilities in accordance with Canadian GAAP. Accordingly, net income (loss) for the year is stated after Preferred share distributions.

On December 17, 2010, the Toronto Stock Exchange ("TSX") renewed a normal course issuer bid filed by the Fund. Under the terms of the normal course issuer bid, the Fund proposed to purchase, if considered advisable, up to a maximum of 394,897 Class A shares and 394,897 Preferred shares or 10 percent of its public float as determined in accordance with the rules of the TSX. One Unit consists of one Class A share and one Preferred share. The Fund could not purchase more than 78,979 of its Units (representing approximately 2 percent of the Fund's issued and outstanding Units as of December 13, 2010) in any 30-day period under the bid. The purchases would be made in the open market through the facilities of the TSX. The normal course issuer bid remained in effect until December 20, 2011. As at December 20, 2011, nil Units (2010 - nil) had been purchased by the Fund.

During the year, 2,042,400 (2010 - 1,239,320) each of Class A shares and Preferred shares were redeemed with a total retraction value of $42,400,164 (2010 - $23,908,106).

Issued and Outstanding

	2011	2010
3,556,512 Preferred shares (2010 - 3,930,870)	**$35,565,120**	$39,308,700
3,556,512 Class A shares (2010 - 3,930,870)	**$42,508,767**	$52,160,364
100 Class J shares (2010 - 100)	**100**	100
	$42,508,867	$52,160,464

Warrants

In 2009, the Fund issued 3,818,100 warrants to Class A shareholders of record at the close of business on November 19, 2009 at a cost of $169,766. Each warrant entitled the shareholder thereof to acquire one Unit upon payment of $18.75 on or before March 31, 2010. During 2010, 1,290,700 warrants were exercised for total gross proceeds of $24,200,625.

Upon exercise of a 2009 warrant, the Fund paid a fee of $0.33 per warrant to the dealer whose client had exercised the warrant. During 2010, warrant exercise fees paid amounted to $425,931 and were charged to Class A shareholders' equity.

In 2010, the Fund issued 3,923,580 warrants to Class A shareholders of record at the close of business on August 23, 2010 at a cost of $140,012. Each warrant entitled the shareholder thereof to acquire one Unit upon payment of $19.13 on or before January 17, 2011. During the year, 1,668,042 warrants (2010 - 60,590) were exercised for total gross proceeds of $31,909,643 (2010 - $1,159,087).

Upon exercise of a 2010 warrant, the Fund paid a fee of $0.29 per warrant to the dealer whose client had exercised the warrant. During the year, warrant exercise fees paid amounted to $469,232 (2010 - $17,571) and were charged to Class A shareholders' equity.

The diluted net assets per Unit refers to the net assets of the Fund plus the net proceeds that would have been received by the Fund if all outstanding warrants were exercised, divided by the number of Units outstanding plus the additional Units that would be outstanding if all of the outstanding warrants had been exercised on the applicable valuation date. The diluted net assets per Unit, relating to the 2010 warrants, was calculated when the basic net assets per Unit exceeded $18.84 per Unit, equivalent to the subscription price of $19.13 less the dealer fees of $0.29, on the applicable valuation date. At December 31, 2011, there was no diluted net assets per Unit as all warrants had expired.

Retraction Fee

If a retraction of a Class A share or Preferred share occurs prior to July 2014, a retraction fee payable to the Investment Manager by the retracting shareholder will be deducted by the Investment Manager from the amount otherwise receivable by the retracting shareholder to compensate the Investment Manager, in part, for paying the Agents' fees and expenses of the offering. Retraction fees in the amount of $1,633,760 (2010 - $1,228,660) were incurred during the year of which nil (2010 - $14,480) were payable at year-end.

The retraction fee is calculated as follows:

Time of Retraction	Retraction Fee per Unit
July 2009 to June 2010	$1.00
July 2010 to June 2011	$0.80
July 2011 to June 2012	$0.60
July 2012 to June 2013	$0.40
July 2013 to June 2014	$0.20
July 2014 to December 2014	Nil

6. Management Fees and Expenses

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, calculated and payable monthly, plus applicable taxes.

The Fund is responsible for all ongoing trustee, manager, legal, accounting and audit fees as well as all other expenses incurred by the Trustee and the Manager in the ordinary course of business relating to the Fund's operations. The Fund is also responsible for commissions and other costs of portfolio transactions and any extraordinary expenses of the Fund which may be incurred from time to time.

The Fund pays a service fee equal to 0.50 percent annually of the Class A shares net asset value of the Fund which it pays to dealers in connection with Class A shares held by clients of the sales representatives of such dealers, plus applicable taxes. This service fee is payable quarterly. No service fee will be paid in any calendar quarter if regular distributions are not paid to Class A shareholders in respect of each month in such calendar quarter.

7. Income Taxes

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 33 1/3 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.

No amount is payable on account of income taxes in 2011 or 2010.

Accumulated capital losses of approximately $7.7M (2010 - $7.6M) are available for utilization against realized gains on sale of investments in future years. The capital losses can be carried forward indefinitely.

Issue costs of approximately $0.2M (2010 - $0.2M) remain undeducted for tax purposes at year-end.

8. Transaction Fees

Total transaction fees for the year ended December 31, 2011 in connection with portfolio transactions were $59,132 (2010 - $38,502). Of this amount $9,735 (2010 - $5,951) was directed to cover payment of research services provided to the Investment Manager.

9. Capital Disclosures

Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, "Capital Disclosures" 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 non-compliance. The Fund's objectives, policies and processes are described in Note 2, information on the Fund's shareholders' equity is described in Note 5 and the Fund does not have any externally imposed capital requirements.

10. Financial Instruments and Risk Management

The Fund's financial instruments consist of cash, receivables, investments, payables and Redeemable Preferred shares. In accordance with CICA Handbook Section 3862, "Financial Instruments - Disclosures", the Fund uses a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. The hierarchy of inputs is summarized below:

(i) Level 1 - for unadjusted quoted prices in active markets for identical assets or liabilities,

(ii) Level 2 - for inputs, other than quoted prices included 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

(iii) Level 3 - for inputs that are based on unobservable market data.

The following is a summary of the inputs used as of December 31, 2011 in valuing the Fund's investments and derivatives carried at fair value:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Short-Term Investments	$ –	$ 699,657	$ –	$ 699,657
Canadian Common Shares	62,218,635	–	–	$ 62,218,635
Options	–	(443,067)	–	$ (443,067)
Total Investments	$ 62,218,635	$ 256,590	$ –	$ 62,475,225

The following is a summary of the inputs used as of December 31, 2010 in valuing the Fund's investments and derivatives carried at fair value:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Short-Term Investments	$ –	$ 23,622,667	$ –	$ 23,622,667
Canadian Common Shares	72,664,585	–	–	$ 72,664,585
Options	–	(494,642)	–	$ (494,642)
Total Investments	$ 72,664,585	$ 23,128,025	$ –	$ 95,792,610

There were no transfers between Level 1 and Level 2 during 2011 and 2010.

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

These risks and related risk management practices employed by the Fund are discussed below:

Other Price Risk

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate or currency 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 other price risk arises from its investments in equity securities. Net assets per Unit varies as the value of BNS shares varies. The Fund has no control over the factors that affect the value of the securities in the Fund, specifically factors that affect BNS securities. The Fund's market 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 98 percent (2010 - 86 percent) of the Fund's net assets, excluding the Redeemable Preferred Share liability, held at December 31, 2011 were in a publicly traded equity. If equity prices on the exchange increased or decreased by 10 percent as at December 31, 2011, the net assets, excluding the Redeemable Preferred Share liability, of the Fund would have increased or decreased by $6.2M (2010 - $7.3M) respectively or 9.8 percent (2010 - 8.6 percent) of the net assets, excluding the Redeemable Preferred Share liability, all other factors remaining constant. In practice, actual trading results may differ and the difference could be material.

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. Liabilities are payable within one year except the Redeemable Preferred Share liability which matures on December 1, 2014 (see Note 5).

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 business 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.

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 change in rates since securities are usually held to maturity and are short-term in nature.

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 in accordance with the Fund's objectives.

The credit risk is mitigated 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.

The following are the credit ratings for the counterparties to derivative financial instruments that the Fund dealt with during the year based on Standard & Poor's credit ratings as of December 31, 2011:

Dealer	Long-Term Local Currency Rating	Short-Term Local Currency Rating
Canadian Dollar		
Bank of Montreal	A+	A-1
Canadian Imperial Bank of Commerce	A+	A-1
Citigroup Inc.	A-	A-2
National Bank of Canada	A	A-1
Royal Bank of Canada	AA-	A-1+
Toronto-Dominion Bank	AA-	A-1+

The following are the credit ratings for the counterparties to derivative financial instruments that the Fund dealt with during the prior year based on Standard & Poor's credit ratings as of December 31, 2010:

Dealer	Long-Term Local Currency Rating	Short-Term Local Currency Rating
Canadian Dollar		
Bank of Montreal	A+	A-1
Canadian Imperial Bank of Commerce	A+	A-1
Citigroup Inc.	A	A-1
National Bank of Canada	A	A-1
Royal Bank of Canada	AA-	A-1+
Toronto-Dominion Bank	AA-	A-1+

The following is the credit rating for short-term investments held by the Fund based on Standard & Poor's credit ratings as of December 31, 2011:

Type of Short-Term Investment	Rating	% of Short-Term Investments
Bankers' Acceptances	A-1+	100%
Total		100%

The following are the credit ratings for short-term investments held by the Fund based on Standard & Poor's credit ratings as of December 31, 2010:

Type of Short-Term Investment	Rating	% of Short-Term Investments
Term Deposit	A-1+	88%
Government of Canada Treasury Bills	AAA	12%
Total		100%

The carrying amount of these investments represents their maximum credit risk exposure, as they will be settled in the short-term.

11. Future Accounting Policy Changes

The Fund was required to adopt International Financial Reporting Standards ("IFRS") for the year beginning on January 1, 2011. In January 2011, the Canadian Accounting Standards Board ("AcSB") approved a two year deferral from IFRS adoption for investment companies applying Accounting Guideline 18 - Investment Companies. Subsequently, in December 2011, AcSB extended the deferral for another year to January 1, 2014. As a result, the Fund will adopt IFRS for the year beginning on January 1, 2014 and will issue its initial statements on a comparative basis for the semi-annual period ending June 30, 2014.

12. Subsequent Event

On January 19, 2012 the Fund filed a Notice of Intention to renew its previous normal course issuer bid to purchase up to 355,651 Class A shares and 355,651 Preferred shares representing approximately 10 percent of the public float of 3,556,512 Class A shares and 3,556,512 Preferred shares, as of January 10, 2012. The Fund may purchase up to 71,130 of each respective class of shares in any 30 day period which is 2 percent of the 3,556,512 shares issued and outstanding of each respective class as at January 10, 2012. The shares may be purchased for cancellation from January 23, 2012 to January 22, 2013 through the facilities of the TSX or other eligible alternative market and may only be purchased at a price per share not exceeding the last net asset value per share. As at February 27, 2012, nil Class A shares and Preferred shares had been purchased by the Fund.

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"), administers many functions 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 certain 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 Fund. 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 Fund. 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 external 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 e-mail: 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 & Touche LLP
Brookfield Place
181 Bay Street, Suite 1400
Toronto, Ontario
M5J 2V1

Transfer Agent:
Computershare Investor Services Inc.
100 University Avenue, 8th Floor
Toronto, Ontario
M5J 2Y1

Shares Listed:
Toronto Stock Exchange
trading under
SBN/SBN.PR.A

Custodian:
RBC Dexia 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.

UNIT TRUSTS

Canadian Utilities & Telecom Income Fund
Core Canadian Dividend Trust
Gold Participation and Income Fund
Premier Canadian Income Fund
Top 10 Canadian Financial Trust

SPLIT SHARES

Premium Income Corporation
S Split Corp.
Top 10 Split Trust
World Financial Split Corp.

PRINCIPAL PROTECTED FUNDS

Government Strip Bond Trust

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Contact your broker directly for address changes.

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