
World Financial Split Corp.

Annual Report 2019



Management's Responsibility for Financial Reporting

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

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

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

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



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



John D. Germain
Director
Strathbridge Asset Management Inc.

To the Shareholders of World Financial Split Corp. (the "Fund")

Opinion

We have audited the financial statements of the Fund, which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, changes in net assets attributable to holders of Class A shares and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

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

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

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management Report of Fund Performance and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Statements of Financial Position

As at December 31

	Note	2019	2018
ASSETS			
Financial assets at fair value through profit or loss	6	\$ 14,512,997	\$ 11,408,062
Derivative assets	6	70,937	–
Dividends receivable		11,839	30,083
Short-term investments	6	449,840	–
Cash		147,433	3,834,909
TOTAL ASSETS		15,193,046	15,273,054
LIABILITIES			
Accrued liabilities		54,188	53,011
Derivative liabilities	6	44,469	102,529
Accrued management fees	8	13,645	13,026
Redeemable Preferred shares		11,170,140	11,877,430
Class J shares		100	100
TOTAL LIABILITIES		11,282,542	12,046,096
NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES		\$ 3,910,504	\$ 3,226,958
NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES PER CLASS A SHARE		\$ 3.5009	\$ 2.7169

On behalf of the Manager,
Strathbridge Asset Management Inc.



John P. Mulvihill, Director



Robert G. Bertram, Director

The notes are an integral part of the Financial Statements.

Statements of Comprehensive Income

Years ended December 31

	Note	2019	2018
INCOME			
Dividend income		\$ 402,602	\$ 591,022
Interest income		19,712	25,380
Net realized gain/(loss) on investments at fair value through profit or loss		(147,884)	787,250
Net realized gain on options at fair value through profit or loss		369,505	157,156
Net realized gain/(loss) on foreign exchange contracts at fair value through profit or loss		31,302	(617,771)
Net change in unrealized gain/(loss) on investments at fair value through profit or loss		1,310,981	(2,890,751)
TOTAL INCOME/(LOSS), NET		1,986,218	(1,947,714)
EXPENSES			
Management fees	8	155,395	248,265
Service fees		14,688	23,282
Administrative and other expenses		77,811	85,231
Transaction fees	9	62,446	104,504
Custodian fees		42,270	48,014
Audit fees		38,040	37,288
Director fees	8	18,900	19,500
Independent review committee fees	8	7,559	7,500
Legal fees		1,302	2,705
Shareholder reporting costs		15,085	14,314
Harmonized sales tax		32,294	38,422
Withholding taxes		24,506	40,390
TOTAL EXPENSES		490,296	669,415
OPERATING PROFIT/(LOSS)		1,495,922	(2,617,129)
Preferred share distributions	7	(604,999)	(852,692)
INCREASE/(DECREASE) IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES	10	\$ 890,923	\$ (3,469,821)
INCREASE/(DECREASE) IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES PER CLASS A SHARE	10	\$ 0.7715	\$ (2.1038)

The notes are an integral part of the Financial Statements.

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

Years ended December 31

	2019	2018
NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES, BEGINNING OF YEAR	\$ 3,226,958	\$ 9,991,579
Increase/(Decrease) in Net Assets Attributable to Holders of Class A Shares	890,923	(3,469,821)
Class A Share Capital Transactions		
Value for Class A shares redeemed	(207,377)	(3,294,800)
Changes in Net Assets Attributable to Holders of Class A Shares during the Year	683,546	(6,764,621)
NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES, END OF YEAR	\$ 3,910,504	\$ 3,226,958

Statements of Cash Flows

Years ended December 31

	2019	2018
CASH, BEGINNING OF YEAR	\$ 3,834,909	\$ 1,039,223
Cash Flows Provided By (Used In) Operating Activities		
Operating Profit/(Loss)	1,495,922	(2,617,129)
Adjustments to Reconcile Net Cash Provided By (Used In) Operating Activities		
Net realized (gain)/loss on investments at fair value through profit or loss	147,884	(787,250)
Net realized gain on options at fair value through profit or loss	(369,505)	(157,156)
Net realized (gain)/loss on foreign exchange contracts at fair value through profit or loss	(31,302)	617,771
Net change in unrealized (gain)/loss on investments at fair value through profit or loss	(1,310,981)	2,890,751
Net change in unrealized (gain)/loss on foreign cash	(78,586)	79,760
Decrease in dividends receivable and due from brokers — investments	18,244	104,450
Increase/(decrease) in accrued management fees and accrued liabilities	1,796	(12,472)
Purchase of investment securities	(29,679,220)	(44,977,225)
Proceeds from disposition of investment securities	28,087,778	60,530,318
	(3,213,892)	18,288,947
Cash Flows Used In Financing Activities		
Preferred share distributions	(604,999)	(852,692)
Preferred share redemptions	(707,290)	(8,728,640)
Class A share redemptions	(207,377)	(3,294,800)
	(1,519,666)	(12,876,132)
Net Increase/(Decrease) in Cash during the Year	(3,237,636)	2,795,686
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 597,273	\$ 3,834,909
Cash and Cash Equivalents are comprised of:		
Cash	\$ 147,433	\$ 3,834,909
Short-Term Investments	449,840	-
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 597,273	\$ 3,834,909
Dividends received, net of withholding taxes	\$ 396,340	\$ 586,624
Interest received	\$ 19,692	\$ 25,380

The notes are an integral part of the Financial Statements.

Schedule of Investments

As at December 31, 2019

	Par Value/ Number of Shares/ (Contracts)	Average Cost/ (Proceeds)	Fair Value	% of Net Assets Attributable to Holders of Class A Shares and Redeemable Preferred Shares
SHORT-TERM INVESTMENTS				
Treasury Bills				
Government of Canada, 1.63% – January 9, 2020	450,000	\$ 449,820	\$ 449,840	3.0 %
TOTAL SHORT-TERM INVESTMENTS		\$ 449,820	\$ 449,840	3.0 %
INVESTMENTS				
Canadian Common Shares				
Financials				
Bank of Montreal	9,000	\$ 912,148	\$ 905,760	
Brookfield Asset Management Inc.	11,800	729,717	885,354	
Intact Financial Corporation	3,800	527,613	533,596	
Manulife Financial Corporation	32,300	797,238	851,428	
National Bank of Canada	8,500	611,693	612,680	
Sun Life Financial Inc.	16,600	874,114	982,886	
Total Financials		4,452,523	4,771,704	31.6 %
Total Canadian Common Shares		\$ 4,452,523	\$ 4,771,704	31.6 %
Non-North American Common Shares				
Financials				
Aon PLC	2,800	\$ 641,712	\$ 756,279	
China Life Insurance Company Limited	34,200	605,072	613,343	
Total Financials		1,246,784	1,369,622	9.1 %
Total Non-North American Common Shares		\$ 1,246,784	\$ 1,369,622	9.1 %
United States Common Shares				
Financials				
Ameriprise Financial, Inc.	4,200	\$ 873,873	\$ 907,252	
Bank of America Corporation	24,000	930,207	1,096,115	
Berkshire Hathaway Inc.	3,200	878,559	939,883	
BlackRock, Inc.	1,400	872,995	912,625	
JPMorgan Chase & Co.	5,000	827,957	903,833	
The Allstate Corporation	2,900	417,333	422,876	
The Charles Schwab Corporation	13,600	897,912	838,757	
The PNC Financial Services Group, Inc.	4,400	877,428	910,799	
U.S. Bancorp	12,300	867,574	945,675	
Total Financials		7,443,838	7,877,815	52.2 %
Total United States Common Shares		\$ 7,443,838	\$ 7,877,815	52.2 %
Exchange-Traded Funds				
U.S. Financials Income Fund	67,600	\$ 525,206	\$ 493,856	3.3 %
Forward Exchange Contracts				
Sold USD \$1,640,000, Bought CAD \$2,167,654 @ 0.75658 – January 6, 2020			\$ 41,038	
Sold USD \$1,965,000, Bought CAD \$2,577,589 @ 0.76234 – February 12, 2020			29,899	
Total Forward Exchange Contracts			\$ 70,937	0.5 %
Options				
Written Covered Call Options (100 shares per contract)				
The Allstate Corporation – January 2020 @\$110	(29)	\$ (7,340)	\$ (11,376)	
The PNC Financial Services Group, Inc. – January 2020 @ \$155	(44)	(14,614)	(33,093)	
Total Written Covered Call Options		(21,954)	(44,469)	(0.3)%
Total Options		\$ (21,954)	\$ (44,469)	(0.3)%
Adjustment for transaction fees		(11,433)		
TOTAL INVESTMENTS		\$ 13,634,964	\$ 14,539,465	96.4 %
OTHER NET ASSETS			91,339	0.6 %
NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES AND REDEEMABLE PREFERRED SHARES			\$ 15,080,644	100.0 %

1. Corporate Information

World Financial Split Corp. (the “Fund”) is a mutual fund corporation incorporated under the laws of the Province of Ontario on December 5, 2003. The Fund began operations on February 17, 2004. On May 28, 2018, the Fund announced the automatic extension of the maturity date of the Class A and Preferred shares of the Fund for an additional seven year period beyond June 30, 2018 to June 30, 2025 as provided for in its articles of incorporation. Pursuant to the special retraction right granted to shareholders in connection with the extension of the Fund, 444,251 Preferred shares and 872,864 Class A shares were surrendered for retraction. In order to maintain an equal number of Preferred shares and Class A shares, the Fund redeemed 428,613 Preferred shares on a pro rata basis from all holders of record of Preferred shares on July 11, 2018. Each Preferred share redeemed pursuant to the partial redemption will be redeemed at a price equal to \$10.00, being the original issue price per Preferred share, plus declared and unpaid distributions thereon (the “Repayment Price”). The Repayment Price was paid to holders whose Preferred shares were redeemed by the Fund on July 13, 2018. The address of the Fund’s registered office is 121 King Street West, Suite 2600, Toronto, Ontario.

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

The Fund is a split share corporation designed to provide Preferred shareholders with fixed cumulative preferential quarterly distributions and the Class A shareholders with attractive quarterly distributions and the return of the original issue price on the termination date of the Fund. The shares are listed on the Toronto Stock Exchange under the ticker symbols WFS.PR.A for the Preferred shares and WFS for the Class A shares. A Unit of the Fund consists of one Preferred share and one Class A share.

The Fund invests in a portfolio which includes common equity securities selected from the ten largest financial services or real estate companies by market capitalization in each of Canada, the United States and the Rest of the World (the “Portfolio Universe”). The issuers of securities in the Portfolio Universe, other than Canadian issuers, must have a minimum credit rating of “A” from Standard & Poor’s Rating Services or a comparable rating from an equivalent rating agency. In addition, up to 25 percent of the net asset value of the Fund may be invested in common equity securities of financial services or real estate companies not included in the Portfolio Universe as long as such companies have a market capitalization at the time of investment of at least US\$10 billion and for non-Canadian issuers, a minimum credit rating of “A –” from Standard & Poor’s Rating Services or a comparable rating from an equivalent rating agency. The Fund may also invest in public investment funds including exchange-traded funds or other Strathbridge Funds (provided that no more than 15 percent of the net asset value of the Fund may be invested in securities of other Strathbridge Funds) that provide exposure to such securities.

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

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

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

2. Basis of Presentation

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

3. Summary of Significant Accounting Policies

Functional and Presentation Currency

Items included in the financial statements of the Fund are measured in the currency of the primary economic environment in which the Fund operates (the “functional currency”). Despite investments and related income being primarily in U.S. currency, the Manager has determined that the Canadian dollar is the functional currency as the Fund incurs its expenses, measures its performance and issues and redeems shares in Canadian dollars. The financial statements of the Fund are presented in Canadian dollars which is the Fund’s presentation currency.

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

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

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

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

Classification

Financial Assets

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

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

Consequently, these financial assets are mandatorily measured at FVTPL.

Held for Trading

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

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

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

Financial Assets and Financial Liabilities at Amortized Cost

The financial assets and liabilities measured at amortized cost may include cash, dividends receivable, due from brokers – investments, due to brokers – investments, accrued liabilities, accrued management fees, redemptions

payable, Redeemable Preferred shares, Class J shares and the Fund's obligation for net assets attributable to holders of Class A shares.

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

Fair Value Measurement

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

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

Investment Transactions and Income

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

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

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

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

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

Dividend income is recorded on the ex-dividend date.

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

Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing 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 on the respective dates of such transactions.

Foreign exchange gains (losses) on short-term investments are reflected as interest income (loss). Realized gains (losses) relating to forward exchange contracts are included in net realized gain/(loss) on forward exchange contracts at fair value through profit or loss. Other foreign exchange gains (losses) are recorded as realized or unrealized gain/(loss) on investments at fair value through profit or loss, as appropriate.

Short-Term Investments

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

Class A and Class J Shares

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

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

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

Taxation

The Fund is a "mutual fund corporation" as defined in the Income Tax Act (Canada) (the "Act") and is subject to tax in respect of its net realized capital gains. This tax is refundable in certain circumstances. Also, the Fund is generally subject to a tax of 38½ percent under Part IV of the Act on taxable dividends received in the year. This tax is fully refundable upon payment of sufficient dividends. The Fund is also subject to tax on the amount of its interest and foreign dividend income that is not offset by operating expenses and share issue expenses.

The Fund is also a "financial intermediary corporation" as defined in the Act and, as such, is not subject to tax under Part IV.1 of the Act on dividends received nor is it generally liable to tax under Part VI.1 on dividends paid on taxable preferred shares.

The Fund currently incurs withholding taxes imposed by certain foreign countries on investment income. Such foreign income is recorded gross of withholding taxes, and the withholding taxes are presented as an expense item in the Statement of Comprehensive Income.

IAS 7 Statement of Cash Flows

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

A reconciliation between the opening and closing balances of the Class A shares of the Fund is presented in the Statement of Changes in Net Assets

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

	Jan. 1, 2019	Cash Changes	Non-Cash Changes	Dec. 31, 2019
Cash Redemptions				
Redeemable Preferred Shares (Note 7)	\$11,877,430	(707,290)	–	\$11,170,140

	Jan. 1, 2018	Cash Changes	Non-Cash Changes	Dec. 31, 2018
Cash Redemptions				
Redeemable Preferred Shares (Note 7)	\$20,606,070	(8,728,640)	–	\$11,877,430

4. Critical Accounting Estimates and Judgments

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

The Manager considers the currency of the primary economic environment in which the Fund operates to be Canadian dollars as this is the currency which in their opinion most faithfully represents the economic effects of underlying transactions, events and conditions. The financial statements of the Fund are presented in Canadian dollars as the Fund's presentation currency.

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

5. Capital Disclosures

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

6. Risks Associated with Financial Instruments

The Fund is exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which the Fund invests. The most important risks include credit risk, liquidity risk, market risk (including currency risk, interest rate risk, and price risk), concentration risk and capital risk management.

Credit Risk

The Fund is subject to the credit risk that its counterparty (whether a clearing corporation, in the case of exchange-traded instruments, or other third party, in the case of over-the-counter instruments) may be unable to meet its

obligations. The Fund manages these risks through the use of various risk limits and trading strategies.

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

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

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

Liquidity Risk

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

Cash is required to fund redemptions. Shareholders must surrender shares at least 10 business days prior to the last day of the month and receive payment on or before 10 calendar days following the month end valuation date. Therefore the Fund has a maximum of 20 business days to generate sufficient cash to fund redemptions mitigating liquidity issues.

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

	As at December 31, 2019 Financial Liabilities		
	On Demand	< 3 months	Total
Accrued liabilities	\$ –	\$ 54,188	\$ 54,188
Derivative liabilities	–	44,469	44,469
Accrued management fees	–	13,645	13,645
Redeemable Preferred shares	11,170,140	–	11,170,140
Class J shares	100	–	100
Class A shares	3,910,504	–	3,910,504
	\$15,080,744	\$ 112,302	\$15,193,046

	As at December 31, 2018 Financial Liabilities		
	On Demand	< 3 months	Total
Derivative liabilities	\$ –	\$ 102,529	\$ 102,529
Accrued liabilities	–	53,011	53,011
Accrued management fees	–	13,026	13,026
Redeemable Preferred shares	11,877,430	–	11,877,430
Class J shares	100	–	100
Class A shares	3,226,958	–	3,226,958
	\$15,104,488	\$ 168,566	\$15,273,054

Redeemable Preferred shares are redeemable on demand at the holder's option. However, the Manager does not expect that the contractual maturity disclosed above will be representative of the actual cash flows, as holders of these instruments typically retain them for a longer period or to the Termination Date of June 30, 2025.

December 31, 2019 and 2018

Market Risk

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

(a) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The portfolio includes securities and options denominated in foreign currencies. The net asset value of the Fund and the value of the dividends and option premiums received by the Fund will be affected by fluctuations in the value of the foreign currencies relative to the Canadian dollar. The Fund uses forward exchange contracts, from time to time, to actively hedge all or part of the majority of its foreign currency exposure.

The table below indicates the foreign currencies to which the Fund had significant exposure to as at December 31, 2019 and 2018 in Canadian terms, and the notional amounts of forward exchange contracts. The table also illustrates the potential impact on the net assets attributable to Class A shares and Redeemable Preferred shares if the Canadian dollar had strengthened or weakened by 5 percent in relation to each of the other currencies, with all other variables held constant.

As at December 31, 2019 U. S. Currency Exposure						
			Impact on Net Assets Attributable to Holders of Class A Shares and Redeemable Preferred Shares			
Monetary	Non- Monetary	Total	Monetary	Non- Monetary	Total	
\$(4,630,746)	\$ 9,202,968	\$ 4,572,222	\$(231,537)	\$ 460,148	\$ 228,611	
% of Net Assets Attributable to Holders of Class A Shares and Redeemable Preferred Shares						
(31)%	61%	30%	(2)%	3%	1%	

As at December 31, 2018 U. S. Currency Exposure						
			Impact on Net Assets Attributable to Holders of Class A Shares and Redeemable Preferred Shares			
Monetary	Non- Monetary	Total	Monetary	Non- Monetary	Total	
\$(2,490,694)	\$ 7,205,721	\$ 4,715,027	\$(124,535)	\$ 360,286	\$ 235,751	
% of Net Assets Attributable to Holders of Class A Shares and Redeemable Preferred Shares						
(16)%	48%	32%	(1)%	2%	1%	

(b) Interest Rate Risk

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

(c) Price Risk

Price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a

market or segment. The Fund's most significant exposure to price risk arises from its investments in equity securities. Net assets per Unit varies as the value of the securities in the Fund varies. The Fund has no control over the factors that affect the value of the securities in the Fund, including factors that affect all the companies in the global financial services industry.

The Fund's price risk is managed by taking a long-term perspective and utilizing an option writing program, as well as by the use of purchased put options. Approximately 96 percent (2018 – 76 percent) of the Fund's net assets attributable to holders of Class A shares, excluding the Redeemable Preferred Share liability, held at December 31, 2019 were publicly traded equities. If equity prices on the exchange increased or decreased by 5 percent as at December 31, 2019, the net assets attributable to holders of Class A shares, excluding the Redeemable Preferred Share liability, would have increased or decreased by \$0.7 million (2018 – \$0.6 million) respectively or 4.8 percent (2018 – 3.8 percent) of the net assets attributable to holders of Class A shares, excluding the Redeemable Preferred Share liability, with all other factors remaining constant. In practice, actual trading results may differ and the difference could be material.

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

Concentration Risk

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

	Dec. 31, 2019	Dec. 31, 2018
United States	54.3%	51.0%
Canada	36.3%	36.8%
Rest of World	9.4%	12.2%
	100.0%	100.0%

Capital Risk Management

Class A shares may be surrendered at any time for retraction, but will be retracted only on the monthly valuation date. Class A shares whose shares are surrendered for retraction will be entitled to receive a price per share equal to 96 percent of the lesser of: (a) the difference between (i) the net asset value ("NAV") per Unit on the applicable valuation date and (ii) the cost to the Fund of purchasing a Preferred share in the market for cancellation; and (b) the difference between (i) the Unit Market Price (as defined below) and (ii) the cost to the Fund of purchasing a Preferred share in the market for cancellation. The cost of the purchase of a Preferred share will include the purchase price of the Preferred share, commission and such other costs, if any, related to the liquidation of any portion of the Portfolio to fund such purchase. If the NAV per Unit is less than \$10.00 the retraction price of a Class A share will be nil. Class A shares also have an annual retraction right under which a shareholder may concurrently retract one Preferred share and one Class A share on the June month-end valuation date. The price paid will be equal to the NAV per Unit.

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

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

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

Redeemable Preferred shares may be surrendered at any time for retraction, but will be retracted only on the monthly valuation date. Preferred shares

whose shares are surrendered for retraction will be entitled to receive a price per share equal to 96 percent of the lesser of: (a) the difference between (i) the NAV per Unit on the applicable valuation date and (ii) the cost to the Fund of purchasing a Class A share in the market for cancellation; and (b) the lesser of (i) the Unit Market Price less the cost to the Fund of purchasing a Class A share in the market for cancellation and (ii) \$10.00. The cost of the purchase of a Class A share will include the purchase price of the Class A share, commission and such other costs, if any, related to the liquidation of any portion of the Portfolio to fund the purchase of the Class A share. Redeemable Preferred shares also have an annual retraction right under which a shareholder may concurrently retract one Redeemable Preferred share and one Class A share on the June month-end valuation date. The price paid will be equal to the NAV per Unit.

Fair Value Measurement

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

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

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

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

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

	As at December 31, 2019			
	Level 1	Level 2	Level 3	Total
Short-Term Investments	\$ -	\$ 449,840	\$ -	\$ 449,840
Canadian Common Shares	4,771,704	-	-	4,771,704
Non-North American Common Shares	1,369,622	-	-	1,369,622
United States Common Shares	7,877,815	-	-	7,877,815
Exchange-Traded Funds	493,856	-	-	493,856
Forward Exchange Contracts	-	70,937	-	70,937
Options	(44,469)	-	-	(44,469)
	\$14,468,528	\$ 520,777	\$ -	\$14,989,305

	As at December 31, 2018			
	Level 1	Level 2	Level 3	Total
Canadian Common Shares	\$ 3,018,242	\$ -	\$ -	\$ 3,018,242
Non-North American Common Shares	1,390,109	-	-	1,390,109
United States Common Shares	5,821,581	-	-	5,821,581
Exchange-Traded Funds	1,178,130	-	-	1,178,130
Forward Exchange Contracts	-	(96,560)	-	(96,560)
Options	(5,969)	-	-	(5,969)
	\$11,402,093	\$ (96,560)	\$ -	\$11,305,533

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

(a) Equities

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

(b) Short-Term Investments

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

(c) Derivative Assets and Liabilities

Derivative assets and liabilities consist of forward exchange contracts and option contracts.

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

Fair value of over-the-counter options is determined using the Black-Scholes Model with observable market data as inputs. Forward exchange contracts are valued on the gain or loss that would be realized if, on the valuation date, the position in the forward exchange contract, as the case may be, was to be closed out. Over-the-counter option and forward exchange contracts, for which the credit risks are determined not to be significant to fair value, have been classified as Level 2.

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

7. Shares

The Fund is authorized to issue an unlimited number of Preferred shares, Class A shares and 100 Class J shares. Together, a Preferred share and a Class A share constitute a Unit.

Preferred shares pay fixed cumulative preferential quarterly cash distributions in the amount of \$0.13125 per Preferred share representing a yield on the issue price of the Preferred shares of 5.25 percent per annum. Class A shares have a targeted distribution of \$0.30 per quarter resulting in an 8.0 percent yield on the original issue price of \$15.00. Distributions on the Class A shares have been suspended in accordance with the prospectus as the net asset value per Unit is less than \$15.00.

For the year ended December 31, 2019, cash distributions paid to Preferred shareholders were \$604,999 (2018 – \$852,692) representing a payment of \$0.53 (2018 – \$0.53) per Preferred share.

During the year ended December 31, 2019, 70,729 (2018 – 872,864) Units were redeemed with a total retraction value of \$914,667 (2018 – \$12,023,440).

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

	Dec. 31, 2019	Dec. 31, 2018
Redeemable Preferred Shares		
Shares outstanding, beginning of year	1,187,743	2,060,607
Shares redeemed	(70,729)	(872,864)
Shares outstanding, end of year	1,117,014	1,187,743
Class A Shares		
Shares outstanding, beginning of year	1,187,743	2,060,607
Shares redeemed	(70,729)	(872,864)
Shares outstanding, end of year	1,117,014	1,187,743
Class J Shares		
Shares outstanding, beginning and end of year	100	100

8. Related Party Transactions

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

(a) Management Fees

Strathbridge, as Manager under the terms of the Management Agreement and as Investment Manager under terms of the Investment Management Agreement, receives fees payable at annual rates of 0.10 percent and 1.00 percent respectively of the Fund's net asset value, excluding the Redeemable Preferred Share liability, and calculated and payable monthly, plus applicable taxes. The Fund is responsible for all ongoing custodian, manager, legal, accounting and audit fees as well as all other expenses incurred by the Custodian and Manager in the ordinary course of business relating to the Fund's operations. Total management fees for the year ended December 31, 2019 were \$155,395 (2018 – \$248,265) of which \$13,645 (2018 – \$13,026) was paid subsequent to year-end.

(b) Director Fees

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

(c) Independent Review Committee Fees

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

(d) Investment in other Strathbridge Funds

The Fund may invest in units of other funds managed by the Manager. The Fund's ownership interest in U.S. Financials Income Fund was 7.9 percent as at December 31, 2019 (2018 – 17.4 percent).

9. Brokerage Commissions and Soft Dollars

The Manager may select brokerages who charge a commission in soft dollars if they determine in good faith that the commission is reasonable in relation to the order execution and research services utilized. The ascertainable soft dollar value received as a percentage of total transaction fees paid during the years ended December 31, 2019 and 2018 is disclosed below:

	Dec. 31, 2019	Dec. 31, 2018
Soft Dollars	\$40,111	\$53,840
Percentage of Total Transaction Fees	64.2%	51.5%

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

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

	Dec. 31, 2019	Dec. 31, 2018
Increase/(Decrease) in Net Assets Attributable to Holders of Class A Shares	\$ 890,923	\$ (3,469,821)
Weighted Average Number of Class A Shares Outstanding during the Year	1,154,801	1,649,285
Increase/(Decrease) in Net Assets Attributable to Holders of Class A Shares per Class A Share	\$ 0.7715	\$ (2.1038)

11. Income Taxes

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

Accumulated non-capital losses of approximately \$0.5 million (2018 – \$0.5 million) and accumulated capital losses of approximately \$116.3 million (2018 – \$116.5 million) are available for utilization against net investments income and realized gains on sale of investments, respectively, in future

years. The capital losses can be carried forward indefinitely. The non-capital losses expire as follows:

Expiration Date	Amount (in \$millions)
2036	\$ 0.1
2038	0.2
2039	0.2
Total	\$ 0.5