2018 ANNUAL REPORT

BROMPTON FUNDS

VALUE

INTEGRITY

PERFORMANCE

– THE FOUNDATION FOR EXCELLENCE

BROMPTON LIFE & BANC SPLIT CORP.

LBS

LBS.PR.A

Equal-weight portfolio of major Canadian life insurance companies and banks.
Preferred shares of the Fund are rated Pfd-3 by DBRS.

Management Report of Fund Performance

March 12, 2019

This annual management report of fund performance for Life & Banc Split Corp. (the "Fund") contains financial highlights but does not contain the audited annual financial statements of the Fund. The audited annual financial statements follow this report. You may obtain a copy of the audited annual or unaudited interim financial statements, at no cost, by calling 1-866-642-6001 or by sending a request to Investor Relations, Brompton Funds, Bay Wellington Tower, Brookfield Place, 181 Bay Street, Suite 2930, Box 793, Toronto, Ontario, M5J 2T3, or by visiting our website at www.bromptongroup.com or SEDAR at www.sedar.com. Shareholders may also contact Brompton Funds by using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, Independent Review Committee's report, or quarterly portfolio disclosure.

All figures in this management report of fund performance, unless otherwise noted, are based on the Fund's Net Asset Value, which is calculated in accordance with the terms of the Fund's constating documents.

The Fund

Life & Banc Split Corp. is a mutual fund corporation managed by Brompton Funds Limited (the "Manager"). The Fund has Class A and Preferred shares outstanding which trade on the Toronto Stock Exchange ("TSX") under the symbols LBS and LBS.PR.A, respectively. The Class A and Preferred shares are RRSP, DPSP, RRIF, RESP and TFSA eligible. The Preferred shares are rated Pfd-3 by Dominion Bond Rating Service Limited ("DBRS").

Preferred shares of the Fund receive fixed, cumulative quarterly payments. Payments are usually in the form of eligible Canadian dividends which are taxed at a lower rate to individuals than interest income. Preferred shares have a priority claim ahead of the Class A shares on the Fund's assets in the event of termination. However, the Net Asset Value of Preferred shares does not benefit from growth in value of the underlying stocks. Class A shares capture the movement of the underlying stocks but in a more magnified way than if an investor owned the underlying portfolio of securities directly. This magnification of return is commonly known as "leverage".

Investment Objectives and Strategies

The Fund's investment objectives are:

i) to provide holders of Preferred shares with fixed, cumulative, preferential quarterly cash distributions in the amount of $0.13625 per share (commencing November 30, 2018) and to return the original issue price of $10.00 per Preferred share to shareholders at maturity, and

ii) to provide holders of Class A shares with regular monthly cash distributions, targeted to be $0.10 per share, and the opportunity for growth in Net Asset Value per share.

To achieve these objectives, the Fund invests in a common share portfolio composed of the following six Canadian banks and four Canadian life insurance companies on an equally weighted basis at the time of investment and on any subsequent rebalancing:

Banks	**Life Insurance Companies**
Bank of Montreal	Great-West Lifeco Inc.
Canadian Imperial Bank of Commerce	iA Financial Corporation
National Bank of Canada	Manulife Financial Corporation
Royal Bank of Canada	Sun Life Financial Inc.
The Bank of Nova Scotia	
The Toronto-Dominion Bank	

The portfolio is rebalanced at least annually to adjust for changes in the market value of investments and to reflect the impact of a merger or acquisition affecting one or more of the banks or life insurance companies. The Fund may write covered call options and cash-covered put options in respect of the portfolio to generate additional distributable income for the Fund and/or to reduce the volatility of the Fund. In addition, the Fund may sell investments for working capital purposes or replace investments with proceeds from the exercise of covered call options previously written.

Recent Developments

Treasury Offerings

On July 4, 2018, the Fund completed a treasury offering of Class A shares and Preferred shares for aggregate gross proceeds of approximately $50.1 million. The Class A shares were offered at a price of $9.80 per share and the Preferred shares were offered at a price of $10.00 per share. On December 3, 2018, the Fund completed a follow-on treasury offering of Class A shares and Preferred shares for aggregate gross proceeds of approximately $58.4 million. The Class A shares were offered at a price of $8.08 per share and the Preferred shares were offered at a price of $10.00 per share.

New Preferred Share Distribution Rate

On September 25, 2018, the Fund set the Preferred share distribution rate at $0.545 per annum, payable quarterly, for the new five-year term commencing November 30, 2018 to October 30, 2023. This rate represents a 5.45% yield on the original issue price of $10.00 per Preferred share.

Risks

Risks associated with an investment in the shares of the Fund are discussed in the Fund's 2018 annual information form, which is available on the Fund's website at www.bromptongroup.com or on SEDAR at www.sedar.com. There were no changes during the period ended December 31, 2018 that materially affected the risks associated with an investment in the shares of the Fund as they were discussed.

Results of Operations

Distributions

For the year ended December 31, 2018, distributions declared to Class A shareholders were $1.20 per share, unchanged from 2017. Preferred share distributions declared were $0.48109 per share, up from 2017, reflecting the new annual distribution rate of $0.545 beginning on November 30, 2018. Since inception, the Fund has declared distributions of $13.65 per Class A share and $6.15 per Preferred share. Based on the December 31, 2018 closing market price of the Fund, the current distribution rate represented a rate of 18.0% on Class A shares and 4.8% on Preferred shares. The Fund has a distribution reinvestment plan which allows participating Class A shareholders to automatically reinvest monthly distributions, commission free, in additional Class A shares of the Fund. During 2018, 90,461 Class A shares were acquired in the market pursuant to this plan at an average price of $9.31 per Class A share.

Revenues and Expenses

The Fund's investment portfolio generated revenue of $0.74 per Class A share in 2018, compared to $0.72 per share in 2017. Total expenses were $0.27 per Class A share in 2018, compared to $0.26 per share in 2017. This increase was primarily due to expenses incurred in relation to the treasury offerings of Preferred shares.

Net Asset Value

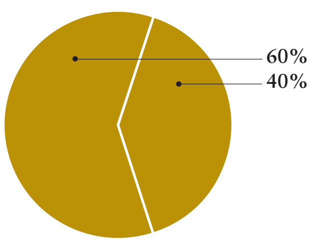
At December 31, 2018, the Net Asset Value per Class A share was $5.91, down from $10.06 per share at December 31, 2017, reflecting distribution payments to Class A and Preferred shareholders, issuance costs and agent fees of approximately $0.10 per Class A share and net losses in the portfolio. The Net 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 aggregate Net Asset Value of the Fund was $412.0 million at December 31, 2018, down from $445.2 million at December 31, 2017. The $33.2 million decrease reflected $62.7 million of net losses in the portfolio, $28.3 million of distributions to Class A shareholders, $11.7 million of distributions to Preferred shareholders, $37.4 million for redemptions and $1.6 million of issuance costs, partially offset by $74.3 million from Preferred share offering proceeds and $34.2 million from Class A share offering proceeds.

Investment Portfolio

At December 31, 2018 and December 31, 2017, the Fund's investments included common shares of six banks and four insurance companies as indicated in the Investment Objectives and Strategies section.

As reported in the table below, the Fund had a net realized and unrealized loss of $73.6 million in 2018. Insurance companies had total realized and unrealized loss of $41.6 million, while the banks had total realized and unrealized loss of $33.2 million. During 2018, the Fund selectively wrote call options on the insurance companies and banks in the portfolio to generate premiums of $1.6 million and had a net realized gain on the options of $1.1 million. The realized gain represents the premiums received less the amount paid to close out the options. During 2018, the Fund wrote call options on an average notional value of 6.4% of the Fund's portfolio. At December 31, 2018, there were three option contracts outstanding, with a notional value representing 3.3% of the portfolio.

Portfolio Sectors



Net Gains (Losses) by Sector (millions)	**Realized**	**Change in Unrealized**	**Total**
Banks	$ 5.2	$ (38.4)	$ (33.2)
Insurance	1.9	(43.5)	(41.6)
Options	1.1	0.1	1.2
Total	**$ 8.2**	**$ (81.8)**	**$ (73.6)**

Liquidity

To provide liquidity for shareholders, the Class A shares and Preferred shares of the Fund are listed on the TSX under the symbols LBS and LBS.PR.A, respectively. Investors also have the right to retract their shares in accordance with the Fund's retraction provisions for each class of share.

Related Party Transactions

Related party transactions consist of services provided by the Manager pursuant to a management agreement. See the Management Fees section below.

Management 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. The management fee is used by the Manager to cover its costs to obtain the Fund's assets, the cost to administer the Fund, the cost of investment management services and for profit. The Fund also pays 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 based on the proportionate number of Class A shares held by clients of each dealer at the end of each calendar quarter. In 2018, management and service fees amounted to $2.9 million and $0.8 million, respectively.

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help readers understand the Fund's financial performance for the fiscal periods indicated. This information is derived from the Fund's audited annual financial statements. *The information in the following tables is presented in accordance with National Instrument ("NI") 81-106 and, as a result, does not act as a continuity of opening and closing Net Assets per Class A share.* The increase (decrease) in Net Assets from operations is based on average shares outstanding during the period, and all other numbers are based on actual shares outstanding at the relevant point in time.

Net Assets per Class A Share(1)

For the year ended December 31	2018	2017	2016	2015	2014
Net Assets, beginning of year(2)	$ **10.06**	$ 9.74	$ 7.46	$ 9.58	$ 9.29
Increase (decrease) from operations:(3)					
Total revenue	**0.74**	0.72	0.72	0.73	0.70
Total expenses	**(0.27)**	(0.26)	(0.17)	(0.24)	(0.19)
Preferred share distributions	**(0.50)**	(0.47)	(0.47)	(0.47)	(0.47)
Realized gains (losses)	**0.35**	0.51	0.23	0.32	0.38
Unrealized gains (losses)	**(3.48)**	1.13	3.17	(1.32)	1.08
Total increase (decrease) in Net Assets from operations	$ **(3.16)**	$ 1.63	$ 3.48	$ (0.98)	$ 1.50
Distributions to Class A shareholders:(2)					
Dividends	$ **0.18**	$ 0.25	$ 0.14	$ 0.12	$ —
Return of capital	**1.02**	0.95	1.06	1.08	1.20
Total distributions to Class A shareholders	$ **1.20**	$ 1.20	$ 1.20	$ 1.20	$ 1.20
Net Assets, end of year(2)	$ **5.91**	$ 10.06	$ 9.74	$ 7.46	$ 9.58

(1) The financial information was prepared using International Financial Reporting Standards.

(2) Net Assets per Class A share and distributions per Class A share are based on the actual number of Class A shares outstanding at the relevant time.

(3) The increase (decrease) in Net Assets from operations per Class A share is based on the weighted average number of Class A shares outstanding over the fiscal period.

Ratios and Supplemental Data (Based on Net Asset Value)

As at December 31	2018	2017	2016	2015	2014
Net Asset Value (000s) – including Preferred shares	$ **411,952**	$ 445,160	$ 362,272	$ 320,469	$ 297,036
Number of Class A shares outstanding (000s)	**25,888**	22,194	18,348	18,350	15,169
Management expense ratio ("MER")(1) – Class A shares	**9.75%**	8.52%	8.37%	9.82%	6.93%
Trading expense ratio(2)	**0.01%**	0.02%	0.01%	0.02%	0.01%
Portfolio turnover rate(3)	**5.75%**	9.48%	6.06%	8.41%	1.61%
Net Asset Value per unit(4)	$ **16.04**	$ 20.17	$ 19.86	$ 17.58	$ 19.70
Net Asset Value per Class A share	$ **5.91**	$ 10.06	$ 9.74	$ 7.46	$ 9.58
Net Asset Value per Preferred share(5)	$ **10.00**	$ 10.00	$ 10.00	$ 10.00	$ 10.00
Closing market price – Class A shares	$ **6.68**	$ 9.96	$ 9.72	$ 8.05	$ 9.97
Closing market price – Preferred shares	$ **9.84**	$ 10.11	$ 10.12	$ 9.92	$ 10.22

(1) MER for Class A shares is based on the requirements of NI 81-106 and includes the total expenses of the Fund for the stated period, including distributions on Preferred shares and issuance costs, but excluding brokerage commissions on securities transactions, and is expressed as an annualized percentage of the average Net Asset Value of the Fund for Class A shares over the period. Please see the Expense Ratio section following this table for further discussion of the calculation.

(2) The trading expense ratio represents total commissions expressed as an annualized percentage of daily average Net Asset Value of the Fund during the period.

(3) The Fund's portfolio turnover rate indicates how actively the Fund manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. Portfolio turnover rate is calculated by dividing the lesser of the cost of purchases and the proceeds of sales of portfolio securities for the period, excluding cash and short-term investments maturing in less than one year, by the average market value of such investments during the period.

(4) A unit includes one Class A share and one Preferred share. Net Asset Value per unit is determined by the Net Asset Value of the Fund, for which the Preferred shares are not treated as liabilities.

(5) Net Asset Value per Preferred share does not include the accrued Preferred share distribution.

Expense Ratio

The MER per Class A share noted in the table above in 2018 was 9.75% for 2018, up from 8.52% in 2017, primarily due to issuance costs and agents' fees incurred for the Fund's treasury offerings, which accounted for 1.23% of the 2018 MER. The MER per Class A share includes Preferred share distributions, which represent the cost of leverage. The MER per Class A share, excluding Preferred share distributions, was 1.97% in 2018, compared to 1.92% for 2017.

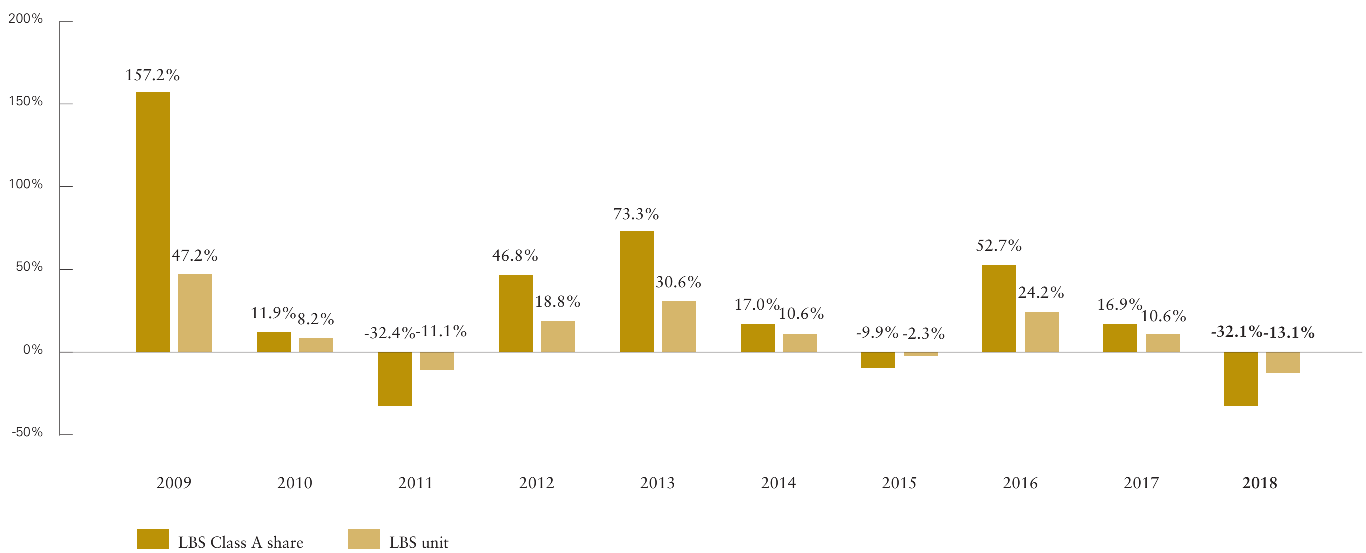
The MER per unit, excluding Preferred share distributions (which were covered by the portfolio's dividend income), was 0.91% for 2018, down from 0.95% for 2017, primarily due to the increase in the average Net Asset Value of the units during 2018 and its affect on fixed-cost absorption. This ratio is more representative of the ongoing efficiency of the administration of the Fund.

Past Performance

The following chart and table show the past performance of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown is based on Net Asset Value per Class A share and per unit (each unit consists of one Class A share and one Preferred share) and assumes that distributions (including deemed distributions based on the intrinsic value of the warrants at approximately the exercise date of the warrants) made by the Fund on the Class A shares and units in the periods shown were reinvested (at Net Asset Value per Class A share and per unit, respectively) in additional Class A shares and units of the Fund.

The bar chart shows the Fund's returns for a Class A share and a unit for the periods ended December 31, 2009 to December 31, 2018. The chart shows, in percentage terms, how investments held in a Class A share and a unit on the first day of each fiscal period would have changed by the last day of the fiscal period.

Year-by-Year Returns



The following table shows the Fund's compound return on a Class A share, Preferred share and unit for each period indicated, compared with the S&P/TSX Capped Financials Index ("Financials Index"), the S&P/TSX Preferred Share Index ("Preferred Index") and the S&P/TSX Composite Index ("Composite Index"). The Financials Index is derived from the Composite Index based on the financials sector of the Global Industry Classification Standard. The Preferred Index is comprised of preferred shares listed and trading on the Toronto Stock Exchange that meet criteria relating to size, liquidity, and issuer rating. The Composite Index tracks the performance, on a market-weight basis, of a broad index of large-capitalization issuers listed on the TSX. The Fund invests in a passively managed portfolio of four insurance companies and six banks. The Fund is therefore not expected to mirror the performance of indices, which have more diversified portfolios. Further, the indices are calculated without the deduction of management fees, fund expenses and trading commissions, whereas the performance of the Fund is calculated after deducting such fees and expenses.

Annual Compound Returns

	1-Year	3-Year	5-Year	10-Year	Since Inception[1]
Life & Banc Split Corp. – Class A shares[2]	**(32.1%)**	6.6%	5.0%	20.2%	6.5%
S&P/TSX Capped Financials Index	**(9.2%)**	8.5%	6.9%	12.2%	6.7%
S&P/TSX Composite Index	**(8.9%)**	6.4%	4.1%	7.9%	4.4%
Life & Banc Split Corp. – Preferred shares[2]	**4.9%**	4.9%	4.9%	5.1%	5.2%
S&P/TSX Preferred Share Index	**(7.9%)**	3.8%	0.3%	4.2%	1.5%
Life & Banc Split Corp. – units[3]	**(13.1%)**	6.1%	5.2%	11.4%	5.9%

[1] Period from October 17, 2006 (commencement of operations) to December 31, 2018.

[2] Based on the Net Asset Value per Class A share and Preferred share and assuming that distributions on the Class A shares and Preferred shares made by the Fund in the periods shown were reinvested (at Net Asset Value per Class A share and Preferred share) in additional Class A shares and Preferred shares of the Fund.

[3] Based on the Net Asset Value per unit (each unit includes one Class A share and one Preferred share) and assuming that distributions on the units made by the Fund were reinvested (at Net Asset Value per unit) in additional units of the Fund.

In 2018, the Class A shares underperformed the indices as a result of the weak performance of the banks and insurance companies in the portfolio, exacerbated by the use of leverage provided by the Preferred shares. The Fund's units underperformed the Financials Index during 2018 due to the Fund's larger weight in the insurance sector than the Financials Index, and the insurance sector did not perform as well as the banks. The Fund performed in line with the Financials Index for other periods.

SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2018

Total Net Asset Value[1]	**$ 412,331,492**

Portfolio Composition	**% of Portfolio**	**% of Net Asset Value**
Banks	60.2%	60.8%
Insurance	39.3%	39.7%
Cash and short-term investments	0.5%	0.5%
Total investment portfolio	100.0%	101.0%
Other net liabilities		(1.0%)
Total Net Asset Value		**100.0%**

Holdings	**% of Portfolio**	**% of Net Asset Value**
Royal Bank of Canada	10.3%	10.4%
Bank of Nova Scotia (The)	10.2%	10.3%
Sun Life Financial Inc.	10.0%	10.1%
Great-West Lifeco Inc.	10.0%	10.1%
National Bank of Canada	10.0%	10.1%
Toronto-Dominion Bank (The)	10.0%	10.1%
Canadian Imperial Bank of Commerce	9.9%	10.0%
Bank of Montreal	9.8%	9.9%
iA Financial Corporation	9.7%	9.8%
Manulife Financial Corporation	9.6%	9.7%
Cash and short-term investments	0.5%	0.5%
Total	**100.0%**	**101.0%**

[1] Net Asset Value of the Fund includes the value of the Preferred shares.

The investment portfolio may change due to ongoing portfolio transactions of the investment fund. Quarterly updates are available on the Fund's website at www.bromptongroup.com within 60 days of each quarter end.

2018 Tax Information

The following information is applicable to holders who, for the purpose of the Income Tax Act (Canada), are resident in Canada and hold units as capital property outside of an RRSP, DPSP, RRIF, RESP or TFSA. Shareholders should receive a T5 slip from their investment dealer providing this information.

T5 supplementary slips will indicate Capital Gains Dividends in Box 18 and Actual Amount of Eligible Dividends in Box 24. Dividend income is subject to the standard gross-up and federal dividend tax credit rules. The return of capital component is a non-taxable amount that serves to reduce the adjusted cost base of Fund shares.

The following tables outline the breakdown in the Fund's distributions on Class A and Preferred shares paid in 2018 on a per share basis.

Class A Shares

Record Date	Payment Date	Return of Capital	Eligible Dividends	Total Distributions
December 29, 2017	January 15, 2018	$ 0.08522	$ 0.01478	$ 0.10
January 31, 2018	February 14, 2018	0.08522	0.01478	0.10
February 28, 2018	March 14, 2018	0.08522	0.01478	0.10
March 29, 2018	April 13, 2018	0.08522	0.01478	0.10
April 30, 2018	May 14, 2018	0.08522	0.01478	0.10
May 31, 2018	June 14, 2018	0.08522	0.01478	0.10
June 29, 2018	July 16, 2018	0.08522	0.01478	0.10
July 31, 2018	August 15, 2018	0.08522	0.01478	0.10
August 31, 2018	September 17, 2018	0.08522	0.01478	0.10
September 28, 2018	October 15, 2018	0.08522	0.01478	0.10
October 31, 2018	November 14, 2018	0.08522	0.01478	0.10
November 30, 2018	December 14, 2018	0.08522	0.01478	0.10
		$ 1.02264	**$ 0.17736**	**$ 1.20**

Preferred Shares

Record Date	Payment Date	Eligible Dividends	Total Distributions
December 31, 2017	January 15, 2018	$ 0.11875	$ 0.11875
March 29, 2018	April 13, 2018	0.11875	0.11875
June 29, 2018	July 16, 2018	0.11875	0.11875
September 28, 2018	October 15, 2018	0.11875	0.11875
		$ 0.47500	**$ 0.47500**

This information is of a general nature and does not constitute legal or tax advice to any particular investor. Accordingly, investors are advised to consult their own tax advisors with respect to their individual circumstances.

Forward-Looking Statements

Some of the statements contained herein including, without limitation, financial and business prospects and financial outlook may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may," "will," "should," "could," "anticipate," "believe," "expect," "intend," "plan," "potential," "continue" and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic and market conditions and other risk factors. Although the forward-looking statements contained herein are based on what management believes to be reasonable assumptions, we cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no obligation to update or revise them to reflect new events or circumstances, except as required by law.

Management Responsibility Statement

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

The Manager maintains appropriate procedures to ensure that relevant and reliable financial information is produced. Statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgements. The significant accounting policies applicable to the Fund are described in note 3 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 a majority of independent directors.

The Manager, with the approval of its Board of Directors, has appointed the external firm of PricewaterhouseCoopers LLP as the auditor of the Fund. It has audited the financial statements of the Fund in accordance with Canadian generally accepted auditing standards to enable it to express to shareholders its opinion on the financial statements. The auditor has full and unrestricted access to the Audit Committee to discuss its findings.

(Signed) "Mark A. Caranci"

Mark A. Caranci
Chief Executive Officer
Brompton Funds Limited

(Signed) "Craig T. Kikuchi"

Craig T. Kikuchi
Chief Financial Officer
Brompton Funds Limited

March 12, 2019

Independent Auditor's Report

To the Shareholders of Life & Banc Split Corp. (the Fund)

OUR OPINION

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Fund's financial statements comprise:

- the statements of financial position as at December 31, 2018 and 2017;
- the statements of comprehensive income for the years then ended;
- the statements of cash flows for the years then ended;
- the statements of changes in net assets attributable to holders of redeemable class A shares for the years then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

OTHER INFORMATION

Management is responsible for the other information of the Fund. The other information comprises the Management Report of Fund Performance and the information, other than the financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Fund, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Fund or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Ontario
March 12, 2019

Statements of Financial Position

As at December 31	2018	2017
Assets		
Current assets		
Investments	**$ 414,340,458**	$ 447,636,108
Cash	**2,215,040**	5,925,769
Income receivable	**1,563,272**	1,303,396
Prepaid expenses	**24,706**	49,830
Total assets	**418,143,476**	454,915,103
Liabilities		
Current liabilities		
Option contracts written, at fair value (note 9)	**19,730**	302,834
Distributions payable to shareholders (note 6)	**5,820,581**	4,854,931
Accounts payable for investments purchased	**—**	4,165,357
Accounts payable and accrued liabilities	**351,114**	431,623
Class J shares (note 4)	**100**	100
Preferred shares (note 4)	**258,876,580**	221,939,720
Preferred share premiums (note 4)	**—**	58,201
Total liabilities (excluding Net Assets attributable to holders of redeemable Class A shares)	**265,068,105**	231,752,766
Net Assets attributable to holders of redeemable Class A shares	**$ 153,075,371**	$ 223,162,337
Redeemable shares outstanding (note 4)		
Preferred shares	**25,887,658**	22,193,972
Class A shares	**25,887,658**	22,193,972
Class J shares	**100**	100
Net Assets attributable to holders of redeemable shares per share		
Preferred share	**$ 10.00**	$ 10.00
Class A share	**$ 5.91**	$ 10.06
Class J share	**$ 1.00**	$ 1.00

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

(Signed) "Christopher S.L. Hoffmann"

Christopher S.L. Hoffmann
Director

(Signed) "Mark A. Caranci"

Mark A. Caranci
Director

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

Statements of Comprehensive Income

For the years ended December 31	2018	2017
Income		
Securities lending income (note 10)	**$ 11,853**	$ 14,574
Net gain (loss) on investments and derivatives:		
Interest income for distribution purposes	**21,492**	—
Dividend income	**17,320,827**	13,924,684
Net realized gain (loss) on sale of investments (note 8)	**7,171,741**	10,075,899
Net change in unrealized gain (loss) on investments	**(81,938,268)**	21,935,641
Net realized gain (loss) on options (note 8)	**1,126,825**	(243,472)
Net change in unrealized gain (loss) on options	**104,126**	(90,642)
Total net gain (loss) on investments and derivatives	**(56,193,257)**	45,602,110
Total income (loss), net	**(56,181,404)**	45,616,684
Expenses		
Management fees (note 7)	**2,922,639**	2,532,993
Service fees (note 7)	**755,072**	748,757
Audit fees	**43,020**	46,083
Independent Review Committee fees (note 7)	**22,566**	25,670
Custodial fees	**45,263**	45,400
Legal fees	**3,791**	5,410
Shareholder reporting costs	**36,853**	40,675
Other administrative expenses	**170,004**	153,321
Interest and bank charges	**42**	9
Agents' fees and issuance costs on Preferred shares, amortized	**2,467,698**	1,327,990
Transaction costs	**42,168**	86,395
Total expenses	**6,509,116**	5,012,703
Net investment income (loss) before distributions on Preferred shares	**(62,690,520)**	40,603,981
Distributions on Preferred shares (note 6)	**(11,728,317)**	(9,172,106)
Preferred share premium amortization (note 4)	**58,201**	64,536
Increase (decrease) in Net Assets attributable to holders of redeemable Class A shares	**$ (74,360,636)**	$ 31,496,411
Increase (decrease) in Net Assets attributable to holders of redeemable Class A shares per share[1]	**$ (3.16)**	$ 1.63

[1] Based on the weighted average number of Class A shares outstanding during the year (note 4).

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

Statements of Cash Flows

For the years ended December 31	2018	2017
Cash flows from operating activities:		
Increase (decrease) in Net Assets attributable to holders of redeemable Class A shares from operations	**$ (74,360,636)**	$ 31,496,411
Adjustments to reconcile net cash provided by (used in) operations:		
Net realized (gain) loss on sale of investments (note 8)	**(7,171,741)**	(10,075,899)
Net change in unrealized (gain) loss on investments	**81,938,268**	(21,935,641)
Net realized (gain) loss on options (note 8)	**(1,126,825)**	243,472
Net change in unrealized (gain) loss on options	**(104,126)**	90,642
Increase (decrease) in distributions payable to Preferred shareholders	**596,281**	456,677
Preferred shares premium amortization (note 4)	**(58,201)**	(64,536)
Decrease (increase) in income receivable	**(259,876)**	(142,488)
Decrease (increase) in prepaid expenses	**25,124**	(49,830)
Increase (decrease) in accounts payable and accrued liabilities	**(80,509)**	193,193
Purchase of investments and options (note 8)	**(159,347,758)**	(82,822,441)
Proceeds from sale of investments and options (note 8)	**114,659,371**	36,043,965
Cash provided by (used in) operating activities	(45,290,628)	(46,566,475)
Cash flows from financing activities:		
Proceeds from issuance of redeemable Class A shares (note 4)	**34,221,952**	40,604,534
Agents' fees and issue costs paid on issuance of redeemable Class A shares (note 4)	**(1,659,989)**	(1,923,560)
Proceeds from issuance of redeemable Preferred shares (note 4)	**74,304,320**	41,000,000
Amounts paid for retraction of redeemable Class A shares (note 4)	**(20,429)**	(2,606,964)
Amounts paid for retraction of redeemable Preferred shares (note 4)	**(37,367,460)**	(2,543,000)
Distributions paid to holders of redeemable Class A shares (note 6)	**(27,898,495)**	(22,812,496)
Cash provided by (used in) financing activities	**41,579,899**	51,718,514
Net increase (decrease) in cash	**(3,710,729)**	5,152,039
Cash, beginning of year	**5,925,769**	773,730
Cash, end of year	**$ 2,215,040**	$ 5,925,769
Distributions paid on redeemable Preferred shares (note 6)	**$ 11,132,036**	$ 8,715,429
Supplemental information:[1]		
Dividends received	**$ 17,060,951**	$ 13,782,196
Interest received	**21,492**	—
Interest paid	**42**	9

[1] Included in cash flows from operating activities.

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

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

For the years ended December 31	2018	2017
Net Assets attributable to holders of redeemable Class A shares at beginning of year	**$ 223,162,337**	$ 178,788,982
Operations:		
Increase (decrease) in Net Assets attributable to holders of redeemable Class A shares	**(74,360,636)**	31,496,411
Distributions to holders of redeemable shares:		
Distributions paid to redeemable Class A shareholders (note 6)		
Net investment income	**(4,177,425)**	(4,798,777)
Return of capital	**(24,090,439)**	(18,398,289)
Total	**(28,267,864)**	(23,197,066)
Redeemable Class A share transactions:		
Proceeds from issuance of redeemable Class A shares (note 4)	**34,221,952**	40,604,534
Agents' fees and issue costs paid on issuance of redeemable Class A shares (note 4)	**(1,659,989)**	(1,923,560)
Retraction of redeemable Class A shares (note 4)	**(20,429)**	(2,606,964)
Net increase (decrease) from redeemable Class A share transactions	**32,541,534**	36,074,010
Net increase (decrease) in Net Assets attributable to holders of redeemable Class A shares	(70,086,966)	44,373,355
Net Assets attributable to holders of redeemable Class A shares at end of year	**$ 153,075,371**	$ 223,162,337

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

Schedule of Investment Portfolio

As at December 31, 2018		Cost	Carrying Value	% of Portfolio
No. of Shares	**Banks**			
455,973	Bank of Montreal	$ 34,776,757	$ 40,640,873	
623,177	Bank of Nova Scotia (The)	38,641,855	42,407,195	
404,670	Canadian Imperial Bank of Commerce	38,741,814	41,134,706	
743,416	National Bank of Canada	31,085,752	41,668,467	
462,507	Royal Bank of Canada	31,753,383	43,216,653	
613,718	Toronto-Dominion Bank (The)	28,281,065	41,634,630	
		203,280,626	**250,702,524**	**60.5%**
	Insurance			
1,480,517	Great-West Lifeco Inc.	46,806,229	41,676,554	
928,478	iA Financial Corporation	39,312,169	40,407,363	
2,057,718	Manulife Financial Corporation	44,017,989	39,816,843	
921,961	Sun Life Financial Inc.	35,997,598	41,737,174	
		166,133,985	**163,637,934**	**39.5%**
	Embedded Broker Commission	(176,814)		
	Total Investments	**$ 369,237,797**	**$ 414,340,458**	**100.0%**

Notes to the Financial Statements

December 31, 2018 and 2017

1. GENERAL INFORMATION

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 Limited (the "Manager") is responsible for managing the affairs of the Fund and manages the Fund's portfolio and options program. The Fund is listed on the Toronto Stock Exchange and commenced operations on October 17, 2006. CIBC Mellon Trust Company (and certain of its affiliates) is the custodian of the Fund's assets and prepares the weekly valuations of the Fund. The address of the Fund's registered office is Bay Wellington Tower, Brookfield Place, Suite 2930, 181 Bay Street, Toronto, Ontario, M5J 2T3.

The Fund invests in a portfolio comprised of common shares of six major Canadian banks and four major, publicly traded Canadian life insurance companies.

These financial statements were approved by the Board of Directors of Life & Banc Split Corp. on March 5, 2019.

2. BASIS OF PRESENTATION

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied, except as described in note 3(i).

a) Financial Instruments

The Fund's portfolio of investments is managed, and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income ("FVOCI"). The contractual cash flows of the Fund's debt securities that are solely principal and interest are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, all investments are measured at fair value through profit or loss ("FVTPL"). Derivative assets and liabilities are also measured at FVTPL.

The Fund's obligation for Net Assets attributable to holders of redeemable Class A shares is measured assuming the redemption of shares at Net Asset Value on the valuation date. All other financial assets and liabilities are initially recognized at fair value and subsequently measured at amortized cost. Under this method, financial assets and liabilities reflect the amounts required to be received or paid, discounted when appropriate, at the financial instrument's effective interest rate. The Fund's accounting policies for measuring the fair value of its investments and derivatives are the same as those used in measuring its published Net Asset Value. The carrying values of the Fund's financial assets and liabilities that are not carried at FVTPL approximate their fair values due to their short-term nature.

b) 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 (such as publicly traded marketable securities) is based on quoted market prices at the close of trading on the measurement date. The Fund uses the last bid price for financial assets and the last ask price for financial liabilities. The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

The fair value of financial assets and liabilities that are not traded in an active market, including over-the-counter derivatives, is determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each measurement date. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, and others commonly used by market participants that make the maximum use of observable inputs. Refer to note 12 for further information about the Fund's fair value measurements.

c) Cash

Cash is comprised of demand deposits with financial institutions.

d) Investment Transactions and Income and Expense Recognition

Investment transactions are accounted for on the trade date. The interest for distribution purposes shown on the Statements of Comprehensive Income represents the coupon interest received by the Fund accounted for on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities except for zero coupon bonds, which are amortized on a straight line basis.

Realized gain (loss) on sale of investments and change in unrealized gain (loss) on investments are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds. Dividend income and dividend expense on securities sold short are recognized on the ex-dividend date.

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 Statements 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. Gains or losses realized upon expiration, repurchase or exercise of the options are included in net realized gains or losses on options.

e) Transaction Costs

Transaction costs directly attributable to the acquisition or disposal of an investment are expensed in the period incurred and disclosed as "Transaction costs" in the Statements of Comprehensive Income.

f) 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 38$^{1}/_{3}$% 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.

g) Securities Lending

The Fund may enter into securities lending transactions. These transactions involve the temporary exchange of securities as collateral with a commitment to deliver the same securities on a future date. Income is earned from these transactions in the form of fees paid by the counterparty and, in certain circumstances, interest paid on securities held as collateral. Income earned from these transactions is recognized on an accrual basis and included in the Statements of Comprehensive Income.

h) Classification of Redeemable Shares by the Fund

As required under International Accounting Standard ("IAS") 32, *Financial Instruments: Presentation*, shares of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset must be classified as financial liabilities. Under IFRS, the Fund's Preferred shares remain as liabilities as they are not the most subordinate class of shares. The Fund's Class A shares do not meet the criteria in IAS 32 for classification as equity. The Class A shares contain multiple redemption features and, therefore, have been reclassified as financial liabilities. Class J shares are redeemable at $1.00 per share.

i) Accounting Changes

IFRS 9, *Financial Instruments*

Effective January 1, 2018, the Fund retrospectively and without restatement adopted IFRS 9, *Financial Instruments* ("IFRS 9"). The new standard requires financial instruments to be either carried at amortized cost or at FVTPL or FVOCI, based on the Fund's business model for managing financial instruments and the contractual cash flow characteristics of the financial instruments. IFRS 9 also introduced a new expected credit loss impairment model.

Upon transition to IFRS 9, the Fund's financial assets and financial liabilities previously designated at FVTPL at inception or classified as held for trading under IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") continue to be measured as FVTPL under IFRS 9. As at December 31, 2018, the Fund holds equity securities of $414.3 million (December 31, 2017 – $447.6 million) and debt securities of nil (December 31, 2017 – nil), which had previously been designated at FVTPL at inception and are mandatorily classified as FVTPL under IFRS 9. There were no changes in the measurement attributes for the Fund's financial assets and financial liabilities upon transition to IFRS 9. There was no material impact on adoption from the application of the new impairment model.

4. REDEEMABLE SHARES

Units

A unit means a notional unit consisting of one Preferred share and one Class A share. Net Asset Value per unit is determined by (i) the aggregate value of the assets of the Fund, less (ii) the aggregate value of the liabilities of the Fund (the Preferred shares will not be treated as liabilities), including any distributions declared and not paid that are payable to shareholders, less (iii) the stated capital of Class J shares ($100).

Class J Shares

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

As of December 31, 2018, 100 (December 31, 2017 – 100) Class J shares were 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.

Redeemable Class A Shares

Authorized

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

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 per unit is less than $15.00.

Notes to the Financial Statements (continued)

December 31, 2018 and 2017

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.

The maturity date of the Class A shares was extended from November 29, 2018 to October 30, 2023. The Class A shares are scheduled to be redeemed by the Fund on that date unless the term of the Fund is extended. The redemption price payable by the Fund for a Class A share on that date will be equal to the greater of (i) the Net Asset Value per unit on that date minus the sum of $10.00, plus any accrued and unpaid distributions on the Preferred shares, and (ii) nil.

Class A shares may be surrendered for retraction by the Fund 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 Net Asset Value 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 Net Asset Value per unit is less than $10.00, 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, at a price per unit equal to the Net Asset Value 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.

As a result of the extension of the maturity date to October 30, 2023, holders of Class A shares could retract their Class A shares on November 29, 2018 by providing notice by the last business day of October 2018. This special retraction right did not require the surrender of both a Class A share and a Preferred share.

The Fund's Class A shares are classified as financial liabilities on the Statements of Financial Position.

Issued

	2018	2017
	Number of Shares	Number of Shares
Redeemable Class A shares, outstanding at January 1	**22,193,972**	18,348,272
Issuance of redeemable Class A shares	**3,696,400**	4,100,000
Retraction of redeemable Class A shares	**(2,714)**	(254,300)
Redeemable Class A shares, outstanding at December 31	**25,887,658**	22,193,972
Weighted average number of redeemable Class A shares outstanding	**23,549,280**	19,348,820

On October 4, 2017, the Fund issued 4,100,000 Class A shares at a price of $9.90 per share for proceeds, net of agents' fees and issuance costs, of $38,666,440. Agents' fees and issue costs accounted for $1,923,560.

On July 4, 2018, the Fund completed an offering of 2,532,000 Class A shares at a price of $9.80 per share for gross proceeds of $24,813,600. Agents' fees and issue costs amounted to $1,210,652.

On December 3, 2018, the Fund completed an offering of 1,164,400 Class A shares at a price of $8.08 per share for gross proceeds of $9,408,352. Agents' fees and issue costs amounted to $450,767.

During the year ended December 31, 2018, pursuant to the special retraction option, 2,714 Class A shares were retracted (year ended December 31, 2017 – 252,300).

During the year ended December 31, 2018, pursuant to the monthly retraction option, no Class A shares were purchased for cancellation (year ended December 31, 2017 – 2,000).

On December 31, 2018, the Class A shares' closing market price was $6.68 per share (December 31, 2017 – $9.96).

Redeemable Preferred Shares

Authorized

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

Holders of Preferred shares were entitled to receive fixed, cumulative, preferential quarterly cash distributions of $0.11875 per share up to November 29, 2018. Commencing November 30, 2018, the quarterly cash distributions were increased to $0.13625 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.

The maturity date of the Preferred shares was extended from November 29, 2018 to October 30, 2023. The Preferred shares are scheduled to be redeemed by the Fund on that date unless the term of the Fund is extended. The redemption price payable by the Fund for a Preferred share will be equal to the lesser of (i) $10.00, plus any accrued and unpaid distributions thereon, and (ii) the Net Asset Value of the Fund on that date divided by the number of Preferred shares then outstanding.

Preferred shares may be surrendered for retraction by the Fund 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 Net Asset Value 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) $10.00. 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 second last business day of November of each year (except for a year in which there is a scheduled maturity date) at a price per unit equal to the Net Asset Value per unit on that date, less any costs associated with the retraction, including commissions and such other 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.

As a result of the extension of the maturity date to October 30, 2023, holders of Preferred shares could retract their Preferred shares on November 29, 2018 by providing notice by the last business day of October 2018. This special retraction did not require the surrender of both a Preferred share and a Class A share.

Issued

	2018	2017
	Number of Shares	Number of Shares
Redeemable Preferred shares, outstanding at January 1	**22,193,972**	18,348,272
Issuance of redeemable Preferred shares	**7,430,432**	4,100,000
Retraction of redeemable Preferred shares	**(3,736,746)**	(254,300)
Redeemable Preferred shares, outstanding at December 31	**25,887,658**	22,193,972

On October 4, 2017, the Fund issued 4,100,000 Preferred shares at a price of $10 per share for proceeds of $41,000,000.

On July 4, 2018, the Fund completed an offering of 2,532,000 Preferred shares at a price of $10 per share for gross proceeds of $25,320,000.

On December 3, 2018, the Fund completed an offering of 4,898,432 Preferred shares at a price of $10 per share for gross proceeds of $48,984,320.

The difference between the issuance price of Preferred shares following an offering and the redemption value, plus accrued dividends, is treated as premium received. The cumulative premium received over the years is $222,759, which is amortized over the life of the Preferred shares. During the year ended December 31, 2018, $58,201 (year ended December 31, 2017 – $64,536) was amortized and as of December 31, 2018, the premium was completely amortized and carried a zero balance (December 31, 2017 – $58,201).

During the year ended December 31, 2018, pursuant to the special retraction option, 3,736,746 Preferred shares were retracted (year ended December 31, 2017 – 252,300).

During the year ended December 31, 2018, pursuant to the monthly retraction option, no Preferred shares were purchased for cancellation (year ended December 31, 2017 – 2,000).

On December 31, 2018, the Preferred shares' closing market price was $9.84 per share (December 31, 2017 – $10.11).

5. CAPITAL MANAGEMENT

The Fund's capital is comprised of its Net Assets attributable to holders of redeemable Class A shares. The Fund's objectives in managing its capital are:

i) to provide holders of Preferred shares with fixed, cumulative, preferential quarterly cash distributions and to return the original issue price to holders of the shares on the maturity date, the terms of which may be extended for a period of up to five years as determined by the Board of Directors or such other date if the term of the Fund is extended, and

ii) to provide holders of Class A shares with regular monthly cash distributions targeted to be $0.10 per share and the opportunity for growth in Net Asset Value per share.

The Fund manages its capital taking into consideration the risk characteristics of its holdings. In order to manage its capital structure, the Fund may adjust the amount of distributions paid to shareholders or return capital to shareholders.

6. 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 year ended December 31, 2018, the Fund declared distributions of $1.20 (year ended December 31, 2017 – $1.20) per Class A share and recorded distributions of $0.4811 (year ended December 31, 2017 – $0.475) per Preferred share, which amounted to $28,267,864 (year ended December 31, 2017 – $23,197,066) and $11,728,317 (year ended December 31, 2017 – $9,172,106), respectively.

On January 24, 2019, the Fund declared $0.10 per Class A share in monthly distributions for record date January 31, 2019.

Notes to the Financial Statements (continued)

December 31, 2018 and 2017

7. RELATED PARTY TRANSACTIONS

a) Management and Service Fees

Pursuant to a management agreement, the Manager provides management, administrative and advisory services, including key management personnel, to the Fund. In consideration for these services, the Fund pays 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 Class A and Preferred shares are not considered liabilities of 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 the investment dealers in proportion to the number of shares held by clients of each dealer at the end of each calendar quarter.

For the year ended December 31, 2018, the management fee amounted to $2,922,639 (year ended December 31, 2017 – $2,532,993), of which $797 was prepaid as of December 31, 2018 (December 31, 2017 – $130 payable). The service fees for the year ended December 31, 2018 amounted to $755,072 (year ended December 31, 2017 – $748,757), with $153,816 payable as of December 31, 2018 (December 31, 2017 – $223,609). The Fund is responsible for the payment of all expenses relating to its operations and the carrying on of its business.

b) Independent Review Committee Fees

The total remuneration paid to members of the Independent Review Committee during the year ended December 31, 2018 was $22,566 (year ended December 31, 2017 – $25,670) and consisted only of fees. As at December 31, 2018 and 2017, there were no Independent Review Committee fees payable.

8. INVESTMENT TRANSACTIONS

Investment transactions, excluding brokerage commissions, for the years ended December 31 were as follows:

	2018	2017
Proceeds from sale of investments and options	**$ 114,659,371**	$ 36,043,965
Less cost of investments and options sold:		
Investments and options at cost, beginning of year	**320,321,011**	259,544,751
Investments purchased and options written during the year	**155,182,401**	86,987,798
Investments and options at cost, end of year	**(369,142,607)**	(320,321,011)
Cost of investments sold and options written during the year	**106,360,805**	26,211,538
Net realized gain (loss) on sale of investments and options	**$ 8,298,566**	$ 9,832,427

There were no soft dollar commissions paid by the Fund for the years ended December 31, 2018 and 2017.

9. OPTION CONTRACTS

The Fund may write covered call or cash covered put options to generate additional income. The Fund had the following option contracts outstanding:

As at December 31, 2018:

Underlying Interest	No. of Contracts[1]	Option Type	Expiration Date	Option Strike Price	Current Price per Contract	Premium Received	Fair Value	Unrealized Gain (Loss)
Bank of Nova Scotia (The)	630	Call	January 18, 2019	$ 74.00	$ 0.11000	$ 33,390	$ (6,930)	$ 26,460
Canadian Imperial Bank of Commerce	400	Call	January 18, 2019	115.00	0.17000	30,000	(6,800)	23,200
Toronto-Dominion Bank (The)	600	Call	January 18, 2019	76.00	0.10000	31,800	(6,000)	25,800
						$ 95,190	**$ (19,730)**	**$ 75,460**

[1] Each contract was written for 100 shares of the underlying security.

As at December 31, 2017:

Underlying Interest	No. of Contracts[1]	Option Type	Expiration Date	Option Strike Price	Current Price per Contract	Premium Received	Fair Value	Unrealized Gain (Loss)
Canadian Imperial Bank of Commerce	36	Call	January 19, 2018	$ 118.00	$ 4.75000	$ 2,268	$ (17,100)	$ (14,832)
Canadian Imperial Bank of Commerce	400	Call	February 16, 2018	122.00	2.35000	39,200	(94,000)	(54,800)
Canadian Imperial Bank of Commerce	400	Call	February 16, 2018	125.00	0.98000	39,200	(39,200)	—
Manulife Financial Corporation	2,000	Call	January 19, 2018	27.50	0.02913	70,000	(5,825)	64,175
National Bank of Canada	800	Call	February 16, 2018	65.00	0.24000	39,200	(19,200)	20,000
Royal Bank of Canada	500	Call	January 19, 2018	105.00	0.21000	21,000	(10,500)	10,500
Sun Life Financial Inc.	900	Call	January 19, 2018	51.50	0.80000	27,000	(72,000)	(45,000)
Sun Life Financial Inc.	900	Call	January 19, 2018	52.00	0.50000	19,800	(45,000)	(25,200)
Bank of Nova Scotia (The)	500	Call	January 19, 2018	87.00	0.00017	16,500	(9)	16,491
						$ 274,168	$ (302,834)	$ (28,666)

[1] Each contract was written for 100 shares of the underlying security.

10. SECURITIES LENDING

The Fund has entered into a securities lending program with its custodian, CIBC Mellon Trust Company (and certain of its affiliates). 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 the United States Government or its agencies, or a permitted supranational agency as defined in National Instrument 81-102. The market values of the securities on loan and the related collateral at December 31, 2018 were $14.2 million (December 31, 2017 – $7.4 million) and $14.9 million (December 31, 2017 – $7.8 million), respectively.

Securities lending income reported in the Statements of Comprehensive Income is net of a securities lending charge which the Fund's custodian, CIBC Mellon Trust Company (and certain of its affiliates), is entitled to receive.

For the years ended December 31, securities lending income was as follows:

	2018	2017
Gross securities lending income	**$ 16,932**	$ 20,820
Securities lending charges	**(5,079)**	(6,246)
Net securities lending income received by the Fund	**$ 11,853**	$ 14,574

During the year ended December 31, 2018, securities lending charges represented 30.0% (year ended December 31, 2017 – 30.0%) of the gross securities lending income.

11. FINANCIAL RISK MANAGEMENT

The Fund's investment activities expose it to a variety of financial risks. The Schedule of Investment Portfolio presents the securities held by the Fund as at December 31, 2018, and groups the securities by market segment. The following comparative summary represents the investment sectors held by the Fund as at December 31, 2017. Significant risks that are relevant to the Fund are discussed below.

As at	December 31, 2017
Investment Sector	% of Portfolio
Banks	59.9%
Insurance	40.1%
Total	100.0%

The Manager attempts to minimize the potential adverse effects of these risks on the Fund's performance by employing regular rebalancing of the investment portfolio within the constraints of the investment objectives. To assist in managing these risks, the Manager also maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy and restrictions, internal guidelines, and securities regulations.

The investment portfolio is comprised of Canadian-dollar-denominated, exchange-listed equity securities.

Notes to the Financial Statements (continued)

December 31, 2018 and 2017

a) Other Price Risk

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. The Manager attempts to moderate this risk through the careful management of derivatives within the parameters of the investment strategy. Except for options written, the maximum risk of loss resulting from financial instruments is equivalent to their fair value. No additional risk is introduced by covered call options written.

The Fund is exposed to other price risk from its investment in equity securities and option contracts. As at December 31, 2018, had the prices on the respective stock exchanges for these securities increased by 10%, with all other variables held constant, Net Assets attributable to holders of redeemable Class A shares would have increased by approximately $41.2 million or 26.9% (December 31, 2017 – approximately $42.0 million or 18.8%). Similarly, had the prices on the respective stock exchanges for these securities decreased by 10%, with all other variables held constant, Net Assets attributable to holders of redeemable Class A shares would have decreased by approximately $41.4 million or 27.1% (December 31, 2017 – approximately $44.3 million or 19.9%). In practice, the actual trading results may differ, and the difference could be material.

b) Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The Fund did not have significant credit risk exposure as at December 31, 2018 and 2017. The carrying amount of securities on loan, cash and income receivable represents the maximum credit risk exposure as it will be settled in the short term.

All transactions in securities are settled/paid for upon delivery. The risk of default is considered minimal as delivery of securities sold is only made once the Fund has received payment. The trade will fail if either party fails to meet its obligation.

The Fund has entered into a securities lending program with its custodian; see note 10. Credit risk associated with these transactions is considered minimal as all counterparties have a sufficient, approved credit rating and the value of cash or securities held as collateral must be at least 102% of the fair value of the securities loaned.

c) Liquidity Risk

Liquidity risk is the risk that the Fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund is exposed to liquidity risk through its monthly and annual retractions of Class A shares and Preferred shares. For the monthly and annual retractions of Class A shares and Preferred shares, the Fund receives notice at least 10 business days prior to the retraction dates, which gives the Manager time to sell securities, although there may not be sufficient time to sell the securities at a reasonable price. As a result of the extension of the maturity date of the Fund to October 30, 2023, holders of Class A shares and Preferred shares could retract their shares on November 29, 2018 by providing notice by the last business day of October 2018. The tables below list the Fund's financial liabilities into relevant maturity groupings based on the remaining period between the financial statement date and the contractual maturity date.

As at December 31, 2018	**Less Than 3 Months**	**3 Months to 1 Year**	**Greater Than 1 Year**	**Total**
Option contracts written, at fair value	$ 19,730	$ —	$ —	$ 19,730
Accounts payable and accrued liabilities	351,114	—	—	351,114
Distributions payable to shareholders	5,820,581	—	—	5,820,581
Total	**$ 6,191,425**	**$ —**	**$ —**	**$ 6,191,425**

As at December 31, 2017	Less Than 3 Months	3 Months to 1 Year	Greater Than 1 Year	Total
Option contracts written, at fair value	$ 302,834	$ —	$ —	$ 302,834
Accounts payable for investments purchased	4,165,357	—	—	4,165,357
Accounts payable and accrued liabilities	431,623	—	—	431,623
Distributions payable to shareholders	4,854,931	—	—	4,854,931
Total	$ 9,754,745	$ —	$ —	$ 9,754,745

d) Currency Risk

Currency risk is the risk that financial instruments that are denominated in a currency other than the Canadian dollar, which is the Fund's reporting currency, will fluctuate due to changes in exchange rates. As at December 31, 2018 and 2017, the Fund had no exposure to currency risk.

12. FAIR VALUE MEASUREMENT

The Fund's assets and liabilities recorded at fair value have been categorized 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 Fund classifies its investments and derivative assets/liabilities into three categories based on the nature of the inputs used to determine their fair value. The categories and the nature of the inputs used in each category are as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3: Inputs that are unobservable. There is little if any market activity. Inputs into the determination of fair value require significant management judgement or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Assets and liabilities at fair value as at December 31, 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Equities	$ 414,340,458	$ —	$ —	$ 414,340,458
Option contracts written	(19,730)	—	—	(19,730)
Total	**$ 414,320,728**	**$ —**	**$ —**	**$ 414,320,728**

Assets and liabilities at fair value as at December 31, 2017	Level 1	Level 2	Level 3	Total
Equities	$ 447,636,108	$ —	$ —	$ 447,636,108
Option contracts written	(302,834)	—	—	(302,834)
Total	$ 447,333,274	$ —	$ —	$ 447,333,274

The Preferred shares issued and outstanding as at December 31, 2018 had a retraction price per share of $10.00 (December 31, 2017 – $10.00) and a traded price per share of $9.84 (December 31, 2017 – $10.11).

There were no transfers of financial assets and liabilities between the levels during the years ended December 31, 2018 and 2017.

All fair value measurements above are recurring. The carrying values of cash, income receivable, prepaid expenses, distributions payable and accounts payable and accrued liabilities approximate their fair values due to their short-term nature. Fair values are classified as level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as level 1 subsequently ceases to be actively traded, it is transferred out of level 1. In such cases, the instrument is reclassified into level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as level 3.

a) Equities

The Fund's equity positions are classified as level 1 as the securities are actively traded and a reliable price is observable. The net realized and net change in unrealized loss from equity securities during the year ended December 31, 2018 was $74,766,527 (year ended December 31, 2017 – gain of $32,011,540).

b) Option Contracts

The Fund's option contracts written are classified as level 1 as the options are based on unadjusted quoted prices in active markets. The net realized and net change in unrealized gain from option contracts during the year ended December 31, 2018 was $1,230,951 (year ended December 31, 2017 – loss of $334,114).

Corporate Information

Independent Review Committee

Patricia Meredith, BMath, MBA, PhD, FCPA/FCA

Arthur R.A. Scace, QC, CM

Ken S. Woolner, BSc, PEng

Directors and Officers of the Manager

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Christopher S.L. Hoffmann, LLB, MS
Director

Craig T. Kikuchi, BA, CPA, CA, CFA
Director and Chief Financial Officer

Raymond R. Pether, BA, MBA
Director

Christopher Cullen, BASc, MBA, CFA
Senior Vice President

Laura Lau, BASc (Hons), CFA, DMS
Senior Vice President and Senior Portfolio Manager

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Vice President and Portfolio Manager

Michelle L. Tiraborelli, BSc, MBA
Vice President

Ann P. Wong, BA, MAcc, CPA, CA, CPA (Delaware), CFA
Vice President and Controller

Kathryn A.H. Banner, BA, MA
Vice President and Corporate Secretary

Transfer Agent

TSX Trust Company

Custodian

CIBC Mellon Trust Company

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