



**S Split Corp.**  
**Annual Report 2017**

## Letter to Shareholders

We are pleased to present the 2017 annual report containing the management report of fund performance and the audited financial statements for S Split Corp. (the “Fund”).

2017 was a very strong year for global equity markets with most indices making new all-time highs. After being one of the strongest markets in 2016, the S&P/TSX Composite Index in Canada lagged most other indices but still generated a total return of 9.1 percent, primarily led by strength in the Health Care and Consumer Discretionary sectors. In the U.S., the broad market S&P 500 Index rose 21.8 percent while the technology centric NASDAQ Composite Index had a total return of 29.7 percent. Despite various events throughout the year that caused uncertainty for investors, such as President Trump being unable to repeal the Affordable Care Act, not once but twice, and North Korean leader Kim Jong Un launching a missile over Japan, the global synchronized recovery drove stock returns with forward looking economic indicators contributing to earnings upside across markets. The passage of the U.S. Tax Cuts and Jobs Act in late 2017 is expected to benefit earnings further. The Bank of Canada raised the overnight lending rate twice in 2017, lifting it to 1.00 percent, while the U.S. Federal Reserve raised the Federal Funds rate 25 basis points on three separate occasions to now sit at 1.50 percent. With the Bank of Canada starting to follow the U.S. Federal Reserve’s path to normalizing interest rates, along with strength in the price of oil and other commodities, the Canadian dollar rose by 7.3 percent to end the year at US\$0.80 per U.S. dollar.

For the year ended December 31, 2017, the Fund’s annual total return per Unit and per Class A share, including reinvestment of distributions, was 9.8 percent and 14.9 percent respectively. During the year, cash distributions of \$0.53 per share were paid to Preferred shareholders and \$0.54 per share were paid to Class A shareholders. The net asset value per Unit of the Fund increased 3.8 percent from \$18.64 per Unit at December 31, 2016 to \$19.35 per Unit at December 31, 2017. The net realized gain on options attributable to Strathbridge Selective Overwriting strategy (see “The Fund”) amounted to \$0.09 per Unit in 2017 as compared to a net realized gain on options of \$0.20 per Unit in 2016. 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.

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## 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.

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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, 2017 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](mailto:info@strathbridge.com) or by visiting our website at [www.strathbridge.com](http://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 2017 annual information form, which is available on the Fund’s website at [www.strathbridge.com](http://www.strathbridge.com) or on SEDAR at [www.sedar.com](http://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, 2017, cash distributions of \$0.53 per share were paid to Preferred shareholders, unchanged from the previous year and cash distributions of \$0.54 per share were paid to Class A shareholders compared to \$0.26 per share a year ago.

Since the inception of the Fund in May 2007, the Fund has paid total cash distributions of \$5.57 per Preferred share and \$5.63 per Class A share.

### Revenue and Expenses

The Fund’s total revenue, comprising mainly of BNS dividends, was \$0.72 per Unit for the year ended December 31, 2017, compared to \$0.65 per Unit in the prior year. Total expenses were \$0.60 per Unit compared to \$0.54 per Unit in 2016. The increase in per Unit expenses was largely due to higher management fees and administrative and other expenses. The Fund had a net realized and unrealized gain of \$1.66 per Unit in 2017 as compared to a net realized and unrealized gain of \$3.92 per Unit a year ago.

### Net Asset Value

The net asset value per Unit of the Fund increased 3.8 percent from \$18.64 per Unit at December 31, 2016 to \$19.35 per Unit at December 31, 2017. The aggregate net asset value of the Fund decreased \$0.2 million, from \$19.1 million at December 31, 2016 to \$18.9 million at December 31, 2017, reflecting an increase in net assets attributable to holders of Class A shares of \$1.3 million offset by Class A share distributions of \$0.6 million and Unit redemptions of \$0.9 million.

## Recent Developments

There were no recent developments pertaining to the Fund during the year ended December 31, 2017.

## 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  | 2017            | 2016            | 2015            | 2014            | 2013            |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>NET ASSETS PER UNIT</b>                                     |                 |                 |                 |                 |                 |
| <b>Net Assets, beginning of year<sup>(1)</sup></b>             | <b>\$ 18.64</b> | <b>\$ 15.34</b> | <b>\$ 18.78</b> | <b>\$ 19.86</b> | <b>\$ 18.23</b> |
| <b>INCREASE (DECREASE) FROM OPERATIONS</b>                     |                 |                 |                 |                 |                 |
| Total revenue  | <b>0.72</b>     | 0.65            | 0.91            | 0.79            | 0.56            |
| Total expenses   | <b>(0.60)</b>   | (0.54)          | (0.50)          | (0.55)          | (0.46)          |
| Realized gain (loss) for the period                            | <b>1.21</b>     | 1.23            | 0.62            | 3.20            | (0.11)          |
| Unrealized gain (loss) for the period                          | <b>0.45</b>     | 2.69            | (3.49)          | (2.67)          | 2.57            |
| <b>Total Increase (Decrease) from Operations<sup>(2)</sup></b> | <b>1.78</b>     | 4.03            | (2.46)          | 0.77            | 2.56            |
| <b>DISTRIBUTIONS</b>   |                 |                 |                 |                 |                 |
| <b>Preferred Share</b>   |                 |                 |                 |                 |                 |
| From net investment income                                     | <b>(0.14)</b>   | (0.15)          | (0.53)          | (0.53)          | (0.22)          |
| Non-taxable distributions                                      | <b>(0.39)</b>   | (0.38)          | —               | —               | (0.31)          |
| <b>Total Preferred Share Distributions</b>                     | <b>(0.53)</b>   | (0.53)          | (0.53)          | (0.53)          | (0.53)          |
| <b>Class A Share</b>   |                 |                 |                 |                 |                 |
| From net investment income                                     | <b>—</b>        | —               | —               | (0.26)          | —               |
| Non-taxable distributions                                      | <b>(0.54)</b>   | (0.26)          | (0.43)          | (0.34)          | (0.50)          |
| <b>Total Class A Share Distributions</b>                       | <b>(0.54)</b>   | (0.26)          | (0.43)          | (0.60)          | (0.50)          |
| <b>Total Distributions<sup>(3)</sup></b>                       | <b>(1.07)</b>   | (0.79)          | (0.96)          | (1.13)          | (1.03)          |
| <b>Net Assets, end of year<sup>(1)</sup></b>                   | <b>\$ 19.35</b> | <b>\$ 18.64</b> | <b>\$ 15.34</b> | <b>\$ 18.78</b> | <b>\$ 19.86</b> |

(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.



## Financial Highlights

| Years ended December 31                               | 2017     | 2016      | 2015      | 2014      | 2013      |
|---|----------|-----------|-----------|-----------|-----------|
| <b>RATIOS/SUPPLEMENTAL DATA</b>                       |          |           |           |           |           |
| Net Asset Value, excluding the Redeemable             |          |           |           |           |           |
| Preferred share liability (\$millions) <sup>(1)</sup> | \$ 18.94 | \$ 19.12  | \$ 17.48  | \$ 21.89  | \$ 61.89  |
| Net Asset Value (\$millions) <sup>(1)</sup>           | \$ 9.15  | \$ 8.86   | \$ 6.08   | \$ 10.23  | \$ 30.73  |
| Number of Units outstanding <sup>(1)</sup>            | 978,753  | 1,025,576 | 1,139,931 | 1,165,364 | 3,116,112 |
| Management expense ratio <sup>(2)</sup>               | 3.11%    | 3.13%     | 2.85%     | 2.72%     | 2.51%     |
| Portfolio turnover rate <sup>(3)</sup>                | 23.23%   | 77.97%    | 24.16%    | 0.00%     | 4.52%     |
| Trading expense ratio <sup>(4)</sup>                  | 0.03%    | 0.08%     | 0.02%     | 0.01%     | 0.01%     |
| Net Asset Value per Unit <sup>(5)</sup>               | \$ 19.35 | \$ 18.64  | \$ 15.34  | \$ 18.78  | \$ 19.86  |
| Closing market price - Preferred                      | \$ 10.55 | \$ 10.70  | \$ 10.10  | \$ 10.15  | \$ 10.35  |
| Closing market price - Class A                        | \$ 8.25  | \$ 6.87   | \$ 4.67   | \$ 9.00   | \$ 8.47   |

(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 for 2015 and 2014 includes fund extension costs/(recovery) and the special resolution expense. The MER for 2015 and 2014 excluding fund extension costs/(recovery) and the special resolution expense is 2.92% and 2.33% respectively. The MER, including Preferred share distributions, is 5.85%, 6.25%, 5.85%, 5.27% and 5.37% for 2017, 2016, 2015, 2014 and 2013 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) 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.

## 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

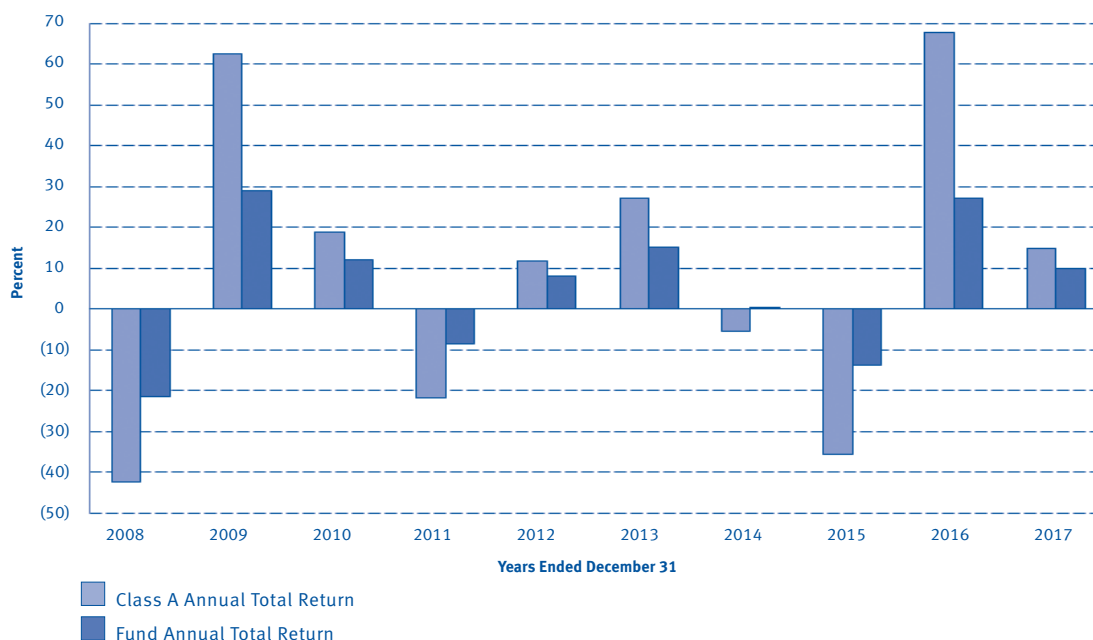
The following chart sets out the Fund's year-by-year past performance. It is important to note that the:

- (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 periods ended December 31, 2017 as compared to the performance of the The Bank of Nova Scotia and S&P/TSX Capped Financials Index.

| (In Canadian Dollars)                          | One<br>Year   | Three<br>Years | Five<br>Years | Ten<br>Years |
|--|---------------|----------------|---------------|--------------|
| S Split Corp.                                  | <b>9.77%</b>  | 6.41%          | 6.78%         | 4.52%        |
| S Split Corp. - Class A                        | <b>14.88%</b> | 7.45%          | 8.32%         | 3.76%        |
| S Split Corp. - Preferred                      | <b>5.38%</b>  | 5.38%          | 5.38%         | 5.38%        |
| The Bank of Nova Scotia                        | <b>12.81%</b> | 11.98%         | 11.67%        | 9.35%        |
| S&P/TSX Capped Financials Index <sup>(1)</sup> | <b>13.32%</b> | 10.92%         | 14.26%        | 8.34%        |

<sup>(1)</sup> 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 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 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

2017 was a very strong year for global equity markets with most indices making new all-time highs. After being one of the strongest markets in 2016, the S&P/TSX Composite Index in Canada lagged most other indices but still generated a total return of 9.1 percent, primarily led by strength in the Health Care and Consumer Discretionary sectors. In the U.S., the broad market S&P 500 Index rose 21.8 percent while the technology centric NASDAQ Composite Index had a total return of 29.7 percent. Despite various events throughout the year that caused uncertainty for investors, such as President Trump being unable to repeal the Affordable Care Act, not once but twice, and North Korean leader Kim Jong Un launching a missile over Japan, the global synchronized recovery drove stock returns with forward looking economic indicators contributing to earnings upside across markets. The passage of the U.S. Tax Cuts and Jobs Act in late 2017 is expected to benefit earnings further. The Bank of Canada raised the overnight lending rate twice in 2017, lifting it to 1.00 percent, while the U.S. Federal Reserve raised the Federal Funds rate 25 basis points on three separate occasions to now sit at 1.50 percent. With the Bank of Canada starting to follow the U.S. Federal Reserve's path to normalizing interest rates, along with strength in the price of oil and other commodities, the Canadian dollar rose by 7.3 percent to end the year at US\$0.80 per U.S. dollar.

For BNS, the overall earnings picture for the year was relatively solid with diluted earnings per share coming in at \$6.49; however, the fourth quarter numbers missed consensus estimates for the first time in almost two years and the stock has been trending lower since then. While it missed expectations slightly, the Canadian banking revenue component was still record-setting for the fourth quarter coming in at \$1.1 billion. Total revenue was \$6.8 billion. Capital Markets was the only weak spot with trading revenues down 42 percent and underwriting fees down a more modest 2.9 percent.

Profit margins increased in the Canadian banking division spurred by a modest increase in interest rates. The other half of the revenue generating divisions from outside Canada faced a headwind in the form of a weakening U.S. dollar. This was more than offset by reduced provisions for credit losses and asset growth in retail and commercial lending both in Canada and abroad.

Decent earnings allowed for a dividend increase of 6 percent in 2017 spread over two increases while still maintaining a Common Equity Capital Ratio of 11.5 percent.

In late November after reporting its annual results, BNS announced a bid for the Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA") stake in BBVA Chile for approximately C\$2.9 billion. Depending on shareholder take-up pursuant to Chilean law, this acquisition could impact the BNS Tier 1 Capital Ratio by 100 to 135 basis points but would still be above the OFSI requirements.

The net asset value of the Fund at December 29, 2017 was \$19.35 per Unit compared to \$18.64 per Unit at December 30, 2016. The Fund's Preferred and Class A shares listed on the Toronto Stock Exchange as SBN.PR.A and SBN were last bid on December 29, 2017 at \$10.42 and \$8.16 respectively.

For the year ended December 31, 2017, cash distributions of \$0.53 per share were paid to the Preferred shareholders and \$0.54 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 9.77 percent and 14.88 percent respectively.

The average cash position during the year was approximately 2.9 percent and ended the year at 0.2 percent.

Implied volatility for BNS has been trending lower for the past couple of years after peaking over 37 percent in March 2016. It reached a low for the period of just over 8 percent in September 2017. The average level of overwriting activity in the Fund was 7.9 percent in 2017 compared to 13.1 percent in 2016. However, this low level of volatility and the Manager's positive view on the market provided an opportunity to purchase call options on select names. The Fund ended 2017 with 0.1 percent invested in purchased call options. Option activity made a positive contribution to the Fund during the period adding \$0.09 per Unit of 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](http://www.strathbridge.com).

### Asset Mix and Portfolio Holdings

December 31, 2017

|                                      | % OF<br>NET ASSET VALUE* |
|--------------------------------------|--------------------------|
| Financials - The Bank of Nova Scotia | 99.1%                    |
| Cash                                 | 0.2%                     |
| Other Assets (Liabilities)           | 0.7%                     |
|                                      | 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 2, 2018



John D. Germain  
Director  
Strathbridge Asset Management Inc.

## To the Shareholders of S Split Corp.

We have audited the accompanying financial statements of S Split Corp., which comprise the statements of financial position as at December 31, 2017 and December 31, 2016, and statements of comprehensive income, statements of changes in net assets attributable to holders of Class A shares and statements of 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 International Financial Reporting Standards, 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, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

The signature of Deloitte LLP is written in a stylized, cursive script.

Chartered Professional Accountants

Licensed Public Accountants

March 2, 2018

Toronto, Ontario

## Statements of Financial Position

As at December 31

|   | Note | 2017                | 2016                |
|---|------|---------------------|---------------------|
| <b>ASSETS</b>   |      |                     |                     |
| Financial assets at fair value through profit or loss                             | 6,7  | \$ 18,779,280       | \$ 18,690,000       |
| Dividends receivable  |      | 182,885             | 185,000             |
| Derivative assets   | 6,7  | 18,921              | –                   |
| Cash  |      | 30,860              | 312,799             |
| <b>TOTAL ASSETS</b>   |      | <b>19,011,946</b>   | <b>19,187,799</b>   |
| <b>LIABILITIES</b>  |      |                     |                     |
| Accrued liabilities   |      | 44,249              | 44,332              |
| Accrued management fees   | 9    | 26,601              | 26,774              |
| Redeemable Preferred shares   |      | 9,787,530           | 10,255,760          |
| Class J shares  |      | 100                 | 100                 |
| <b>TOTAL LIABILITIES</b>  |      | <b>9,858,480</b>    | <b>10,326,966</b>   |
| <b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES</b>                       |      | <b>\$ 9,153,466</b> | <b>\$ 8,860,833</b> |
| <b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES<br/>PER CLASS A SHARE</b> |      | <b>\$ 9.3522</b>    | <b>\$ 8.6399</b>    |

On behalf of the Manager,  
Strathbridge Asset Management Inc.



John P. Mulvihill, Director



Robert W. Korthals, Director

## Statements of Comprehensive Income

For the years ended December 31

|   | Note | 2017                | 2016                |
|---|------|---------------------|---------------------|
| <b>INCOME</b>   |      |                     |                     |
| Dividend income   |      | \$ 741,540          | \$ 740,664          |
| Interest income   |      | –                   | 1,210               |
| Net realized gain on investments at fair value through profit or loss                     | 7    | 1,137,172           | 1,168,120           |
| Net realized gain on options at fair value through profit or loss                         | 7    | 98,114              | 230,094             |
| Net change in unrealized gain/loss on investments at fair value through profit or loss    | 7    | 457,656             | 3,049,275           |
| <b>TOTAL INCOME</b>   |      | <b>2,434,482</b>    | <b>5,189,363</b>    |
| <b>EXPENSES</b>   |      |                     |                     |
| Management fees   | 9    | 322,002             | 317,568             |
| Service fees  |      | 45,676              | 38,771              |
| Administrative and other expenses   |      | 88,125              | 82,855              |
| Transaction fees  | 10   | 5,250               | 14,431              |
| Custodian fees  |      | 28,443              | 28,458              |
| Audit fees  |      | 30,709              | 29,960              |
| Director fees   | 9    | 19,500              | 19,500              |
| Independent review committee fees   | 9    | 7,500               | 6,898               |
| Legal fees  |      | 3,027               | 7,042               |
| Shareholder reporting costs   |      | 13,483              | 11,893              |
| Harmonized sales tax  |      | 49,847              | 51,484              |
| <b>TOTAL EXPENSES</b>   |      | <b>613,562</b>      | <b>608,860</b>      |
| <b>OPERATING PROFIT</b>   |      | <b>1,820,920</b>    | <b>4,580,503</b>    |
| Preferred share distributions   |      | (536,379)           | (593,460)           |
| <b>INCREASE IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES</b>                   | 11   | <b>\$ 1,284,541</b> | <b>\$ 3,987,043</b> |
| <b>INCREASE IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES PER CLASS A SHARE</b> | 11   | <b>\$ 1.2553</b>    | <b>\$ 3.5140</b>    |



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

For the years ended December 31

|  | 2017             | 2016             |
|--|------------------|------------------|
| NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES, BEGINNING OF YEAR                | \$ 8,860,833     | \$ 6,081,998     |
| <b>Increase in Net Assets Attributable to Holders of Class A Shares</b>                | <b>1,284,541</b> | <b>3,987,043</b> |
| <b>Class A Share Capital Transactions</b>  |                  |                  |
| Value for Class A shares redeemed  | (440,403)        | (915,688)        |
| <b>Class A Share Distributions</b>   |                  |                  |
| Non-taxable distributions  | (551,505)        | (292,520)        |
| <b>Changes in Net Assets Attributable to Holders of Class A Shares during the Year</b> | <b>292,633</b>   | <b>2,778,835</b> |
| NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES, END OF YEAR                      | \$ 9,153,466     | \$ 8,860,833     |

## Statements of Cash Flows

For the years ended December 31

|  | 2017             | 2016             |
|--|------------------|------------------|
| CASH, BEGINNING OF YEAR  | \$ 312,799       | \$ 796,975       |
| <b>Cash Flows Provided by/(Used In) Operating Activities</b>                           |                  |                  |
| <b>Operating Profit</b>  | <b>1,820,920</b> | <b>4,580,503</b> |
| <b>Adjustments to Reconcile Net Cash Provided by (Used in) Operating Activities</b>    |                  |                  |
| Net realized gain on options at fair value through profit or loss                      | (98,114)         | (230,094)        |
| Net realized gain on investments at fair value through profit or loss                  | (1,137,172)      | (1,168,120)      |
| Net change in unrealized gain/loss on investments at fair value through profit or loss | (457,656)        | (3,049,275)      |
| Decrease in dividends receivable   | 2,115            | 21,990           |
| Decrease in accrued liabilities and accrued management fees                            | (256)            | (1,780)          |
| Purchase of investment securities  | (4,439,921)      | (13,749,250)     |
| Proceeds from disposition of investment securities                                     | 6,024,662        | 16,057,068       |
|  | (106,342)        | (2,119,461)      |
| <b>Cash Flows Used In Financing Activities</b>   |                  |                  |
| Preferred share distributions  | (536,379)        | (593,460)        |
| Class A share distributions  | (551,505)        | (292,520)        |
| Preferred share redemptions  | (468,230)        | (1,143,550)      |
| Class A share redemptions  | (440,403)        | (915,688)        |
|  | (1,996,517)      | (2,945,218)      |
| <b>Net Decrease in Cash during the Year</b>  | <b>(281,939)</b> | <b>(484,176)</b> |
| CASH, END OF YEAR  | \$ 30,860        | \$ 312,799       |
| Dividends received   | \$ 743,655       | \$ 762,654       |
| Interest received  | \$ –             | \$ 1,210         |

## Schedule of Investments

As at December 31, 2017

|   | Number of Shares/<br>Contracts | Average Cost/<br>Proceeds | Fair<br>Value | % of Net Assets<br>Attributable to<br>Holders of<br>Class A Shares<br>and Redeemable<br>Preferred Shares |
|---|--------------------------------|---------------------------|---------------|--|
| <b>INVESTMENTS</b>  |                                |                           |               |  |
| <b>Canadian Common Shares</b>   |                                |                           |               |  |
| <b>Financials</b>   |                                |                           |               |  |
| The Bank of Nova Scotia   | 231,500                        | \$ 15,117,508             | \$ 18,779,280 | 99.1%  |
| <b>Total Canadian Common Shares</b>   |                                | \$ 15,117,508             | \$ 18,779,280 | 99.1%  |
| <b>Options</b>  |                                |                           |               |  |
| <b>Purchased Call Options (100 shares per contract)</b>   |                                |                           |               |  |
| The Bank of Nova Scotia - January 2018 @ \$82   | 479                            | \$ 32,084                 | \$ 18,921     | 0.1%   |
| <b>Total Options</b>  |                                | \$ 32,084                 | \$ 18,921     | 0.1%   |
| Adjustment for transaction fees   |                                | (6,141)                   |               |  |
| <b>TOTAL INVESTMENTS</b>  |                                | \$ 15,143,451             | \$ 18,798,201 | 99.2%  |
| <b>OTHER NET ASSETS</b>   |                                |                           | 142,795       | 0.8%   |
| <b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES<br/>AND REDEEMABLE PREFERRED SHARES</b> |                                |                           | \$ 18,940,996 | 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 2, 2018.

## 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.

### Financial Instruments

The financial statements have been prepared on the historical cost basis except for the fair valuation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets. Under IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”), the Fund’s equity investments are

designated at fair value through profit or loss (“FVTPL”) at inception and derivative investments are classified as held for trading and measured at FVTPL.

### 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 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 of 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 11 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 38 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 nor is it generally liable to tax under Part VI.1 on dividends paid on taxable preferred shares.

### IAS 1 Disclosure Initiative

The Fund has applied amendments to IAS 1 Disclosure Initiative for the first time in the current year. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the basis of aggregating and disaggregating information for disclosure purposes. In addition, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the Fund’s financial position and financial performance.

The application of these amendments has not resulted in any impact on the financial performance, the financial position or disclosures of the Fund.

### 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,<br>2017  | Cash<br>Changes | Non-Cash<br>Changes | Dec. 31,<br>2017 |
|---|------------------|-----------------|---------------------|------------------|
|   | Cash Redemptions |                 |                     |                  |
| Redeemable Preferred<br>Shares (Note 8) | \$10,255,760     | (468,230)       | –                   | \$9,787,530      |

## 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.

In classifying and measuring the financial instruments held by the Fund, the Manager has applied the fair value option for financial assets and liabilities under IAS 39. The fair value option was used as: (i) fair value is readily available via market quotation; (ii) it eliminates or significantly reduces an accounting mismatch; and (iii) financial instruments designated at FVTPL is part of an investment portfolio managed on a fair value basis. As a result, the Fund’s equity investments have been designated at FVTPL at inception and the derivative investments have been classified as held for trading by nature and valued at FVTPL.

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 non-compliance. The Fund’s objectives, policies and processes are described in Note 1, information on the Fund’s shares is described in Note 8 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 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, 2017 and 2016, 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, 2017 |            |               |
|-----------------------------|-------------------------|------------|---------------|
|                             | Financial Liabilities   |            |               |
|                             | On Demand               | < 3 months | Total         |
| Accrued liabilities         | \$ -                    | \$ 44,249  | \$ 44,249     |
| Accrued management fees     | -                       | 26,601     | 26,601        |
| Redeemable Preferred shares | 9,787,530               | -          | 9,787,530     |
| Class J shares              | 100                     | -          | 100           |
| Class A shares              | 9,153,466               | -          | 9,153,466     |
|                             | \$ 18,941,096           | \$ 70,850  | \$ 19,011,946 |

|                             | As at December 31, 2016 |            |               |
|-----------------------------|-------------------------|------------|---------------|
|                             | Financial Liabilities   |            |               |
|                             | On Demand               | < 3 months | Total         |
| Accrued liabilities         | \$ -                    | \$ 44,332  | \$ 44,332     |
| Accrued management fees     | -                       | 26,774     | 26,774        |
| Redeemable Preferred shares | 10,255,760              | -          | 10,255,760    |
| Class J shares              | 100                     | -          | 100           |
| Class A shares              | 8,860,833               | -          | 8,860,833     |
|                             | \$ 19,116,693           | \$ 71,106  | \$ 19,187,799 |

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 99 percent (2016 - 98 percent) of the Fund's net assets attributable to holders of Class A shares, excluding Redeemable Preferred Share liability, held at December 31, 2017 were publicly traded equities. If equity prices on the exchange increased or decreased by 5 percent as at December 31, 2017, the net assets attributable to holders of Class A shares, excluding Redeemable Preferred Share liability, would have increased or decreased by \$0.9 million (2016 - \$0.9 million) respectively or 5.0 percent (2016 - 4.9 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,<br>2017 | Dec. 31,<br>2016 |
|------------|------------------|------------------|
| 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 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, 2017 and 2016.

|                        | As at December 31, 2017 |         |         |               |  |
|------------------------|-------------------------|---------|---------|---------------|--|
|                        | Level 1                 | Level 2 | Level 3 | Total         |  |
| Canadian Common Shares | \$ 18,779,280           | \$ -    | \$ -    | \$ 18,779,280 |  |
| Options                | 18,921                  | -       | -       | 18,921        |  |
|                        | \$ 18,798,201           | \$ -    | \$ -    | \$ 18,798,201 |  |

|                        | As at December 31, 2016 |         |         |               |  |
|------------------------|-------------------------|---------|---------|---------------|--|
|                        | Level 1                 | Level 2 | Level 3 | Total         |  |
| Canadian Common Shares | \$ 18,690,000           | \$ -    | \$ -    | \$ 18,690,000 |  |

The carrying values of cash, dividends receivable, accrued liabilities, accrued management fees, Redeemable Preferred 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 2017 and 2016.

## 7. Financial Instruments by Category

The following tables present the carrying amounts of the Fund's financial instruments by category as at December 31, 2017 and 2016.

|                                 | As at December 31, 2017        |                       |                   |               |  |
|---------------------------------|--------------------------------|-----------------------|-------------------|---------------|--|
|                                 | Financial Instruments at FVTPL | Financial Instruments |                   |               |  |
|                                 | Designated at Inception        | Held for Trading      | at Amortized Cost | Total         |  |
| <b>Assets</b>                   |                                |                       |                   |               |  |
| Non-derivative financial assets | \$ 18,779,280                  | \$ -                  | \$ -              | \$ 18,779,280 |  |
| Dividends receivable            | -                              | -                     | 182,885           | 182,885       |  |
| Derivative assets               | -                              | 18,921                | -                 | 18,921        |  |
| Cash                            | -                              | -                     | 30,860            | 30,860        |  |
|                                 | \$ 18,779,280                  | \$ 18,921             | \$ 213,745        | \$ 19,011,946 |  |
| <b>Liabilities</b>              |                                |                       |                   |               |  |
| Accrued liabilities             | \$ -                           | \$ -                  | \$ 44,249         | \$ 44,249     |  |
| Accrued management fees         | -                              | -                     | 26,601            | 26,601        |  |
| Redeemable Preferred shares     | -                              | -                     | 9,787,530         | 9,787,530     |  |
| Class J shares                  | -                              | -                     | 100               | 100           |  |
| Class A shares                  | -                              | -                     | 9,153,466         | 9,153,466     |  |
|                                 | \$ -                           | \$ -                  | \$ 19,011,946     | \$ 19,011,946 |  |

|                                 | As at December 31, 2016        |                       |                   |               |  |
|---------------------------------|--------------------------------|-----------------------|-------------------|---------------|--|
|                                 | Financial Instruments at FVTPL | Financial Instruments |                   |               |  |
|                                 | Designated at Inception        | Held for Trading      | at Amortized Cost | Total         |  |
| <b>Assets</b>                   |                                |                       |                   |               |  |
| Non-derivative financial assets | \$ 18,690,000                  | \$ -                  | \$ -              | \$ 18,690,000 |  |
| Dividends receivable            | -                              | -                     | 185,000           | 185,000       |  |
| Cash                            | -                              | -                     | 312,799           | 312,799       |  |
|                                 | \$ 18,690,000                  | \$ -                  | \$ 497,799        | \$ 19,187,799 |  |
| <b>Liabilities</b>              |                                |                       |                   |               |  |
| Accrued liabilities             | \$ -                           | \$ -                  | \$ 44,332         | \$ 44,332     |  |
| Accrued management fees         | -                              | -                     | 26,774            | 26,774        |  |
| Redeemable Preferred shares     | -                              | -                     | 10,255,760        | 10,255,760    |  |
| Class J shares                  | -                              | -                     | 100               | 100           |  |
| Class A shares                  | -                              | -                     | 8,860,833         | 8,860,833     |  |
|                                 | \$ -                           | \$ -                  | \$ 19,187,799     | \$ 19,187,799 |  |

The following table presents the net gain on financial instruments at FVTPL by category for the years ended December 31, 2017 and 2016.

|   | Dec. 31, 2017       | Dec. 31, 2016       |
|---|---------------------|---------------------|
| <b>Net Realized Gain on Financial Instruments at FVTPL</b>                    |                     |                     |
| Designated at Inception   | \$ 1,137,172        | \$ 1,168,120        |
| Held for Trading  | 98,114              | 230,094             |
|   | 1,235,286           | 1,398,214           |
| <b>Net Change in Unrealized Gain/(Loss) on Financial Instruments at FVTPL</b> |                     |                     |
| Designated at Inception   | 470,819             | 3,049,131           |
| Held for Trading  | (13,163)            | 144                 |
|   | 457,656             | 3,049,275           |
| <b>Net Gain on Financial Instruments at FVTPL</b>                             | <b>\$ 1,692,942</b> | <b>\$ 4,447,489</b> |

## 8. 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, 2017, cash distributions paid to Preferred shareholders were \$536,379 (2016 - \$593,460) representing a payment of \$0.53 (2016 - \$0.53) per Preferred share and cash distributions paid to Class A shareholders were \$551,505 (2016 - \$292,520) representing a payment of \$0.54 (2016 - \$0.26) per Class A share.



During the year ended December 31, 2017, 46,823 (2016 - 114,355) Units were redeemed with a total retraction value of \$908,633 (2016 - \$2,059,238).

During the years ended December 31, 2017 and 2016, share transactions are as follows:

|   | Dec. 31,<br>2017 | Dec. 31,<br>2016 |
|---|------------------|------------------|
| <b>Redeemable Preferred Shares</b>            |                  |                  |
| Shares outstanding, beginning of year         | 1,025,576        | 1,139,931        |
| Shares redeemed                               | (46,823)         | (114,355)        |
| Shares outstanding, end of year               | 978,753          | 1,025,576        |
| <b>Class A Shares</b>                         |                  |                  |
| Shares outstanding, beginning of year         | 1,025,576        | 1,139,931        |
| Shares redeemed                               | (46,823)         | (114,355)        |
| Shares outstanding, end of year               | 978,753          | 1,025,576        |
| <b>Class J Shares</b>                         |                  |                  |
| Shares outstanding, beginning and end of year | 100              | 100              |

## 9. 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, 2017 were \$322,002 (2016 - \$317,568) of which \$26,601 (2016 - \$26,774) was unpaid at year-end.

### (b) Director Fees

Total director fees paid to the external members of the Board of Directors for the year ended December 31, 2017 were \$19,500 (2016 - \$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, 2017 were \$7,500 (2016 - \$6,898).

## 10. 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, 2017 and 2016 is disclosed below:

|                                      | Dec. 31,<br>2017 | Dec. 31,<br>2016 |
|--------------------------------------|------------------|------------------|
| Soft Dollars                         | \$ 2,173         | \$ 3,703         |
| Percentage of Total Transaction Fees | 41.4%            | 25.7%            |

## 11. Increase in Net Assets Attributable to Holders of Class A Shares per Class A Share

The increase in net assets attributable to holders of Class A shares per Class A share for the years ended December 31, 2017 and 2016 is

calculated as follows:

|  | Dec. 31,<br>2017 | Dec. 31,<br>2016 |
|--|------------------|------------------|
| Increase in Net Assets Attributable to Holders of Class A Shares           | \$ 1,284,541     | \$ 3,987,043     |
| Weighted Average Number of Class A Shares Outstanding during the Year      | 1,023,267        | 1,134,619        |
| Increase in Net Assets Attributable to Holders of Class A Shares per Share | \$ 1.2553        | \$ 3.5140        |

## 12. Income Taxes

No amount is payable on account of income taxes in 2017 and 2016.

Accumulated non-capital losses of approximately \$0.1 million (2016 - \$0.1 million) and accumulated capital losses of approximately \$6.8 million (2016 - \$8.0 million) are available for utilization against realized gains on sale of investments in future years. The non-capital losses expire in 2037. The capital losses can be carried forward indefinitely.

## 13. Future Accounting Policy Changes

IFRS 9 Financial Instruments ("IFRS 9") issued in July 2014, replaces the existing guidance in IAS 39. It includes revised guidance on classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. It is effective for annual periods beginning on or after January 1, 2018. The Fund plans to adopt the new standard the date it becomes effective.

### Classification and Measurement of Financial Assets and Financial Liabilities

Under IFRS 9, classification and measurement of financial assets will be driven by the Fund's business model for managing them and their contractual cash flows. Classification and measurement categories under IFRS 9 are amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL").

IFRS 9 largely retains the existing requirements for classification and measurement of financial liabilities. However, unlike IAS 39 where all fair value changes of liabilities designated at fair value through profit or loss are recognized in profit or loss, under IFRS 9, fair value changes related to changes in the issuer's own credit risk will be presented in other comprehensive income.

Based on the Fund's initial assessment, IFRS 9 is not expected to have a material impact on classification and measurement of financial instruments, since the Fund makes decisions based on the assets' fair values and manages the assets to realize those fair values. As such the majority of the Fund's financial assets will continue to be measured at FVTPL. In addition, derivatives will continue to be measured at FVTPL.

### Impairment of Financial Assets

IFRS 9 also introduces the expected credit loss ("ECL") model for impairment of financial assets measured at amortized cost and debt instruments measured at FVOCI. The ECL impairment model will not have a material impact to the Fund's financial assets given that the majority of the Fund's financial assets will continue to be measured at FVTPL.

### Hedge Accounting

The Fund does not apply hedge accounting, therefore, IFRS 9 hedge accounting related changes do not have an impact on the Fund's financial statements.

Based on the Fund's initial assessment, IFRS 9 is not expected to have a material impact to the Fund's financial statements.

## 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](mailto:info@strathbridge.com)) and website ([www.strathbridge.com](http://www.strathbridge.com)) to respond to inquiries from shareholders.

## Board of Directors

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### 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<sup>1,2</sup>

Corporate Director

### Robert W. Korthals<sup>1,2</sup>

Corporate Director

### Robert G. Bertram<sup>1,2</sup>

Corporate Director

<sup>1</sup> Audit Committee Member

<sup>2</sup> Independent Review Committee Member

## Information

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### 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](http://www.strathbridge.com) for additional information on all Strathbridge Investment Funds.

## Investment Funds Managed by Strathbridge Asset Management Inc.

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### UNIT TRUSTS

Canadian Utilities & Telecom Income Fund (UTE.UN)  
Core Canadian Dividend Trust (CDD.UN)  
Low Volatility U.S. Equity Income Fund (LVU.UN)  
NDX Growth & Income Fund (NGI.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)

## Head Office:

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Contact your broker directly for address changes.



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