

Management's Responsibility Statement

The financial statements of Life & Banc Split Corp. (the "Fund") have been prepared by management and approved by the Board of Directors of the Fund. The Fund is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

The Fund maintains appropriate procedures to ensure that relevant and reliable financial information is produced. Statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgements. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of the Fund is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of independent directors of the Board.

The Fund, with the approval of its Board of Directors, has appointed the external firm of PricewaterhouseCoopers LLP as the auditors of the Fund. They have audited the financial statements of the Fund in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.

(Signed)

Raymond R. Pether
Chief Executive Officer
Life & Banc Split Corp.
 March 8, 2007

(Signed)

Craig T. Kikuchi
Chief Financial Officer
Life & Banc Split Corp.

Auditors' Report to Shareholders

To the Shareholders of Life & Banc Split Corp.:

We have audited the statement of investments of Life & Banc Split Corp. (the "Fund") and the statement of financial position as at December 31, 2006 and the statements of operations and retained earnings, changes in shareholders' equity and cash flows for the period from October 17, 2006 (commencement of operations) to December 31, 2006. These financial statements are the responsibility of the Fund's Manager. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the investments and financial position of the Fund as at December 31, 2006 and the results of its operations and retained earnings, changes in shareholders' equity and cash flows for the period from October 17, 2006 (commencement of operations) to December 31, 2006 in accordance with Canadian generally accepted accounting principles.

(Signed)

PricewaterhouseCoopers LLP
Chartered Accountants
 Toronto, Ontario
 March 8, 2007

Statement of Financial Position

As at December 31	2006
Assets	
Investments, at market value	\$ 308,792,067
Cash and short-term investments	1,949,775
Income receivable	917,016
Deferred financing costs (note 9)	14,191
Total assets	311,673,049
Liabilities	
Accounts payable and accrued liabilities	506,288
Distributions payable to shareholders (note 5)	2,503,978
Preferred shares (note 4)	120,000,000
Total liabilities	123,010,266
Shareholders' equity	
Class J shares (note 3)	100
Class A shares (note 3)	164,850,000
Retained earnings	23,812,683
Total shareholders' equity	188,662,783
Liabilities and shareholders' equity	\$ 311,673,049
Units outstanding (note 3)	12,000,000
Net asset value per unit	\$ 25.72
Net asset value per Preferred share	\$ 10.00
Net asset value per Class A share	\$ 15.72

Approved by the Board of Directors of Life & Banc Split Corp.

(Signed)

Peter A. Braaten
Director

(Signed)

James W. Davie
Director

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

Statement of Operations and Retained Earnings

For the period from October 17 (commencement of operations) to December 31 2006

Income	
Dividends	\$ 1,915,858
Interest income	117,223
Securities lending income (note 8)	5,169
	2,038,250
Expenses	
Management fees (note 6)	394,143
Service fees (note 6)	152,838
Audit fees	25,316
Director fees	13,300
Custodial fees	9,300
Shareholder reporting costs	57,371
Other administrative expenses	76,577
Interest and bank charges	3,621
Portfolio transaction costs (note 7)	66,427
	798,893
Net income before distributions	1,239,357
Distributions on Preferred shares (note 5)	(1,303,978)
Net investment loss	(64,621)
Net realized gain on sale of investments (note 7)	122,917
Net unrealized gain on investments	26,735,067
Increase in net assets from operations	26,793,363
Retained earnings, beginning of period	—
Distributions on Class A shares (note 5)	(2,980,680)
Retained earnings, end of period	\$ 23,812,683
Increase in net assets from operations per Class A share ⁽¹⁾	\$ 2.25

⁽¹⁾ Based on the weighted average number of Class A shares outstanding for the period (note 3).

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

Statement of Cash Flows

For the period from October 17 (commencement of operations) to December 31	2006
Cash flows from operating activities:	
Increase in net assets from operations	\$ 26,793,363
Adjustments to reconcile net cash provided by (used in) operations:	
Net realized gain on investments (note 7)	(122,917)
Net change in unrealized gain on sale of investments	(26,735,067)
Amortization of deferred financing costs	3,621
Increase in income receivable	(917,016)
Increase in distributions payable to Preferred shareholders	1,303,978
Proceeds from sale of investments	1,531,807
Increase in accounts payable and accrued liabilities	506,288
Purchase of investments (note 7)	(283,465,890)
Cash used in operating activities	(281,101,833)
Cash flows from financing activities:	
Proceeds from issuance of Class J shares (note 3)	100
Proceeds from issuance of Class A shares (note 3)	180,000,000
Agents' fees and issuance costs (note 3)	(15,150,000)
Deferred financing costs paid	(17,812)
Proceeds from issuance of Preferred shares (note 4)	120,000,000
Distributions paid to Class A shareholders (note 5)	(1,780,680)
Cash provided by financing activities	283,051,608
Net increase in cash and short-term investments	1,949,775
Cash and short-term investments, beginning of period	—
Cash and short-term investments, end of period	\$ 1,949,775
Supplemental information:	
Interest paid	\$ —

Statement of Changes in Shareholders' Equity

For the period from October 17 (commencement of operations) to December 31	2006
Shareholders' equity, beginning of period	\$ —
Operations:	
Increase in net assets from operations	26,793,363
Shareholder transactions:	
Distributions to shareholders (note 5)	
Return of capital	(2,980,680)
Total	(2,980,680)
Proceeds from issuance of Class A shares, net (note 3)	164,850,000
Proceeds from issuance of Class J shares (note 3)	100
Net increase in shareholders' equity	188,662,783
Shareholders' equity, end of period	\$ 188,662,783

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

Statement of Investments

As at December 31, 2006		Cost	Market Value
No. of Shares			
417,100	Bank of Montreal	\$ 28,288,958	\$ 28,779,900
589,200	Bank of Nova Scotia	28,155,182	30,697,320
326,400	Canadian Imperial Bank of Commerce	27,646,064	32,085,120
909,500	Great-West Lifeco Inc.	28,528,690	30,677,435
873,000	Industrial-Alliance Life Insurance Co.	28,276,001	31,428,000
783,000	Manulife Financial Corp.	28,707,291	30,811,050
470,900	National Bank of Canada	27,989,859	30,971,093
576,300	Royal Bank of Canada	28,049,672	31,984,650
618,100	Sun Life Financial Inc.	28,053,378	30,478,511
442,900	The Toronto-Dominion Bank	28,361,905	30,878,988
Total		\$ 282,057,000	\$ 308,792,067

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

Notes to the Financial Statements

December 31, 2006

1. OPERATIONS

Life & Banc Split Corp. (the “Fund”) is a mutual fund corporation established under the laws of the Province of Ontario on September 6, 2006. Brompton Funds Management Limited (the “Manager”) is responsible for managing the affairs of the Fund. Highstreet Asset Management Inc. manages the Fund’s portfolio. The Fund is listed on the Toronto Stock Exchange and commenced operations on October 17, 2006. RBC Dexia Investor Services Trust is the custodian of the Fund’s assets and prepares the weekly valuations of the Fund.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and they include estimates and assumptions made by management that affect the reported amounts of assets and liabilities at the date of these financial statements and the reported amounts of income and expenses during the period for which the financial statements report. Actual results could differ from these estimates. The Fund has adopted Canadian Institute of Chartered Accountants Section 3855: Financial Instruments – Recognition and Measurement which applies to financial statements relating to fiscal years beginning on or after October 1, 2006.

a) Valuation of Investments

The Fund’s investments are presented at estimated market value. Investments that are publicly traded are valued at their latest available bid price. Short-term investments are recorded at their market value. Listed options are recorded at market values as reported on recognized exchanges.

b) Investment Transactions and Income Recognition

Investment transactions are recorded on trade date and any realized gains or losses are recognized using the average cost of the investments. Transaction costs are expensed as incurred. Interest income is recognized on an accrual basis. Dividend income is recognized on the ex-dividend date. Net realized gains or losses on investments include net realized gains or losses from foreign currency changes.

Option premiums paid or received by the Fund are, so long as the options are outstanding, reflected as an asset or liability, respectively, in the Statement of Financial Position and are valued at an amount equal to the current market value of an option that would have the effect of closing the position. Any difference resulting from revaluation is treated as an unrealized gain (loss). Gains or losses realized upon expiration, repurchase or exercise of the options are included in net realized gain (loss) on options.

c) 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 tax of 33¹/₃% under Part IV of the Act on taxable dividends received from Canadian corporations in the year. This tax is fully refundable upon payment of sufficient dividends.

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 by the Fund on taxable preferred shares as defined in the Act.

Given the investment and dividend policy of the Fund and taking into account the deduction of expenses and taxable dividends on shares of taxable Canadian corporations, the Fund does not expect to be subject to any appreciable amount of non-refundable Canadian income tax. Accordingly, no income tax provision has been recorded.

d) Foreign Exchange

The market values of investments and other assets and liabilities that are denominated in foreign currencies are translated into Canadian dollars at the noon rate of exchange on each valuation date. Purchases and sales of investments and income derived from investments are translated at the rate of exchange prevailing at the time of such transactions.

e) Fair Value of Financial Instruments

The fair value of the Fund’s financial instruments, which are composed of cash and short-term investments, dividends and interest receivable, and accounts payable and accrued liabilities, approximates their book value.

3. SHARE CAPITAL

Class J Shares

The Fund is authorized to issue an unlimited number of Class J shares.

On October 17, 2006, the Fund issued 100 Class J shares to a trust for cash consideration of \$100. As of December 31, 2006, 100 Class J shares are outstanding.

Class J shares are not entitled to receive dividends but are 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 subsequent to both the Preferred shares and the Class A shares with respect to distributions on the dissolution, liquidation or winding-up of the Fund.

Class A Shares

Authorized

The Fund is authorized to issue an unlimited number of Class A shares.

Issued

	2006	
	Number of Units	Amount
Class A shares, beginning of period	—	\$ —
Initial public offering, net	11,600,000	159,330,000
Exercise of over-allotment option, net	400,000	5,520,000
Class A shares, end of period	12,000,000	\$ 164,850,000

On October 17, 2006, the Fund completed its initial public offering of 11,600,000 Class A shares at a price of \$15.00 per share for proceeds, net of agents' fees and issuance costs, of \$159,330,000.

On October 27, 2006, the Fund completed the issuance of an additional 400,000 Class A shares at a price of \$15.00 per share for proceeds, net of agents' fees, of \$5,520,000. The issuance of these additional shares was pursuant to the exercise of the over-allotment option granted to the agents in connection with the initial public offering.

The weighted average number of Class A shares outstanding for the period ended December 31, 2006 was 11,931,579.

The Fund intends to pay monthly, non-cumulative distributions to the holders of Class A shares. No distributions will be paid on Class A shares if (i) distributions payable on the Preferred shares are in arrears; or (ii) after the payment of the distributions by the Fund, the net asset value ("NAV") per unit would be less than \$15. A unit means a notional unit consisting of one Preferred share and one Class A share. The Class A shares rank subsequent to the Preferred shares but in priority to the Class J shares with respect to the payment of distributions and the repayment of capital on the dissolution, liquidation or winding-up of the Fund. Each Class A share is entitled to one vote on certain shareholder matters.

All Class A shares outstanding on November 29, 2013 will be redeemed by the Fund on that date. The redemption price payable by the Fund for a Class A share on that date will be equal to the greater of (i) the NAV per unit on that date minus the sum of \$10 plus any accrued and unpaid distributions on the Preferred Shares; and (ii) nil.

Class A shares may be surrendered at any time for retraction by the Fund but at least 10 business days prior to the second last business day of a month ("Retraction Date"). Holders of Class A shares whose Class A shares are surrendered for retraction will be entitled to receive a price per Class A share equal to 96% of the difference between (i) the NAV per unit determined as of the relevant Retraction Date; and (ii) the cost to the Fund of the purchase of a Preferred share for cancellation. The cost of the purchase of a Preferred share includes 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, the retraction price of a Class A share will be nil.

A holder of Class A shares may concurrently retract an equal number of Class A and Preferred shares on the November Retraction Date of each year, commencing on the November 2007 Retraction Date, at a price per unit 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 portfolio required to fund such retraction. The Class A shares and the Preferred shares must both be surrendered for retraction at least 10 business days prior to the November Retraction Date.

4. PREFERRED SHARES

Authorized

The Fund is authorized to issue an unlimited number of Preferred shares.

Issued

	2006	
	Number of Units	Amount
Preferred shares, beginning of period	—	\$ —
Initial public offering	11,600,000	116,000,000
Exercise of over-allotment option	400,000	4,000,000
Preferred shares, end of period	12,000,000	\$ 120,000,000

On October 17, 2006, the Fund completed its initial public offering of 11,600,000 Preferred shares at a price of \$10.00 per share for proceeds of \$116,000,000.

On October 27, 2006, the Fund completed the issuance of an additional 400,000 Preferred shares at a price of \$10.00 per share for proceeds of \$4,000,000. The issuance of these additional shares was pursuant to the exercise of the over-allotment option.

Notes to the Financial Statements (continued)

Holders of Preferred shares are entitled to receive fixed, cumulative preferential quarterly cash distributions of \$0.13125 per share. The Preferred shares rank in priority to the Class A shares with respect to the payment of distributions and the repayment of capital on the dissolution, liquidation, or winding-up of the Fund. Each Preferred share is entitled to one vote on certain shareholder matters.

All Preferred shares outstanding on November 29, 2013 will be redeemed by the Fund on that date. The redemption price payable by the Fund for a Preferred share will be equal to the lesser of (i) \$10 plus any accrued and unpaid distributions thereon; and (ii) the NAV of the Fund on that date divided by the number of Preferred shares then outstanding.

Preferred shares may be surrendered at any time for retraction by the Fund but at least 10 business days prior to the second last business day of a month (“Retraction Date”). Shareholders whose Preferred shares are retracted will be entitled to receive a price per share equal to 96% of the lesser of (i) the NAV per unit determined as of the relevant Retraction Date less the cost to the Fund of the purchase of a Class A share for cancellation; and (ii) \$10. The cost of the purchase of a Class A share will include the purchase price of the Class A share, commission and other costs, if any, related to the liquidation of any portion of the portfolio required to fund such purchase.

A holder of Preferred shares may also concurrently retract an equal number of Preferred shares and Class A shares on the November Retraction Date of each year, commencing on the November 2007 Retraction Date, at a price per unit 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 portfolio required to fund such retraction. The Preferred shares and Class A shares must both be surrendered for retraction at least 10 business days prior to the November Retraction Date.

The Preferred shares were presented as financial liabilities in the financial statements in accordance with Section 3860 of the CICA Handbook.

5. DISTRIBUTIONS TO SHAREHOLDERS

Distributions are made on a quarterly basis on the Preferred shares and on a monthly basis on the Class A shares. Distributions are payable no later than the tenth business day of the following month.

For the period ended December 31, 2006, the Fund declared distributions of \$0.24839 per Class A share and \$0.10842 per Preferred share, which amounted to \$2,980,680 and \$1,303,978, respectively.

6. MANAGEMENT AND SERVICE FEES

Pursuant to a management agreement, the Manager provides management and administrative services to the Fund, for which it is paid a management fee equal to 0.60% per annum of the net asset value of the Fund, plus applicable taxes. The net asset value of the Fund is determined by taking the total assets of the Fund and deducting the Fund’s liabilities. For these purposes, the Preferred shares are not considered a liability of the Fund. The Manager is responsible for paying fees to Highstreet Asset Management Inc., the option advisor for the Fund. These fees are calculated and payable monthly. The Fund also pays to the Manager a service fee equal to 0.40% per annum of the net asset value of the Class A shares. The service fee is in turn paid by the Manager to investment dealers in proportion to the number of shares held by clients of each dealer at the end of each calendar quarter.

7. INVESTMENT TRANSACTIONS

Investment transactions for the period ended December 31 were as follows:

	2006
Proceeds from sale of investments	\$ 1,531,807
Less cost of investments sold:	
Investments at cost, beginning of period	—
Investments purchased during the period	283,465,890
Investments at cost, end of period	282,057,000
Cost of investments sold during the period	1,408,890
Net realized gain on investments and options	\$ 122,917

Brokerage commissions on investments purchased and sold during the period ended December 31, 2006 amounted to \$66,427 and are recorded in the Statement of Operations. The brokerage commissions paid to dealers included \$4,935 that was available for payment to third party vendors, of which \$3,208 was used for research and \$1,727 was used for market data services by the Portfolio Manager.

8. SECURITIES LENDING

The Fund entered into a securities lending program in October 2006 with its custodian, RBC Dexia Investor Services Trust. The aggregate market value of all securities loaned by the Fund cannot exceed 50% of the assets of the Fund. The Fund will receive collateral of at least 102% of the value of the securities on loan. Collateral will generally be comprised of cash and obligations of, or guaranteed by the Government of Canada or a province thereof, or of the United States government or its agencies, or a permitted supranational agency as defined in National Instrument 81-102. The market value of the securities on loan and the related collateral at December 31, 2006, were \$76.3 million and \$81.4 million, respectively.

9. LOANS PAYABLE

Pursuant to an agreement with a Canadian chartered bank, the Fund has a 364-day revolving credit facility. The revolving credit facility provides for maximum borrowings of \$12.5 million at either the prime rate of interest or the bankers' acceptance rate plus a fixed percentage. The credit facility is secured by a first-priority security interest over all of the Fund's assets. There were no borrowings under this facility at December 31, 2006 and no amounts were borrowed during the period from October 17 (commencement of operations) to December 31, 2006. Costs incurred to establish the credit facility and renewal fees are deferred and amortized over the term of the facility. For the period ended December 31, 2006, the Fund recorded amortization of these costs in the amount of \$3,621.

10. INCOME TAXES

	2006
Future income tax assets:	
Losses carried forward	\$ 224,742
Share issue expenses	6,363,000
Future income tax assets	6,587,742
Less: valuation allowance	(6,587,742)
Net future income taxes	\$ —

As at December 31, 2006, the Fund had non-capital loss carry-forwards for income tax purposes of \$535,099 (expiry – 2026).

The Fund is subject to Ontario capital tax. No such taxes were payable by the Fund in 2006.